

*Sponsorship has changed since the bill was introduced

REFERENCE TITLE: **tax; distribution; county stadium district**

State of Arizona
House of Representatives
Fifty-seventh Legislature
First Regular Session
2025

HB 2704

*Introduced by
Representatives Weninger: Carbone, Carter N, Cavero, Contreras L,
Gillette, Hernandez A, Lopez, Willoughby, Wilmeth; Senators Alston,
Bravo, Dunn, Fernandez, Gowan, Shamp, Shope

AN ACT

AMENDING SECTIONS 28-2154.01, 42-1116, 42-5008.01, 42-5009 AND 42-5029, ARIZONA REVISED STATUTES; AMENDING TITLE 42, CHAPTER 5, ARTICLE 1, ARIZONA REVISED STATUTES, BY ADDING SECTION 42-5032.03; AMENDING SECTIONS 42-5061, 42-5073, 42-5074, 42-5075 AND 42-5159, ARIZONA REVISED STATUTES; AMENDING TITLE 42, CHAPTER 6, ARTICLE 1, ARIZONA REVISED STATUTES, BY ADDING SECTION 42-6018; AMENDING TITLE 42, CHAPTER 6, ARTICLE 3, ARIZONA REVISED STATUTES, BY ADDING SECTION 42-6113; AMENDING SECTIONS 43-206, 43-209 AND 48-4231, ARIZONA REVISED STATUTES; RELATING TO COUNTY STADIUM DISTRICTS.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:
2 Section 1. Section 28-2154.01, Arizona Revised Statutes, is amended
3 to read:

4 **28-2154.01. Special ninety day nonresident registration**
5 **permits; procedures**

6 A. A dealer or an authorized third party that issues a special
7 ninety day nonresident registration permit pursuant to section 28-2154
8 shall send an electronic record of the permit to the department through an
9 authorized third party or through the department's authorized third-party
10 electronic service provider.

11 B. The department, an authorized third party or a dealer shall not:
12 1. Issue, assign or deliver a special ninety day nonresident
13 registration permit to any person unless the person does all of the
14 following:

15 (a) Obtains the special ninety day nonresident registration permit
16 pursuant to section 28-2154.

17 (b) Completes an affidavit in a form prescribed by the director
18 pursuant to section 28-2154 or completes a form prescribed by section
19 42-5009, subsection H.

20 (c) Presents to the department, authorized third party or motor
21 vehicle dealer a current valid driver license issued by another state
22 indicating an address outside of this state.

23 (d) Provides any other information reasonably and uniformly
24 required by the department of transportation pursuant to section 28-2154
25 or the department of revenue pursuant to section 42-5009, subsection H.

26 2. Issue and affix, as prescribed in subsection C of this section,
27 a special ninety day nonresident registration permit unless the permit is
28 recorded in the electronic records of the department.

29 C. A person who issues a special ninety day nonresident
30 registration permit shall affix or insert, clearly and indelibly, on the
31 face of each permit the dates of issuance and expiration and the make and
32 vehicle identification number of the vehicle. The special ninety day
33 nonresident registration permit shall not bear the name or address of the
34 person who purchased the vehicle in a position that is legible from
35 outside of the vehicle.

36 D. A dealer or authorized third party who issues a special ninety
37 day nonresident registration permit shall maintain a record, in a form
38 prescribed by the director, of all special ninety day nonresident
39 registration permits issued by the dealer or authorized third party and a
40 record of other information pertaining to the issuance of special ninety
41 day nonresident registration permits that the department of transportation
42 or the department of revenue requires.

43 E. The dealer or authorized third party shall keep each record for
44 at least three years after the date of entry of the record.

1 F. A dealer or authorized third party shall allow the director of
2 the department of transportation or the director of the department of
3 revenue full and free access to the records during regular business hours.

4 G. The electronic record is written notice of the removal of the
5 vehicle from this state for use in the purchaser's state of residence and
6 relieves the dealer or authorized third party of liability in accordance
7 with the requirements of section 42-5009.

8 H. If a purchaser registers the vehicle in this state within three
9 hundred sixty-five days after the issuance of the special ninety day
10 nonresident registration permit, the purchaser is liable in an amount
11 equal to any tax, penalty and interest that the motor vehicle dealer or
12 authorized third party would have been required to pay under title 42,
13 chapter 5 and under articles IV and VI of the model city tax code as
14 defined in section 42-6051. At the time of issuing the special ninety day
15 nonresident registration permit, a motor vehicle dealer or authorized
16 third party shall inform the purchaser in writing of the purchaser's
17 liability described in this section. Subsequent registration or use of
18 the vehicle in this state does not create a cause of action against a
19 dealer or authorized third party that complies with section 28-2154,
20 subsection A, this section and section 42-5009, subsection H.

21 I. The department of transportation and the department of revenue
22 shall jointly develop and prescribe forms for the motor vehicle dealer,
23 the authorized third party and the purchaser to complete for the proper
24 administration and enforcement of this section.

25 J. Compliance with this section and section 28-2154 allows delivery
26 of the vehicle to a nonresident purchaser in this state and retains the
27 applicable deductions pursuant to section 42-5061, subsection A, paragraph
28 and subsection ~~U~~ V.

29 Sec. 2. Section 42-1116, Arizona Revised Statutes, is amended to
30 read:

31 42-1116. Disposition of tax revenues

32 A. The department of revenue shall promptly deposit, pursuant to
33 sections 35-146 and 35-147, all monies it collects from the taxes
34 administered pursuant to this article except the telecommunication
35 services excise tax, separately accounting for each type of tax and each
36 tax classification within each type of tax. At the same time the
37 department of revenue shall also furnish copies of the transmittal
38 schedules to the director of the department of administration.

39 B. Except as provided by ~~subsection~~ SUBSECTIONS C AND D of this
40 section, the department shall deposit all monies and remittances received
41 under this section to the credit of the following specific funds and
42 accounts:

43 1. Amounts sufficient to meet the requirements for tax refunds to
44 the tax refund account established by section 42-1117.

1 2. Amounts sufficient to meet the requirements of urban revenue
2 sharing to the urban revenue sharing fund established by section 43-206.

3 3. Amounts collected pursuant to chapter 5, articles 1 and 5 of
4 this title to the transaction privilege and severance tax clearing account
5 established by section 42-5029.

6 4. Amounts sufficient to meet the requirements of section 42-3104
7 to the corrections fund.

8 5. Amounts sufficient to meet the requirements of section 49-282,
9 subsection B relating to the water quality assurance revolving fund.

10 6. All remaining monies to the state general fund.

11 C. From the monies and remittances received under this section,
12 each month beginning July 2001 the state treasurer shall transmit to the
13 tourism and sports authority, established by title 5, chapter 8, for
14 deposit in its facility revenue clearing account established by section
15 5-834 one-twelfth of the amount reported by the department pursuant to
16 section 43-209.

17 D. FROM THE MONIES AND REMITTANCES RECEIVED UNDER THIS SECTION,
18 EACH YEAR BEGINNING JULY 1, 2026, THE STATE TREASURER SHALL TRANSMIT TO
19 THE COUNTY STADIUM DISTRICT ESTABLISHED PURSUANT TO TITLE 48, CHAPTER 26
20 FOR DEPOSIT IN THE COUNTY STADIUM DISTRICT FUND ESTABLISHED PURSUANT TO
21 SECTION 48-4231 THE AMOUNT REPORTED BY THE DEPARTMENT PURSUANT TO SECTION
22 43-209, SUBSECTION D FOR THE PRIOR TAXABLE YEAR.

23 Sec. 3. Section 42-5008.01, Arizona Revised Statutes, is amended to
24 read:

25 42-5008.01. Liability for amounts equal to retail transaction
26 privilege tax due

27 A. A person that is either a prime contractor subject to tax under
28 section 42-5075 or a subcontractor working under the control of such a
29 prime contractor, that purchases tangible personal property, the purchase
30 price of which was excluded from the tax base under the retail
31 classification under section 42-5061, subsection A, paragraph 27 or was
32 excluded from the use tax under section 42-5159, subsection A, paragraph
33 13, subdivision (g) at the time of purchase, and that incorporates or
34 fabricates the tangible personal property into a project described in
35 section 42-5075, subsection ~~O~~ P is liable for an amount equal to any tax
36 that a seller would have been required to pay under section 42-5061 and
37 this article as follows:

38 1. The amount of liability shall be calculated and reported based
39 on the location of the project and the taxes imposed under this chapter
40 and chapter 6 of this title.

41 2. All deductions, exemptions and exclusions for the cost of
42 tangible personal property provided in section 42-5075 apply to the
43 tangible personal property incorporated or fabricated into the project.

44 3. This subsection does not apply to tangible personal property
45 that is incorporated or fabricated into any project under a contract that

1 would otherwise be excluded from the tax base under section 42-5075,
2 without regard to section 42-5075, subsection ~~O~~ P.

3 4. The amount of liability shall be reported within the reporting
4 period that includes the month in which the person incorporates or
5 fabricates the tangible personal property into the project.

6 5. The person is not liable for the amount if the contractor who
7 hired the person executes and provides to the person a certificate stating
8 that the contractor providing the certificate is liable for any amount due
9 under this subsection. The department shall prescribe the form of the
10 certificate. If the person has reason to believe that the information
11 contained on the certificate is erroneous or incomplete, the department
12 may disregard the certificate. The contractor providing the certificate
13 is liable for the amount that otherwise would be due from the person under
14 this subsection.

15 B. A person that purchased tangible personal property, the purchase
16 price of which was excluded from the tax base under section 42-5061,
17 subsection A, paragraph 27 or was excluded from the use tax under section
18 42-5159, subsection A, paragraph 13, subdivision (g) at the time of
19 purchase, that subsequently cancels its transaction privilege tax license
20 and that uses, consumes, sells or discards the tangible personal property
21 is liable for an amount of tax determined under this subsection. For the
22 purposes of this subsection:

23 1. If the tangible personal property is incorporated or fabricated
24 into a project described in section 42-5075, subsection ~~O~~ P, or otherwise
25 used or consumed by the person, the amount of liability shall be
26 calculated and reported based on the person's purchase price of the
27 tangible personal property, the location of the project, use or
28 consumption and the taxes imposed under this chapter and chapter 6 of this
29 title.

30 2. If the tangible personal property is sold in a manner that is
31 not subject to tax under this chapter or is discarded, the amount shall be
32 calculated and reported based on the payment received by the person, the
33 location of the person's principal place of business in this state and the
34 taxes imposed under this chapter and chapter 6 of this title.

35 3. The person is not liable under this subsection for any amount if
36 the person discards the tangible personal property and does not receive
37 payment of any kind.

38 4. The amount of liability shall be reported on or before the
39 business day preceding the last business day of the month following the
40 month in which the person uses the tangible personal property in a manner
41 described in paragraph 1 or 2 of this subsection. No amount is due under
42 this subsection at any time that the person stores the tangible personal
43 property without using it in a manner described in paragraph 1 or 2 of
44 this subsection.

1 5. All deductions, exemptions and exclusions for the cost of
2 tangible personal property provided in section 42-5075 apply to the
3 tangible personal property incorporated or fabricated into a project
4 described in section 42-5075, subsection ~~O~~ P.

5 6. This subsection does not apply to tangible personal property
6 that is incorporated or fabricated into any project under a contract that
7 would otherwise be excluded from the tax base under section 42-5075,
8 without regard to section 42-5075, subsection ~~O~~ P.

9 7. The person is not liable for the amount if the contractor who
10 hired the person executes and provides to the person a certificate stating
11 that the contractor providing the certificate is liable for any amount due
12 under this subsection for tangible personal property incorporated or
13 fabricated into a project described in section 42-5075, subsection ~~O~~ P.
14 The department shall prescribe the form of the certificate. If the person
15 has reason to believe that the information contained on the certificate is
16 erroneous or incomplete, the department may disregard the certificate.
17 The contractor providing the certificate is liable for the amount that
18 otherwise would be due from the person under this subsection.

19 C. A person that fails to report or pay any amount due under
20 subsection A or B of this section is liable for interest in a manner
21 consistent with section 42-1123 and penalties in a manner consistent with
22 section 42-1125.

23 D. If a person has paid an amount described in this section on
24 tangible personal property that the person reasonably believed to be
25 described IN section 42-5075, subsection ~~O~~ P and a final determination is
26 made that section 42-5075, subsection ~~O~~ P does not apply, the person is
27 entitled to an offset for the amount paid under this section against the
28 amount of tax liability assessed under this chapter and chapter 6 of this
29 title.

30 Sec. 4. Section 42-5009, Arizona Revised Statutes, is amended to
31 read:

32 42-5009. Certificates establishing deductions; liability for
33 making false certificate; tax exclusion;
34 definitions

35 A. A person who conducts any business classified under article 2 of
36 this chapter may establish entitlement to the allowable deductions from
37 the tax base of that business by both:

38 1. Marking the invoice for the transaction to indicate that the
39 gross proceeds of sales or gross income derived from the transaction was
40 deducted from the tax base.

41 2. Obtaining a certificate executed by the purchaser indicating the
42 name and address of the purchaser, the precise nature of the business of
43 the purchaser, the purpose for which the purchase was made, the necessary
44 facts to establish the appropriate deduction and the tax license number of
45 the purchaser to the extent the deduction depends on the purchaser

1 conducting business classified under article 2 of this chapter and a
2 certification that the person executing the certificate is authorized to
3 do so on behalf of the purchaser. The certificate may be disregarded if
4 the seller has reason to believe that the information contained in the
5 certificate is not accurate or complete.

6 B. A person who does not comply with subsection A of this section
7 may establish entitlement to the deduction by presenting facts necessary
8 to support the entitlement, but the burden of proof is on that person.

9 C. The department may prescribe a form for the certificate
10 described in subsection A of this section. Under such rules as it may
11 prescribe, the department may also describe transactions with respect to
12 which a person is not entitled to rely solely on the information contained
13 in the certificate provided for in subsection A of this section but must
14 instead obtain such additional information as required by the rules in
15 order to be entitled to the deduction.

16 D. If a seller is entitled to a deduction by complying with
17 subsection A of this section, the department may require the purchaser
18 that caused the execution of the certificate to establish the accuracy and
19 completeness of the information required to be contained in the
20 certificate that would entitle the seller to the deduction. If the
21 purchaser cannot establish the accuracy and completeness of the
22 information, the purchaser is liable in an amount equal to any tax,
23 penalty and interest that the seller would have been required to pay under
24 this article if the seller had not complied with subsection A of this
25 section. Payment of the amount under this subsection exempts the
26 purchaser from liability for any tax imposed under article 4 of this
27 chapter. The amount shall be treated as tax revenues collected from the
28 seller in order to designate the distribution base for purposes of section
29 42-5029.

30 E. If a seller is entitled to a deduction by complying with
31 subsection B of this section, the department may require the purchaser to
32 establish the accuracy and completeness of the information provided to the
33 seller that entitled the seller to the deduction. If the purchaser cannot
34 establish the accuracy and completeness of the information, the purchaser
35 is liable in an amount equal to any tax, penalty and interest that the
36 seller would have been required to pay under this article if the seller
37 had not complied with subsection B of this section. Payment of the amount
38 under this subsection exempts the purchaser from liability for any tax
39 imposed under article 4 of this chapter. The amount shall be treated as
40 tax revenues collected from the seller in order to designate the
41 distribution base for purposes of section 42-5029.

42 F. The department may prescribe a form for a certificate used to
43 establish entitlement to the deductions described in section 42-5061,
44 subsection A, paragraph 46 and section 42-5063, subsection B, paragraph 3.
45 Under rules the department may prescribe, the department may also require

1 additional information for the seller to be entitled to the deduction. If
2 a seller is entitled to the deductions described in section 42-5061,
3 subsection A, paragraph 46 and section 42-5063, subsection B, paragraph 3,
4 the department may require the purchaser who executed the certificate to
5 establish the accuracy and completeness of the information contained in
6 the certificate that would entitle the seller to the deduction. If the
7 purchaser cannot establish the accuracy and completeness of the
8 information, the purchaser is liable in an amount equal to any tax,
9 penalty and interest that the seller would have been required to pay under
10 this article. Payment of the amount under this subsection exempts the
11 purchaser from liability for any tax imposed under article 4 of this
12 chapter. The amount shall be treated as tax revenues collected from the
13 seller in order to designate the distribution base for purposes of section
14 42-5029.

15 G. If a seller claims a deduction under section 42-5061,
16 subsection A, paragraph 25 and establishes entitlement to the deduction
17 with an exemption letter that the purchaser received from the department
18 and the exemption letter was based on a contingent event, the department
19 may require the purchaser that received the exemption letter to establish
20 the satisfaction of the contingent event within a reasonable time. If the
21 purchaser cannot establish the satisfaction of the event, the purchaser is
22 liable in an amount equal to any tax, penalty and interest that the seller
23 would have been required to pay under this article if the seller had not
24 been furnished the exemption letter. Payment of the amount under this
25 subsection exempts the purchaser from liability for any tax imposed under
26 article 4 of this chapter. The amount shall be treated as tax revenues
27 collected from the seller in order to designate the distribution base for
28 purposes of section 42-5029. For the purposes of this subsection,
29 "reasonable time" means a time limitation that the department determines
30 and that does not exceed the time limitations pursuant to section 42-1104.

31 H. The department shall prescribe forms for certificates used to
32 establish the satisfaction of the criteria necessary to qualify the sale
33 of a motor vehicle for the deductions described in section 42-5061,
34 subsection A, paragraph 14, paragraph 28 and paragraph 44 and
35 subsection ~~H~~ V. Except as provided in subsection J of this section, to
36 establish entitlement to these deductions, a motor vehicle dealer shall
37 retain:

38 1. A valid certificate as prescribed by this subsection completed
39 by the purchaser and obtained before the issuance of the nonresident
40 registration permit authorized by section 28-2154.

41 2. For the purposes of the deductions provided by section 42-5061,
42 subsection A, paragraph 14, subdivision (b) and section 42-5061,
43 subsection ~~H~~ V, a copy of the nonresident registration permit authorized
44 by section 28-2154.

1 3. A legible copy of a current valid driver license issued to the
2 purchaser by another state or foreign country that indicates an address
3 outside of this state. For the sale of a motor vehicle to a nonresident
4 entity, the entity's representative must have a current valid driver
5 license issued by the same jurisdiction as that in which the entity is
6 located.

7 4. For the purposes of the deduction provided by section 42-5061,
8 subsection A, paragraph 14, subdivision (a), a certificate documenting the
9 delivery of the motor vehicle to an out-of-state location.

10 I. Notwithstanding subsection A, paragraph 2 of this section, if a
11 motor vehicle dealer has established entitlement to a deduction by
12 complying with subsection H of this section, the department may require
13 the purchaser who executed the certificate to establish the accuracy and
14 completeness of the information contained in the certificate that entitled
15 the motor vehicle dealer to the deduction. If the purchaser cannot
16 establish the accuracy and completeness of the information, the purchaser
17 is liable in an amount equal to any tax, penalty and interest that the
18 motor vehicle dealer would have been required to pay under this article
19 and under articles IV and V of the model city tax code as defined in
20 section 42-6051. Payment of the amount under this subsection exempts the
21 purchaser from liability for any tax imposed under article 4 of this
22 chapter and any tax imposed under article VI of the model city tax code as
23 defined in section 42-6051. The amount shall be treated as tax revenues
24 collected from the motor vehicle dealer in order to designate the
25 distribution base for purposes of section 42-5029.

26 J. To establish entitlement to the deduction described in section
27 42-5061, subsection A, paragraph 44, a public consignment auction dealer
28 as defined in section 28-4301 shall retain a copy of the certificate
29 prescribed by subsection H of this section for its records.

30 K. Notwithstanding any other law, compliance with subsection H of
31 this section by a motor vehicle dealer entitles the motor vehicle dealer
32 to the exemption provided in section 42-6004, subsection A, paragraph 4.

33 L. The department shall prescribe a form for a certificate to be
34 used by a person that is not subject to tax under section 42-5075 when the
35 person is engaged by a contractor that is subject to tax under section
36 42-5075 for a project that is taxable under section 42-5075. The
37 certificate permits the person purchasing tangible personal property to be
38 incorporated or fabricated by the person into any real property,
39 structure, project, development or improvement to provide documentation to
40 a retailer that the sale of tangible personal property qualifies for the
41 deduction under section 42-5061, subsection A, paragraph 27,
42 subdivision (b). A prime contractor shall obtain the certificate from the
43 department and shall provide a copy to any such person working on the
44 project. The prime contractor shall obtain a new certificate for each

1 project to which this subsection applies. For the purposes of this
2 subsection, the following apply:

3 1. The person that is not subject to tax under section 42-5075 may
4 use the certificate issued pursuant to this subsection only with respect
5 to tangible personal property that will be incorporated into a project for
6 which the gross receipts are subject to tax under section 42-5075.

7 2. The department shall issue the certificate to the prime
8 contractor on receiving sufficient documentation to establish that the
9 prime contractor meets the requirements of this subsection.

10 3. If any person uses the certificate provided under this
11 subsection to purchase tangible personal property to be used in a project
12 that is not subject to tax under section 42-5075, the person is liable in
13 an amount equal to any tax, penalty and interest that the seller would
14 have been required to pay under this article if the seller had not
15 complied with subsection A of this section. Payment of the amount under
16 this section exempts the person from liability for any tax imposed under
17 article 4 of this chapter. The amount shall be sourced under section
18 42-5040, subsection A, paragraph 2.

19 M. Notwithstanding any other law, compliance with subsection L of
20 this section by a person that is not subject to tax under section 42-5075
21 entitles the person to the exemption allowed by section 465,
22 subsection (k) of the model city tax code when purchasing tangible
23 personal property to be incorporated or fabricated by the person into any
24 real property, structure, project, development or improvement.

25 N. The requirements of subsections A and B of this section do not
26 apply to owners, proprietors or tenants of agricultural lands or farms who
27 sell livestock or poultry feed that is grown or raised on their lands to
28 any of the following:

29 1. Persons who feed their own livestock or poultry.

30 2. Persons who are engaged in the business of producing livestock
31 or poultry commercially.

32 3. Persons who are engaged in the business of feeding livestock or
33 poultry commercially or who board livestock noncommercially.

34 0. A vendor who has reason to believe that a certificate prescribed
35 by this section is not accurate or complete will not be relieved of the
36 burden of proving entitlement to the exemption. A vendor that accepts a
37 certificate in good faith will be relieved of the burden of proof and the
38 purchaser may be required to establish the accuracy of the claimed
39 exemption. If the purchaser cannot establish the accuracy and
40 completeness of the information provided in the certificate, the purchaser
41 is liable for an amount equal to the transaction privilege tax, penalty
42 and interest that the vendor would have been required to pay if the vendor
43 had not accepted the certificate.

44 P. Notwithstanding any other law, an online lodging operator, as
45 defined in section 42-5076, shall be entitled to an exclusion from any

1 applicable taxes for any online lodging transaction, as defined in section
2 42-5076, facilitated by an online lodging marketplace, as defined in
3 section 42-5076, for which the online lodging operator has obtained from
4 the online lodging marketplace written notice that the online lodging
5 marketplace is registered with the department to collect applicable taxes
6 for all online lodging transactions facilitated by the online lodging
7 marketplace, and transaction history documenting tax collected by the
8 online lodging marketplace, pursuant to section 42-5005, subsection L.

9 Q. The department shall prescribe the form of a certificate to be
10 used by a person purchasing an aircraft to document eligibility for a
11 deduction pursuant to section 42-5061, subsection B, paragraph 8,
12 subdivision (a), item (v) or an exemption pursuant to section 42-5159,
13 subsection B, paragraph 8, subdivision (a), item (v), relating to
14 aircraft. The person must provide this certificate and documentation
15 confirming that the operational control of the aircraft has been
16 transferred or will be transferred immediately after the purchase to one
17 or more persons described in section 42-5061, subsection B, paragraph 8,
18 subdivision (a), item (i), (ii), (iii) or (iv) or section 42-5159,
19 subsection B, paragraph 8, subdivision (a), item (i), (ii), (iii) or (iv).
20 Operational control of the aircraft must be transferred for at least fifty
21 percent of the aircraft's flight hours. If such operational control is
22 not transferred for at least fifty percent of the aircraft's flight hours
23 during the recapture period, the owner of the aircraft is liable for an
24 amount equal to any tax that the seller or purchaser would have been
25 required to pay under this chapter at the time of the sale, plus penalty
26 and interest. The recapture period begins on the date that operational
27 control of the aircraft is first transferred and ends on the later of the
28 date the aircraft is fully depreciated for federal income tax purposes or
29 five years after operational control was first transferred. For the
30 purposes of this subsection, operational control of the aircraft must be
31 within the meaning of federal aviation administration operations
32 specification A008, or its successor, except that:

33 1. If it is determined that operational control has been
34 transferred for less than fifty percent but more than forty percent of the
35 aircraft's flight hours, the owner of the aircraft is liable for an amount
36 equal to any tax that the seller or purchaser would have been required to
37 pay under this chapter at the time of the sale, plus interest.

38 2. If the aircraft is sold during the recapture period, the seller
39 is not liable for the amount determined pursuant to this subsection unless
40 the operational control of the aircraft had not been transferred for at
41 least fifty percent of the aircraft's flight hours at the time of the
42 sale.

43 R. Notwithstanding any other law, a shared vehicle owner is
44 entitled to an exclusion from any applicable taxes for a shared vehicle
45 transaction that is facilitated by a peer-to-peer car sharing program and

1 for which the peer-to-peer car sharing program has collected and remitted
2 applicable taxes.

3 S. A qualifying community health center, qualifying health care
4 organization or qualifying hospital or any other entity that is recognized
5 as nonprofit under section 501(c) of the United States internal revenue
6 code and that is required to obtain an exemption letter from the
7 department shall:

8 1. Apply to the department for the exemption letter and fully
9 answer any eligibility questions required by the department for the
10 purposes of the exemption letter. If the department approves the
11 exemption letter application, the exemption letter is valid until the
12 entity is no longer qualified for the exemption letter.

13 2. Notify the department in writing if the entity no longer
14 qualifies for the exemption letter. Regardless of whether the entity
15 notifies the department as required by this paragraph, if the entity no
16 longer qualifies for the exemption letter, the entity is liable in an
17 amount equal to any tax, penalty and interest that the seller would have
18 been required to pay under this article if the seller had not been
19 furnished the exemption letter. Payment of the amount under this
20 paragraph exempts the entity from liability for any tax imposed under
21 article 4 of this chapter. The amount shall be treated as tax revenues
22 collected from the seller in order to designate the distribution base for
23 the purposes of section 42-5029.

24 T. For the purposes of this section, "peer-to-peer car sharing
25 program", "shared vehicle owner" and "shared vehicle transaction" have the
26 same meanings prescribed in section 28-9601.

27 Sec. 5. Section 42-5029, Arizona Revised Statutes, is amended to
28 read:

29 **42-5029. Remission and distribution of monies; withholding;**
30 **definition**

31 A. The department shall deposit, pursuant to sections 35-146 and
32 35-147, all revenues collected under this article and articles 4, 5 and 8
33 of this chapter pursuant to section 42-1116, separately accounting for:

34 1. Payments of estimated tax under section 42-5014, subsection D.

35 2. Revenues collected pursuant to section 42-5070.

36 3. Revenues collected under this article and article 5 of this
37 chapter from and after June 30, 2000 from sources located on Indian
38 reservations in this state.

39 4. Revenues collected pursuant to section 42-5010, subsection G and
40 section 42-5155, subsection D.

41 5. Revenues collected pursuant to section 42-5010.01 and section
42 42-5155, subsection E.

43 6. Revenues collected pursuant to section 42-5061 from a remote
44 seller.

1 B. The department shall credit payments of estimated tax to an
2 estimated tax clearing account and each month shall transfer all monies in
3 the estimated tax clearing account to a fund designated as the transaction
4 privilege and severance tax clearing account. The department shall credit
5 all other payments to the transaction privilege and severance tax clearing
6 account, separately accounting for the monies designated as distribution
7 base under sections 42-5010, 42-5164 and 42-5205. Each month the
8 department shall report to the state treasurer the amount of monies
9 collected pursuant to this article and articles 4, 5 and 8 of this
10 chapter.

11 C. On notification by the department, the state treasurer shall
12 distribute the monies deposited in the transaction privilege and severance
13 tax clearing account in the manner prescribed by this section and by
14 sections 42-5164 and 42-5205, after deducting warrants drawn against the
15 account pursuant to sections 42-1118 and 42-1254.

16 D. Of the monies designated as distribution base, the department
17 shall:

18 1. Pay twenty-five percent to the various incorporated
19 municipalities in this state in proportion to their population to be used
20 by the municipalities for any municipal purpose, except a municipality
21 shall use monies paid from revenues separately accounted for pursuant to
22 subsection A, paragraph 6 of this section and paid pursuant to this
23 paragraph for public safety before any other municipal purpose.

24 2. Pay 38.08 percent to the counties in this state by averaging the
25 following proportions:

26 (a) The proportion that the population of each county bears to the
27 total state population.

28 (b) The proportion that the distribution base monies collected
29 during the calendar month in each county under this article, section
30 42-5164, subsection B and section 42-5205, subsection B bear to the total
31 distribution base monies collected under this article, section 42-5164,
32 subsection B and section 42-5205, subsection B throughout the state for
33 the calendar month.

34 3. Pay an additional 2.43 percent to the counties in this state as
35 follows:

36 (a) Average the following proportions:

37 (i) The proportion that the assessed valuation used to determine
38 secondary property taxes of each county, after deducting that part of the
39 assessed valuation that is exempt from taxation at the beginning of the
40 month for which the amount is to be paid, bears to the total assessed
41 valuations used to determine secondary property taxes of all the counties
42 after deducting that portion of the assessed valuations that is exempt
43 from taxation at the beginning of the month for which the amount is to be
44 paid. Property of a city or town that is not within or contiguous to the
45 municipal corporate boundaries and from which water is or may be withdrawn

1 or diverted and transported for use on other property is considered to be
2 taxable property in the county for purposes of determining assessed
3 valuation in the county under this item.

4 (ii) The proportion that the distribution base monies collected
5 during the calendar month in each county under this article, section
6 42-5164, subsection B and section 42-5205, subsection B bear to the total
7 distribution base monies collected under this article, section 42-5164,
8 subsection B and section 42-5205, subsection B throughout this state for
9 the calendar month.

10 (b) If the proportion computed under subdivision (a) of this
11 paragraph for any county is greater than the proportion computed under
12 paragraph 2 of this subsection, the department shall compute the
13 difference between the amount distributed to that county under paragraph 2
14 of this subsection and the amount that would have been distributed under
15 paragraph 2 of this subsection using the proportion computed under
16 subdivision (a) of this paragraph and shall pay that difference to the
17 county from the amount available for distribution under this paragraph.
18 Any monies remaining after all payments under this subdivision shall be
19 distributed among the counties according to the proportions computed under
20 paragraph 2 of this subsection.

21 4. After any distributions required by sections 42-5030,
22 42-5030.01, 42-5031, 42-5032, 42-5032.01, ~~and~~ 42-5032.02 AND 42-5032.03
23 and after making any transfer to the water quality assurance revolving
24 fund as required by section 49-282, subsection B, credit the remainder of
25 the monies designated as distribution base to the state general
26 fund. From this amount the legislature shall annually appropriate to:

27 (a) The department of revenue, sufficient monies to administer and
28 enforce this article and articles 5 and 8 of this chapter.

29 (b) The department of economic security, monies to be used for the
30 purposes stated in title 46, chapter 1.

31 (c) The firearms safety and ranges fund established by section
32 17-273, \$50,000 derived from the taxes collected from the retail
33 classification pursuant to section 42-5061 for the current fiscal year.

34 E. If approved by the qualified electors voting at a statewide
35 general election, all monies collected pursuant to section 42-5010,
36 subsection G and section 42-5155, subsection D shall be distributed each
37 fiscal year pursuant to this subsection. The monies distributed pursuant
38 to this subsection are in addition to any other appropriation, transfer or
39 other allocation of public or private monies from any other source and
40 shall not supplant, replace or cause a reduction in other school district,
41 charter school, university or community college funding sources. The
42 monies shall be distributed as follows:

43 1. If there are outstanding state school facilities revenue bonds
44 pursuant to title 15, chapter 16, article 7, each month one-twelfth of the
45 amount that is necessary to pay the fiscal year's debt service on

1 outstanding state school improvement revenue bonds for the current fiscal
2 year shall be transferred each month to the school improvement revenue
3 bond debt service fund established by section 15-2084. The total amount
4 of bonds for which these monies may be allocated for the payment of debt
5 service shall not exceed a principal amount of eight hundred million
6 dollars exclusive of refunding bonds and other refinancing obligations.

7 2. After any transfer of monies pursuant to paragraph 1 of this
8 subsection, twelve per cent of the remaining monies collected during the
9 preceding month shall be transferred to the technology and research
10 initiative fund established by section 15-1648 to be distributed among the
11 universities for the purpose of investment in technology and
12 research-based initiatives.

13 3. After the transfer of monies pursuant to paragraph 1 of this
14 subsection, three per cent of the remaining monies collected during the
15 preceding month shall be transferred to the workforce development account
16 established in each community college district pursuant to section 15-1472
17 for the purpose of investment in workforce development programs.

18 4. After transferring monies pursuant to paragraphs 1, 2 and 3 of
19 this subsection, one-twelfth of the amount a community college that is
20 owned, operated or chartered by a qualifying Indian tribe on its own
21 Indian reservation would receive pursuant to section 15-1472, subsection
22 D, paragraph 2 if it were a community college district shall be
23 distributed each month to the treasurer or other designated depository of
24 a qualifying Indian tribe. Monies distributed pursuant to this paragraph
25 are for the exclusive purpose of providing support to one or more
26 community colleges owned, operated or chartered by a qualifying Indian
27 tribe and shall be used in a manner consistent with section 15-1472,
28 subsection B. For the purposes of this paragraph, "qualifying Indian
29 tribe" has the same meaning as defined in section 42-5031.01,
30 subsection D.

31 5. After transferring monies pursuant to paragraphs 1, 2 and 3 of
32 this subsection, one-twelfth of the following amounts shall be transferred
33 each month to the department of education for the increased cost of basic
34 state aid under section 15-971 due to added school days and associated
35 teacher salary increases enacted in 2000:

36 (a) In fiscal year 2001-2002, \$15,305,900.
37 (b) In fiscal year 2002-2003, \$31,530,100.
38 (c) In fiscal year 2003-2004, \$48,727,700.
39 (d) In fiscal year 2004-2005, \$66,957,200.
40 (e) In fiscal year 2005-2006 and each fiscal year thereafter,
41 \$86,280,500.

42 6. After transferring monies pursuant to paragraphs 1, 2 and 3 of
43 this subsection, seven million eight hundred thousand dollars is
44 appropriated each fiscal year, to be paid in monthly installments, to the
45 department of education to be used for school safety as provided in

1 section 15-154 and two hundred thousand dollars is appropriated each
2 fiscal year, to be paid in monthly installments to the department of
3 education to be used for the character education matching grant program as
4 provided in section 15-154.01.

5 7. After transferring monies pursuant to paragraphs 1, 2 and 3 of
6 this subsection, no more than seven million dollars may be appropriated by
7 the legislature each fiscal year to the department of education to be used
8 for accountability purposes as described in section 15-241 and title 15,
9 chapter 9, article 8.

10 8. After transferring monies pursuant to paragraphs 1, 2 and 3 of
11 this subsection, one million five hundred thousand dollars is appropriated
12 each fiscal year, to be paid in monthly installments, to the failing
13 schools tutoring fund established by section 15-241.

14 9. After transferring monies pursuant to paragraphs 1, 2 and 3 of
15 this subsection, twenty-five million dollars shall be transferred each
16 fiscal year to the state general fund to reimburse the general fund for
17 the cost of the income tax credit allowed by section 43-1072.01.

18 10. After the payment of monies pursuant to paragraphs 1 through 9
19 of this subsection, the remaining monies collected during the preceding
20 month shall be transferred to the classroom site fund established by
21 section 15-977. The monies shall be allocated as follows in the manner
22 prescribed by section 15-977:

23 (a) Forty per cent shall be allocated for teacher compensation
24 based on performance.

25 (b) Twenty per cent shall be allocated for increases in teacher
26 base compensation and employee related expenses.

27 (c) Forty per cent shall be allocated for maintenance and operation
28 purposes.

29 F. The department shall credit the remainder of the monies in the
30 transaction privilege and severance tax clearing account to the state
31 general fund, subject to any distribution required by section 42-5030.01.

32 G. Notwithstanding subsection D of this section, if a court of
33 competent jurisdiction finally determines that tax monies distributed
34 under this section were illegally collected under this article or articles
35 5 and 8 of this chapter and orders the monies to be refunded to the
36 taxpayer, the department shall compute the amount of such monies that was
37 distributed to each city, town and county under this section. Each
38 city's, town's and county's proportionate share of the costs shall be
39 based on the amount of the original tax payment each municipality and
40 county received. Each month the state treasurer shall reduce the amount
41 otherwise distributable to the city, town and county under this section by
42 1/36 of the total amount to be recovered from the city, town or county
43 until the total amount has been recovered, but the monthly reduction for
44 any city, town or county shall not exceed ten percent of the full monthly
45 distribution to that entity. The reduction shall begin for the first

1 calendar month after the final disposition of the case and shall continue
2 until the total amount, including interest and costs, has been recovered.

3 H. On receiving a certificate of default from the greater Arizona
4 development authority pursuant to section 41-2257 or 41-2258 and to the
5 extent not otherwise expressly prohibited by law, the state treasurer
6 shall withhold from the next succeeding distribution of monies pursuant to
7 this section due to the defaulting political subdivision the amount
8 specified in the certificate of default and immediately deposit the amount
9 withheld in the greater Arizona development authority revolving fund. The
10 state treasurer shall continue to withhold and deposit the monies until
11 the greater Arizona development authority certifies to the state treasurer
12 that the default has been cured. In no event may the state treasurer
13 withhold any amount that the defaulting political subdivision certifies to
14 the state treasurer and the authority as being necessary to make any
15 required deposits then due for the payment of principal and interest on
16 bonds of the political subdivision that were issued before the date of the
17 loan repayment agreement or bonds and that have been secured by a pledge
18 of distributions made pursuant to this section.

19 I. Except as provided by sections 42-5033 and 42-5033.01, the
20 population of a county, city or town as determined by the most recent
21 United States decennial census plus any revisions to the decennial census
22 certified by the United States bureau of the census shall be used as the
23 basis for apportioning monies pursuant to subsection D of this section.

24 J. Except as otherwise provided by this subsection, on notice from
25 the department of revenue pursuant to section 42-6010, subsection B, the
26 state treasurer shall withhold from the distribution of monies pursuant to
27 this section to the affected city or town the amount of the penalty for
28 business location municipal tax incentives provided by the city or town to
29 a business entity that locates a retail business facility in the city or
30 town. The state treasurer shall continue to withhold monies pursuant to
31 this subsection until the entire amount of the penalty has been withheld.
32 The state treasurer shall credit any monies withheld pursuant to this
33 subsection to the state general fund as provided by subsection D,
34 paragraph 4 of this section. The state treasurer shall not withhold any
35 amount that the city or town certifies to the department of revenue and
36 the state treasurer as being necessary to make any required deposits or
37 payments for debt service on bonds or other long-term obligations of the
38 city or town that were issued or incurred before the location incentives
39 provided by the city or town.

40 K. On notice from the auditor general pursuant to section 9-626,
41 subsection D, the state treasurer shall withhold from the distribution of
42 monies pursuant to this section to the affected city the amount computed
43 pursuant to section 9-626, subsection D. The state treasurer shall
44 continue to withhold monies pursuant to this subsection until the entire
45 amount specified in the notice has been withheld. The state treasurer

1 shall credit any monies withheld pursuant to this subsection to the state
2 general fund as provided by subsection D, paragraph 4 of this section.

3 L. Except as otherwise provided by this subsection, on notice from
4 the attorney general pursuant to section 41-194.01, subsection B,
5 paragraph 1 that an ordinance, regulation, order or other official action
6 adopted or taken by the governing body of a county, city or town violates
7 state law or the Constitution of Arizona, the state treasurer shall
8 withhold the distribution of monies pursuant to this section to the
9 affected county, city or town and shall continue to withhold monies
10 pursuant to this subsection until the attorney general certifies to the
11 state treasurer that the violation has been resolved. The state treasurer
12 shall redistribute the monies withheld pursuant to this subsection among
13 all other counties, cities and towns in proportion to their population as
14 provided by subsection D of this section. The state treasurer shall not
15 withhold any amount that the county, city or town certifies to the
16 attorney general and the state treasurer as being necessary to make any
17 required deposits or payments for debt service on bonds or other long-term
18 obligations of the county, city or town that were issued or incurred
19 before committing the violation.

20 M. For the purposes of this section, "community college district"
21 means a community college district that is established pursuant to
22 sections 15-1402 and 15-1403 and that is a political subdivision of this
23 state and, unless otherwise specified, includes a community college
24 tuition financing district established pursuant to section 15-1409.

25 Sec. 6. Title 42, chapter 5, article 1, Arizona Revised Statutes,
26 is amended by adding section 42-5032.03, to read:

27 42-5032.03. Distribution of revenue for county stadium
28 district

29 A. BEGINNING OCTOBER 1, 2025 AND EACH MONTH THEREAFTER, THE STATE
30 TREASURER SHALL TRANSMIT, FROM THE AMOUNT DESIGNATED AS DISTRIBUTION BASE
31 PURSUANT TO SECTION 42-5029, SUBSECTION D, THE AMOUNT DETERMINED UNDER
32 SUBSECTION B OF THIS SECTION TO THE COUNTY STADIUM DISTRICT ESTABLISHED
33 PURSUANT TO TITLE 48, CHAPTER 26 FOR DEPOSIT IN THE COUNTY STADIUM
34 DISTRICT FUND ESTABLISHED PURSUANT TO SECTION 48-4231.

35 B. THE AMOUNT TO BE TRANSMITTED UNDER SUBSECTION A OF THIS SECTION
36 IS THE TOTAL AMOUNT OF STATE TRANSACTION PRIVILEGE TAX REVENUES RECEIVED
37 FROM PERSONS CONDUCTING BUSINESS UNDER THE RETAIL, AMUSEMENT, RESTAURANT
38 AND PRIME CONTRACTING CLASSIFICATIONS AT, OR WITH RESPECT TO EVENTS HELD
39 AT, A MAJOR LEAGUE BASEBALL FACILITY THAT IS OWNED AND OPERATED BY A
40 COUNTY STADIUM DISTRICT PURSUANT TO TITLE 48, CHAPTER 26.

41 Sec. 7. Section 42-5061, Arizona Revised Statutes, is amended to
42 read:

43 42-5061. Retail classification: definitions

44 A. The retail classification is comprised of the business of
45 selling tangible personal property at retail. The tax base for the retail

1 classification is the gross proceeds of sales or gross income derived from
2 the business. The tax imposed on the retail classification does not apply
3 to the gross proceeds of sales or gross income from:

4 1. Professional or personal service occupations or businesses that
5 involve sales or transfers of tangible personal property only as
6 inconsequential elements.

7 2. Services rendered in addition to selling tangible personal
8 property at retail.

9 3. Sales of warranty or service contracts. The storage, use or
10 consumption of tangible personal property provided under the conditions of
11 such contracts is subject to tax under section 42-5156.

12 4. Sales of tangible personal property by any nonprofit
13 organization organized and operated exclusively for charitable purposes
14 and recognized by the United States internal revenue service under section
15 501(c)(3) of the internal revenue code.

16 5. Sales to persons engaged in business classified under the
17 restaurant classification of articles used by human beings for food, drink
18 or condiment, whether simple, mixed or compounded.

19 6. Business activity that is properly included in any other
20 business classification that is taxable under this article.

21 7. The sale of stocks and bonds.

22 8. Drugs and medical oxygen, including delivery hose, mask or tent,
23 regulator and tank, if prescribed by a member of the medical, dental or
24 veterinarian profession who is licensed by law to administer such
25 substances.

26 9. Prosthetic appliances as defined in section 23-501 and as
27 prescribed or recommended by a health professional who is licensed
28 pursuant to title 32, chapter 7, 8, 11, 13, 14, 15, 16, 17 or 29.

29 10. Insulin, insulin syringes and glucose test strips.

30 11. Prescription eyeglasses or contact lenses.

31 12. Hearing aids as defined in section 36-1901.

32 13. Durable medical equipment that has a centers for medicare and
33 medicaid services common procedure code, is designated reimbursable by
34 medicare, is prescribed by a person who is licensed under title 32,
35 chapter 7, 8, 13, 14, 15, 17 or 29, can withstand repeated use, is
36 primarily and customarily used to serve a medical purpose, is generally
37 not useful to a person in the absence of illness or injury and is
38 appropriate for use in the home.

39 14. Sales of motor vehicles to nonresidents of this state for use
40 outside this state if either of the following applies:

41 (a) The motor vehicle dealer ships or delivers the motor vehicle to
42 a destination out of this state.

43 (b) The vehicle, trailer or semitrailer has a gross vehicle weight
44 rating of more than ten thousand pounds, is used or maintained to
45 transport property in the furtherance of interstate commerce and otherwise

1 meets the definition of commercial motor vehicle as defined in section
2 28-5201.

3 15. Food, as provided in and subject to the conditions of article 3
4 of this chapter and sections 42-5074 and 42-6017.

5 16. Items purchased with United States department of agriculture
6 coupons issued under the supplemental nutrition assistance program
7 pursuant to the food and nutrition act of 2008 (P.L. 88-525; 78 Stat. 703;
8 7 United States Code sections 2011 through 2036b) by the United States
9 department of agriculture food and nutrition service or food instruments
10 issued under section 17 of the child nutrition act (P.L. 95-627;
11 92 Stat. 3603; P.L. 99-661, section 4302; P.L. 111-296; 42 United States
12 Code section 1786).

13 17. Textbooks by any bookstore that are required by any state
14 university or community college.

15 18. Food and drink to a person that is engaged in a business that
16 is classified under the restaurant classification and that provides such
17 food and drink without monetary charge to its employees for their own
18 consumption on the premises during the employees' hours of employment.

19 19. Articles of food, drink or condiment and accessory tangible
20 personal property to a school district or charter school if such articles
21 and accessory tangible personal property are to be prepared and served to
22 persons for consumption on the premises of a public school within the
23 district or on the premises of the charter school during school hours.

24 20. Lottery tickets or shares pursuant to title 5, chapter 5.1,
25 article 1.

26 21. The sale of cash equivalents and the sale of precious metal
27 bullion and monetized bullion to the ultimate consumer, but the sale of
28 coins or other forms of money for manufacture into jewelry or works of art
29 is subject to the tax and the gross proceeds of sales or gross income
30 derived from the redemption of any cash equivalent by the holder as a
31 means of payment for goods or services that are taxable under this article
32 is subject to the tax. For the purposes of this paragraph:

33 (a) "Cash equivalents" means items or intangibles, whether or not
34 negotiable, that are sold to one or more persons, through which a value
35 denominated in money is purchased in advance and may be redeemed in full
36 or in part for tangible personal property, intangibles or services. Cash
37 equivalents include gift cards, stored value cards, gift certificates,
38 vouchers, traveler's checks, money orders or other instruments, orders or
39 electronic mechanisms, such as an electronic code, personal identification
40 number or digital payment mechanism, or any other prepaid intangible right
41 to acquire tangible personal property, intangibles or services in the
42 future, whether from the seller of the cash equivalent or from another
43 person. Cash equivalents do not include either of the following:

44 (i) Items or intangibles that are sold to one or more persons,
45 through which a value is not denominated in money.

(ii) Prepaid calling cards or prepaid authorization numbers for telecommunications services made taxable by subsection P of this section.

(b) "Monetized bullion" means coins and other forms of money that are manufactured from gold, silver or other metals and that have been or are used as a medium of exchange in this or another state, the United States or a foreign nation.

(c) "Precious metal bullion" means precious metal, including gold, silver, platinum, rhodium and palladium, that has been smelted or refined so that its value depends on its contents and not on its form.

22. Motor vehicle fuel and use fuel that are subject to a tax imposed under title 28, chapter 16, article 1, sales of use fuel to a holder of a valid single trip use fuel tax permit issued under section 28-5739, sales of aviation fuel that are subject to the tax imposed under section 28-8344 and sales of jet fuel that are subject to the tax imposed under article 8 of this chapter.

23. Tangible personal property sold to a person engaged in the business of leasing or renting such property under the personal property rental classification if such property is to be leased or rented by such person.

24. Tangible personal property sold in interstate or foreign commerce if prohibited from being so taxed by the constitution of the United States or the constitution of this state.

25. Tangible personal property sold to:

(a) A qualifying hospital as defined in section 42-5001.

(b) A qualifying health care organization as defined in section 42-5001 if the tangible personal property is used by the organization solely to provide health and medical related educational and charitable services.

(c) A qualifying health care organization as defined in section 42-5001 if the organization is dedicated to providing educational, therapeutic, rehabilitative and family medical education training for blind and visually impaired children and children with multiple disabilities from the time of birth to age twenty-one.

(d) A qualifying community health center as defined in section 42-5001.

(e) A nonprofit charitable organization that has qualified under section 501(c)(3) of the internal revenue code and that regularly serves meals to the needy and indigent on a continuing basis at no cost.

(f) For taxable periods beginning from and after June 30, 2001, a nonprofit charitable organization that has qualified under section 501(c)(3) of the internal revenue code and that provides residential apartment housing for low-income persons over sixty-two years of age in a facility that qualifies for a federal housing subsidy, if the tangible personal property is used by the organization solely to provide

1 residential apartment housing for low-income persons over sixty-two years
2 of age in a facility that qualifies for a federal housing subsidy.

3 (g) A qualifying health sciences educational institution as defined
4 in section 42-5001.

5 (h) Any person representing or working on behalf of another person
6 described in subdivisions (a) through (g) of this paragraph if the
7 tangible personal property is incorporated or fabricated into a project
8 described in section 42-5075, subsection ~~O~~ P.

9 26. Magazines or other periodicals or other publications by this
10 state to encourage tourist travel.

11 27. Tangible personal property sold to:

12 (a) A person that is subject to tax under this article by reason of
13 being engaged in business classified under section 42-5075 or to a
14 subcontractor working under the control of a person engaged in business
15 classified under section 42-5075, if the property so sold is any of the
16 following:

17 (i) Incorporated or fabricated by the person into any real
18 property, structure, project, development or improvement as part of the
19 business.

20 (ii) Incorporated or fabricated by the person into any project
21 described in section 42-5075, subsection ~~O~~ P.

22 (iii) Used in environmental response or remediation activities
23 under section 42-5075, subsection B, paragraph 6.

24 (b) A person that is not subject to tax under section 42-5075 and
25 that has been provided a copy of a certificate under section 42-5009,
26 subsection L, if the property so sold is incorporated or fabricated by the
27 person into the real property, structure, project, development or
28 improvement described in the certificate.

29 28. The sale of a motor vehicle to a nonresident of this state if
30 the purchaser's state of residence does not allow a corresponding use tax
31 exemption to the tax imposed by article 1 of this chapter and if the
32 nonresident has secured a special ninety day nonresident registration
33 permit for the vehicle as prescribed by sections 28-2154 and 28-2154.01.

34 29. Tangible personal property purchased in this state by a
35 nonprofit charitable organization that has qualified under section
36 501(c)(3) of the United States internal revenue code and that engages in
37 and uses such property exclusively in programs for persons with mental or
38 physical disabilities if the programs are exclusively for training, job
39 placement, rehabilitation or testing.

40 30. Sales of tangible personal property by a nonprofit organization
41 that is exempt from taxation under section 501(c)(3), 501(c)(4) or
42 501(c)(6) of the internal revenue code if the organization is associated
43 with a major league baseball team or a national touring professional
44 golfing association and no part of the organization's net earnings inures
45 to the benefit of any private shareholder or individual. This paragraph

1 does not apply to an organization that is owned, managed or controlled, in
2 whole or in part, by a major league baseball team, or its owners,
3 officers, employees or agents, or by a major league baseball association
4 or professional golfing association, or its owners, officers, employees or
5 agents, unless the organization conducted or operated exhibition events in
6 this state before January 1, 2018 that were exempt from taxation under
7 section 42-5073.

8 31. Sales of commodities, as defined by title 7 United States Code
9 section 2, that are consigned for resale in a warehouse in this state in
10 or from which the commodity is deliverable on a contract for future
11 delivery subject to the rules of a commodity market regulated by the
12 United States commodity futures trading commission.

13 32. Sales of tangible personal property by a nonprofit organization
14 that is exempt from taxation under section 501(c)(3), 501(c)(4),
15 501(c)(6), 501(c)(7) or 501(c)(8) of the internal revenue code if the
16 organization sponsors or operates a rodeo featuring primarily farm and
17 ranch animals and no part of the organization's net earnings inures to the
18 benefit of any private shareholder or individual.

19 33. Sales of propagative materials to persons who use those items
20 to commercially produce agricultural, horticultural, viticultural or
21 floricultural crops in this state. For the purposes of this paragraph,
22 "propagative materials":

23 (a) Includes seeds, seedlings, roots, bulbs, liners, transplants,
24 cuttings, soil and plant additives, agricultural minerals, auxiliary soil
25 and plant substances, micronutrients, fertilizers, insecticides,
26 herbicides, fungicides, soil fumigants, desiccants, rodenticides,
27 adjuvants, plant nutrients and plant growth regulators.

28 (b) Except for use in commercially producing industrial hemp as
29 defined in section 3-311, does not include any propagative materials used
30 in producing any part, including seeds, of any plant of the genus
31 cannabis.

32 34. Machinery, equipment, technology or related supplies that are
33 only useful to assist a person with a physical disability as defined in
34 section 46-191 or a person who has a developmental disability as defined
35 in section 36-551 or has a head injury as defined in section 41-3201 to be
36 more independent and functional.

37 35. Sales of natural gas or liquefied petroleum gas used to propel
38 a motor vehicle.

39 36. Paper machine clothing, such as forming fabrics and dryer
40 felts, sold to a paper manufacturer and directly used or consumed in paper
41 manufacturing.

42 37. Coal, petroleum, coke, natural gas, virgin fuel oil and
43 electricity sold to a qualified environmental technology manufacturer,
44 producer or processor as defined in section 41-1514.02 and directly used
45 or consumed in generating or providing on-site power or energy solely for

1 environmental technology manufacturing, producing or processing or
2 environmental protection. This paragraph applies for twenty full
3 consecutive calendar or fiscal years from the date the first paper
4 manufacturing machine is placed in service. In the case of an
5 environmental technology manufacturer, producer or processor that does not
6 manufacture paper, the time period begins with the date the first
7 manufacturing, processing or production equipment is placed in service.

8 38. Sales of liquid, solid or gaseous chemicals used in
9 manufacturing, processing, fabricating, mining, refining, metallurgical
10 operations, research and development and, beginning on January 1, 1999,
11 printing, if using or consuming the chemicals, alone or as part of an
12 integrated system of chemicals, involves direct contact with the materials
13 from which the product is produced for the purpose of causing or allowing
14 a chemical or physical change to occur in the materials as part of the
15 production process. This paragraph does not include chemicals that are
16 used or consumed in activities such as packaging, storage or
17 transportation but does not affect any deduction for such chemicals that
18 is otherwise provided by this section. For the purposes of this
19 paragraph, "printing" means a commercial printing operation and includes
20 job printing, engraving, embossing, copying and bookbinding.

21 39. Through December 31, 1994, personal property liquidation
22 transactions, conducted by a personal property liquidator. From and after
23 December 31, 1994, personal property liquidation transactions shall be
24 taxable under this section provided that nothing in this subsection shall
25 be construed to authorize the taxation of casual activities or
26 transactions under this chapter. For the purposes of this paragraph:

27 (a) "Personal property liquidation transaction" means a sale of
28 personal property made by a personal property liquidator acting solely on
29 behalf of the owner of the personal property sold at the dwelling of the
30 owner or on the death of any owner, on behalf of the surviving spouse, if
31 any, any devisee or heir or the personal representative of the estate of
32 the deceased, if one has been appointed.

33 (b) "Personal property liquidator" means a person who is retained
34 to conduct a sale in a personal property liquidation transaction.

35 40. Sales of food, drink and condiment for consumption within the
36 premises of any prison, jail or other institution under the jurisdiction
37 of the state department of corrections, the department of public safety,
38 the department of juvenile corrections or a county sheriff.

39 41. A motor vehicle and any repair and replacement parts and
40 tangible personal property becoming a part of such motor vehicle sold to a
41 motor carrier that is subject to a fee prescribed in title 28, chapter 16,
42 article 4 and that is engaged in the business of leasing or renting such
43 property.

1 42. Sales of:

2 (a) Livestock and poultry to persons engaging in the businesses of
3 farming, ranching or producing livestock or poultry.

4 (b) Livestock and poultry feed, salts, vitamins and other additives
5 for livestock or poultry consumption that are sold to persons for use or
6 consumption by their own livestock or poultry, for use or consumption in
7 the businesses of farming, ranching and producing or feeding livestock,
8 poultry, or livestock or poultry products or for use or consumption in
9 noncommercial boarding of livestock. For the purposes of this paragraph,
10 "poultry" includes ratites.

11 43. Sales of implants used as growth promotants and injectable
12 medicines, not already exempt under paragraph 8 of this subsection, for
13 livestock or poultry owned by or in possession of persons that are engaged
14 in producing livestock, poultry, or livestock or poultry products or that
15 are engaged in feeding livestock or poultry commercially. For the
16 purposes of this paragraph, "poultry" includes ratites.

17 44. Sales of motor vehicles at auction to nonresidents of this
18 state for use outside this state if the vehicles are shipped or delivered
19 out of this state, regardless of where title to the motor vehicles passes
20 or its free on board point.

21 45. Tangible personal property sold to a person engaged in business
22 and subject to tax under the transient lodging classification if the
23 tangible personal property is a personal hygiene item or articles used by
24 human beings for food, drink or condiment, except alcoholic beverages,
25 that are furnished without additional charge to and intended to be
26 consumed by the transient during the transient's occupancy.

27 46. Sales of alternative fuel, as defined in section 1-215, to a
28 used oil fuel burner who has received a permit to burn used oil or used
29 oil fuel under section 49-426 or 49-480.

30 47. Sales of materials that are purchased by or for publicly funded
31 libraries, including school district libraries, charter school libraries,
32 community college libraries, state university libraries or federal, state,
33 county or municipal libraries, for use by the public as follows:

34 (a) Printed or photographic materials, beginning August 7, 1985.

35 (b) Electronic or digital media materials, beginning July 17, 1994.

36 48. Tangible personal property sold to a commercial airline and
37 consisting of food, beverages and condiments and accessories used for
38 serving the food and beverages, if those items are to be provided without
39 additional charge to passengers for consumption in flight. For the
40 purposes of this paragraph, "commercial airline" means a person holding a
41 federal certificate of public convenience and necessity or foreign air
42 carrier permit for air transportation to transport persons, property or
43 United States mail in intrastate, interstate or foreign commerce.

44 49. Sales of alternative fuel vehicles if the vehicle was
45 manufactured as a diesel fuel vehicle and converted to operate on

1 alternative fuel and equipment that is installed in a conventional diesel
2 fuel motor vehicle to convert the vehicle to operate on an alternative
3 fuel, as defined in section 1-215.

4 50. Sales of any spirituous, vinous or malt liquor by a person that
5 is licensed in this state as a wholesaler by the department of liquor
6 licenses and control pursuant to title 4, chapter 2, article 1.

7 51. Sales of tangible personal property to be incorporated or
8 installed as part of environmental response or remediation activities
9 under section 42-5075, subsection B, paragraph 6.

10 52. Sales of tangible personal property by a nonprofit organization
11 that is exempt from taxation under section 501(c)(6) of the internal
12 revenue code if the organization produces, organizes or promotes cultural
13 or civic related festivals or events and no part of the organization's net
14 earnings inures to the benefit of any private shareholder or individual.

15 53. Application services that are designed to assess or test
16 student learning or to promote curriculum design or enhancement purchased
17 by or for any school district, charter school, community college or state
18 university. For the purposes of this paragraph:

19 (a) "Application services" means software applications provided
20 remotely using hypertext transfer protocol or another network protocol.

21 (b) "Curriculum design or enhancement" means planning, implementing
22 or reporting on courses of study, lessons, assignments or other learning
23 activities.

24 54. Sales of motor vehicle fuel and use fuel to a qualified
25 business under section 41-1516 for off-road use in harvesting, processing
26 or transporting qualifying forest products removed from qualifying
27 projects as defined in section 41-1516.

28 55. Sales of repair parts installed in equipment used directly by a
29 qualified business under section 41-1516 in harvesting, processing or
30 transporting qualifying forest products removed from qualifying projects
31 as defined in section 41-1516.

32 56. Sales or other transfers of renewable energy credits or any
33 other unit created to track energy derived from renewable energy
34 resources. For the purposes of this paragraph, "renewable energy credit"
35 means a unit created administratively by the corporation commission or
36 governing body of a public power utility to track kilowatt hours of
37 electricity derived from a renewable energy resource or the kilowatt hour
38 equivalent of conventional energy resources displaced by distributed
39 renewable energy resources.

40 57. Orthodontic devices dispensed by a dental professional who is
41 licensed under title 32, chapter 11 to a patient as part of the practice
42 of dentistry.

43 58. Sales of tangible personal property incorporated or fabricated
44 into a project described in section 42-5075, subsection ~~P~~ P, that is
45 located within the exterior boundaries of an Indian reservation for which

1 the owner, as defined in section 42-5075, of the project is an Indian
2 tribe or an affiliated Indian. For the purposes of this paragraph:

3 (a) "Affiliated Indian" means an individual Native American Indian
4 who is duly registered on the tribal rolls of the Indian tribe for whose
5 benefit the Indian reservation was established.

6 (b) "Indian reservation" means all lands that are within the limits
7 of areas set aside by the United States for the exclusive use and
8 occupancy of an Indian tribe by treaty, law or executive order and that
9 are recognized as Indian reservations by the United States department of
10 the interior.

11 (c) "Indian tribe" means any organized nation, tribe, band or
12 community that is recognized as an Indian tribe by the United States
13 department of the interior and includes any entity formed under the laws
14 of the Indian tribe.

15 59. Sales of works of fine art, as defined in section 44-1771, at
16 an art auction or gallery in this state to nonresidents of this state for
17 use outside this state if the vendor ships or delivers the work of fine
18 art to a destination outside this state.

19 60. Sales of tangible personal property by a marketplace seller
20 that are facilitated by a marketplace facilitator in which the marketplace
21 facilitator has remitted or will remit the applicable tax to the
22 department pursuant to section 42-5014.

23 B. In addition to the deductions from the tax base prescribed by
24 subsection A of this section, the gross proceeds of sales or gross income
25 derived from sales of the following categories of tangible personal
26 property shall be deducted from the tax base:

27 1. Machinery, or equipment, used directly in manufacturing,
28 processing, fabricating, job printing, refining or metallurgical
29 operations. The terms "manufacturing", "processing", "fabricating", "job
30 printing", "refining" and "metallurgical" as used in this paragraph refer
31 to and include those operations commonly understood within their ordinary
32 meaning. "Metallurgical operations" includes leaching, milling,
33 precipitating, smelting and refining.

34 2. Mining machinery, or equipment, used directly in the process of
35 extracting ores or minerals from the earth for commercial purposes,
36 including equipment required to prepare the materials for extraction and
37 handling, loading or transporting such extracted material to the surface.
38 "Mining" includes underground, surface and open pit operations for
39 extracting ores and minerals.

40 3. Tangible personal property sold to persons engaged in business
41 classified under the telecommunications classification, including a person
42 representing or working on behalf of such a person in a manner described
43 in section 42-5075, subsection ~~O~~ P, and consisting of central office
44 switching equipment, switchboards, private branch exchange equipment,
45 microwave radio equipment and carrier equipment including optical fiber,

1 coaxial cable and other transmission media that are components of carrier
2 systems.

3 4. Machinery, equipment or transmission lines used directly in
4 producing or transmitting electrical power, but not including
5 distribution. Transformers and control equipment used at transmission
6 substation sites constitute equipment used in producing or transmitting
7 electrical power.

8 5. Machinery and equipment used directly for energy storage for
9 later electrical use. For the purposes of this paragraph:

10 (a) "Electric utility scale" means a person that is engaged in a
11 business activity described in section 42-5063, subsection A or such
12 person's equipment or wholesale electricity suppliers.

13 (b) "Energy storage" means commercially available technology for
14 electric utility scale that is capable of absorbing energy, storing energy
15 for a period of time and thereafter dispatching the energy and that uses
16 mechanical, chemical or thermal processes to store energy.

17 (c) "Machinery and equipment used directly" means all machinery and
18 equipment that are used for electric energy storage from the point of
19 receipt of such energy in order to facilitate storage of the electric
20 energy to the point where the electric energy is released.

21 6. Neat animals, horses, asses, sheep, ratites, swine or goats used
22 or to be used as breeding or production stock, including sales of
23 breedings or ownership shares in such animals used for breeding or
24 production.

25 7. Pipes or valves four inches in diameter or larger used to
26 transport oil, natural gas, artificial gas, water or coal slurry,
27 including compressor units, regulators, machinery and equipment, fittings,
28 seals and any other part that is used in operating the pipes or valves.

29 8. Aircraft, navigational and communication instruments and other
30 accessories and related equipment sold to:

31 (a) A person:

32 (i) Holding, or exempted by federal law from obtaining, a federal
33 certificate of public convenience and necessity for use as, in conjunction
34 with or becoming part of an aircraft to be used to transport persons for
35 hire in intrastate, interstate or foreign commerce.

36 (ii) That is certificated or licensed under federal aviation
37 administration regulations (14 Code of Federal Regulations part 121 or
38 135) as a scheduled or unscheduled carrier of persons for hire for use as
39 or in conjunction with or becoming part of an aircraft to be used to
40 transport persons for hire in intrastate, interstate or foreign commerce.

41 (iii) Holding a foreign air carrier permit for air transportation
42 for use as or in conjunction with or becoming a part of aircraft to be
43 used to transport persons, property or United States mail in intrastate,
44 interstate or foreign commerce.

(iv) Operating an aircraft to transport persons in any manner for compensation or hire, or for use in a fractional ownership program that meets the requirements of federal aviation administration regulations (14 Code of Federal Regulations part 91, subpart K), including as an air carrier, a foreign air carrier or a commercial operator or under a restricted category, within the meaning of 14 Code of Federal Regulations, regardless of whether the operation or aircraft is regulated or certified under part 91, 119, 121, 133, 135, 136 or 137, or another part of 14 Code of Federal Regulations.

(v) That will lease or otherwise transfer operational control, within the meaning of federal aviation administration operations specification A008, or its successor, of the aircraft, instruments or accessories to one or more persons described in item (i), (ii), (iii) or (iv) of this subdivision, subject to section 42-5009, subsection Q.

(b) Any foreign government.

(c) Persons who are not residents of this state and who will not use such property in this state other than in removing such property from this state. This subdivision also applies to corporations that are not incorporated in this state, regardless of maintaining a place of business in this state, if the principal corporate office is located outside this state and the property will not be used in this state other than in removing the property from this state.

9. Machinery, tools, equipment and related supplies used or consumed directly in repairing, remodeling or maintaining aircraft, aircraft engines or aircraft component parts by or on behalf of a certificated or licensed carrier of persons or property.

10. Railroad rolling stock, rails, ties and signal control equipment used directly to transport persons or property.

11. Machinery or equipment used directly to drill for oil or gas or used directly in the process of extracting oil or gas from the earth for commercial purposes.

12. Buses or other urban mass transit vehicles that are used directly to transport persons or property for hire or pursuant to a governmentally adopted and controlled urban mass transportation program and that are sold to bus companies holding a federal certificate of convenience and necessity or operated by any city, town or other governmental entity or by any person contracting with such governmental entity as part of a governmentally adopted and controlled program to provide urban mass transportation.

13. Groundwater measuring devices required under section 45-604.

14. Machinery and equipment consisting of agricultural aircraft, tractors, off-highway vehicles, tractor-drawn implements, self-powered implements, machinery and equipment necessary for extracting milk, and machinery and equipment necessary for cooling milk and livestock, and drip irrigation lines not already exempt under paragraph 7 of this subsection

1 and that are used for commercial production of agricultural,
2 horticultural, viticultural and floricultural crops and products in this
3 state. For the purposes of this paragraph:

4 (a) "Off-highway vehicles" means off-highway vehicles as defined in
5 section 28-1171 that are modified at the time of sale to function as a
6 tractor or to tow tractor-drawn implements and that are not equipped with
7 a modified exhaust system to increase horsepower or speed or an engine
8 that is more than one thousand cubic centimeters or that have a maximum
9 speed of fifty miles per hour or less.

10 (b) "Self-powered implements" includes machinery and equipment that
11 are electric-powered.

12 15. Machinery or equipment used in research and development. For
13 the purposes of this paragraph, "research and development" means basic and
14 applied research in the sciences and engineering, and designing,
15 developing or testing prototypes, processes or new products, including
16 research and development of computer software that is embedded in or an
17 integral part of the prototype or new product or that is required for
18 machinery or equipment otherwise exempt under this section to function
19 effectively. Research and development do not include manufacturing
20 quality control, routine consumer product testing, market research, sales
21 promotion, sales service, research in social sciences or psychology,
22 computer software research that is not included in the definition of
23 research and development, or other nontechnological activities or
24 technical services.

25 16. Tangible personal property that is used by either of the
26 following to receive, store, convert, produce, generate, decode, encode,
27 control or transmit telecommunications information:

28 (a) Any direct broadcast satellite television or data transmission
29 service that operates pursuant to 47 Code of Federal Regulations part 25.

30 (b) Any satellite television or data transmission facility, if both
31 of the following conditions are met:

32 (i) Over two-thirds of the transmissions, measured in megabytes,
33 transmitted by the facility during the test period were transmitted to or
34 on behalf of one or more direct broadcast satellite television or data
35 transmission services that operate pursuant to 47 Code of Federal
36 Regulations part 25.

37 (ii) Over two-thirds of the transmissions, measured in megabytes,
38 transmitted by or on behalf of those direct broadcast television or data
39 transmission services during the test period were transmitted by the
40 facility to or on behalf of those services. For the purposes of
41 subdivision (b) of this paragraph, "test period" means the three hundred
42 sixty-five day period beginning on the later of the date on which the
43 tangible personal property is purchased or the date on which the direct
44 broadcast satellite television or data transmission service first
45 transmits information to its customers.

1 17. Clean rooms that are used for manufacturing, processing,
2 fabrication or research and development, as defined in paragraph 15 of
3 this subsection, of semiconductor products. For the purposes of this
4 paragraph, "clean room" means all property that comprises or creates an
5 environment where humidity, temperature, particulate matter and
6 contamination are precisely controlled within specified parameters,
7 without regard to whether the property is actually contained within that
8 environment or whether any of the property is affixed to or incorporated
9 into real property. Clean room:

10 (a) Includes the integrated systems, fixtures, piping, movable
11 partitions, lighting and all property that is necessary or adapted to
12 reduce contamination or to control airflow, temperature, humidity,
13 chemical purity or other environmental conditions or manufacturing
14 tolerances, as well as the production machinery and equipment operating in
15 conjunction with the clean room environment.

16 (b) Does not include the building or other permanent, nonremovable
17 component of the building that houses the clean room environment.

18 18. Machinery and equipment used directly in feeding poultry,
19 environmentally controlling housing for poultry, moving eggs within a
20 production and packaging facility or sorting or cooling eggs. This
21 exemption does not apply to vehicles used for transporting eggs.

22 19. Machinery or equipment, including related structural components
23 and containment structures, that is employed in connection with
24 manufacturing, processing, fabricating, job printing, refining, mining,
25 natural gas pipelines, metallurgical operations, telecommunications,
26 producing or transmitting electricity or research and development and that
27 is used directly to meet or exceed rules or regulations adopted by the
28 federal energy regulatory commission, the United States environmental
29 protection agency, the United States nuclear regulatory commission, the
30 Arizona department of environmental quality or a political subdivision of
31 this state to prevent, monitor, control or reduce land, water or air
32 pollution. For the purposes of this paragraph, "containment structure"
33 means a structure that prevents, monitors, controls or reduces noxious or
34 harmful discharge into the environment.

35 20. Machinery and equipment that are sold to a person engaged in
36 commercially producing livestock, livestock products or agricultural,
37 horticultural, viticultural or floricultural crops or products in this
38 state, including a person representing or working on behalf of such a
39 person in a manner described in section 42-5075, subsection ~~E~~ P, if the
40 machinery and equipment are used directly and primarily to prevent,
41 monitor, control or reduce air, water or land pollution.

42 21. Machinery or equipment that enables a television station to
43 originate and broadcast or to receive and broadcast digital television
44 signals and that was purchased to facilitate compliance with the
45 telecommunications act of 1996 (P.L. 104-104; 110 Stat. 56; 47 United

1 States Code section 336) and the federal communications commission order
2 issued April 21, 1997 (47 Code of Federal Regulations part 73). This
3 paragraph does not exempt any of the following:

4 (a) Repair or replacement parts purchased for the machinery or
5 equipment described in this paragraph.

6 (b) Machinery or equipment purchased to replace machinery or
7 equipment for which an exemption was previously claimed and taken under
8 this paragraph.

9 (c) Any machinery or equipment purchased after the television
10 station has ceased analog broadcasting, or purchased after November 1,
11 2009, whichever occurs first.

12 22. Qualifying equipment that is purchased from and after June 30,
13 2004 through December 31, 2026 by a qualified business under section
14 41-1516 for harvesting or processing qualifying forest products removed
15 from qualifying projects as defined in section 41-1516. To qualify for
16 this deduction, the qualified business at the time of purchase must
17 present its certification approved by the department.

18 23. Computer data center equipment sold to the owner, operator or
19 qualified colocation tenant of a computer data center that is certified by
20 the Arizona commerce authority under section 41-1519 or an authorized
21 agent of the owner, operator or qualified colocation tenant during the
22 qualification period for use in the qualified computer data center. For
23 the purposes of this paragraph, "computer data center", "computer data
24 center equipment", "qualification period" and "qualified colocation
25 tenant" have the same meanings prescribed in section 41-1519.

26 C. The deductions provided by subsection B of this section do not
27 include sales of:

28 1. Expendable materials. For the purposes of this paragraph,
29 expendable materials do not include any of the categories of tangible
30 personal property specified in subsection B of this section regardless of
31 the cost or useful life of that property.

32 2. Janitorial equipment and hand tools.

33 3. Office equipment, furniture and supplies.

34 4. Tangible personal property used in selling or distributing
35 activities, other than the telecommunications transmissions described in
36 subsection B, paragraph 16 of this section.

37 5. Motor vehicles required to be licensed by this state, except
38 buses or other urban mass transit vehicles specifically exempted pursuant
39 to subsection B, paragraph 12 of this section, without regard to the use
40 of such motor vehicles.

41 6. Shops, buildings, docks, depots and all other materials of
42 whatever kind or character not specifically included as exempt.

43 7. Motors and pumps used in drip irrigation systems.

44 8. Machinery and equipment or other tangible personal property used
45 by a contractor in performing a contract.

1 D. In addition to the deductions from the tax base prescribed by
2 subsection A of this section, there shall be deducted from the tax base
3 the gross proceeds of sales or gross income derived from sales of
4 machinery, equipment, materials and other tangible personal property used
5 directly and predominantly to construct a qualified environmental
6 technology manufacturing, producing or processing facility as described in
7 section 41-1514.02. This subsection applies for ten full consecutive
8 calendar or fiscal years after the start of initial construction.

9 E. In computing the tax base, gross proceeds of sales or gross
10 income from retail sales of heavy trucks and trailers does not include any
11 amount attributable to federal excise taxes imposed by 26 United States
12 Code section 4051.

13 F. If a person is engaged in an occupation or business to which
14 subsection A of this section applies, the person's books shall be kept so
15 as to show separately the gross proceeds of sales of tangible personal
16 property and the gross income from sales of services, and if not so kept
17 the tax shall be imposed on the total of the person's gross proceeds of
18 sales of tangible personal property and gross income from services.

19 G. If a person is engaged in the business of selling tangible
20 personal property at both wholesale and retail, the tax under this section
21 applies only to the gross proceeds of the sales made other than at
22 wholesale if the person's books are kept so as to show separately the
23 gross proceeds of sales of each class, and if the books are not so kept,
24 the tax under this section applies to the gross proceeds of every sale so
25 made.

26 H. A person who engages in manufacturing, baling, crating, boxing,
27 barreling, canning, bottling, sacking, preserving, processing or otherwise
28 preparing for sale or commercial use any livestock, agricultural or
29 horticultural product or any other product, article, substance or
30 commodity and who sells the product of such business at retail in this
31 state is deemed, as to such sales, to be engaged in business classified
32 under the retail classification. This subsection does not apply to:

33 1. Agricultural producers who are owners, proprietors or tenants of
34 agricultural lands, orchards, farms or gardens where agricultural products
35 are grown, raised or prepared for market and who are marketing their own
36 agricultural products.

37 2. Businesses classified under the:
38 (a) Transporting classification.
39 (b) Utilities classification.
40 (c) Telecommunications classification.
41 (d) Pipeline classification.
42 (e) Private car line classification.
43 (f) Publication classification.
44 (g) Job printing classification.
45 (h) Prime contracting classification.

(i) Restaurant classification.

I. The gross proceeds of sales or gross income derived from the following shall be deducted from the tax base for the retail classification:

1. Sales made directly to the United States government or its departments or agencies by a manufacturer, modifier, assembler or repairer.

2. Sales made directly to a manufacturer, modifier, assembler or repairer if such sales are of any ingredient or component part of products sold directly to the United States government or its departments or agencies by the manufacturer, modifier, assembler or repairer.

3. Overhead materials or other tangible personal property that is used in performing a contract between the United States government and a manufacturer, modifier, assembler or repairer, including property used in performing a subcontract with a government contractor who is a manufacturer, modifier, assembler or repairer, to which title passes to the government under the terms of the contract or subcontract.

4. Sales of overhead materials or other tangible personal property to a manufacturer, modifier, assembler or repairer if the gross proceeds of sales or gross income derived from the property by the manufacturer, modifier, assembler or repairer will be exempt under paragraph 3 of this subsection.

J. There shall be deducted from the tax base fifty percent of the gross proceeds or gross income from any sale of tangible personal property made directly to the United States government or its departments or agencies that is not deducted under subsection I of this section.

K. The department shall require every person claiming a deduction provided by subsection I or J of this section to file on forms prescribed by the department at such times as the department directs a sworn statement disclosing the name of the purchaser and the exact amount of sales on which the exclusion or deduction is claimed.

L. In computing the tax base, gross proceeds of sales or gross income does not include:

1. A manufacturer's cash rebate on the sales price of a motor vehicle if the buyer assigns the buyer's right in the rebate to the retailer.

2. The waste tire disposal fee imposed pursuant to section 44-1302.

M. There shall be deducted from the tax base the amount received from sales of solar energy devices. The retailer shall register with the department as a solar energy retailer. By registering, the retailer acknowledges that it will make its books and records relating to sales of solar energy devices available to the department for examination.

N. In computing the tax base in the case of the sale or transfer of wireless telecommunications equipment as an inducement to a customer to enter into or continue a contract for telecommunications services that are

1 taxable under section 42-5064, gross proceeds of sales or gross income
2 does not include any sales commissions or other compensation received by
3 the retailer as a result of the customer entering into or continuing a
4 contract for the telecommunications services.

5 O. For the purposes of this section, a sale of wireless
6 telecommunications equipment to a person who holds the equipment for sale
7 or transfer to a customer as an inducement to enter into or continue a
8 contract for telecommunications services that are taxable under section
9 42-5064 is considered to be a sale for resale in the regular course of
10 business.

11 P. Retail sales of prepaid calling cards or prepaid authorization
12 numbers for telecommunications services, including sales of
13 reauthorization of a prepaid card or authorization number, are subject to
14 tax under this section.

15 Q. For the purposes of this section, the diversion of gas from a
16 pipeline by a person engaged in the business of:

17 1. Operating a natural or artificial gas pipeline, for the sole
18 purpose of fueling compressor equipment to pressurize the pipeline, is not
19 a sale of the gas to the operator of the pipeline.

20 2. Converting natural gas into liquefied natural gas, for the sole
21 purpose of fueling compressor equipment used in the conversion process, is not
22 a sale of gas to the operator of the compressor equipment.

23 R. For the purposes of this section, the transfer of title or
24 possession of coal from an owner or operator of a power plant to a person
25 in the business of refining coal is not a sale of coal if both of the
26 following apply:

27 1. The transfer of title or possession of the coal is for the
28 purpose of refining the coal.

29 2. The title or possession of the coal is transferred back to the
30 owner or operator of the power plant after completion of the coal refining
31 process. For the purposes of this paragraph, "coal refining process"
32 means the application of a coal additive system that aids in the reduction
33 of power plant emissions during the combustion of coal and the treatment
34 of flue gas.

35 S. If a seller is entitled to a deduction pursuant to subsection B,
36 paragraph 16, subdivision (b) of this section, the department may require
37 the purchaser to establish that the requirements of subsection B,
38 paragraph 16, subdivision (b) of this section have been satisfied. If the
39 purchaser cannot establish that the requirements of subsection B,
40 paragraph 16, subdivision (b) of this section have been satisfied, the
41 purchaser is liable in an amount equal to any tax, penalty and interest
42 that the seller would have been required to pay under article 1 of this
43 chapter if the seller had not made a deduction pursuant to subsection B,
44 paragraph 16, subdivision (b) of this section. Payment of the amount
45 under this subsection exempts the purchaser from liability for any tax

1 imposed under article 4 of this chapter and related to the tangible
2 personal property purchased. The amount shall be treated as transaction
3 privilege tax to the purchaser and as tax revenues collected from the
4 seller to designate the distribution base pursuant to section 42-5029.

5 T. For the purposes of section 42-5032.01, the department shall
6 separately account for revenues collected under the retail classification
7 from businesses selling tangible personal property at retail:

8 1. On the premises of a multipurpose facility that is owned, leased
9 or operated by the tourism and sports authority pursuant to title 5,
10 chapter 8.

11 2. At professional football contests that are held in a stadium
12 located on the campus of an institution under the jurisdiction of the
13 Arizona board of regents.

14 U. FOR THE PURPOSES OF SECTION 42-5032.03, FROM AND AFTER
15 SEPTEMBER 30, 2025, THE DEPARTMENT SHALL SEPARATELY ACCOUNT FOR REVENUES
16 COLLECTED UNDER THE RETAIL CLASSIFICATION FROM BUSINESSES SELLING TANGIBLE
17 PERSONAL PROPERTY AT RETAIL ON THE PREMISES OF A MAJOR LEAGUE BASEBALL
18 FACILITY OWNED OR OPERATED BY A COUNTY STADIUM DISTRICT PURSUANT TO TITLE
19 48, CHAPTER 26.

20 ~~U.~~ V. In computing the tax base for the sale of a motor vehicle to
21 a nonresident of this state, if the purchaser's state of residence allows
22 a corresponding use tax exemption to the tax imposed by article 1 of this
23 chapter and the rate of the tax in the purchaser's state of residence is
24 lower than the rate prescribed in article 1 of this chapter or if the
25 purchaser's state of residence does not impose an excise tax, and the
26 nonresident has secured a special ninety day nonresident registration
27 permit for the vehicle as prescribed by sections 28-2154 and 28-2154.01,
28 there shall be deducted from the tax base a portion of the gross proceeds
29 or gross income from the sale so that the amount of transaction privilege
30 tax that is paid in this state is equal to the excise tax that is imposed
31 by the purchaser's state of residence on the nonexempt sale or use of the
32 motor vehicle.

33 ~~U.~~ W. For the purposes of this section:

34 1. "Agricultural aircraft" means an aircraft that is built for
35 agricultural use for the aerial application of pesticides or fertilizer or
36 for aerial seeding.

37 2. "Aircraft" includes:

38 (a) An airplane flight simulator that is approved by the federal
39 aviation administration for use as a phase II or higher flight simulator
40 under appendix H, 14 Code of Federal Regulations part 121.

41 (b) Tangible personal property that is permanently affixed or
42 attached as a component part of an aircraft that is owned or operated by a
43 certificated or licensed carrier of persons or property.

1 3. "Other accessories and related equipment" includes aircraft
2 accessories and equipment such as ground service equipment that physically
3 contact aircraft at some point during the overall carrier operation.

4 4. "Selling at retail" means a sale for any purpose other than for
5 resale in the regular course of business in the form of tangible personal
6 property, but transfer of possession, lease and rental as used in the
7 definition of sale mean only such transactions as are found on
8 investigation to be in lieu of sales as defined without the words lease or
9 rental.

10 W- X. For the purposes of subsection I of this section:

11 1. "Assembler" means a person who unites or combines products,
12 wares or articles of manufacture so as to produce a change in form or
13 substance without changing or altering the component parts.

14 2. "Manufacturer" means a person who is principally engaged in
15 fabricating, producing or manufacturing products, wares or articles for
16 use from raw or prepared materials, imparting to those materials new
17 forms, qualities, properties and combinations.

18 3. "Modifier" means a person who reworks, changes or adds to
19 products, wares or articles of manufacture.

20 4. "Overhead materials" means tangible personal property, the gross
21 proceeds of sales or gross income derived from that would otherwise be
22 included in the retail classification, and that are used or consumed in
23 performing a contract, the cost of which is charged to an overhead expense
24 account and allocated to various contracts based on generally accepted
25 accounting principles and consistent with government contract accounting
26 standards.

27 5. "Repairer" means a person who restores or renews products, wares
28 or articles of manufacture.

29 6. "Subcontract" means an agreement between a contractor and any
30 person who is not an employee of the contractor for furnishing supplies or
31 services that, in whole or in part, are necessary to perform one or more
32 government contracts, or under which any portion of the contractor's
33 obligation under one or more government contracts is performed, undertaken
34 or assumed and that includes provisions causing title to overhead
35 materials or other tangible personal property used in performing the
36 subcontract to pass to the government or that includes provisions
37 incorporating such title passing clauses in a government contract into the
38 subcontract.

39 Sec. 8. Section 42-5073, Arizona Revised Statutes, is amended to
40 read:

41 42-5073. Amusement classification

42 A. The amusement classification is comprised of the business of
43 operating or conducting theaters, movies, operas, shows of any type or
44 nature, exhibitions, concerts, carnivals, circuses, amusement parks,
45 menageries, fairs, races, contests, games, billiard or pool parlors,

1 bowling alleys, public dances, dance halls, boxing and wrestling matches,
2 skating rinks, tennis courts, except as provided in subsection B of this
3 section, video games, pinball machines or sports events or any other
4 business charging admission or user fees for exhibition, amusement or
5 entertainment, including the operation or sponsorship of events by a
6 tourism and sports authority under title 5, chapter 8. For the purposes
7 of this section, admission or user fees include, but are not limited to,
8 any revenues derived from any form of contractual agreement for rights to
9 or use of premium or special seating facilities or arrangements. The
10 amusement classification does not include:

11 1. Activities or projects of bona fide religious or educational
12 institutions.

13 2. Private or group instructional activities. For the purposes of
14 this paragraph, "private or group instructional activities" includes, but
15 is not limited to, performing arts, martial arts, gymnastics and aerobic
16 instruction.

17 3. The operation or sponsorship of events by the Arizona exposition
18 and state fair board or county fair commissions.

19 4. A musical, dramatic or dance group or a botanical garden, museum
20 or zoo that is qualified as a nonprofit charitable organization under
21 section 501(c)(3) of the United States internal revenue code if no part of
22 its net income inures to the benefit of any private shareholder or
23 individual.

24 5. Exhibition events in this state sponsored, conducted or operated
25 by a nonprofit organization that is exempt from taxation under section
26 501(c)(3), 501(c)(4) or 501(c)(6) of the internal revenue code if the
27 organization is associated with major league baseball teams or a national
28 touring professional golfing association and no part of the organization's
29 net earnings inures to the benefit of any private shareholder or
30 individual. This paragraph does not apply to an organization that is
31 owned, managed or controlled, in whole or in part, by a major league
32 baseball team, or its owners, officers, employees or agents, or by a major
33 league baseball association or professional golfing association, or its
34 owners, officers, employees or agents, unless the organization conducted
35 or operated exhibition events in this state before January 1, 2018 that
36 were exempt from taxation under this section.

37 6. Operating or sponsoring rodeos that feature primarily farm and
38 ranch animals in this state and that are sponsored, conducted or operated
39 by a nonprofit organization that is exempt from taxation under section
40 501(c)(3), 501(c)(4), 501(c)(6), 501(c)(7) or 501(c)(8) of the internal
41 revenue code if no part of the organization's net earnings inures to the
42 benefit of any private shareholder or individual.

43 7. Sales of admissions to intercollegiate football contests if the
44 contests are both:

1 (a) Operated by a nonprofit organization that is exempt from
2 taxation under section 501(c)(3) of the internal revenue code and no part
3 of the organization's net earnings inures to the benefit of any private
4 shareholder or individual.

5 (b) Not held in a multipurpose facility that is owned or operated
6 by the tourism and sports authority pursuant to title 5, chapter 8.

7 8. Activities and events of, or fees and assessments received by, a
8 homeowners organization from persons who are members of the organization
9 or accompanied guests of members. For the purposes of this paragraph,
10 "homeowners organization" means a mandatory membership organization
11 comprised of owners of residential property within a specified residential
12 real estate subdivision development or similar area and established to own
13 property for the benefit of its members where both of the following apply:

14 (a) No part of the organization's net earnings inures to the
15 benefit of any private shareholder or individual.

16 (b) The primary purpose of the organization is to provide for the
17 acquisition, construction, management, maintenance or care of organization
18 property.

19 9. Activities and events of, or fees received by, a nonprofit
20 organization that is exempt from taxation under section 501(c)(6) of the
21 internal revenue code if the organization produces, organizes or promotes
22 cultural or civic related festivals or events and no part of the
23 organization's net earnings inures to the benefit of any private
24 shareholder or individual.

25 10. Arranging an amusement activity as a service to a person's
26 customers if that person is not otherwise engaged in the business of
27 operating or conducting an amusement personally or through others. This
28 exception does not apply to businesses that operate or conduct amusements
29 pursuant to customer orders and send the billings and receive the payments
30 associated with that activity, including when the amusement is performed
31 by third-party independent contractors. For the purposes of this
32 paragraph, "arranging" includes billing for or collecting amusement
33 charges from a person's customers on behalf of the persons providing the
34 amusement.

35 B. The tax base for the amusement classification is the gross
36 proceeds of sales or gross income derived from the business, except that
37 the following shall be deducted from the tax base:

38 1. The gross proceeds of sales or gross income derived from
39 memberships, including initiation fees, that provide for the right to use
40 a health or fitness establishment or a private recreational establishment,
41 or any portion of an establishment, including tennis and other racquet
42 courts at that establishment, for participatory purposes for twenty-eight
43 days or more and fees charged for use of the health or fitness
44 establishment or private recreational establishment by bona fide
45 accompanied guests of members, except that this paragraph does not include

1 additional fees, other than initiation fees, charged by a health or
2 fitness establishment or a private recreational establishment for purposes
3 other than memberships that provide for the right to use a health or
4 fitness establishment or private recreational establishment, or any
5 portion of an establishment, for participatory purposes for twenty-eight
6 days or more and accompanied guest use fees.

7 2. Amounts that are exempt under section 5-111, subsection G.

8 3. The gross proceeds of sales or gross income derived from
9 membership fees, including initiation fees, that provide for the right to
10 use a transient lodging recreational establishment, including golf courses
11 and tennis and other racquet courts at that establishment, for
12 participatory purposes for twenty-eight days or more, except that this
13 paragraph does not include additional fees, other than initiation fees,
14 that are charged by a transient lodging recreational establishment for
15 purposes other than memberships and that provide for the right to use a
16 transient lodging recreational establishment or any portion of the
17 establishment for participatory purposes for twenty-eight days or more.

18 4. The gross proceeds of sales or gross income derived from sales
19 to persons engaged in the business of transient lodging classified under
20 section 42-5070, if all of the following apply:

21 (a) The persons who are engaged in the transient lodging business
22 sell the amusement to another person for consideration.

23 (b) The consideration received by the transient lodging business is
24 equal to or greater than the amount to be deducted under this subsection.

25 (c) The transient lodging business has provided an exemption
26 certificate to the person engaging in business under this section.

27 5. The gross proceeds of sales or gross income derived from:

28 (a) Business activity that is properly included in any other
29 business classification under this article and that is taxable to the
30 person engaged in that classification, but the gross proceeds of sales or
31 gross income to be deducted shall not exceed the consideration paid to the
32 person conducting the activity.

33 (b) Business activity that is arranged by the person who is subject
34 to tax under this section and that is not taxable to the person conducting
35 the activity due to an exclusion, exemption or deduction under this
36 section or section 42-5062, but the gross proceeds of sales or gross
37 income to be deducted shall not exceed the consideration paid to the
38 person conducting the activity.

39 (c) Business activity that is arranged by a person who is subject
40 to tax under this section and that is taxable to another person under this
41 section who conducts the activity, but the gross proceeds of sales or
42 gross income to be deducted shall not exceed the consideration paid to the
43 person conducting the activity.

44 6. The gross proceeds of sales or gross income derived from entry
45 fees paid by participants for events that either:

1 (a) Until March 1, 2017, consist of a run, walk, swim or bicycle
2 ride or a similar event, or any combination of these events.

3 (b) Are operated or conducted by nonprofit organizations that are
4 exempt from taxation under section 501(c)(3) of the internal revenue code
5 and of which no part of the organization's net earnings inures to the
6 benefit of any private shareholder or individual, if the event consists of
7 a run, walk, swim or bicycle ride or a similar event, or any combination
8 of these events.

9 C. For the purposes of subsection B of this section:

10 1. "Health or fitness establishment" means a facility whose primary
11 purpose is to provide facilities, equipment, instruction or education to
12 promote the health and fitness of its members and at least eighty percent
13 of the monthly gross revenue of the facility is received through accounts
14 of memberships and accompanied guest use fees that provide for the right
15 to use the facility, or any portion of the facility, under the terms of
16 the membership agreement for participatory purposes for twenty-eight days
17 or more.

18 2. "Private recreational establishment" means a facility whose
19 primary purpose is to provide recreational facilities, such as tennis,
20 golf and swimming, for its members and where at least eighty percent of
21 the monthly gross revenue of the facility is received through accounts of
22 memberships and accompanied guest use fees that provide for the right to
23 use the facility, or any portion of the facility, for participatory
24 purposes for twenty-eight days or more.

25 3. "Transient lodging recreational establishment" means a facility
26 whose primary purpose is to provide facilities for transient lodging, that
27 is subject to taxation under this chapter and that also provides
28 recreational facilities, such as tennis, golf and swimming, for members
29 for a period of twenty-eight days or more.

30 D. Until December 31, 1988, the revenues from hayrides and other
31 animal-drawn amusement rides, from horseback riding and riding instruction
32 and from recreational tours using motor vehicles designed to operate on
33 and off public highways are exempt from the tax imposed by this section.
34 Beginning January 1, 1989, the gross proceeds or gross income from
35 hayrides and other animal-drawn amusement rides, from horseback riding and
36 from recreational tours using motor vehicles designed to operate on and
37 off public highways are subject to taxation under this section. Tax
38 liabilities, penalties and interest paid for taxable periods before
39 January 1, 1989 shall not be refunded unless the taxpayer requesting the
40 refund provides proof satisfactory to the department that the taxes will
41 be returned to the customer.

42 E. If a person is engaged in the business of offering both
43 exhibition, amusement or entertainment and private or group instructional
44 activities, the person's books shall be kept to show separately the gross
45 income from exhibition, amusement or entertainment and the gross income

1 from instructional activities. If the books do not provide this separate
2 accounting, the tax is imposed on the person's total gross income from the
3 business.

4 F. The department shall separately account for revenues collected
5 under the amusement classification for the purposes of section 42-5029,
6 subsection D, paragraph 4, subdivision (b).

7 G. For the purposes of section 42-5032.01, the department shall
8 separately account for revenues collected under the amusement
9 classification from sales of admissions to:

10 1. Events that are held in a multipurpose facility that is owned or
11 operated by the tourism and sports authority pursuant to title 5, chapter
12 8, including intercollegiate football contests that are operated by a
13 nonprofit organization that is exempt from taxation under section
14 501(c)(3) of the internal revenue code.

15 2. Professional football contests that are held in a stadium
16 located on the campus of an institution under the jurisdiction of the
17 Arizona board of regents.

18 H. FOR THE PURPOSES OF SECTION 42-5032.03, FROM AND AFTER
19 SEPTEMBER 30, 2025, THE DEPARTMENT SHALL SEPARATELY ACCOUNT FOR REVENUES
20 COLLECTED UNDER THE AMUSEMENT CLASSIFICATION FROM THE SALES OF ADMISSIONS
21 TO A MAJOR LEAGUE BASEBALL FACILITY OWNED OR OPERATED BY A COUNTY STADIUM
22 DISTRICT PURSUANT TO TITLE 48, CHAPTER 26.

23 Sec. 9. Section 42-5074, Arizona Revised Statutes, is amended to
24 read:

25 **42-5074. Restaurant classification**

26 A. The restaurant classification is comprised of the business of
27 operating restaurants, dining cars, dining rooms, lunchrooms, mobile food
28 units, lunch stands, soda fountains, catering services or similar
29 establishments where articles of food or drink are sold for consumption on
30 or off the premises.

31 B. The tax base for the restaurant classification is the gross
32 proceeds of sales or gross income derived from the business. The gross
33 proceeds of sales or gross income derived from the following shall be
34 deducted from the tax base:

35 1. Sales to a person engaged in business classified under the
36 restaurant classification if the items sold are to be resold in the
37 regular course of the business.

38 2. Sales by a congressionally chartered veterans organization of
39 food or drink prepared for consumption on the premises leased, owned or
40 maintained by the organization.

41 3. Sales by churches, fraternal benefit societies and other
42 nonprofit organizations, as these organizations are defined in the federal
43 internal revenue code (26 United States Code section 501), that do not
44 regularly engage or continue in the restaurant business for the purpose of
45 fund-raising.

1 4. Sales by a nonprofit organization that is exempt from taxation
2 under section 501(c)(3), 501(c)(4) or 501(c)(6) of the internal revenue
3 code if the organization is associated with a major league baseball team
4 or a national touring professional golfing association and no part of the
5 organization's net earnings inures to the benefit of any private
6 shareholder or individual. This paragraph does not apply to an
7 organization that is owned, managed or controlled, in whole or in part, by
8 a major league baseball team, or its owners, officers, employees or
9 agents, or by a major league baseball association or professional golfing
10 association, or its owners, officers, employees or agents, unless the
11 organization conducted or operated exhibition events in this state before
12 January 1, 2018 that were exempt from taxation under section 42-5073.

13 5. Sales at a rodeo featuring primarily farm and ranch animals in
14 this state by a nonprofit organization that is exempt from taxation under
15 section 501(c)(3), 501(c)(4), 501(c)(6), 501(c)(7) or 501(c)(8) of the
16 internal revenue code if no part of the organization's net earnings inures
17 to the benefit of any private shareholder or individual.

18 6. Sales by any nonprofit organization organized and operated
19 exclusively for charitable purposes and recognized by the United States
20 internal revenue service under section 501(c)(3) of the internal revenue
21 code.

22 7. Sales to qualifying hospitals as defined in section 42-5001.

23 8. Sales to a qualifying health care organization as defined in
24 section 42-5001 if the tangible personal property is used by the
25 organization solely to provide health and medical related educational and
26 charitable services.

27 9. Sales of food, drink and condiment for consumption within the
28 premises of any prison, jail or other institution under the jurisdiction
29 of the state department of corrections, the department of public safety,
30 the department of juvenile corrections or a county sheriff.

31 10. Sales of articles of prepared or unprepared food, drink or
32 condiment and accessory tangible personal property to a school district or
33 charter school if the articles and accessory tangible personal property
34 are served to persons for consumption on the premises of a public school
35 in the school district or charter school during school hours.

36 11. Prepared food, drink or condiment donated by a restaurant to a
37 nonprofit charitable organization that has qualified under section
38 501(c)(3) of the internal revenue code and that regularly serves meals to
39 the needy and indigent on a continuing basis at no cost.

40 12. Sales of articles of food and drink at low or reduced prices to
41 eligible elderly or homeless persons or persons with a disability by a
42 restaurant that contracts with the department of economic security and
43 that is approved by the food and nutrition services of the United States
44 department of agriculture pursuant to the supplemental nutrition
45 assistance program established by the food and nutrition act of 2008

1 (P.L. 110-246; 122 Stat. 1651; 7 United States Code sections 2011 through
2 2036a), if the purchases of the articles of food and drink are made with
3 the benefits issued pursuant to the supplemental nutrition assistance
4 program.

5 C. The tax imposed on the restaurant classification pursuant to
6 this section does not apply to the gross proceeds of sales or gross income
7 from tangible personal property sold to a commercial airline consisting of
8 food, beverages and condiments and accessories used for serving the food
9 and beverages, if those items are to be provided without additional charge
10 to passengers for consumption in flight. For the purposes of this
11 subsection, "commercial airline" means a person holding a federal
12 certificate of public convenience and necessity or foreign air carrier
13 permit for air transportation to transport persons, property or United
14 States mail in intrastate, interstate or foreign commerce.

15 D. The department shall separately account for revenues collected
16 under the restaurant classification for the purposes of section 42-5029,
17 subsection D, paragraph 4, subdivision (b).

18 E. For the purposes of section 42-5032.01, the department shall
19 separately account for revenues collected under the restaurant
20 classification from businesses operating restaurants, dining rooms,
21 lunchrooms, lunch stands, soda fountains, catering services or similar
22 establishments:

23 1. On the premises of a multipurpose facility that is owned or
24 operated by the tourism and sports authority pursuant to title 5, chapter
25 8 for consumption on or off the premises.

26 2. At professional football contests that are held in a stadium
27 located on the campus of an institution under the jurisdiction of the
28 Arizona board of regents.

29 F. FOR THE PURPOSES OF SECTION 42-5032.03, FROM AND AFTER
30 SEPTEMBER 30, 2025, THE DEPARTMENT SHALL SEPARATELY ACCOUNT FOR REVENUES
31 COLLECTED UNDER THE RESTAURANT CLASSIFICATION FROM BUSINESSES OPERATING
32 RESTAURANTS, DINING ROOMS, LUNCHROOMS, LUNCH STANDS, SODA FOUNTAINS,
33 CATERING SERVICES OR SIMILAR ESTABLISHMENTS ON THE PREMISES OF A MAJOR
34 LEAGUE BASEBALL FACILITY OWNED OR OPERATED BY A COUNTY STADIUM DISTRICT
35 PURSUANT TO TITLE 48, CHAPTER 26.

36 Sec. 10. Section 42-5075, Arizona Revised Statutes, is amended to
37 read:

38 42-5075. Prime contracting classification; exemptions;
39 definitions

40 A. The prime contracting classification is comprised of the
41 business of prime contracting and the business of manufactured building
42 dealer. Sales for resale to another manufactured building dealer are not
43 subject to tax. Sales for resale do not include sales to a lessor of
44 manufactured buildings. The sale of a used manufactured building is not
45 taxable under this chapter. The prime contracting classification does not

1 include any work or operation performed by a person that is not required
2 to be licensed by the registrar of contractors pursuant to section
3 32-1121.

4 B. The tax base for the prime contracting classification is
5 sixty-five percent of the gross proceeds of sales or gross income derived
6 from the business. The following amounts shall be deducted from the gross
7 proceeds of sales or gross income before computing the tax base:

8 1. The sales price of land, which shall not exceed the fair market
9 value.

10 2. Sales and installation of groundwater measuring devices required
11 under section 45-604 and groundwater monitoring wells required by law,
12 including monitoring wells installed for acquiring information for a
13 permit required by law.

14 3. The sales price of furniture, furnishings, fixtures, appliances
15 and attachments that are not incorporated as component parts of or
16 attached to a manufactured building or the setup site. The sale of such
17 items may be subject to the taxes imposed by article 1 of this chapter
18 separately and distinctly from the sale of the manufactured building.

19 4. The gross proceeds of sales or gross income received from a
20 contract entered into for the modification of any building, highway, road,
21 railroad, excavation, manufactured building or other structure, project,
22 development or improvement located in a military reuse zone for providing
23 aviation or aerospace services or for a manufacturer, assembler or
24 fabricator of aviation or aerospace products within an active military
25 reuse zone after the zone is initially established or renewed under
26 section 42-1301. To be eligible to qualify for this deduction, before
27 beginning work under the contract, the prime contractor must have applied
28 for a letter of qualification from the department of revenue.

29 5. The gross proceeds of sales or gross income derived from a
30 contract to construct a qualified environmental technology manufacturing,
31 producing or processing facility, as described in section 41-1514.02, and
32 from subsequent construction and installation contracts that begin within
33 ten years after the start of initial construction. To qualify for this
34 deduction, before beginning work under the contract, the prime contractor
35 must obtain a letter of qualification from the department of revenue. This
36 paragraph shall apply for ten full consecutive calendar or fiscal years
37 after the start of initial construction.

38 6. The gross proceeds of sales or gross income from a contract to
39 provide for one or more of the following actions, or a contract for site
40 preparation, constructing, furnishing or installing machinery, equipment
41 or other tangible personal property, including structures necessary to
42 protect exempt incorporated materials or installed machinery or equipment,
43 and tangible personal property incorporated into the project, to perform
44 one or more of the following actions in response to a release or suspected
45 release of a hazardous substance, pollutant or contaminant from a facility

1 to the environment, unless the release was authorized by a permit issued
2 by a governmental authority:

3 (a) Actions to monitor, assess and evaluate such a release or a
4 suspected release.

5 (b) Excavation, removal and transportation of contaminated soil and
6 its treatment or disposal.

7 (c) Treatment of contaminated soil by vapor extraction, chemical or
8 physical stabilization, soil washing or biological treatment to reduce the
9 concentration, toxicity or mobility of a contaminant.

10 (d) Pumping and treatment or in situ treatment of contaminated
11 groundwater or surface water to reduce the concentration or toxicity of a
12 contaminant.

13 (e) The installation of structures, such as cutoff walls or caps,
14 to contain contaminants present in groundwater or soil and prevent them
15 from reaching a location where they could threaten human health or welfare
16 or the environment.

17 This paragraph does not include asbestos removal or the construction or
18 use of ancillary structures such as maintenance sheds, offices or storage
19 facilities for unattached equipment, pollution control equipment,
20 facilities or other control items required or to be used by a person to
21 prevent or control contamination before it reaches the environment.

22 7. The gross proceeds of sales or gross income that is derived from
23 a contract for the installation, assembly, repair or maintenance of
24 machinery, equipment or other tangible personal property that is either
25 deducted from the tax base of the retail classification under section
26 42-5061, subsection B or that is exempt from use tax under section
27 42-5159, subsection B and that has independent functional utility,
28 pursuant to the following provisions:

29 (a) The deduction provided in this paragraph includes the gross
30 proceeds of sales or gross income derived from all of the following:

31 (i) Any activity performed on machinery, equipment or other
32 tangible personal property with independent functional utility.

33 (ii) Any activity performed on any tangible personal property
34 relating to machinery, equipment or other tangible personal property with
35 independent functional utility in furtherance of any of the purposes
36 provided for under subdivision (d) of this paragraph.

37 (iii) Any activity that is related to the activities described in
38 items (i) and (ii) of this subdivision, including inspecting the
39 installation of or testing the machinery, equipment or other tangible
40 personal property.

41 (b) The deduction provided in this paragraph does not include gross
42 proceeds of sales or gross income from the portion of any contracting
43 activity that consists of the development of, or modification to, real
44 property in order to facilitate the installation, assembly, repair,
45 maintenance or removal of machinery, equipment or other tangible personal

1 property that is either deducted from the tax base of the retail
2 classification under section 42-5061, subsection B or exempt from use tax
3 under section 42-5159, subsection B.

4 (c) The deduction provided in this paragraph shall be determined
5 without regard to the size or useful life of the machinery, equipment or
6 other tangible personal property.

7 (d) For the purposes of this paragraph, "independent functional
8 utility" means that the machinery, equipment or other tangible personal
9 property can independently perform its function without attachment to real
10 property, other than attachment for any of the following purposes:

11 (i) Assembling the machinery, equipment or other tangible personal
12 property.

13 (ii) Connecting items of machinery, equipment or other tangible
14 personal property to each other.

15 (iii) Connecting the machinery, equipment or other tangible
16 personal property, whether as an individual item or as a system of items,
17 to water, power, gas, communication or other services.

18 (iv) Stabilizing or protecting the machinery, equipment or other
19 tangible personal property during operation by bolting, burying or
20 performing other similar nonpermanent connections to either real property
21 or real property improvements.

22 8. The gross proceeds of sales or gross income attributable to the
23 purchase of machinery, equipment or other tangible personal property that
24 is exempt from or deductible from transaction privilege and use tax under:

25 (a) Section 42-5061, subsection A, paragraph 25, 29 or 58.

26 (b) Section 42-5061, subsection B.

27 (c) Section 42-5159, subsection A, paragraph 13, subdivision (a),
28 (b), (c), (d), (e), (f), (j), (k), (m) or (n) or paragraph 55.

29 (d) Section 42-5159, subsection B.

30 9. The gross proceeds of sales or gross income received from a
31 contract for the construction of an environmentally controlled facility
32 for the raising of poultry for the production of eggs and the sorting,
33 cooling and packaging of eggs.

34 10. The gross proceeds of sales or gross income that is derived
35 from a contract entered into with a person who is engaged in the
36 commercial production of livestock, livestock products or agricultural,
37 horticultural, viticultural or floricultural crops or products in this
38 state for the modification of any building, highway, road, excavation,
39 manufactured building or other structure, project, development or
40 improvement used directly and primarily to prevent, monitor, control or
41 reduce air, water or land pollution.

42 11. The gross proceeds of sales or gross income that is derived
43 from the installation, assembly, repair or maintenance of clean rooms that
44 are deducted from the tax base of the retail classification pursuant to
45 section 42-5061, subsection B, paragraph 17.

1 12. For taxable periods beginning from and after June 30, 2001, the
2 gross proceeds of sales or gross income derived from a contract entered
3 into for the construction of a residential apartment housing facility that
4 qualifies for a federal housing subsidy for low-income persons over
5 sixty-two years of age and that is owned by a nonprofit charitable
6 organization that has qualified under section 501(c)(3) of the internal
7 revenue code.

8 13. For taxable periods beginning from and after December 31, 1996
9 and ending before January 1, 2017, the gross proceeds of sales or gross
10 income derived from a contract to provide and install a solar energy
11 device. The contractor shall register with the department as a solar
12 energy contractor. By registering, the contractor acknowledges that it
13 will make its books and records relating to sales of solar energy devices
14 available to the department for examination.

15 14. The gross proceeds of sales or gross income derived from a
16 contract entered into for the construction of a launch site, as defined in
17 14 Code of Federal Regulations section 401.5.

18 15. The gross proceeds of sales or gross income derived from a
19 contract entered into for the construction of a domestic violence shelter
20 that is owned and operated by a nonprofit charitable organization that has
21 qualified under section 501(c)(3) of the internal revenue code.

22 16. The gross proceeds of sales or gross income derived from
23 contracts to perform postconstruction treatment of real property for
24 termite and general pest control, including wood-destroying organisms.

25 17. The gross proceeds of sales or gross income received from
26 contracts entered into before July 1, 2006 for constructing a state
27 university research infrastructure project if the project has been
28 reviewed by the joint committee on capital review before the university
29 enters into the construction contract for the project. For the purposes
30 of this paragraph, "research infrastructure" has the same meaning
31 prescribed in section 15-1670.

32 18. The gross proceeds of sales or gross income received from a
33 contract for the construction of any building, or other structure,
34 project, development or improvement owned by a qualified business under
35 section 41-1516 for harvesting or processing qualifying forest products
36 removed from qualifying projects as defined in section 41-1516 if actual
37 construction begins before January 1, 2024. To qualify for this
38 deduction, the prime contractor must obtain a letter of qualification from
39 the Arizona commerce authority before beginning work under the contract.

40 19. Any amount of the gross proceeds of sales or gross income
41 attributable to development fees that are incurred in relation to a
42 contract for construction, development or improvement of real property and
43 that are paid by a prime contractor or subcontractor. For the purposes of
44 this paragraph:

1 (a) The attributable amount shall not exceed the value of the
2 development fees actually imposed.

3 (b) The attributable amount is equal to the total amount of
4 development fees paid by the prime contractor or subcontractor, and the
5 total development fees credited in exchange for the construction of,
6 contribution to or dedication of real property for providing public
7 infrastructure, public safety or other public services necessary to the
8 development. The real property must be the subject of the development
9 fees.

10 (c) "Development fees" means fees imposed to offset capital costs
11 of providing public infrastructure, public safety or other public services
12 to a development and authorized pursuant to section 9-463.05, section
13 11-1102 or title 48 regardless of the jurisdiction to which the fees are
14 paid.

15 20. The gross proceeds of sales or gross income derived from a
16 contract entered into for the construction of a mixed waste processing
17 facility that is located on a municipal solid waste landfill and that is
18 constructed for the purpose of recycling solid waste or producing
19 renewable energy from landfill waste. For the purposes of this paragraph:

20 (a) "Mixed waste processing facility" means a solid waste facility
21 that is owned, operated or used for the treatment, processing or disposal
22 of solid waste, recyclable solid waste, very small quantity generator
23 waste or household hazardous waste. For the purposes of this subdivision,
24 "very small quantity generator waste", "household hazardous waste" and
25 "solid waste facility" have the same meanings prescribed in section
26 49-701, except that solid waste facility does include a site that stores,
27 treats or processes paper, glass, wood, cardboard, household textiles,
28 scrap metal, plastic, vegetative waste, aluminum, steel or other
29 recyclable material.

30 (b) "Municipal solid waste landfill" has the same meaning
31 prescribed in section 49-701.

32 (c) "Recycling" means collecting, separating, cleansing, treating
33 and reconstituting recyclable solid waste that would otherwise become
34 solid waste, but does not include incineration or other similar processes.

35 (d) "Renewable energy" means usable energy, including electricity,
36 fuels, gas and heat, produced through the conversion of energy provided by
37 sunlight, water, wind, geothermal, heat, biomass, biogas, landfill gas or
38 another nonfossil renewable resource.

39 21. The gross proceeds of sales or gross income derived from a
40 contract to install containment structures. For the purposes of this
41 paragraph, "containment structure" means a structure that prevents,
42 monitors, controls or reduces noxious or harmful discharge into the
43 environment.

44 C. Entitlement to the deduction pursuant to subsection B, paragraph
45 7 of this section is subject to the following provisions:

1 1. A prime contractor may establish entitlement to the deduction by
2 both:
3 (a) Marking the invoice for the transaction to indicate that the
4 gross proceeds of sales or gross income derived from the transaction was
5 deducted from the base.
6 (b) Obtaining a certificate executed by the purchaser indicating
7 the name and address of the purchaser, the precise nature of the business
8 of the purchaser, the purpose for which the purchase was made, the
9 necessary facts to establish the deductibility of the property under
10 section 42-5061, subsection B, and a certification that the person
11 executing the certificate is authorized to do so on behalf of the
12 purchaser. The certificate may be disregarded if the prime contractor has
13 reason to believe that the information contained in the certificate is not
14 accurate or complete.
15 2. A person who does not comply with paragraph 1 of this subsection
16 may establish entitlement to the deduction by presenting facts necessary
17 to support the entitlement, but the burden of proof is on that person.
18 3. The department may prescribe a form for the certificate
19 described in paragraph 1, subdivision (b) of this subsection. The
20 department may also adopt rules that describe the transactions with
21 respect to which a person is not entitled to rely solely on the
22 information contained in the certificate provided in paragraph 1,
23 subdivision (b) of this subsection but must instead obtain such additional
24 information as required in order to be entitled to the deduction.
25 4. If a prime contractor is entitled to a deduction by complying
26 with paragraph 1 of this subsection, the department may require the
27 purchaser who caused the execution of the certificate to establish the
28 accuracy and completeness of the information required to be contained in
29 the certificate that would entitle the prime contractor to the deduction.
30 If the purchaser cannot establish the accuracy and completeness of the
31 information, the purchaser is liable in an amount equal to any tax,
32 penalty and interest that the prime contractor would have been required to
33 pay under article 1 of this chapter if the prime contractor had not
34 complied with paragraph 1 of this subsection. Payment of the amount under
35 this paragraph exempts the purchaser from liability for any tax imposed
36 under article 4 of this chapter. The amount shall be treated as a
37 transaction privilege tax to the purchaser and as tax revenues collected
38 from the prime contractor in order to designate the distribution base for
39 purposes of section 42-5029.
40 D. Subcontractors or others who perform modification activities are
41 not subject to tax if they can demonstrate that the job was within the
42 control of a prime contractor or contractors or a dealership of
43 manufactured buildings and that the prime contractor or dealership is
44 liable for the tax on the gross income, gross proceeds of sales or gross

1 receipts attributable to the job and from which the subcontractors or
2 others were paid.

3 E. Amounts received by a contractor for a project are excluded from
4 the contractor's gross proceeds of sales or gross income derived from the
5 business if the person who hired the contractor executes and provides a
6 certificate to the contractor stating that the person providing the
7 certificate is a prime contractor and is liable for the tax under article
8 1 of this chapter. The department shall prescribe the form of the
9 certificate. If the contractor has reason to believe that the information
10 contained on the certificate is erroneous or incomplete, the department
11 may disregard the certificate. If the person who provides the certificate
12 is not liable for the tax as a prime contractor, that person is
13 nevertheless deemed to be the prime contractor in lieu of the contractor
14 and is subject to the tax under this section on the gross receipts or
15 gross proceeds received by the contractor.

16 F. Every person engaging or continuing in this state in the
17 business of prime contracting or dealership of manufactured buildings
18 shall present to the purchaser of such prime contracting or manufactured
19 building a written receipt of the gross income or gross proceeds of sales
20 from such activity and shall separately state the taxes to be paid
21 pursuant to this section.

22 G. For the purposes of section 42-5032.01, the department shall
23 separately account for revenues collected under the prime contracting
24 classification from any prime contractor engaged in the preparation or
25 construction of a multipurpose facility, and related infrastructure, that
26 is owned, operated or leased by the tourism and sports authority pursuant
27 to title 5, chapter 8.

28 H. For the purposes of section 42-5032.02, from and after
29 September 30, 2013, the department shall separately account for revenues
30 reported and collected under the prime contracting classification from any
31 prime contractor engaged in the construction of any buildings and
32 associated improvements that are for the benefit of a manufacturing
33 facility. For the purposes of this subsection, "associated improvements"
34 and "manufacturing facility" have the same meanings prescribed in section
35 42-5032.02.

36 I. FOR THE PURPOSES OF SECTION 42-5032.02, FROM AND AFTER
37 SEPTEMBER 30, 2025, THE DEPARTMENT SHALL SEPARATELY ACCOUNT FOR REVENUES
38 REPORTED AND COLLECTED UNDER THE PRIME CONTRACTING CLASSIFICATION FROM ANY
39 PRIME CONTRACTOR ENGAGED IN THE CONSTRUCTION OF ANY BUILDINGS AND
40 ASSOCIATED IMPROVEMENTS THAT ARE FOR THE BENEFIT OF A MAJOR LEAGUE
41 BASEBALL FACILITY OWNED AND OPERATED BY A COUNTY STADIUM DISTRICT PURSUANT
42 TO TITLE 48, CHAPTER 26.

43 ~~I.~~ J. The gross proceeds of sales or gross income derived from a
44 contract for lawn maintenance services is not subject to tax under this
45 section if the contract does not include landscaping activities. Lawn

1 maintenance service is a service pursuant to section 42-5061, subsection
2 A, paragraph 1, and includes lawn mowing and edging, weeding, repairing
3 sprinkler heads or drip irrigation heads, seasonal replacement of flowers,
4 refreshing gravel, lawn dethatching, seeding winter lawns, leaf and debris
5 collection and removal, tree or shrub pruning or clipping, garden and
6 gravel raking and applying pesticides, as defined in section 3-361, and
7 fertilizer materials, as defined in section 3-262.

8 ~~J.~~ K. Except as provided in subsection ~~O~~ P of this section, the
9 gross proceeds of sales or gross income derived from landscaping
10 activities is subject to tax under this section. Landscaping includes
11 installing lawns, grading or leveling ground, installing gravel or
12 boulders, planting trees and other plants, felling trees, removing or
13 mulching tree stumps, removing other imbedded plants, building irrigation
14 berms, installing railroad ties and installing underground sprinkler or
15 watering systems.

16 ~~K.~~ L. The portion of gross proceeds of sales or gross income
17 attributable to the actual direct costs of providing architectural or
18 engineering services that are incorporated in a contract is not subject to
19 tax under this section. For the purposes of this subsection, "direct
20 costs" means the portion of the actual costs that are directly expended in
21 providing architectural or engineering services.

22 ~~L.~~ M. Operating a landfill or a solid waste disposal facility is
23 not subject to taxation under this section, including filling, compacting
24 and creating vehicle access to and from cell sites within the landfill.
25 Constructing roads to a landfill or solid waste disposal facility and
26 constructing cells within a landfill or solid waste disposal facility may
27 be deemed prime contracting under this section.

28 ~~M.~~ N. The following apply in determining the taxable situs of
29 sales of manufactured buildings:

30 1. For sales in this state where the manufactured building dealer
31 contracts to deliver the building to a setup site or to perform the setup
32 in this state, the taxable situs is the setup site.

33 2. For sales in this state where the manufactured building dealer
34 does not contract to deliver the building to a setup site or does not
35 perform the setup, the taxable situs is the location of the dealership
36 where the building is delivered to the buyer.

37 3. For sales in this state where the manufactured building dealer
38 contracts to deliver the building to a setup site that is outside this
39 state, the situs is outside this state and the transaction is excluded
40 from tax.

41 ~~N.~~ O. The gross proceeds of sales or gross income attributable to
42 a written contract for design phase services or professional services,
43 executed before modification begins and with terms, conditions and pricing
44 of all of these services separately stated in the contract from those for
45 construction phase services, is not subject to tax under this section,

1 regardless of whether the services are provided sequential to or
2 concurrent with prime contracting activities that are subject to tax under
3 this section. This subsection does not include the gross proceeds of
4 sales or gross income attributable to construction phase services. For
5 the purposes of this subsection:

6 1. "Construction phase services" means services for the execution
7 and completion of any modification, including the following:

8 (a) Administration or supervision of any modification performed on
9 the project, including team management and coordination, scheduling, cost
10 controls, submittal process management, field management, safety program,
11 close-out process and warranty period services.

12 (b) Administration or supervision of any modification performed
13 pursuant to a punch list. For the purposes of this subdivision, "punch
14 list" means minor items of modification work performed after substantial
15 completion and before final completion of the project.

16 (c) Administration or supervision of any modification performed
17 pursuant to change orders. For the purposes of this subdivision, "change
18 order" means a written instrument issued after execution of a contract for
19 modification work, providing for all of the following:

20 (i) The scope of a change in the modification work, contract for
21 modification work or other contract documents.

22 (ii) The amount of an adjustment, if any, to the guaranteed maximum
23 price as set in the contract for modification work. For the purposes of
24 this item, "guaranteed maximum price" means the amount guaranteed to be
25 the maximum amount due to a prime contractor for the performance of all
26 modification work for the project.

27 (iii) The extent of an adjustment, if any, to the contract time of
28 performance set forth in the contract.

29 (d) Administration or supervision of any modification performed
30 pursuant to change directives. For the purposes of this subdivision,
31 "change directive" means a written order directing a change in
32 modification work before agreement on an adjustment of the guaranteed
33 maximum price or contract time.

34 (e) Inspection to determine the dates of substantial completion or
35 final completion.

36 (f) Preparation of any manuals, warranties, as-built drawings,
37 spares or other items the prime contractor must furnish pursuant to the
38 contract for modification work. For the purposes of this subdivision,
39 "as-built drawing" means a drawing that indicates field changes made to
40 adapt to field conditions, field changes resulting from change orders or
41 buried and concealed installation of piping, conduit and utility services.

42 (g) Preparation of status reports after modification work has begun
43 detailing the progress of work performed, including preparation of any of
44 the following:

45 (i) Master schedule updates.

- (ii) Modification work cash flow projection updates.
- (iii) Site reports made on a periodic basis.
- (iv) Identification of discrepancies, conflicts or ambiguities in modification work documents that require resolution.
- (v) Identification of any health and safety issues that have arisen in connection with the modification work.
- (h) Preparation of daily logs of modification work, including documentation of personnel, weather conditions and on-site occurrences.
- (i) Preparation of any submittals or shop drawings used by the prime contractor to illustrate details of the modification work performed.
- (j) Administration or supervision of any other activities for which a prime contractor receives a certificate for payment or certificate for final payment based on the progress of modification work performed on the project.

2. "Design phase services" means services for developing and completing a design for a project that are not construction phase services, including the following:

- (a) Evaluating surveys, reports, test results or any other information on-site conditions for the project, including physical characteristics, legal limitations and utility locations for the site.
- (b) Evaluating any criteria or programming objectives for the project to ascertain requirements for the project, such as physical requirements affecting cost or projected utilization of the project.
- (c) Preparing drawings and specifications for architectural program documents, schematic design documents, design development documents, modification work documents or documents that identify the scope of or materials for the project.
- (d) Preparing an initial schedule for the project, excluding the preparation of updates to the master schedule after modification work has begun.
- (e) Preparing preliminary estimates of costs of modification work before completion of the final design of the project, including an estimate or schedule of values for any of the following:

 - (i) Labor, materials, machinery and equipment, tools, water, heat, utilities, transportation and other facilities and services used in the execution and completion of modification work, regardless of whether they are temporary or permanent or whether they are incorporated in the modifications.
 - (ii) The cost of labor and materials to be furnished by the owner of the real property.
 - (iii) The cost of any equipment of the owner of the real property to be assigned by the owner to the prime contractor.
 - (iv) The cost of any labor for installation of equipment separately provided by the owner of the real property that has been designed,

1 specified, selected or specifically provided for in any design document
2 for the project.

3 (v) Any fee paid by the owner of the real property to the prime
4 contractor pursuant to the contract for modification work.

5 (vi) Any bond and insurance premiums.

6 (vii) Any applicable taxes.

7 (viii) Any contingency fees for the prime contractor that may be
8 used before final completion of the project.

9 (f) Reviewing and evaluating cost estimates and project documents
10 to prepare recommendations on site use, site improvements, selection of
11 materials, building systems and equipment, modification feasibility,
12 availability of materials and labor, local modification activity as
13 related to schedules and time requirements for modification work.

14 (g) Preparing the plan and procedures for selection of
15 subcontractors, including any prequalification of subcontractor
16 candidates.

17 3. "Professional services" means architect services, engineer
18 services, geologist services, land surveying services or landscape
19 architect services that are within the scope of those services as provided
20 in title 32, chapter 1 and for which gross proceeds of sales or gross
21 income has not otherwise been deducted under subsection ~~K~~ L of this
22 section.

23 ~~O~~ P. The gross proceeds of sales or gross income derived from a
24 contract with the owner of real property or improvements to real property
25 for the maintenance, repair, replacement or alteration of existing
26 property is not subject to tax under this section if the contract does not
27 include modification activities, except as specified in this subsection.
28 The gross proceeds of sales or gross income derived from a de minimis
29 amount of modification activity does not subject the contract or any part
30 of the contract to tax under this section. For the purposes of this
31 subsection:

32 1. Tangible personal property that is incorporated or fabricated
33 into a project described in this subsection may be subject to the amount
34 prescribed in section 42-5008.01.

35 2. Each contract is independent of any other contract, except that
36 any change order that directly relates to the scope of work of the
37 original contract shall be treated the same as the original contract under
38 this chapter, regardless of the amount of modification activities included
39 in the change order. If a change order does not directly relate to the
40 scope of work of the original contract, the change order shall be treated
41 as a new contract, with the tax treatment of any subsequent change order
42 to follow the tax treatment of the contract to which the scope of work of
43 the subsequent change order directly relates.

44 ~~P~~ Q. Notwithstanding subsection ~~O~~ P of this section, a contract
45 that primarily involves surface or subsurface improvements to land and

1 that is subject to title 28, chapter 19, 20 or 22 or title 34, chapter 2
2 or 6 is taxable under this section, even if the contract also includes
3 vertical improvements. Agencies that are subject to procurement processes
4 under those provisions shall include in the request for proposals a notice
5 to bidders when those projects are subject to this section. This
6 subsection does not apply to contracts with:

7 1. Community facilities districts, fire districts, county
8 television improvement districts, community park maintenance districts,
9 cotton pest control districts, hospital districts, pest abatement
10 districts, health service districts, agricultural improvement districts,
11 county free library districts, county jail districts, county stadium
12 districts, special health care districts, public health services
13 districts, theme park districts or revitalization districts.

14 2. Any special taxing district not specified in paragraph 1 of this
15 subsection if the district does not substantially engage in the
16 modification, maintenance, repair, replacement or alteration of surface or
17 subsurface improvements to land.

18 ~~Q.~~ R. Notwithstanding subsection ~~R~~ S, paragraph 10 of this
19 section, a person owning real property who enters into a contract for sale
20 of the real property, who is responsible to the new owner of the property
21 for modifications made to the property in the period subsequent to the
22 transfer of title and who receives a consideration for the modifications
23 is considered a prime contractor solely for purposes of taxing the gross
24 proceeds of sale or gross income received for the modifications made
25 subsequent to the transfer of title. The original owner's gross proceeds
26 of sale or gross income received for the modifications shall be determined
27 according to the following methodology:

28 1. If any part of the contract for sale of the property specifies
29 amounts to be paid to the original owner for the modifications to be made
30 in the period subsequent to the transfer of title, the amounts are
31 included in the original owner's gross proceeds of sale or gross income
32 under this section. Proceeds from the sale of the property that are
33 received after transfer of title and that are unrelated to the
34 modifications made subsequent to the transfer of title are not considered
35 gross proceeds of sale or gross income from the modifications.

36 2. If the original owner enters into an agreement separate from the
37 contract for sale of the real property providing for amounts to be paid to
38 the original owner for the modifications to be made in the period
39 subsequent to the transfer of title to the property, the amounts are
40 included in the original owner's gross proceeds of sale or gross income
41 received for the modifications made subsequent to the transfer of title.

42 3. If the original owner is responsible to the new owner for
43 modifications made to the property in the period subsequent to the
44 transfer of title and derives any gross proceeds of sale or gross income
45 from the project subsequent to the transfer of title other than a delayed

1 disbursement from escrow unrelated to the modifications, it is presumed
2 that the amounts are received for the modifications made subsequent to the
3 transfer of title unless the contrary is established by the owner through
4 its books, records and papers kept in the regular course of business.

5 4. The tax base of the original owner is computed in the same
6 manner as a prime contractor under this section.

7 ~~R.~~ S. For the purposes of this section:

8 1. "Alteration" means an activity or action that causes a direct
9 physical change to existing property. For the purposes of this paragraph:

10 (a) For existing property that is properly classified as class two
11 property under section 42-12002, paragraph 1, subdivision (c) or paragraph
12 2, subdivision (c) and that is used for residential purposes, class three
13 property under section 42-12003 or class four property under section
14 42-12004, this paragraph does not apply if the contract amount is more
15 than twenty-five percent of the most recent full cash value established
16 under chapter 13, article 2 of this title as of the date of any bid for
17 the work or the date of the contract, whichever value is higher.

18 (b) For all existing property other than existing property
19 described in subdivision (a) of this paragraph, this paragraph does not
20 apply if the contract amount is more than \$750,000.

21 (c) Project elements may not be artificially separated from a
22 contract to cause a project to qualify as an alteration. The department
23 has the burden of proof that project elements have been artificially
24 separated from a contract.

25 (d) If a project for which the owner and the person performing the
26 work reasonably believed, at the inception of the contract, would be
27 treated as an alteration under this paragraph and, on completion of the
28 project, the project exceeded the applicable threshold described in either
29 subdivision (a) or (b) of this paragraph by not more than twenty-five
30 percent of the applicable threshold for any reason, the work performed
31 under the contract qualifies as an alteration.

32 (e) A change order that directly relates to the scope of work of
33 the original contract shall be treated as part of the original contract,
34 and the contract amount shall include any amount attributable to a change
35 order that directly relates to the scope of work of the original contract.

36 (f) Alteration does not include maintenance, repair or replacement.

37 2. "Contracting" means engaging in business as a contractor.

38 3. "Contractor" is synonymous with the term "builder" and means any
39 person or organization that undertakes to or offers to undertake to, or
40 purports to have the capacity to undertake to, or submits a bid to, or
41 does personally or by or through others, modify any building, highway,
42 road, railroad, excavation, manufactured building or other structure,
43 project, development or improvement, or to do any part of such a project,
44 including the erection of scaffolding or other structure or works in
45 connection with such a project, and includes subcontractors and specialty

1 contractors. For all purposes of taxation or deduction, this definition
2 shall govern without regard to whether or not such a contractor is acting
3 in fulfillment of a contract.

4 4. "Manufactured building" means a manufactured home, mobile home
5 or factory-built building, as defined in section 41-4001.

6 5. "Manufactured building dealer" means a dealer who either:

7 (a) Is licensed pursuant to title 41, chapter 37, article 4 and who
8 sells manufactured buildings to the final consumer.

9 (b) Supervises, performs or coordinates the excavation and
10 completion of site improvements or the setup of a manufactured building,
11 including the contracting, if any, with any subcontractor or specialty
12 contractor for the completion of the contract.

13 6. "Modification" means construction, grading and leveling ground,
14 wreckage or demolition. Modification does not include:

15 (a) Any project described in subsection ~~E~~ P of this section.

16 (b) Any wreckage or demolition of existing property, or any other
17 activity that is a necessary component of a project described in
18 subsection ~~E~~ P of this section.

19 (c) Any mobilization or demobilization related to a project
20 described in subsection ~~E~~ P of this section, such as the erection or
21 removal of temporary facilities to be used by those persons working on the
22 project.

23 7. "Modify" means to make a modification or cause a modification to
24 be made.

25 8. "Owner" means the person that holds title to the real property
26 or improvements to real property that is the subject of the work, as well
27 as an agent of the title holder and any person with the authority to
28 perform or authorize work on the real property or improvements, including
29 a tenant and a property manager. For the purposes of subsection ~~E~~ P of
30 this section, a person who is hired by a general contractor that is hired
31 by an owner, or a subcontractor of a general contractor that is hired by
32 an owner, is considered to be hired by the owner.

33 9. "Prime contracting" means engaging in business as a prime
34 contractor.

35 10. "Prime contractor" means a contractor who supervises, performs
36 or coordinates the modification of any building, highway, road, railroad,
37 excavation, manufactured building or other structure, project, development
38 or improvement, including the contracting, if any, with any subcontractors
39 or specialty contractors and who is responsible for the completion of the
40 contract. Except as provided in subsections E and ~~Q~~ R of this section, a
41 person who owns real property, who engages one or more contractors to
42 modify that real property and who does not itself modify that real
43 property is not a prime contractor within the meaning of this paragraph
44 regardless of the existence of a contract for sale or the subsequent sale
45 of that real property.

1 11. "Replacement" means the removal from service of one component
2 or system of existing property or tangible personal property installed in
3 existing property, including machinery or equipment, and the installation
4 of a new component or system or new tangible personal property, including
5 machinery or equipment, that provides the same, a similar or an upgraded
6 design or functionality, regardless of the contract amount and regardless
7 of whether the existing component or system or existing tangible personal
8 property is physically removed from the existing property.

9 12. "Sale of a used manufactured building" does not include a lease
10 of a used manufactured building.

11 Sec. 11. Section 42-5159, Arizona Revised Statutes, is amended to
12 read:

13 **42-5159. Exemptions**

14 A. The tax levied by this article does not apply to the storage,
15 use or consumption in this state of the following described tangible
16 personal property:

17 1. Tangible personal property, sold in this state, the gross
18 receipts from the sale of which are included in the measure of the tax
19 imposed by articles 1 and 2 of this chapter.

20 2. Tangible personal property, the sale or use of which has already
21 been subjected to an excise tax at a rate equal to or exceeding the tax
22 imposed by this article under the laws of another state of the United
23 States. If the excise tax imposed by the other state is at a rate less
24 than the tax imposed by this article, the tax imposed by this article is
25 reduced by the amount of the tax already imposed by the other state.

26 3. Tangible personal property, the storage, use or consumption of
27 which the constitution or laws of the United States prohibit this state
28 from taxing or to the extent that the rate or imposition of tax is
29 unconstitutional under the laws of the United States.

30 4. Tangible personal property that directly enters into and becomes
31 an ingredient or component part of any manufactured, fabricated or
32 processed article, substance or commodity for sale in the regular course
33 of business.

34 5. Motor vehicle fuel and use fuel, the sales, distribution or use
35 of which in this state is subject to the tax imposed under title 28,
36 chapter 16, article 1, use fuel that is sold to or used by a person
37 holding a valid single trip use fuel tax permit issued under
38 section 28-5739, aviation fuel, the sales, distribution or use of which in
39 this state is subject to the tax imposed under section 28-8344, and jet
40 fuel, the sales, distribution or use of which in this state is subject to
41 the tax imposed under article 8 of this chapter.

42 6. Tangible personal property brought into this state by an
43 individual who was a nonresident at the time the property was purchased
44 for storage, use or consumption by the individual if the first actual use

1 or consumption of the property was outside this state, unless the property
2 is used in conducting a business in this state.

3 7. Purchases of implants used as growth promotants and injectable
4 medicines, not already exempt under paragraph 16 of this subsection, for
5 livestock and poultry owned by, or in possession of, persons who are
6 engaged in producing livestock, poultry, or livestock or poultry products,
7 or who are engaged in feeding livestock or poultry commercially. For the
8 purposes of this paragraph, "poultry" includes ratites.

9 8. Purchases of:

10 (a) Livestock and poultry to persons engaging in the businesses of
11 farming, ranching or producing livestock or poultry.

12 (b) Livestock and poultry feed, salts, vitamins and other additives
13 sold to persons for use or consumption in the businesses of farming,
14 ranching and producing or feeding livestock or poultry or for use or
15 consumption in noncommercial boarding of livestock. For the purposes of
16 this paragraph, "poultry" includes ratites.

17 9. Propagative materials for use in commercially producing
18 agricultural, horticultural, viticultural or floricultural crops in this
19 state. For the purposes of this paragraph, "propagative materials":

20 (a) Includes seeds, seedlings, roots, bulbs, liners, transplants,
21 cuttings, soil and plant additives, agricultural minerals, auxiliary soil
22 and plant substances, micronutrients, fertilizers, insecticides,
23 herbicides, fungicides, soil fumigants, desiccants, rodenticides,
24 adjuvants, plant nutrients and plant growth regulators.

25 (b) Except for use in commercially producing industrial hemp as
26 defined in section 3-311, does not include any propagative materials used
27 in producing any part, including seeds, of any plant of the genus
28 cannabis.

29 10. Tangible personal property not exceeding \$200 in any one month
30 purchased by an individual at retail outside the continental limits of the
31 United States for the individual's own personal use and enjoyment.

32 11. Advertising supplements that are intended for sale with
33 newspapers published in this state and that have already been subjected to
34 an excise tax under the laws of another state in the United States that
35 equals or exceeds the tax imposed by this article.

36 12. Materials that are purchased by or for publicly funded
37 libraries, including school district libraries, charter school libraries,
38 community college libraries, state university libraries or federal, state,
39 county or municipal libraries, for use by the public as follows:

40 (a) Printed or photographic materials, beginning August 7, 1985.
41 (b) Electronic or digital media materials, beginning July 17, 1994.

42 13. Tangible personal property purchased by:

43 (a) A hospital organized and operated exclusively for charitable
44 purposes, no part of the net earnings of which inures to the benefit of
45 any private shareholder or individual.

(b) A hospital operated by this state or a political subdivision of this state.

(c) A licensed nursing care institution or a licensed residential care institution or a residential care facility operated in conjunction with a licensed nursing care institution or a licensed kidney dialysis center, which provides medical services, nursing services or health related services and is not used or held for profit.

(d) A qualifying health care organization, as defined in section 42-5001, if the tangible personal property is used by the organization solely to provide health and medical related educational and charitable services.

(e) A qualifying health care organization as defined in section 42-5001 if the organization is dedicated to providing educational, therapeutic, rehabilitative and family medical education training for blind and visually impaired children and children with multiple disabilities from the time of birth to age twenty-one.

(f) A nonprofit charitable organization that has qualified under section 501(c)(3) of the United States internal revenue code and that engages in and uses such property exclusively in programs for persons with mental or physical disabilities if the programs are exclusively for training, job placement, rehabilitation or testing.

(g) A person that is subject to tax under this chapter by reason of being engaged in business classified under section 42-5075, or a subcontractor working under the control of a person that is engaged in business classified under section 42-5075, if the tangible personal property is any of the following:

(i) Incorporated or fabricated by the person into a structure, project, development or improvement in fulfillment of a contract.

(ii) Incorporated or fabricated by the person into any project described in section 42-5075, subsection ~~E~~ P.

(iii) Used in environmental response or remediation activities under section 42-5075, subsection B, paragraph 6.

(h) A person that is not subject to tax under section 42-5075 and that has been provided a copy of a certificate described in section 42-5009, subsection L, if the property purchased is incorporated or fabricated by the person into the real property, structure, project, development or improvement described in the certificate.

(i) A nonprofit charitable organization that has qualified under section 501(c)(3) of the internal revenue code if the property is purchased from the parent or an affiliate organization that is located outside this state.

(j) A qualifying community health center as defined in section 42-5001.

1 (k) A nonprofit charitable organization that has qualified under
2 section 501(c)(3) of the internal revenue code and that regularly serves
3 meals to the needy and indigent on a continuing basis at no cost.

4 (l) A person engaged in business under the transient lodging
5 classification if the property is a personal hygiene item or articles used
6 by human beings for food, drink or condiment, except alcoholic beverages,
7 which are furnished without additional charge to and intended to be
8 consumed by the transient during the transient's occupancy.

9 (m) For taxable periods beginning from and after June 30, 2001, a
10 nonprofit charitable organization that has qualified under section
11 501(c)(3) of the internal revenue code and that provides residential
12 apartment housing for low-income persons over sixty-two years of age in a
13 facility that qualifies for a federal housing subsidy, if the tangible
14 personal property is used by the organization solely to provide
15 residential apartment housing for low-income persons over sixty-two years
16 of age in a facility that qualifies for a federal housing subsidy.

17 (n) A qualifying health sciences educational institution as defined
18 in section 42-5001.

19 (o) A person representing or working on behalf of any person
20 described in subdivision (a), (b), (c), (d), (e), (f), (i), (j), (k), (m)
21 or (n) of this paragraph, if the tangible personal property is
22 incorporated or fabricated into a project described in section 42-5075,
23 subsection ~~E~~ P.

24 14. Commodities, as defined by title 7 United States Code
25 section 2, that are consigned for resale in a warehouse in this state in
26 or from which the commodity is deliverable on a contract for future
27 delivery subject to the rules of a commodity market regulated by the
28 United States commodity futures trading commission.

29 15. Tangible personal property sold by:

30 (a) Any nonprofit organization organized and operated exclusively
31 for charitable purposes and recognized by the United States internal
32 revenue service under section 501(c)(3) of the internal revenue code.

33 (b) A nonprofit organization that is exempt from taxation under
34 section 501(c)(3), 501(c)(4) or 501(c)(6) of the internal revenue code if
35 the organization is associated with a major league baseball team or a
36 national touring professional golfing association and no part of the
37 organization's net earnings inures to the benefit of any private
38 shareholder or individual. This subdivision does not apply to an
39 organization that is owned, managed or controlled, in whole or in part, by
40 a major league baseball team, or its owners, officers, employees or
41 agents, or by a major league baseball association or professional golfing
42 association, or its owners, officers, employees or agents, unless the
43 organization conducted or operated exhibition events in this state before
44 January 1, 2018 that were exempt from transaction privilege tax under
45 section 42-5073.

1 (c) A nonprofit organization that is exempt from taxation under
2 section 501(c)(3), 501(c)(4), 501(c)(6), 501(c)(7) or 501(c)(8) of the
3 internal revenue code if the organization sponsors or operates a rodeo
4 featuring primarily farm and ranch animals and no part of the
5 organization's net earnings inures to the benefit of any private
6 shareholder or individual.

7 16. Drugs and medical oxygen, including delivery hose, mask or
8 tent, regulator and tank, if prescribed by a member of the medical, dental
9 or veterinarian profession who is licensed by law to administer such
10 substances.

11 17. Prosthetic appliances, as defined in section 23-501, prescribed
12 or recommended by a person who is licensed, registered or otherwise
13 professionally credentialed as a physician, dentist, podiatrist,
14 chiropractor, naturopath, homeopath, nurse or optometrist.

15 18. Prescription eyeglasses and contact lenses.

16 19. Insulin, insulin syringes and glucose test strips.

17 20. Hearing aids as defined in section 36-1901.

18 21. Durable medical equipment that has a centers for medicare and
19 medicaid services common procedure code, is designated reimbursable by
20 medicare, is prescribed by a person who is licensed under title 32,
21 chapter 7, 13, 17 or 29, can withstand repeated use, is primarily and
22 customarily used to serve a medical purpose, is generally not useful to a
23 person in the absence of illness or injury and is appropriate for use in
24 the home.

25 22. Food, as provided in and subject to the conditions of article 3
26 of this chapter and sections 42-5074 and 42-6017.

27 23. Items purchased with United States department of agriculture
28 coupons issued under the supplemental nutrition assistance program
29 pursuant to the food and nutrition act of 2008 (P.L. 88-525; 78 Stat. 703;
30 7 United States Code sections 2011 through 2036b) by the United States
31 department of agriculture food and nutrition service or food instruments
32 issued under section 17 of the child nutrition act (P.L. 95-627; 92 Stat.
33 3603; P.L. 99-661, section 4302; P.L. 111-296; 42 United States Code
34 section 1786).

35 24. Food and drink provided without monetary charge by a taxpayer
36 that is subject to section 42-5074 to its employees for their own
37 consumption on the premises during the employees' hours of employment.

38 25. Tangible personal property that is used or consumed in a
39 business subject to section 42-5074 for human food, drink or condiment,
40 whether simple, mixed or compounded.

41 26. Food, drink or condiment and accessory tangible personal
42 property that are acquired for use by or provided to a school district or
43 charter school if they are to be either served or prepared and served to
44 persons for consumption on the premises of a public school in the school
45 district or on the premises of the charter school during school hours.

1 27. Lottery tickets or shares purchased pursuant to title 5,
2 chapter 5.1, article 1.

3 28. Textbooks, sold by a bookstore, that are required by any state
4 university or community college.

5 29. Magazines, other periodicals or other publications produced by
6 this state to encourage tourist travel.

7 30. Paper machine clothing, such as forming fabrics and dryer
8 felts, purchased by a paper manufacturer and directly used or consumed in
9 paper manufacturing.

10 31. Coal, petroleum, coke, natural gas, virgin fuel oil and
11 electricity purchased by a qualified environmental technology
12 manufacturer, producer or processor as defined in section 41-1514.02 and
13 directly used or consumed in generating or providing on-site power or
14 energy solely for environmental technology manufacturing, producing or
15 processing or environmental protection. This paragraph applies for twenty
16 full consecutive calendar or fiscal years from the date the first paper
17 manufacturing machine is placed in service. In the case of an
18 environmental technology manufacturer, producer or processor that does not
19 manufacture paper, the time period begins with the date the first
20 manufacturing, processing or production equipment is placed in service.

21 32. Motor vehicles that are removed from inventory by a motor
22 vehicle dealer as defined in section 28-4301 and that are provided to:

23 (a) Charitable or educational institutions that are exempt from
24 taxation under section 501(c)(3) of the internal revenue code.

25 (b) Public educational institutions.

26 (c) State universities or affiliated organizations of a state
27 university if no part of the organization's net earnings inures to the
28 benefit of any private shareholder or individual.

29 33. Natural gas or liquefied petroleum gas used to propel a motor
30 vehicle.

31 34. Machinery, equipment, technology or related supplies that are
32 only useful to assist a person with a physical disability as defined in
33 section 46-191 or a person who has a developmental disability as defined
34 in section 36-551 or has a head injury as defined in section 41-3201 to be
35 more independent and functional.

36 35. Liquid, solid or gaseous chemicals used in manufacturing,
37 processing, fabricating, mining, refining, metallurgical operations,
38 research and development and, beginning on January 1, 1999, printing, if
39 using or consuming the chemicals, alone or as part of an integrated system
40 of chemicals, involves direct contact with the materials from which the
41 product is produced for the purpose of causing or allowing a chemical or
42 physical change to occur in the materials as part of the production
43 process. This paragraph does not include chemicals that are used or
44 consumed in activities such as packaging, storage or transportation but
45 does not affect any exemption for such chemicals that is otherwise

1 provided by this section. For the purposes of this paragraph, "printing"
2 means a commercial printing operation and includes job printing,
3 engraving, embossing, copying and bookbinding.

4 36. Food, drink and condiment purchased for consumption within the
5 premises of any prison, jail or other institution under the jurisdiction
6 of the state department of corrections, the department of public safety,
7 the department of juvenile corrections or a county sheriff.

8 37. A motor vehicle and any repair and replacement parts and
9 tangible personal property becoming a part of such motor vehicle sold to a
10 motor carrier that is subject to a fee prescribed in title 28, chapter 16,
11 article 4 and that is engaged in the business of leasing or renting such a
12 property.

13 38. Tangible personal property that is or directly enters into and
14 becomes an ingredient or component part of cards used as prescription plan
15 identification cards.

16 39. Overhead materials or other tangible personal property that is
17 used in performing a contract between the United States government and a
18 manufacturer, modifier, assembler or repairer, including property used in
19 performing a subcontract with a government contractor who is a
20 manufacturer, modifier, assembler or repairer, to which title passes to
21 the government under the terms of the contract or subcontract. For the
22 purposes of this paragraph:

23 (a) "Overhead materials" means tangible personal property, the
24 gross proceeds of sales or gross income derived from which would otherwise
25 be included in the retail classification, that is used or consumed in
26 performing a contract, the cost of which is charged to an overhead expense
27 account and allocated to various contracts based on generally accepted
28 accounting principles and consistent with government contract accounting
29 standards.

30 (b) "Subcontract" means an agreement between a contractor and any
31 person who is not an employee of the contractor for furnishing of supplies
32 or services that, in whole or in part, are necessary to perform one or
33 more government contracts, or under which any portion of the contractor's
34 obligation under one or more government contracts is performed, undertaken
35 or assumed, and that includes provisions causing title to overhead
36 materials or other tangible personal property used in performing the
37 subcontract to pass to the government or that includes provisions
38 incorporating such title passing clauses in a government contract into the
39 subcontract.

40 40. Through December 31, 1994, tangible personal property sold
41 pursuant to a personal property liquidation transaction, as defined in
42 section 42-5061. From and after December 31, 1994, tangible personal
43 property sold pursuant to a personal property liquidation transaction, as
44 defined in section 42-5061, if the gross proceeds of the sales were

1 included in the measure of the tax imposed by article 1 of this chapter or
2 if the personal property liquidation was a casual activity or transaction.

3 41. Wireless telecommunications equipment that is held for sale or
4 transfer to a customer as an inducement to enter into or continue a
5 contract for telecommunications services that are taxable under section
6 42-5064.

7 42. Alternative fuel, as defined in section 1-215, purchased by a
8 used oil fuel burner who has received a permit to burn used oil or used
9 oil fuel under section 49-426 or 49-480.

10 43. Tangible personal property purchased by a commercial airline
11 and consisting of food, beverages and condiments and accessories used for
12 serving the food and beverages, if those items are to be provided without
13 additional charge to passengers for consumption in flight. For the
14 purposes of this paragraph, "commercial airline" means a person holding a
15 federal certificate of public convenience and necessity or foreign air
16 carrier permit for air transportation to transport persons, property or
17 United States mail in intrastate, interstate or foreign commerce.

18 44. Alternative fuel vehicles if the vehicle was manufactured as a
19 diesel fuel vehicle and converted to operate on alternative fuel and
20 equipment that is installed in a conventional diesel fuel motor vehicle to
21 convert the vehicle to operate on an alternative fuel, as defined in
22 section 1-215.

23 45. Gas diverted from a pipeline, by a person engaged in the
24 business of:

25 (a) Operating a natural or artificial gas pipeline, and used or
26 consumed for the sole purpose of fueling compressor equipment that
27 pressurizes the pipeline.

28 (b) Converting natural gas into liquefied natural gas, and used or
29 consumed for the sole purpose of fueling compressor equipment used in the
30 conversion process.

31 46. Tangible personal property that is excluded, exempt or
32 deductible from transaction privilege tax pursuant to section 42-5063.

33 47. Tangible personal property purchased to be incorporated or
34 installed as part of environmental response or remediation activities
35 under section 42-5075, subsection B, paragraph 6.

36 48. Tangible personal property sold by a nonprofit organization
37 that is exempt from taxation under section 501(c)(6) of the internal
38 revenue code if the organization produces, organizes or promotes cultural
39 or civic related festivals or events and no part of the organization's net
40 earnings inures to the benefit of any private shareholder or individual.

41 49. Prepared food, drink or condiment donated by a restaurant as
42 classified in section 42-5074, subsection A to a nonprofit charitable
43 organization that has qualified under section 501(c)(3) of the internal
44 revenue code and that regularly serves meals to the needy and indigent on
45 a continuing basis at no cost.

1 50. Application services that are designed to assess or test
2 student learning or to promote curriculum design or enhancement purchased
3 by or for any school district, charter school, community college or state
4 university. For the purposes of this paragraph:

5 (a) "Application services" means software applications provided
6 remotely using hypertext transfer protocol or another network protocol.

7 (b) "Curriculum design or enhancement" means planning, implementing
8 or reporting on courses of study, lessons, assignments or other learning
9 activities.

10 51. Motor vehicle fuel and use fuel to a qualified business under
11 section 41-1516 for off-road use in harvesting, processing or transporting
12 qualifying forest products removed from qualifying projects as defined in
13 section 41-1516.

14 52. Repair parts installed in equipment used directly by a
15 qualified business under section 41-1516 in harvesting, processing or
16 transporting qualifying forest products removed from qualifying projects
17 as defined in section 41-1516.

18 53. Renewable energy credits or any other unit created to track
19 energy derived from renewable energy resources. For the purposes of this
20 paragraph, "renewable energy credit" means a unit created administratively
21 by the corporation commission or governing body of a public power entity
22 to track kilowatt hours of electricity derived from a renewable energy
23 resource or the kilowatt hour equivalent of conventional energy resources
24 displaced by distributed renewable energy resources.

25 54. Coal acquired from an owner or operator of a power plant by a
26 person that is responsible for refining coal if both of the following
27 apply:

28 (a) The transfer of title or possession of the coal is for the
29 purpose of refining the coal.

30 (b) The title or possession of the coal is transferred back to the
31 owner or operator of the power plant after completion of the coal refining
32 process. For the purposes of this subdivision, "coal refining process"
33 means the application of a coal additive system that aids the reduction of
34 power plant emissions during the combustion of coal and the treatment of
35 flue gas.

36 55. Tangible personal property incorporated or fabricated into a
37 project described in section 42-5075, subsection ~~E~~ P that is located
38 within the exterior boundaries of an Indian reservation for which the
39 owner, as defined in section 42-5075, of the project is an Indian tribe or
40 an affiliated Indian. For the purposes of this paragraph:

41 (a) "Affiliated Indian" means an individual Native American Indian
42 who is duly registered on the tribal rolls of the Indian tribe for whose
43 benefit the Indian reservation was established.

1 (b) "Indian reservation" means all lands that are within the limits
2 of areas set aside by the United States for the exclusive use and
3 occupancy of an Indian tribe by treaty, law or executive order and that
4 are recognized as Indian reservations by the United States department of
5 the interior.

6 (c) "Indian tribe" means any organized nation, tribe, band or
7 community that is recognized as an Indian tribe by the United States
8 department of the interior and includes any entity formed under the laws
9 of the Indian tribe.

10 56. Cash equivalents, precious metal bullion and monetized bullion
11 purchased by the ultimate consumer, but coins or other forms of money for
12 manufacture into jewelry or works of art are subject to tax, and tangible
13 personal property that is purchased through the redemption of any cash
14 equivalent by the holder as a means of payment for goods that are subject
15 to tax under this article is subject to tax. For the purposes of this
16 paragraph:

24 (i) Items that are sold to one or more persons and through which a
25 value is not denominated in money.

26 (ii) Prepaid calling cards for telecommunications services.

31 (c) "Precious metal bullion" means precious metal, including gold,
32 silver, platinum, rhodium and palladium, that has been smelted or refined
33 so that its value depends on its contents and not on its form.

34 B. In addition to the exemptions allowed by subsection A of this
35 section, the following categories of tangible personal property are also
36 exempt:

37 1. Machinery, or equipment, used directly in manufacturing,
38 processing, fabricating, job printing, refining or metallurgical
39 operations. The terms "manufacturing", "processing", "fabricating", "job
40 printing", "refining" and "metallurgical" as used in this paragraph refer
41 to and include those operations commonly understood within their ordinary
42 meaning. "Metallurgical operations" includes leaching, milling,
43 precipitating, smelting and refining.

44 2. Machinery, or equipment, used directly in the process of
45 extracting ores or minerals from the earth for commercial purposes,

1 including equipment required to prepare the materials for extraction and
2 handling, loading or transporting such extracted material to the surface.
3 "Mining" includes underground, surface and open pit operations for
4 extracting ores and minerals.

5 3. Tangible personal property sold to persons engaged in business
6 classified under the telecommunications classification under section
7 42-5064, including a person representing or working on behalf of such a
8 person in a manner described in section 42-5075, subsection ~~O~~ P, and
9 consisting of central office switching equipment, switchboards, private
10 branch exchange equipment, microwave radio equipment and carrier equipment
11 including optical fiber, coaxial cable and other transmission media that
12 are components of carrier systems.

13 4. Machinery, equipment or transmission lines used directly in
14 producing or transmitting electrical power, but not including
15 distribution. Transformers and control equipment used at transmission
16 substation sites constitute equipment used in producing or transmitting
17 electrical power.

18 5. Machinery and equipment used directly for energy storage for
19 later electrical use. For the purposes of this paragraph:

20 (a) "Electric utility scale" means a person that is engaged in a
21 business activity described in section 42-5063, subsection A or such
22 person's equipment or wholesale electricity suppliers.

23 (b) "Energy storage" means commercially available technology for
24 electric utility scale that is capable of absorbing energy, storing energy
25 for a period of time and thereafter dispatching the energy and that uses
26 mechanical, chemical or thermal processes to store energy.

27 (c) "Machinery and equipment used directly" means all machinery and
28 equipment that are used for electric energy storage from the point of
29 receipt of such energy in order to facilitate storage of the electric
30 energy to the point where the electric energy is released.

31 6. Neat animals, horses, asses, sheep, ratites, swine or goats used
32 or to be used as breeding or production stock, including sales of
33 breedings or ownership shares in such animals used for breeding or
34 production.

35 7. Pipes or valves four inches in diameter or larger used to
36 transport oil, natural gas, artificial gas, water or coal slurry,
37 including compressor units, regulators, machinery and equipment, fittings,
38 seals and any other part that is used in operating the pipes or valves.

39 8. Aircraft, navigational and communication instruments and other
40 accessories and related equipment sold to:

41 (a) A person:
42 (i) Holding, or exempted by federal law from obtaining, a federal
43 certificate of public convenience and necessity for use as, in conjunction
44 with or becoming part of an aircraft to be used to transport persons for
45 hire in intrastate, interstate or foreign commerce.

(ii) That is certificated or licensed under federal aviation administration regulations (14 Code of Federal Regulations part 121 or 135) as a scheduled or unscheduled carrier of persons for hire for use as or in conjunction with or becoming part of an aircraft to be used to transport persons for hire in intrastate, interstate or foreign commerce.

(iii) Holding a foreign air carrier permit for air transportation for use as or in conjunction with or becoming a part of aircraft to be used to transport persons, property or United States mail in intrastate, interstate or foreign commerce.

(iv) Operating an aircraft to transport persons in any manner for compensation or hire, or for use in a fractional ownership program that meets the requirements of federal aviation administration regulations (14 Code of Federal Regulations part 91, subpart K), including as an air carrier, a foreign air carrier or a commercial operator or under a restricted category, within the meaning of 14 Code of Federal Regulations, regardless of whether the operation or aircraft is regulated or certified under part 91, 119, 121, 133, 135, 136 or 137, or another part of 14 Code of Federal Regulations.

(v) That will lease or otherwise transfer operational control, within the meaning of federal aviation administration operations specification A008, or its successor, of the aircraft, instruments or accessories to one or more persons described in item (i), (ii), (iii) or (iv) of this subdivision, subject to section 42-5009, subsection Q.

(b) Any foreign government.

(c) Persons who are not residents of this state and who will not use such property in this state other than in removing such property from this state. This subdivision also applies to corporations that are not incorporated in this state, regardless of maintaining a place of business in this state, if the principal corporate office is located outside this state and the property will not be used in this state other than in removing the property from this state.

9. Machinery, tools, equipment and related supplies used or consumed directly in repairing, remodeling or maintaining aircraft, aircraft engines or aircraft component parts by or on behalf of a certificated or licensed carrier of persons or property.

10. Rolling stock, rails, ties and signal control equipment used directly to transport persons or property.

11. Machinery or equipment used directly to drill for oil or gas or used directly in the process of extracting oil or gas from the earth for commercial purposes.

12. Buses or other urban mass transit vehicles that are used directly to transport persons or property for hire or pursuant to a governmentally adopted and controlled urban mass transportation program and that are sold to bus companies holding a federal certificate of convenience and necessity or operated by any city, town or other

1 governmental entity or by any person contracting with such governmental
2 entity as part of a governmentally adopted and controlled program to
3 provide urban mass transportation.

4 13. Groundwater measuring devices required under section 45-604.

5 14. Machinery and equipment consisting of agricultural aircraft,
6 tractors, off-highway vehicles, tractor-drawn implements, self-powered
7 implements, machinery and equipment necessary for extracting milk, and
8 machinery and equipment necessary for cooling milk and livestock, and drip
9 irrigation lines not already exempt under paragraph 7 of this subsection
10 and that are used for commercially producing agricultural, horticultural,
11 viticultural and floricultural crops and products in this state. For the
12 purposes of this paragraph:

13 (a) "Off-highway vehicles" means off-highway vehicles as defined in
14 section 28-1171 that are modified at the time of sale to function as a
15 tractor or to tow tractor-drawn implements and that are not equipped with
16 a modified exhaust system to increase horsepower or speed or an engine
17 that is more than one thousand cubic centimeters or that have a maximum
18 speed of fifty miles per hour or less.

19 (b) "Self-powered implements" includes machinery and equipment that
20 are electric-powered.

21 15. Machinery or equipment used in research and development. For
22 the purposes of this paragraph, "research and development" means basic and
23 applied research in the sciences and engineering, and designing,
24 developing or testing prototypes, processes or new products, including
25 research and development of computer software that is embedded in or an
26 integral part of the prototype or new product or that is required for
27 machinery or equipment otherwise exempt under this section to function
28 effectively. Research and development do not include manufacturing
29 quality control, routine consumer product testing, market research, sales
30 promotion, sales service, research in social sciences or psychology,
31 computer software research that is not included in the definition of
32 research and development, or other nontechnological activities or
33 technical services.

34 16. Tangible personal property that is used by either of the
35 following to receive, store, convert, produce, generate, decode, encode,
36 control or transmit telecommunications information:

37 (a) Any direct broadcast satellite television or data transmission
38 service that operates pursuant to 47 Code of Federal Regulations part 25.

39 (b) Any satellite television or data transmission facility, if both
40 of the following conditions are met:

41 (i) Over two-thirds of the transmissions, measured in megabytes,
42 transmitted by the facility during the test period were transmitted to or
43 on behalf of one or more direct broadcast satellite television or data
44 transmission services that operate pursuant to 47 Code of Federal
45 Regulations part 25.

(ii) Over two-thirds of the transmissions, measured in megabytes, transmitted by or on behalf of those direct broadcast television or data transmission services during the test period were transmitted by the facility to or on behalf of those services.

For the purposes of subdivision (b) of this paragraph, "test period" means the three hundred sixty-five day period beginning on the later of the date on which the tangible personal property is purchased or the date on which the direct broadcast satellite television or data transmission service first transmits information to its customers.

17. Clean rooms that are used for manufacturing, processing, fabrication or research and development, as defined in paragraph 15 of this subsection, of semiconductor products. For the purposes of this paragraph, "clean room" means all property that comprises or creates an environment where humidity, temperature, particulate matter and contamination are precisely controlled within specified parameters, without regard to whether the property is actually contained within that environment or whether any of the property is affixed to or incorporated into real property. Clean room:

(a) Includes the integrated systems, fixtures, piping, movable partitions, lighting and all property that is necessary or adapted to reduce contamination or to control airflow, temperature, humidity, chemical purity or other environmental conditions or manufacturing tolerances, as well as the production machinery and equipment operating in conjunction with the clean room environment.

(b) Does not include the building or other permanent, nonremovable component of the building that houses the clean room environment.

18. Machinery and equipment that are used directly in feeding poultry, environmentally controlling housing for poultry, moving eggs within a production and packaging facility or sorting or cooling eggs. This exemption does not apply to vehicles used for transporting eggs.

19. Machinery or equipment, including related structural components and containment structures, that is employed in connection with manufacturing, processing, fabricating, job printing, refining, mining, natural gas pipelines, metallurgical operations, telecommunications, producing or transmitting electricity or research and development and that is used directly to meet or exceed rules or regulations adopted by the federal energy regulatory commission, the United States environmental protection agency, the United States nuclear regulatory commission, the Arizona department of environmental quality or a political subdivision of this state to prevent, monitor, control or reduce land, water or air pollution. For the purposes of this paragraph, "containment structure" means a structure that prevents, monitors, controls or reduces noxious or harmful discharge into the environment.

1 20. Machinery and equipment that are used in commercially producing
2 livestock, livestock products or agricultural, horticultural, viticultural
3 or floricultural crops or products in this state, including production by
4 a person representing or working on behalf of such a person in a manner
5 described in section 42-5075, subsection ~~O~~ P, if the machinery and
6 equipment are used directly and primarily to prevent, monitor, control or
7 reduce air, water or land pollution.

8 21. Machinery or equipment that enables a television station to
9 originate and broadcast or to receive and broadcast digital television
10 signals and that was purchased to facilitate compliance with the
11 telecommunications act of 1996 (P.L. 104-104; 110 Stat. 56; 47 United
12 States Code section 336) and the federal communications commission order
13 issued April 21, 1997 (47 Code of Federal Regulations part 73). This
14 paragraph does not exempt any of the following:

15 (a) Repair or replacement parts purchased for the machinery or
16 equipment described in this paragraph.

17 (b) Machinery or equipment purchased to replace machinery or
18 equipment for which an exemption was previously claimed and taken under
19 this paragraph.

20 (c) Any machinery or equipment purchased after the television
21 station has ceased analog broadcasting, or purchased after November 1,
22 2009, whichever occurs first.

23 22. Qualifying equipment that is purchased from and after June 30,
24 2004 through December 31, 2026 by a qualified business under section
25 41-1516 for harvesting or processing qualifying forest products removed
26 from qualifying projects as defined in section 41-1516. To qualify for
27 this exemption, the qualified business must obtain and present its
28 certification from the Arizona commerce authority at the time of purchase.

29 23. Machinery, equipment, materials and other tangible personal
30 property used directly and predominantly to construct a qualified
31 environmental technology manufacturing, producing or processing facility
32 as described in section 41-1514.02. This paragraph applies for ten full
33 consecutive calendar or fiscal years after the start of initial
34 construction.

35 24. Computer data center equipment sold to the owner, operator or
36 qualified colocation tenant of a computer data center that is certified by
37 the Arizona commerce authority under section 41-1519 or an authorized
38 agent of the owner, operator or qualified colocation tenant during the
39 qualification period for use in the qualified computer data center. For
40 the purposes of this paragraph, "computer data center", "computer data
41 center equipment", "qualification period" and "qualified colocation
42 tenant" have the same meanings prescribed in section 41-1519.

1 C. The exemptions provided by subsection B of this section do not
2 include:

3 1. Expendable materials. For the purposes of this paragraph,
4 expendable materials do not include any of the categories of tangible
5 personal property specified in subsection B of this section regardless of
6 the cost or useful life of that property.

7 2. Janitorial equipment and hand tools.
8 3. Office equipment, furniture and supplies.

9 4. Tangible personal property used in selling or distributing
10 activities, other than the telecommunications transmissions described in
11 subsection B, paragraph 16 of this section.

12 5. Motor vehicles required to be licensed by this state, except
13 buses or other urban mass transit vehicles specifically exempted pursuant
14 to subsection B, paragraph 12 of this section, without regard to the use
15 of such motor vehicles.

16 6. Shops, buildings, docks, depots and all other materials of
17 whatever kind or character not specifically included as exempt.

18 7. Motors and pumps used in drip irrigation systems.

19 8. Machinery and equipment or tangible personal property used by a
20 contractor in performing a contract.

21 D. The following shall be deducted in computing the purchase price
22 of electricity by a retail electric customer from a utility business:

23 1. Revenues received from sales of ancillary services, electric
24 distribution services, electric generation services, electric transmission
25 services and other services related to providing electricity to a retail
26 electric customer who is located outside this state for use outside this
27 state if the electricity is delivered to a point of sale outside this
28 state.

29 2. Revenues received from providing electricity, including
30 ancillary services, electric distribution services, electric generation
31 services, electric transmission services and other services related to
32 providing electricity with respect to which the transaction privilege tax
33 imposed under section 42-5063 has been paid.

34 E. The tax levied by this article does not apply to the purchase of
35 solar energy devices from a retailer that is registered with the
36 department as a solar energy retailer or a solar energy contractor.

37 F. The following shall be deducted in computing the purchase price
38 of electricity by a retail electric customer from a utility business:

39 1. Fees charged by a municipally owned utility to persons
40 constructing residential, commercial or industrial developments or
41 connecting residential, commercial or industrial developments to a
42 municipal utility system or systems if the fees are segregated and used
43 only for capital expansion, system enlargement or debt service of the
44 utility system or systems.

2. Reimbursement or contribution compensation to any person or persons owning a utility system for property and equipment installed to provide utility access to, on or across the land of an actual utility consumer if the property and equipment become the property of the utility. This deduction shall not exceed the value of such property and equipment.

G. The tax levied by this article does not apply to the purchase price of electricity, natural gas or liquefied petroleum gas by:

1. A qualified manufacturing or smelting business. A utility that claims this deduction shall report each month, on a form prescribed by the department, the name and address of each qualified manufacturing or smelting business for which this deduction is taken. This paragraph applies to gas transportation services. For the purposes of this paragraph:

(a) "Gas transportation services" means the services of transporting natural gas to a natural gas customer or to a natural gas distribution facility if the natural gas was purchased from a supplier other than the utility.

(b) "Manufacturing" means the performance as a business of an integrated series of operations that places tangible personal property in a form, composition or character different from that in which it was acquired and transforms it into a different product with a distinctive name, character or use. Manufacturing does not include job printing, publishing, packaging, mining, generating electricity or operating a restaurant.

(c) "Qualified manufacturing or smelting business" means one of the following:

(i) A business that manufactures or smelts tangible products in this state, of which at least fifty-one percent of the manufactured or smelted products will be exported out of state for incorporation into another product or sold out of state for a final sale.

(ii) A business that derives at least fifty-one percent of its gross income from the sale of manufactured or smelted products manufactured or smelted by the business.

(iii) A business that uses at least fifty-one percent of its square footage in this state for manufacturing or smelting and business activities directly related to manufacturing or smelting.

(iv) A business that employs at least fifty-one percent of its workforce in this state in manufacturing or smelting and business activities directly related to manufacturing or smelting.

(v) A business that uses at least fifty-one percent of the value of its capitalized assets in this state, as reflected on the business's books and records, for manufacturing or smelting and business activities directly related to manufacturing or smelting.

(d) "Smelting" means to melt or fuse a metalliferous mineral, often with an accompanying chemical change, usually to separate the metal.

1 2. A business that operates an international operations center in
2 this state and that is certified by the Arizona commerce authority
3 pursuant to section 41-1520.

4 H. A city or town may exempt proceeds from sales of paintings,
5 sculptures or similar works of fine art if such works of fine art are sold
6 by the original artist. For the purposes of this subsection, fine art
7 does not include an art creation such as jewelry, macrame, glasswork,
8 pottery, woodwork, metalwork, furniture or clothing if the art creation
9 has a dual purpose, both aesthetic and utilitarian, whether sold by the
10 artist or by another person.

11 I. For the purposes of subsection B of this section:

12 1. "Agricultural aircraft" means an aircraft that is built for
13 agricultural use for the aerial application of pesticides or fertilizer or
14 for aerial seeding.

15 2. "Aircraft" includes:

16 (a) An airplane flight simulator that is approved by the federal
17 aviation administration for use as a phase II or higher flight simulator
18 under appendix H, 14 Code of Federal Regulations part 121.

19 (b) Tangible personal property that is permanently affixed or
20 attached as a component part of an aircraft that is owned or operated by a
21 certificated or licensed carrier of persons or property.

22 3. "Other accessories and related equipment" includes aircraft
23 accessories and equipment such as ground service equipment that physically
24 contact aircraft at some point during the overall carrier operation.

25 J. For the purposes of subsection D of this section, "ancillary
26 services", "electric distribution service", "electric generation service",
27 "electric transmission service" and "other services" have the same
28 meanings prescribed in section 42-5063.

29 Sec. 12. Title 42, chapter 6, article 1, Arizona Revised Statutes,
30 is amended by adding section 42-6018, to read:

31 42-6018. Distribution of revenue for county stadium district
32 from city or town excise taxes

33 A. BEGINNING OCTOBER 1, 2025 AND EACH MONTH THEREAFTER, A CITY OR
34 TOWN SHALL TRANSMIT FROM THE AMOUNT COLLECTED PURSUANT TO THIS ARTICLE THE
35 AMOUNT DETERMINED UNDER SUBSECTION B OF THIS SECTION TO THE COUNTY STADIUM
36 DISTRICT ESTABLISHED PURSUANT TO TITLE 48, CHAPTER 26 FOR DEPOSIT IN THE
37 COUNTY STADIUM DISTRICT FUND ESTABLISHED PURSUANT TO SECTION 48-4231.

38 B. THE AMOUNT TO BE TRANSMITTED UNDER SUBSECTION A OF THIS SECTION
39 IS THE TOTAL AMOUNT OF TRANSACTION PRIVILEGE, SALES, USE, FRANCHISE OR
40 OTHER SIMILAR TAX OR FEES COLLECTED ON BEHALF OF THE CITY OR TOWN FROM
41 PERSONS ENGAGED IN THE FOLLOWING BUSINESS ACTIVITIES AT, OR WITH RESPECT
42 TO EVENTS HELD AT, A MAJOR LEAGUE BASEBALL FACILITY THAT IS OWNED AND
43 OPERATED BY A COUNTY STADIUM DISTRICT PURSUANT TO TITLE 48, CHAPTER 26:

44 1. SELLING TANGIBLE PERSONAL PROPERTY AT RETAIL.

1 2. OPERATING OR CONDUCTING THEATERS, MOVIES, OPERAS, SHOWS OF ANY
2 TYPE OR NATURE, EXHIBITIONS, CONCERTS, CARNIVALS, CIRCUSES, AMUSEMENT
3 PARKS, MENAGERIES, FAIRS, RACES, CONTESTS, GAMES, BILLIARD OR POOL
4 PARLORS, BOWLING ALLEYS, PUBLIC DANCES, DANCE HALLS, BOXING AND WRESTLING
5 MATCHES, SKATING RINKS, TENNIS COURTS, VIDEO GAMES, PINBALL MACHINES OR
6 SPORTS EVENTS OR ANY OTHER BUSINESS CHARGING ADMISSION OR USER FEES FOR
7 EXHIBITION, AMUSEMENT OR ENTERTAINMENT.

8 3. OPERATING A RESTAURANT, DINING CAR, DINING ROOM, LUNCHROOM,
9 MOBILE FOOD UNIT, LUNCH STAND, SODA FOUNTAIN, CATERING SERVICE OR SIMILAR
10 ESTABLISHMENT WHERE ARTICLES OF FOOD OR DRINK ARE SOLD FOR CONSUMPTION ON
11 OR OFF THE PREMISES.

12 4. PRIME CONTRACTING.

13 C. FOR THE PURPOSES OF THIS SECTION, FROM AND AFTER DECEMBER 30,
14 2025, THE DEPARTMENT SHALL SEPARATELY ACCOUNT FOR REVENUES COLLECTED FROM
15 THE BUSINESSES PRESCRIBED IN SUBSECTION B OF THIS SECTION ON THE PREMISES
16 OF A MAJOR LEAGUE BASEBALL FACILITY OWNED OR OPERATED BY A COUNTY STADIUM
17 DISTRICT PURSUANT TO TITLE 48, CHAPTER 26.

18 Sec. 13. Title 42, chapter 6, article 3, Arizona Revised Statutes,
19 is amended by adding section 42-6113, to read:

20 42-6113. Distribution of revenue for county stadium district
21 from county excise taxes

22 A. BEGINNING OCTOBER 1, 2025 AND EACH MONTH THEREAFTER, A COUNTY
23 SHALL TRANSMIT FROM THE AMOUNT COLLECTED PURSUANT TO THIS ARTICLE THE
24 AMOUNT DETERMINED UNDER SUBSECTION B OF THIS SECTION TO THE COUNTY STADIUM
25 DISTRICT ESTABLISHED PURSUANT TO TITLE 48, CHAPTER 26 FOR DEPOSIT IN THE
26 COUNTY STADIUM DISTRICT FUND ESTABLISHED PURSUANT TO SECTION 48-4231.

27 B. THE AMOUNT TO BE TRANSMITTED UNDER SUBSECTION A OF THIS SECTION
28 IS THE TOTAL AMOUNT OF COUNTY EXCISE TAXES COLLECTED ON BEHALF OF THE
29 COUNTY FROM PERSONS ENGAGED IN THE FOLLOWING BUSINESS ACTIVITIES AT, OR
30 WITH RESPECT TO EVENTS HELD AT, A MAJOR LEAGUE BASEBALL FACILITY THAT IS
31 OWNED AND OPERATED BY A COUNTY STADIUM DISTRICT PURSUANT TO TITLE 48,
32 CHAPTER 26:

33 1. SELLING TANGIBLE PERSONAL PROPERTY AT RETAIL.

34 2. OPERATING OR CONDUCTING THEATERS, MOVIES, OPERAS, SHOWS OF ANY
35 TYPE OR NATURE, EXHIBITIONS, CONCERTS, CARNIVALS, CIRCUSES, AMUSEMENT
36 PARKS, MENAGERIES, FAIRS, RACES, CONTESTS, GAMES, BILLIARD OR POOL
37 PARLORS, BOWLING ALLEYS, PUBLIC DANCES, DANCE HALLS, BOXING AND WRESTLING
38 MATCHES, SKATING RINKS, TENNIS COURTS, VIDEO GAMES, PINBALL MACHINES OR
39 SPORTS EVENTS OR ANY OTHER BUSINESS CHARGING ADMISSION OR USER FEES FOR
40 EXHIBITION, AMUSEMENT OR ENTERTAINMENT.

41 3. OPERATING A RESTAURANT, DINING CAR, DINING ROOM, LUNCHROOM,
42 MOBILE FOOD UNIT, LUNCH STAND, SODA FOUNTAIN, CATERING SERVICE OR SIMILAR
43 ESTABLISHMENT WHERE ARTICLES OF FOOD OR DRINK ARE SOLD FOR CONSUMPTION ON
44 OR OFF THE PREMISES.

45 4. PRIME CONTRACTING.

1 C. FOR THE PURPOSES OF THIS SECTION, FROM AND AFTER DECEMBER 30,
2 2025, THE DEPARTMENT SHALL SEPARATELY ACCOUNT FOR REVENUES COLLECTED
3 PURSUANT TO SECTIONS 42-6105.01 AND 42-6109.01 FROM THE BUSINESSES
4 PRESCRIBED IN SUBSECTION B OF THIS SECTION ON THE PREMISES OF A MAJOR
5 LEAGUE BASEBALL FACILITY OWNED OR OPERATED BY A COUNTY STADIUM DISTRICT
6 PURSUANT TO TITLE 48, CHAPTER 26.

7 Sec. 14. Section 43-206, Arizona Revised Statutes, is amended to
8 read:

9 43-206. Urban revenue sharing fund; allocation; distribution;
10 withholding

11 A. The urban revenue sharing fund is established. Through fiscal
12 year 2022-2023, the fund consists of an amount equal to fifteen percent of
13 the net proceeds of the state income taxes for the fiscal year two years
14 preceding the current fiscal year. Beginning in fiscal year 2023-2024,
15 the fund consists of an amount equal to eighteen percent of the net
16 proceeds of the state income taxes for the fiscal year two years preceding
17 the current fiscal year. The fund shall be distributed to incorporated
18 cities and towns as provided in this section, except that a city or town
19 shall receive at least an amount equal to what a city or town with a
20 population of fifteen hundred or more persons would receive. The transfer
21 of net proceeds prescribed by section 49-282, subsection B does not affect
22 the calculation of net proceeds prescribed by this subsection.

23 B. Each city or town shall share in the urban revenue sharing fund
24 in the proportion that the population of each bears to the population of
25 all. Except as provided by sections 42-5033 and 42-5033.01, the
26 population of a city or town as determined by the most recent United
27 States decennial census plus any revisions to the decennial census
28 certified by the United States CENSUS bureau ~~of the census~~ shall be used
29 as the basis for apportioning monies pursuant to this subsection.

30 C. The treasurer, on instruction from the department, shall
31 transmit, not later than the tenth day of each month, to each city or town
32 an amount equal to one-twelfth of that city's or town's total entitlement
33 for the current fiscal year from the urban revenue sharing fund as
34 determined by the department.

35 D. A newly incorporated city or town shall share in the urban
36 revenue sharing fund beginning the first month of the first full fiscal
37 year following incorporation.

38 E. On receipt of a certificate of default from the greater Arizona
39 development authority pursuant to section 41-2257 or 41-2258, the state
40 treasurer, to the extent not otherwise expressly prohibited by law, shall
41 withhold from the next succeeding distribution of monies pursuant to this
42 section due to the city or town the amount specified in the certificate of
43 default and immediately deposit the amount withheld in the greater Arizona
44 development authority revolving fund. The state treasurer shall continue
45 to withhold and deposit the monies until the authority certifies to the

1 state treasurer that the default has been cured. The state treasurer may
2 not withhold any amount that is necessary, as certified by the defaulting
3 political subdivision to the state treasurer and the authority, to make
4 any required deposits then due for the payment of principal and interest
5 on bonds of the political subdivision that were issued before the date of
6 the loan repayment agreement or bonds and that have been secured by a
7 pledge of distributions made pursuant to this section.

8 F. Except as otherwise provided by this subsection, on notice from
9 the attorney general pursuant to section 41-194.01, subsection B,
10 paragraph 1 that an ordinance, regulation, order or other official action
11 adopted or taken by the governing body of a city or town violates state
12 law or the Constitution of Arizona, the state treasurer shall withhold the
13 distribution of monies pursuant to this section to the affected city or
14 town and shall continue to withhold monies pursuant to this subsection
15 until the attorney general certifies to the state treasurer that the
16 violation has been resolved. The state treasurer shall redistribute the
17 monies withheld pursuant to this subsection among all other cities and
18 towns in proportion to their population as provided by subsection B of
19 this section. The state treasurer shall not withhold any amount that the
20 city or town certifies to the attorney general and the state treasurer as
21 being necessary to make any required deposits or payments for debt service
22 on bonds or other long-term obligations of the city or town that were
23 issued or incurred before committing the violation.

24 G. THE AMOUNT REPORTED TO THE DEPARTMENT PURSUANT TO SECTION
25 43-209, SUBSECTION D FOR A TAXABLE YEAR SHALL BE INCLUDED WHEN DETERMINING
26 THE NET PROCEEDS OF THE STATE INCOME TAXES FOR THE FISCAL YEAR FOR THE
27 PURPOSES OF THE DISTRIBUTION REQUIRED BY SUBSECTION A OF THIS SECTION.

28 Sec. 15. Section 43-209, Arizona Revised Statutes, is amended to
29 read:

30 43-209. Collection of tax on income of professional athletes
31 earned in this state; separate accounting for tax
32 revenue from professional football and baseball;
33 definitions

34 A. The department shall adopt and enforce rules for the collection
35 of tax under this title on the income earned for services rendered in this
36 state by professional athletes and employees of professional sport
37 franchise organizations.

38 B. On or before December 31 of each year each professional football
39 franchise organization AND PROFESSIONAL BASEBALL FRANCHISE ORGANIZATION
40 that is domiciled in this state shall provide to the department the
41 federal taxpayer identification number, assigned pursuant to section 6109
42 of the internal revenue code, for each resident and nonresident employee
43 of the organization who rendered services in this state for the
44 organization during the calendar year. Unless due to reasonable cause and
45 not due to wilful neglect, a professional football franchise organization

1 OR PROFESSIONAL BASEBALL FRANCHISE ORGANIZATION that fails to provide
2 taxpayer identification numbers pursuant to this subsection shall pay a
3 civil penalty of ~~five dollars~~ \$5 for each such number.

4 C. For purposes of section 42-1116, subsection C, on or before
5 March 31 of each year, the department shall separately account for and
6 report to the state treasurer as a single aggregate amount the total net
7 revenues collected during the preceding calendar year from the imposition
8 of tax under this title on the income from all sources of:

9 1. Any professional football franchise organization that is
10 domiciled in this state.

11 2. Resident and nonresident employees of any professional football
12 franchise organization that is domiciled in this state. For reporting
13 purposes under this subsection, the department shall include all income
14 reported on joint returns, regardless of the spouse to whom it is
15 attributable, and the income of an employee's spouse that is reported on a
16 separate return.

17 D. FOR THE PURPOSES OF SECTION 42-1116, SUBSECTION D, ON OR BEFORE
18 MARCH 31 OF EACH YEAR, THE DEPARTMENT SHALL SEPARATELY ACCOUNT FOR AND
19 REPORT TO THE STATE TREASURER AS A SINGLE AGGREGATE AMOUNT THE TOTAL NET
20 REVENUES COLLECTED DURING THE PRECEDING CALENDAR YEAR FROM THE IMPOSITION
21 OF TAX UNDER THIS TITLE ON THE INCOME FROM ALL SOURCES OF:

22 1. ANY PROFESSIONAL BASEBALL FRANCHISE ORGANIZATION THAT IS
23 DOMICILED IN THIS STATE.

24 2. RESIDENT AND NONRESIDENT EMPLOYEES OF ANY PROFESSIONAL BASEBALL
25 FRANCHISE ORGANIZATION THAT IS DOMICILED IN THIS STATE. FOR REPORTING
26 PURPOSES UNDER THIS SUBSECTION, THE DEPARTMENT SHALL INCLUDE ALL INCOME
27 REPORTED ON JOINT RETURNS, REGARDLESS OF THE SPOUSE TO WHOM IT IS
28 ATTRIBUTABLE, AND THE INCOME OF AN EMPLOYEE'S SPOUSE THAT IS REPORTED ON A
29 SEPARATE RETURN.

30 D. E. For THE purposes of this section: ~~,~~

31 1. "PROFESSIONAL BASEBALL FRANCHISE ORGANIZATION" MEANS AN
32 ORGANIZATION THAT HAS THE RIGHT TO FIELD A TEAM FOR PARTICIPATION IN
33 PROFESSIONAL BASEBALL CONTESTS SCHEDULED BY A NATIONWIDE LEAGUE DURING A
34 REGULAR SEASON HELD IN THE MONTHS OF MARCH THROUGH OCTOBER EACH YEAR.

35 2. "Professional football franchise organization" means an
36 organization that has the right to field a team for participation in
37 professional football contests scheduled by a nationwide league during a
38 regular season held in the months of September through December each year.

39 Sec. 16. Section 48-4231, Arizona Revised Statutes, is amended to
40 read:

41 48-4231. County stadium district fund

42 A. The district treasurer shall maintain a county stadium district
43 fund consisting of all monies received by the district, including:

44 1. Payments received from leasing, subleasing or renting property
45 owned, leased or controlled by the district.

1 2. Revenues received by the district from admissions and
2 concessions and other proceeds from events held at a stadium owned or
3 leased by the district.

4 3. Monies received from issuing and selling bonds under article 3
5 of this chapter.

6 4. MONIES TRANSMITTED PURSUANT TO SECTION 42-1116, SUBSECTION D AND
7 SECTIONS 42-5032.03, 42-6018 AND 42-6113.

8 ~~4.~~ 5. Interest and other income received from investing monies in
9 the fund.

10 ~~5.~~ 6. Gifts, grants and donations received for that purpose from
11 any public or private source.

12 B. EXCEPT AS PROVIDED IN SUBSECTION E OF THIS SECTION, monies in
13 the fund may be used for any lawful purpose of the district.

14 C. The district treasurer may invest any unexpended monies in the
15 fund as provided in title 35, chapter 2. Notwithstanding section 35-323,
16 the district treasurer may invest and reinvest monies in the fund, other
17 than operating fund monies, in eligible investments with a maturity of
18 greater than five years. Interest and other income from investments shall
19 be credited to the fund. The district treasurer shall invest the monies
20 so as to mature at the times when the fund assets will be required for the
21 purposes of this article. If the liquid assets in the fund become
22 insufficient to meet the district's obligations, the board of directors
23 shall direct the district treasurer to liquidate sufficient securities to
24 meet all of the current obligations and immediately notify the auditor
25 general of the insufficiency, and the auditor general shall investigate
26 and audit the circumstances surrounding the depletion of the fund and
27 report the auditor general's findings to the board.

28 D. Except as provided by section 48-4231.01, the board of directors
29 shall cause an annual audit to be conducted of the fund by an independent
30 certified public accountant within one hundred twenty days after the end
31 of the fiscal year. The board shall immediately file a certified copy of
32 the audit with the auditor general. The auditor general may make such
33 further audits and examinations as the auditor general deems necessary,
34 but if the auditor general takes no official action within thirty days
35 after the audit is filed, the audit is deemed sufficient. The board of
36 directors shall pay all fees and costs of the certified public accountant
37 and auditor general under this subsection from the fund.

38 E. MONIES TRANSMITTED PURSUANT TO SECTION 42-1116, SUBSECTION D AND
39 SECTIONS 42-5032.03, 42-6018 AND 42-6113 SHALL BE USED FOR RECONSTRUCTING,
40 EQUIPPING, REPAIRING, MAINTAINING OR IMPROVING THE MAJOR LEAGUE BASEBALL
41 FACILITY OWNED AND OPERATED BY THE DISTRICT.