

\*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.

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

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

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

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

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

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

42-1116. Disposition of tax revenues

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

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

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

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

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

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

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

6. All remaining monies to the state general fund.

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

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

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

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

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

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

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

3. This subsection does not apply to tangible personal property 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 ~~⊖~~ 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 ~~⊖~~ 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.

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

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

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

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

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

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

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

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

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

2. Obtaining a certificate executed by the purchaser indicating the name and address of the purchaser, the precise nature of the business of the purchaser, the purpose for which the purchase was made, the necessary facts to establish the appropriate deduction and the tax license number of 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 O. 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

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

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

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

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

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

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

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

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

1. Payments of estimated tax under section 42-5014, subsection D.
2. Revenues collected pursuant to section 42-5070.
3. Revenues collected under this article and article 5 of this chapter from and after June 30, 2000 from sources located on Indian reservations in this state.
4. Revenues collected pursuant to section 42-5010, subsection G and section 42-5155, subsection D.
5. Revenues collected pursuant to section 42-5010.01 and section 42-5155, subsection E.
6. Revenues collected pursuant to section 42-5061 from a remote 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

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

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

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

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

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

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

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

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

1. If there are outstanding state school facilities revenue bonds pursuant to title 15, chapter 16, article 7, each month one-twelfth of the 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.

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

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

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

10 22. Motor vehicle fuel and use fuel that are subject to a tax  
11 imposed under title 28, chapter 16, article 1, sales of use fuel to a  
12 holder of a valid single trip use fuel tax permit issued under section  
13 28-5739, sales of aviation fuel that are subject to the tax imposed under  
14 section 28-8344 and sales of jet fuel that are subject to the tax imposed  
15 under article 8 of this chapter.

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

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

23 25. Tangible personal property sold to:

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

25 (b) A qualifying health care organization as defined in section  
26 42-5001 if the tangible personal property is used by the organization  
27 solely to provide health and medical related educational and charitable  
28 services.

29 (c) A qualifying health care organization as defined in section  
30 42-5001 if the organization is dedicated to providing educational,  
31 therapeutic, rehabilitative and family medical education training for  
32 blind and visually impaired children and children with multiple  
33 disabilities from the time of birth to age twenty-one.

34 (d) A qualifying community health center as defined in section  
35 42-5001.

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

39 (f) For taxable periods beginning from and after June 30, 2001, a  
40 nonprofit charitable organization that has qualified under section  
41 501(c)(3) of the internal revenue code and that provides residential  
42 apartment housing for low-income persons over sixty-two years of age in a  
43 facility that qualifies for a federal housing subsidy, if the tangible  
44 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 ~~Q~~ 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 ~~Q~~ 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

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

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

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

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

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

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

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

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

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

2. Janitorial equipment and hand tools.

3. Office equipment, furniture and supplies.

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

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

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

7. Motors and pumps used in drip irrigation systems.

8. Machinery and equipment or other tangible personal property used 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.

1 (i) Restaurant classification.

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

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

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

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

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

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

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

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

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

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

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

43 N. In computing the tax base in the case of the sale or transfer of  
44 wireless telecommunications equipment as an inducement to a customer to  
45 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  
22 not 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

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

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

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

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

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

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

~~V.~~ W. For the purposes of this section:

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

2. "Aircraft" includes:

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

(b) Tangible personal property that is permanently affixed or attached as a component part of an aircraft that is owned or operated by a 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:

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

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

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

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

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

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

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

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

1. The gross proceeds of sales or gross income derived from memberships, including initiation fees, that provide for the right to use a health or fitness establishment or a private recreational establishment, or any portion of an establishment, including tennis and other racquet courts at that establishment, for participatory purposes for twenty-eight days or more and fees charged for use of the health or fitness establishment or private recreational establishment by bona fide 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

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

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

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

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

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

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

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

42-5074. Restaurant classification

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

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

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

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

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

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

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

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

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

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

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

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

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

42-5075. Prime contracting classification; exemptions; definitions

A. The prime contracting classification is comprised of the business of prime contracting and the business of manufactured building dealer. Sales for resale to another manufactured building dealer are not subject to tax. Sales for resale do not include sales to a lessor of manufactured buildings. The sale of a used manufactured building is not 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

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

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

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

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

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

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

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

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

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

(b) Section 42-5061, subsection B.

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

(d) Section 42-5159, subsection B.

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

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

11. The gross proceeds of sales or gross income that is derived from the installation, assembly, repair or maintenance of clean rooms that are deducted from the tax base of the retail classification pursuant to 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:

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

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

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

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

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

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

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

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

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

C. Entitlement to the deduction pursuant to subsection B, paragraph 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 ~~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.

- 1 (ii) Modification work cash flow projection updates.
- 2 (iii) Site reports made on a periodic basis.
- 3 (iv) Identification of discrepancies, conflicts or ambiguities in
- 4 modification work documents that require resolution.
- 5 (v) Identification of any health and safety issues that have arisen
- 6 in connection with the modification work.
- 7 (h) Preparation of daily logs of modification work, including
- 8 documentation of personnel, weather conditions and on-site occurrences.
- 9 (i) Preparation of any submittals or shop drawings used by the
- 10 prime contractor to illustrate details of the modification work performed.
- 11 (j) Administration or supervision of any other activities for which
- 12 a prime contractor receives a certificate for payment or certificate for
- 13 final payment based on the progress of modification work performed on the
- 14 project.
- 15 2. "Design phase services" means services for developing and
- 16 completing a design for a project that are not construction phase
- 17 services, including the following:
- 18 (a) Evaluating surveys, reports, test results or any other
- 19 information on-site conditions for the project, including physical
- 20 characteristics, legal limitations and utility locations for the site.
- 21 (b) Evaluating any criteria or programming objectives for the
- 22 project to ascertain requirements for the project, such as physical
- 23 requirements affecting cost or projected utilization of the project.
- 24 (c) Preparing drawings and specifications for architectural program
- 25 documents, schematic design documents, design development documents,
- 26 modification work documents or documents that identify the scope of or
- 27 materials for the project.
- 28 (d) Preparing an initial schedule for the project, excluding the
- 29 preparation of updates to the master schedule after modification work has
- 30 begun.
- 31 (e) Preparing preliminary estimates of costs of modification work
- 32 before completion of the final design of the project, including an
- 33 estimate or schedule of values for any of the following:
- 34 (i) Labor, materials, machinery and equipment, tools, water, heat,
- 35 utilities, transportation and other facilities and services used in the
- 36 execution and completion of modification work, regardless of whether they
- 37 are temporary or permanent or whether they are incorporated in the
- 38 modifications.
- 39 (ii) The cost of labor and materials to be furnished by the owner
- 40 of the real property.
- 41 (iii) The cost of any equipment of the owner of the real property
- 42 to be assigned by the owner to the prime contractor.
- 43 (iv) The cost of any labor for installation of equipment separately
- 44 provided by the owner of the real property that has been designed,

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

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

(vi) Any bond and insurance premiums.

(vii) Any applicable taxes.

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

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

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

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

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

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

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

~~P~~ Q. Notwithstanding subsection ~~Ⓟ~~ P of this section, a contract 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 ~~R.~~ 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

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

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

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

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

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

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

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

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

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

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

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

3. "Contractor" is synonymous with the term "builder" and means any person or organization that undertakes to or offers to undertake to, or purports to have the capacity to undertake to, or submits a bid to, or does personally or by or through others, modify any building, highway, road, railroad, excavation, manufactured building or other structure, project, development or improvement, or to do any part of such a project, including the erection of scaffolding or other structure or works in 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 ~~P~~ 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 ~~P~~ P of this section.

19 (c) Any mobilization or demobilization related to a project  
20 described in subsection ~~P~~ 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 ~~P~~ 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 ~~R~~ 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.

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

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

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

42-5159. Exemptions

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

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

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

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

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

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

6. Tangible personal property brought into this state by an individual who was a nonresident at the time the property was purchased 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.

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

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

8 (d) A qualifying health care organization, as defined in section  
9 42-5001, if the tangible personal property is used by the organization  
10 solely to provide health and medical related educational and charitable  
11 services.

12 (e) A qualifying health care organization as defined in section  
13 42-5001 if the organization is dedicated to providing educational,  
14 therapeutic, rehabilitative and family medical education training for  
15 blind and visually impaired children and children with multiple  
16 disabilities from the time of birth to age twenty-one.

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

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

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

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

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

33 (h) A person that is not subject to tax under section 42-5075 and  
34 that has been provided a copy of a certificate described in section  
35 42-5009, subsection L, if the property purchased is incorporated or  
36 fabricated by the person into the real property, structure, project,  
37 development or improvement described in the certificate.

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

42 (j) A qualifying community health center as defined in section  
43 42-5001.

(k) 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.

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

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

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

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

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

15. Tangible personal property sold by:

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

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

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

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

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

18. Prescription eyeglasses and contact lenses.

19. Insulin, insulin syringes and glucose test strips.

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

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

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

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

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

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

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

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

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

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

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

39. 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. For the purposes of this paragraph:

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

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

40. Through December 31, 1994, tangible personal property sold pursuant to a personal property liquidation transaction, as defined in section 42-5061. From and after December 31, 1994, tangible personal property sold pursuant to a personal property liquidation transaction, as 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(a) "Cash equivalents" means items, whether or not negotiable, that are sold to one or more persons, through which a value denominated in money is purchased in advance and that may be redeemed in full or in part for tangible personal property, intangibles or services. Cash equivalents include gift cards, stored value cards, gift certificates, vouchers, traveler's checks, money orders or other tangible instruments or orders. Cash equivalents do not include either of the following:

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

(ii) Prepaid calling cards for telecommunications services.

(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.

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

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

2. Machinery, or equipment, used directly in the process of 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 ~~θ~~ 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

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 and that are used for commercially producing agricultural, horticultural, viticultural and floricultural crops and products in this state. For the purposes of this paragraph:

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

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

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

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

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

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

(i) Over two-thirds of the transmissions, measured in megabytes, transmitted by the facility during the test period were transmitted to or on behalf of one or more direct broadcast satellite television or data transmission services that operate pursuant to 47 Code of Federal 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 ~~6~~ 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.

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

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

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

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

2. "Aircraft" includes:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

~~D.~~ E. For THE purposes of this section: ~~;~~

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

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

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

48-4231. County stadium district fund

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

1. Payments received from leasing, subleasing or renting property 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.