

Conference Engrossed

tax corrections act of 2025

State of Arizona  
Senate  
Fifty-seventh Legislature  
First Regular Session  
2025

**CHAPTER 182**  
**SENATE BILL 1274**

AN ACT

AMENDING SECTIONS 42-1008, 42-5001, 42-5061, 43-403, 43-405, 43-1014 AND  
43-1414, ARIZONA REVISED STATUTES; AMENDING LAWS 2023, CHAPTER 147,  
SECTION 3; RELATING TO TAXATION.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:  
2 Section 1. Section 42-1008, Arizona Revised Statutes, is amended to  
3 read:

4 **42-1008. Employee, agent, contractor preparation of tax**  
5 **returns for compensation prohibited**

6 An employee of the department of revenue, ANY INDIVIDUAL ACTING AS  
7 AN AGENT OR CONTRACTOR OF THE DEPARTMENT TO PERFORM ANY DUTIES OF THE  
8 DEPARTMENT OR ANY MANAGER OR SUPERVISOR OF AN INDIVIDUAL ACTING AS AN  
9 AGENT OR CONTRACTOR OF THE DEPARTMENT shall not for compensation prepare  
10 or assist in preparing any tax return THAT IS required to be filed with  
11 the federal, THE state or a local government. A violation of this section  
12 ~~shall be~~ IS grounds for immediate ~~discharge~~ DISMISSAL OR REMOVAL FROM ANY  
13 DUTIES PERFORMED AS AN AGENT OR CONTRACTOR OF THE DEPARTMENT AS ALLOWED BY  
14 LAW.

15 Sec. 2. Section 42-5001, Arizona Revised Statutes, is amended to  
16 read:

17 **42-5001. Definitions**

18 In this article and article 2 of this chapter, unless the context  
19 otherwise requires:

20 1. "Business" includes all activities or acts, personal or  
21 corporate, that are engaged in or caused to be engaged in with the object  
22 of gain, benefit or advantage, either directly or indirectly, but does not  
23 include either:

24 (a) Casual activities or sales.

25 (b) The transfer of electricity from a solar photovoltaic  
26 generation system to an electric utility distribution system.

27 2. "Distribution base" means the portion of the revenues derived  
28 from the tax levied by this article and articles 5 and 8 of this chapter  
29 designated for distribution to counties, municipalities and other purposes  
30 according to section 42-5029, subsection D.

31 3. "Engaging", when used with reference to engaging or continuing  
32 in business, includes the exercise of corporate or franchise powers.

33 4. "Gross income" means the gross receipts of a taxpayer derived  
34 from trade, business, commerce or sales and the value proceeding or  
35 accruing from the sale of tangible personal property or service, or both,  
36 and without any deduction on account of losses.

37 5. "Gross proceeds of sales" means the value proceeding or accruing  
38 from the sale of tangible personal property without any deduction on  
39 account of the cost of property sold, expense of any kind or losses, but  
40 cash discounts allowed and taken on sales are not included as gross  
41 income.

42 6. Gross income and gross proceeds of sales do not include goods,  
43 wares or merchandise, or the value thereof, returned by customers if the  
44 sale price is refunded either in cash or by credit, or the value of  
45 merchandise traded in on the purchase of new merchandise when the trade-in

1 allowance is deducted from the sales price of the new merchandise before  
2 completion of the sale.

3       7. "Gross receipts" means the total amount of the sale, lease or  
4 rental price, as the case may be, of the retail sales of retailers,  
5 including any services that are a part of the sales, valued in money,  
6 whether received in money or otherwise, including all receipts, cash,  
7 credits and property of every kind or nature, and any amount for which  
8 credit is allowed by the seller to the purchaser without any deduction  
9 from the amount on account of the cost of the property sold, materials  
10 used, labor or service performed, interest paid, losses or any other  
11 expense. Gross receipts do not include cash discounts allowed and taken  
12 or the sale price of property returned by customers if the full sale price  
13 is refunded either in cash or by credit.

14       8. "Marketplace" means a physical or electronic place, platform or  
15 forum, including a store, booth, internet website, catalog or dedicated  
16 sales software application, where products, including tangible personal  
17 property, are offered for sale.

18       9. "Marketplace facilitator":

19           (a) Means a person that facilitates a retail sale by a marketplace  
20 seller by listing or advertising for sale by the marketplace seller in a  
21 marketplace tangible personal property and, either directly or indirectly,  
22 through agreements or arrangements with third parties collecting payment  
23 from the purchaser and transmitting that payment to the marketplace  
24 seller, regardless of whether the marketplace facilitator receives  
25 compensation for the marketplace facilitator's services.

26           (b) Does not include a payment processor business that is appointed  
27 to handle payment transactions from various channels, such as charge  
28 cards, credit cards and debit cards, and whose sole activity with respect  
29 to marketplace sales is to handle transactions between two parties.

30       10. "Marketplace seller" means a person that makes retail sales  
31 through any physical or electronic marketplace that is operated by a  
32 marketplace facilitator.

33       11. "Person" or "company" includes an individual, firm,  
34 partnership, joint venture, association, corporation, estate, trust,  
35 marketplace facilitator or remote seller, this state, any county, city,  
36 town, district, other than a school district, or other political  
37 subdivision and any other group or combination acting as a unit, and the  
38 plural as well as the singular number.

39       12. "Qualifying community health center":

40           (a) Means an entity that is recognized as nonprofit under section  
41 501(c)(3) of the United States internal revenue code, that is a  
42 community-based, primary care clinic that has a community-based board of  
43 directors and that is either:

44              (i) The sole provider of primary care in the community.

(ii) A nonhospital affiliated clinic that is located in a federally designated medically underserved area in this state.

(b) Includes clinics that are being constructed as qualifying community health centers.

13. "Qualifying health care organization" means an entity that is recognized as nonprofit under section 501(c) of the United States internal revenue code and that uses, saves or invests at least eighty percent of all monies that it receives from all sources each year only for health and medical related educational and charitable services, as documented by annual financial audits prepared by an independent certified public accountant, performed according to generally accepted auditing standards and filed annually with the department. Monies that are used, saved or invested to lease, purchase or construct a facility for health and medical related education and charitable services are included in the eighty percent requirement.

14. "Qualifying health sciences educational institution" means an entity that is recognized as nonprofit under section 501(c) of the United States internal revenue code and that solely provides graduate and postgraduate education in the health sciences. For the purposes of this paragraph, "health sciences" includes medicine, nursing, physician's assistant studies, pharmacy, physical therapy, occupational therapy, biomedical sciences, podiatry, clinical psychology, cardiovascular science, nurse anesthesia, dentistry, optometry and veterinary medicine.

15. "Qualifying hospital" means any of the following:

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

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

(c) A hospital, nursing care institution or residential care institution that is operated by the federal government, this state or a political subdivision of this state.

(d) A facility that is under construction and that on completion will be a facility under subdivision (a), (b) or (c) of this paragraph.

16. "Remote seller" means a person that sells products for delivery into this state and that does not have a physical presence or other legal requirement to obtain a transaction privilege tax license in this state other than because the person's business exceeds the threshold provided in section 42-5044.

17. "Retailer" includes every person engaged in the business classified under the retail classification pursuant to section 42-5061 and, when in the opinion of the department it is necessary for the

1 efficient administration of this article, includes dealers, distributors,  
2 supervisors, employers and salesmen, representatives, peddlers or  
3 canvassers as the agents of the dealers, distributors, supervisors or  
4 employers under whom they operate or from whom they obtain the tangible  
5 personal property sold by them, whether in making sales on their own  
6 behalf or on behalf of the dealers, distributors, supervisors or  
7 employers.

8       18. "Sale" means any transfer of title or possession, or both,  
9 exchange, barter, lease or rental, conditional or otherwise, in any manner  
10 or by any means whatever, including consignment transactions and auctions  
11 and transactions facilitated by a marketplace facilitator on behalf of a  
12 marketplace seller, of tangible personal property or other activities  
13 taxable under this chapter, for a consideration, and includes:

14       (a) Any transaction by which the possession of property is  
15 transferred but the seller retains the title as security for the payment  
16 of the price.

17       (b) Fabricating tangible personal property for consumers who  
18 furnish either directly or indirectly the materials used in the  
19 fabrication work.

20       (c) Furnishing, preparing or serving for a consideration any  
21 tangible personal property consumed on the premises of the person  
22 furnishing, preparing or serving the tangible personal property.

23       19. "Solar daylighting" means a device that is specifically  
24 designed to capture and redirect the visible portion of the solar beam,  
25 while controlling the infrared portion, for use in illuminating interior  
26 building spaces in lieu of artificial lighting.

27       20. "Solar energy device" means a system or series of mechanisms  
28 that are designed primarily to provide heating, to provide cooling, to  
29 produce electrical power, to produce mechanical power, to provide solar  
30 daylighting or to provide any combination of the foregoing by means of  
31 collecting and transferring solar generated energy into such uses either  
32 by active or passive means, including wind generator systems that produce  
33 electricity. Solar energy systems may also have the capability of storing  
34 solar energy for future use. Passive systems shall clearly be designed as  
35 a solar energy device, such as a trombe wall, and not merely as a part of  
36 a normal structure, such as a window.

37       21. "Tangible personal property" means personal property that may  
38 be seen, weighed, measured, felt or touched or that is in any other manner  
39 perceptible to the senses.

40       22. "Taxpayer" means any person who is liable for any tax imposed  
41 by this article.

42       23. "Tax year" or "taxable year" means either the calendar year or  
43 the taxpayer's fiscal year, if permission is obtained from the department  
44 to use a fiscal year as the tax period instead of the calendar year.

1        24. "Wholesaler" or "jobber" means any person who sells tangible  
2 personal property for resale and not for consumption by the purchaser.

3        Sec. 3. Section 42-5061, Arizona Revised Statutes, is amended to  
4 read:

5        **42-5061. Retail classification; definitions**

6        A. The retail classification is comprised of the business of  
7 selling tangible personal property at retail. The tax base for the retail  
8 classification is the gross proceeds of sales or gross income derived from  
9 the business. The tax imposed on the retail classification does not apply  
10 to the gross proceeds of sales or gross income from:

11        1. Professional or personal service occupations or businesses that  
12 involve sales or transfers of tangible personal property only as  
13 inconsequential elements.

14        2. Services rendered in addition to selling tangible personal  
15 property at retail.

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

19        4. Sales of tangible personal property by any nonprofit  
20 organization organized and operated exclusively for charitable purposes  
21 and recognized by the United States internal revenue service under section  
22 501(c)(3) of the internal revenue code.

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

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

28        7. The sale of stocks and bonds.

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

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

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

37        11. Prescription eyeglasses or contact lenses.

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

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

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

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

5       (b) The vehicle, trailer or semitrailer has a gross vehicle weight  
6 rating of more than ten thousand pounds, is used or maintained to  
7 transport property in the furtherance of interstate commerce and otherwise  
8 meets the definition of commercial motor vehicle as defined in section  
9 28-5201.

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

12      16. Items purchased with United States department of agriculture  
13 coupons issued under the supplemental nutrition assistance program  
14 pursuant to the food and nutrition act of 2008 (P.L. 88-525; 78 Stat. 703;  
15 7 United States Code sections 2011 through 2036b) by the United States  
16 department of agriculture food and nutrition service or food instruments  
17 issued under section 17 of the child nutrition act (P.L. 95-627;  
18 92 Stat. 3603; P.L. 99-661, section 4302; P.L. 111-296; 42 United States  
19 Code section 1786).

20      17. Textbooks by any bookstore that are required by any state  
21 university or community college.

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

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

31      20. Lottery tickets or shares pursuant to title 5, chapter 5.1,  
32 article ~~+~~ 2.

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

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

1 electronic mechanisms, such as an electronic code, personal identification  
2 number or digital payment mechanism, or any other prepaid intangible right  
3 to acquire tangible personal property, intangibles or services in the  
4 future, whether from the seller of the cash equivalent or from another  
5 person. Cash equivalents do not include either of the following:

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

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

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

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

17 22. Motor vehicle fuel and use fuel that are subject to a tax  
18 imposed under title 28, chapter 16, article 1, sales of use fuel to a  
19 holder of a valid single trip use fuel tax permit issued under section  
20 28-5739, sales of aviation fuel that are subject to the tax imposed under  
21 section 28-8344 and sales of jet fuel that are subject to the tax imposed  
22 under article 8 of this chapter.

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

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

30 25. Tangible personal property sold to:

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

32 (b) A qualifying health care organization as defined in section  
33 42-5001 if the tangible personal property is used by the organization  
34 solely to provide health and medical related educational and charitable  
35 services.

36 (c) A qualifying health care organization as defined in section  
37 42-5001 if the organization is dedicated to providing educational,  
38 therapeutic, rehabilitative and family medical education training for  
39 blind and visually impaired children and children with multiple  
40 disabilities from the time of birth to age twenty-one.

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

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

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

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

11 (h) Any person representing or working on behalf of another person  
12 described in subdivisions (a) through (g) of this paragraph if the  
13 tangible personal property is incorporated or fabricated into a project  
14 described in section 42-5075, subsection 0.

15           26. Magazines or other periodicals or other publications by this  
16 state to encourage tourist travel.

17 27. Tangible personal property sold to:

23 (i) Incorporated or fabricated by the person into any real  
24 property, structure, project, development or improvement as part of the  
25 business.

(ii) Incorporated or fabricated by the person into any project described in section 42-5075, subsection 0.

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

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

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

40       29. Tangible personal property purchased in this state by a  
41 nonprofit charitable organization that has qualified under section  
42 501(c)(3) of the United States internal revenue code and that engages in  
43 and uses such property exclusively in programs for persons with mental or  
44 physical disabilities if the programs are exclusively for training, job  
45 placement, rehabilitation or testing.

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

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

19      32. Sales of tangible personal property by a nonprofit organization  
20 that is exempt from taxation under section 501(c)(3), 501(c)(4),  
21 501(c)(6), 501(c)(7) or 501(c)(8) of the internal revenue code if the  
22 organization sponsors or operates a rodeo featuring primarily farm and  
23 ranch animals and no part of the organization's net earnings inures to the  
24 benefit of any private shareholder or individual.

25      33. Sales of propagative materials to persons who use those items  
26 to commercially produce agricultural, horticultural, viticultural or  
27 floricultural crops in this state. For the purposes of this paragraph,  
28 "propagative materials":

29       (a) Includes seeds, seedlings, roots, bulbs, liners, transplants,  
30 cuttings, soil and plant additives, agricultural minerals, auxiliary soil  
31 and plant substances, micronutrients, fertilizers, insecticides,  
32 herbicides, fungicides, soil fumigants, desiccants, rodenticides,  
33 adjuvants, plant nutrients and plant growth regulators.

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

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

43      35. Sales of natural gas or liquefied petroleum gas used to propel  
44 a motor vehicle.

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

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

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

28      39. Through December 31, 1994, personal property liquidation  
29 transactions, conducted by a personal property liquidator. From and after  
30 December 31, 1994, personal property liquidation transactions shall be  
31 taxable under this section provided that nothing in this subsection shall  
32 be construed to authorize the taxation of casual activities or  
33 transactions under this chapter. For the purposes of this paragraph:

34       (a) "Personal property liquidation transaction" means a sale of  
35 personal property made by a personal property liquidator acting solely on  
36 behalf of the owner of the personal property sold at the dwelling of the  
37 owner or on the death of any owner, on behalf of the surviving spouse, if  
38 any, any devisee or heir or the personal representative of the estate of  
39 the deceased, if one has been appointed.

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

42      40. Sales of food, drink and condiment for consumption within the  
43 premises of any prison, jail or other institution under the jurisdiction  
44 of the state department of corrections, the department of public safety,  
45 the department of juvenile corrections or a county sheriff.

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

6       42. Sales of:

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

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

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

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

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

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

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

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

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

41       48. Tangible personal property sold to a commercial airline and  
42 consisting of food, beverages and condiments and accessories used for  
43 serving the food and beverages, if those items are to be provided without  
44 additional charge to passengers for consumption in flight. For the  
45 purposes of this paragraph, "commercial airline" means a person holding a

1 federal certificate of public convenience and necessity or foreign air  
2 carrier permit for air transportation to transport persons, property or  
3 United States mail in intrastate, interstate or foreign commerce.

4 49. Sales of alternative fuel vehicles if the vehicle was  
5 manufactured as a diesel fuel vehicle and converted to operate on  
6 alternative fuel and equipment that is installed in a conventional diesel  
7 fuel motor vehicle to convert the vehicle to operate on an alternative  
8 fuel, as defined in section 1-215.

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

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

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

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

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

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

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

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

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

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

4       58. Sales of tangible personal property incorporated or fabricated  
5 into a project described in section 42-5075, subsection 0, that is located  
6 within the exterior boundaries of an Indian reservation for which the  
7 owner, as defined in section 42-5075, of the project is an Indian tribe or  
8 an affiliated Indian. For the purposes of this paragraph:

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

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

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

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

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

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

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

40           2. Mining machinery, or equipment, used directly in the process of  
41 extracting ores or minerals from the earth for commercial purposes,  
42 including equipment required to prepare the materials for extraction and  
43 handling, loading or transporting such extracted material to the surface.  
44 "Mining" includes underground, surface and open pit operations for  
45 extracting ores and minerals.

1       3. Tangible personal property sold to persons engaged in business  
2 classified under the telecommunications classification, including a person  
3 representing or working on behalf of such a person in a manner described  
4 in section 42-5075, subsection 0, and consisting of central office  
5 switching equipment, switchboards, private branch exchange equipment,  
6 microwave radio equipment and carrier equipment including optical fiber,  
7 coaxial cable and other transmission media that are components of carrier  
8 systems.

9       4. Machinery, equipment or transmission lines used directly in  
10 producing or transmitting electrical power, but not including  
11 distribution. Transformers and control equipment used at transmission  
12 substation sites constitute equipment used in producing or transmitting  
13 electrical power.

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

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

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

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

27       6. Neat animals, horses, asses, sheep, ratites, swine or goats used  
28 or to be used as breeding or production stock, including sales of  
29 breedings or ownership shares in such animals used for breeding or  
30 production.

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

35       8. Aircraft, navigational and communication instruments and other  
36 accessories and related equipment sold to:

37           (a) A person:

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

42              (ii) That is certificated or licensed under federal aviation  
43 administration regulations (14 Code of Federal Regulations part 121 or  
44 135) as a scheduled or unscheduled carrier of persons for hire for use as

1 or in conjunction with or becoming part of an aircraft to be used to  
2 transport persons for hire in intrastate, interstate or foreign commerce.

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

7 (iv) Operating an aircraft to transport persons in any manner for  
8 compensation or hire, or for use in a fractional ownership program that  
9 meets the requirements of federal aviation administration regulations  
10 (14 Code of Federal Regulations part 91, subpart K), including as an air  
11 carrier, a foreign air carrier or a commercial operator or under a  
12 restricted category, within the meaning of 14 Code of Federal Regulations,  
13 regardless of whether the operation or aircraft is regulated or certified  
14 under part 91, 119, 121, 133, 135, 136 or 137, or another part of 14 Code  
15 of Federal Regulations.

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

21 (b) Any foreign government.

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

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

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

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

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

1       13. Groundwater measuring devices required under section 45-604.  
2       14. Machinery and equipment consisting of agricultural aircraft,  
3 tractors, off-highway vehicles, tractor-drawn implements, self-powered  
4 implements, machinery and equipment necessary for extracting milk, and  
5 machinery and equipment necessary for cooling milk and livestock, and drip  
6 irrigation lines not already exempt under paragraph 7 of this subsection  
7 and that are used for commercial production of agricultural,  
8 horticultural, viticultural and floricultural crops and products in this  
9 state. For the purposes of this paragraph:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

41 20. Machinery and equipment that are sold to a person engaged in  
42 commercially producing livestock, livestock products or agricultural,  
43 horticultural, viticultural or floricultural crops or products in this  
44 state, including a person representing or working on behalf of such a  
45 person in a manner described in section 42-5075, subsection 0, if the

1 machinery and equipment are used directly and primarily to prevent,  
2 monitor, control or reduce air, water or land pollution.

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

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

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

15       (c) Any machinery or equipment purchased after the television  
16 station has ceased analog broadcasting, or purchased after November 1,  
17 2009, whichever occurs first.

18       22. Qualifying equipment that is purchased from and after June 30,  
19 2004 through December 31, 2026 by a qualified business under section  
20 41-1516 for harvesting or processing qualifying forest products removed  
21 from qualifying projects as defined in section 41-1516. To qualify for  
22 this deduction, the qualified business at the time of purchase must  
23 present its certification approved by the department.

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

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

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

38       2. Janitorial equipment and hand tools.

39       3. Office equipment, furniture and supplies.

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

43       5. Motor vehicles required to be licensed by this state, except  
44 buses or other urban mass transit vehicles specifically exempted pursuant

1 to subsection B, paragraph 12 of this section, without regard to the use  
2 of such motor vehicles.

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

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

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

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

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

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

26       G. If a person is engaged in the business of selling tangible  
27 personal property at both wholesale and retail, the tax under this section  
28 applies only to the gross proceeds of the sales made other than at  
29 wholesale if the person's books are kept so as to show separately the  
30 gross proceeds of sales of each class, and if the books are not so kept,  
31 the tax under this section applies to the gross proceeds of every sale so  
32 made.

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

40       1. Agricultural producers who are owners, proprietors or tenants of  
41 agricultural lands, orchards, farms or gardens where agricultural products  
42 are grown, raised or prepared for market and who are marketing their own  
43 agricultural products.

44       2. Businesses classified under the:

45           (a) Transporting classification.

- (b) Utilities classification.
- (c) Telecommunications classification.
- (d) Pipeline classification.
- (e) Private car line classification.
- (f) Publication classification.
- (g) Job printing classification.
- (h) Prime contracting classification.
- (i) Restaurant classification.

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

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

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

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

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

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

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

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

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

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

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

6       N. In computing the tax base in the case of the sale or transfer of  
7 wireless telecommunications equipment as an inducement to a customer to  
8 enter into or continue a contract for telecommunications services that are  
9 taxable under section 42-5064, gross proceeds of sales or gross income  
10 does not include any sales commissions or other compensation received by  
11 the retailer as a result of the customer entering into or continuing a  
12 contract for the telecommunications services.

13      O. For the purposes of this section, a sale of wireless  
14 telecommunications equipment to a person who holds the equipment for sale  
15 or transfer to a customer as an inducement to enter into or continue a  
16 contract for telecommunications services that are taxable under section  
17 42-5064 is considered to be a sale for resale in the regular course of  
18 business.

19      P. Retail sales of prepaid calling cards or prepaid authorization  
20 numbers for telecommunications services, including sales of  
21 reauthorization of a prepaid card or authorization number, are subject to  
22 tax under this section.

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

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

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

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

35       1. The transfer of title or possession of the coal is for the  
36 purpose of refining the coal.

37       2. The title or possession of the coal is transferred back to the  
38 owner or operator of the power plant after completion of the coal refining  
39 process. For the purposes of this paragraph, "coal refining process"  
40 means the application of a coal additive system that aids in the reduction  
41 of power plant emissions during the combustion of coal and the treatment  
42 of flue gas.

43      S. If a seller is entitled to a deduction pursuant to subsection B,  
44 paragraph 16, subdivision (b) of this section, the department may require  
45 the purchaser to establish that the requirements of subsection B,

1 paragraph 16, subdivision (b) of this section have been satisfied. If the  
2 purchaser cannot establish that the requirements of subsection B,  
3 paragraph 16, subdivision (b) of this section have been satisfied, the  
4 purchaser is liable in an amount equal to any tax, penalty and interest  
5 that the seller would have been required to pay under article 1 of this  
6 chapter if the seller had not made a deduction pursuant to subsection B,  
7 paragraph 16, subdivision (b) of this section. Payment of the amount  
8 under this subsection exempts the purchaser from liability for any tax  
9 imposed under article 4 of this chapter and related to the tangible  
10 personal property purchased. The amount shall be treated as transaction  
11 privilege tax to the purchaser and as tax revenues collected from the  
12 seller to designate the distribution base pursuant to section 42-5029.

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

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

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

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

35 V. For the purposes of this section:

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

39 2. "Aircraft" includes:

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

43 (b) Tangible personal property that is permanently affixed or  
44 attached as a component part of an aircraft that is owned or operated by a  
45 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. 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. 4. Section 43-403, Arizona Revised Statutes, is amended to  
40 read:

41      43-403. Employment excluded from withholding

42      A. No amount shall be deducted or retained from:

43      1. Wages or salary paid to an employee of a common carrier when  
44 such employee is a nonresident of this state as defined in section 43-104  
45 and regularly performs services both within and without this state.

- 1       2. Wages paid for domestic service in a private home.
- 2       3. Wages paid for casual labor not in the course of the employer's
- 3       trade or business.
- 4       4. Wages paid to part-time or seasonal employees whose services to
- 5       the employer consist solely of labor in connection with the planting,
- 6       cultivating, harvesting or field packing of seasonal agricultural crops,
- 7       except such employees whose principal duties are operating any
- 8       mechanically-driven device in such operations.
- 9       5. Wages or salary paid to a nonresident of this state who is:
  - 10       (a) An employee of an individual, fiduciary, partnership,
  - 11       corporation or limited liability company having property, payroll and
  - 12       sales in this state, or of a related entity having more than fifty per
  - 13       cent direct or indirect common ownership.
  - 14       (b) Physically present in this state for less than sixty days in a
  - 15       calendar year for the purpose of performing a service that will benefit
  - 16       the employer or the related entity. For purposes of determining the
  - 17       number of days of service in this state, days spent in the following
  - 18       activities are not included:
    - 19       (i) In transit.
    - 20       (ii) Engaging in personal activities.
    - 21       (iii) Participating in training or professional development
    - 22       activities or attending meetings that are not directly connected to the
    - 23       Arizona operations of the employer or the related entity.
  - 24       6. Wages or salary paid to a nonresident who is in this state on a
  - 25       temporary basis for the purpose of performing disaster recovery from a
  - 26       declared disaster during a disaster period as defined in section 42-1130.
- 27       B. In addition to the exemptions from the withholding provisions
- 28       contained in subsection A of this section, because of the temporary nature
- 29       of such employment, no amount shall be deducted or retained from wages
- 30       paid to a nonresident of this state engaged in any phase of motion picture
- 31       production when, prior to the time of payment of such wages, an
- 32       application is made by the employer to the department, on forms prescribed
- 33       by the department, for an exemption from the withholding provisions of
- 34       this section and the department determines that the nonresident would be
- 35       allowed a credit under section 43-1096 against all of the taxes upon such
- 36       wages imposed by this chapter.
- 37       C. Subsection A, paragraph 5 of this section does not apply to a
- 38       nonresident employee who is in this state solely for athletic or
- 39       entertainment purposes.
- 40       D. Notwithstanding subsection A, ~~paragraph~~ PARAGRAPHS 4 AND 5 of
- 41       this section:
  - 42       1. ~~The~~ A nonresident employee UNDER SUBSECTION A, PARAGRAPH 5 OF
  - 43       THIS SECTION OR A PART-TIME OR SEASONAL EMPLOYEE UNDER SUBSECTION A,
  - 44       PARAGRAPH 4 OF THIS SECTION may elect to have withholding deducted in the

1 manner prescribed by section 43-401, subsection E and the employer shall  
2 withhold tax pursuant to that election.

3       2. The employer may elect to withhold tax from the nonresident  
4 employee before the sixty-day limitation has elapsed.

5       Sec. 5. Section 43-405, Arizona Revised Statutes, is amended to  
6 read:

7           43-405. Extension of withholding to gambling winnings

8       A. For the purposes of this title, payments of prize winnings that  
9 are subject to federal withholding pursuant to section 1441 or section  
10 3402(q) of the internal revenue code by any of the following shall be  
11 treated as if they were payments of wages by an employer to employees for  
12 a payroll period:

13           1. The Arizona state lottery commission under title 5, chapter 5.1.  
14           2. A permittee conducting horse or dog racing under title 5,  
15 chapter 1.

16           3. A fantasy sports contest operator under title 5, chapter 10.

17           4. An event wagering operator under title 5, chapter 11.

18       B. The entities listed in subsection A of this section shall deduct  
19 and withhold from each payment of prize winnings made to an individual an  
20 amount equal to ~~twenty percent of the amount withheld pursuant to section~~  
21 ~~1441 or section 3402(q) of the internal revenue code and pay that amount~~  
22 ~~to the department pursuant to this article~~ THE HIGHEST TAX RATE PRESCRIBED  
23 BY SECTION 43-1011.

24       Sec. 6. Section 43-1014, Arizona Revised Statutes, is amended to  
25 read:

26           43-1014. Entity-level tax election; partnerships;  
27           S corporations; rules

28       A. For taxable years beginning from and after December 31, 2021,  
29 the partners or shareholders of a business that is treated as a  
30 partnership or S corporation for federal income tax purposes may consent  
31 to be taxed at the entity level at a tax rate that is the same as the  
32 highest tax rate prescribed by section 43-1011 applicable to the entire  
33 portion of its taxable income that is attributable to its resident  
34 partners or shareholders and the portion of its taxable income derived  
35 from sources within this state that is attributable to its nonresident  
36 partners or shareholders for that taxable year. The election under this  
37 subsection ~~must be made on or before the due date or extended due date of~~  
38 ~~the~~ IS MADE BY FILING THE business's return under this title.

39       B. If the election is made under subsection A of this section, all  
40 of the following apply:

41           1. The taxable income of the partnership or S corporation is as  
42 follows:

43           (a) For a partnership:

(i) For taxable years through December 31, 2022, the Arizona taxable income determined under chapter 14 of this title.

(ii) For taxable years beginning from and after December 31, 2022, the Arizona taxable income determined under chapter 14 of this title, including the items that require separate computation under section 43-1412, paragraphs 1 through 16.

(b) For an S corporation, the total of all distributive income passed through to the shareholders under section 43-1126, subsection B.

2. If the partnership or S corporation does not pay the amount owed to the department as a result of the election under this section, the department may collect the amount from the partners or shareholders based on the proportionate share of income that is attributable to each partner or shareholder for Arizona tax purposes.

3. The partnership or S corporation shall pay estimated tax pursuant to section 43-581 as necessary.

C. The election under subsection A of this section does not apply to the following:

1. Partners or shareholders that are not individuals, estates or trusts. The portion of the taxable income attributable to a partner or shareholder that is not an individual, estate or trust is not included in the entity-level tax under subsection A of this section.

2. Partners or shareholders who are individuals, estates or trusts and who opt out of the election pursuant to subsection D of this section. The portion of the taxable income attributable to a partner or shareholder who is an individual, estate or trust and who opts out of the election pursuant to subsection D of this section is not included in the entity-level tax under subsection A of this section.

D. A partnership or S corporation that intends to make the election under subsection A of this section shall notify all partners or shareholders who are individuals, estates or trusts of the intent to make the election and that each partner or shareholder who is an individual, estate or trust has the right to opt out of the election. The notice shall allow each partner or shareholder who is an individual, estate or trust at least sixty days after receiving the notice to notify the partnership or S corporation that the partner or shareholder who is an individual, estate or trust is exercising the partner's or shareholder's right to opt out of the election. If the partner or shareholder who is an individual, estate or trust does not respond within the sixty-day period or waives the right to opt out, the partner or shareholder will be included in the election.

E. The department shall adopt rules and prescribe forms and procedures as necessary to administer this section.

1        Sec. 7. Section 43-1414, Arizona Revised Statutes, is amended to  
2 read:

3        **43-1414. Federal assessment of imputed underpayment; definitions**

5        A. A partnership that is audited by the internal revenue service  
6 and that is assessed an imputed underpayment pursuant to section 6225 of  
7 the internal revenue code as added by the bipartisan budget act of 2015  
8 (P.L. 114-74), ~~or~~ a partnership that makes the election under section 6226  
9 of the internal revenue code as added by the bipartisan budget act of 2015  
10 (P.L. 114-74) **OR A PARTNERSHIP THAT AMENDS ITS RETURN UNDER SECTION 6227**  
11 **OF THE INTERNAL REVENUE CODE AS ADDED BY THE BIPARTISAN BUDGET ACT OF 2015**  
12 **(P.L. 114-74)** shall file a return for the reviewed year on a form  
13 prescribed by the department that shows the adjustments to income or the  
14 gain, loss or deduction on which the federal imputed underpayment was  
15 based as well as any of the correlative adjustments to the additions  
16 required under section 43-1021 or the subtractions required under section  
17 43-1022.

18        B. If the adjustments determined in subsection A of this section  
19 are:

20        1. A net increase in Arizona taxable income and paragraph 2 of this  
21 subsection does not apply:

22            (a) Within ninety days after the final determination regarding the  
23 adjustment from the internal revenue service, the partnership shall pay  
24 the tax on the adjustments in lieu of passing the adjustments through to  
25 the partners.

26            (b) The tax shall be imposed on the Arizona share of the  
27 adjustments at the highest tax rate imposed on individuals under section  
28 43-1011.

29            (c) Interest shall be computed pursuant to section 42-1123 for the  
30 period beginning on the day after the partnership return due date for the  
31 reviewed year, without regard to any extensions.

32            (d) For the purposes of imposing penalties under section 42-1125,  
33 the due date of the return under subsection A of this section is the  
34 ninetieth day after the final determination of the partnership adjustments  
35 by the internal revenue service.

36        2. A net reduction in Arizona taxable income or a net increase in  
37 Arizona taxable income of a partnership that makes the election under  
38 section 6226 of the internal revenue code as added by the bipartisan  
39 budget act of 2015 (P.L. 114-74), within ninety days after the final  
40 determination regarding the adjustment from the internal revenue service,  
41 the partnership shall furnish to each partner of the partnership and to  
42 the department a statement on a form prescribed by the department of the  
43 partner's share of the adjustments required in subsection A of this  
44 section. The amount reported to the partner under this subsection is an  
45 adjustment to the partner's share of partnership taxable income. A

1 partnership that had a net increase under this paragraph and that fails to  
2 timely provide the statements required to the partners and to the  
3 department shall pay the tax pursuant to paragraph 1 of this subsection in  
4 lieu of the partners reporting the adjustment.

5 C. If a partnership fails to file the return that is required under  
6 subsection A of this section or if the department is not satisfied with  
7 the return or the payment of the tax required to be paid, the department  
8 may issue a deficiency assessment to the partnership under section  
9 42-1108.

10 D. If the partnership incorrectly reported the adjustments under  
11 subsection A of this section that resulted in:

12 1. An understatement of the distribution of Arizona taxable income  
13 to the partners under subsection B, paragraph 2 of this section, the  
14 partnership shall pay the tax on the understatement by applying the  
15 calculation in subsection B, paragraph 1 of this section to the unreported  
16 adjustments.

17 2. An overstatement of Arizona taxable income, any adjustment shall  
18 be handled as follows:

19 (a) If the adjustments were originally passed through to the  
20 partners under subsection B, paragraph 2 of this section, the adjustment  
21 shall be passed through to the partners. The partnership shall amend the  
22 return under subsection A of this section and amend the statements  
23 provided to the partners and the department under subsection B, paragraph  
24 2 of this section.

25 (b) If the tax on the adjustments was originally paid by the  
26 partnership pursuant to subsection B, paragraph 1 of this section, the  
27 partnership shall amend the return filed pursuant to subsection B,  
28 paragraph 1 of this section to claim any refund. This subdivision does  
29 not allow a partnership to claim a refund for amounts not actually paid by  
30 the partnership.

31 E. For the purposes of this section:

32 1. "Arizona share of the adjustments" means the adjustments  
33 determined in subsection A of this section, subject to the allocation and  
34 apportionment provisions of chapter 11, article 4 of this title.

35 2. "Final determination" has the same meaning prescribed in section  
36 43-327.

37 3. "Reviewed year" means the partnership taxable year to which the  
38 items adjusted by the internal revenue service relate.

1 Sec. 8. Laws 2023, chapter 147, section 3 is amended to read:

2 Sec. 3. Individual income tax general welfare rebate; eligibility; claim application; subtraction from Arizona gross income; appeal; report; legislative findings; delayed repeal; definitions

3 A. The department of revenue shall issue a onetime individual income tax general welfare rebate, known as the Arizona families tax rebate, to an Arizona taxpayer who filed a full-year resident tax return for taxable year 2021, claimed a dependent tax credit under section 4 43-1073.01, Arizona Revised Statutes, on the return and who meets one of the following qualifications:

5 1. Had a tax liability of at least \$1 on the filed full-year resident tax return for taxable year 2021.

6 2. If the taxpayer does not meet the tax liability requirement for taxable year 2021, filed a full-year resident tax return for taxable year 2020 under the identical filing status used on the taxpayer's taxable year 2021 full-year resident tax return and had a tax liability of at least \$1 on the full-year resident tax return for taxable year 2020.

7 3. If the taxpayer does not meet the tax liability requirement for taxable years 2021 or 2020, filed a full-year resident tax return for taxable year 2019 under the identical filing status used on the taxpayer's full-year resident tax returns for taxable years 2020 and 2021 and had a tax liability of at least \$1 on the full-year resident tax return for taxable year 2019.

8 B. If the taxpayer does not meet any of the requirements in subsection A of this section, the department of revenue shall conclude that the taxpayer does not meet the criteria to be issued a rebate under this section.

9 C. One rebate will be issued for each full-year resident tax return for taxable year 2021 that qualifies under subsection A of this section. The primary taxpayer's taxpayer identification number as reported on the taxpayer's full-year resident tax return for taxable year 2021 shall be used as needed in subsection A of this section for matching and verification purposes.

10 D. The department of revenue shall issue to a qualifying taxpayer a rebate of \$250 for each dependent tax credit claimed on the taxpayer's full-year resident tax return for taxable year 2021 who was under seventeen years of age at the end of taxable year 2021 and \$100 for each dependent who was at least seventeen years of age at the end of taxable year 2021.

11 E. The department of revenue shall issue a rebate for a maximum of three dependents for a qualifying taxpayer under this section. For a taxpayer who claimed more than three dependents on the taxpayer's full-year resident tax return for taxable year 2021, the rebate will be calculated by first counting the dependents who were under seventeen years

1 of age at the end of taxable year 2021 and then, if additional dependents  
2 may be claimed to meet the maximum number, the dependents who were at  
3 least seventeen years of age at the end of taxable year 2021.

4 F. If a qualifying taxpayer is deceased, the taxpayer's surviving  
5 spouse, personal representative or executor or another official  
6 representative of the estate designated pursuant to applicable state law  
7 may receive the rebate for the deceased taxpayer.

8 G. The department of revenue shall pay all rebates issued pursuant  
9 to this section on or before November 15, 2023, but not earlier than  
10 October 15, 2023. The department shall attempt to pay a qualifying  
11 taxpayer's rebate by electronic funds transfer using the routing and  
12 account information provided by the taxpayer on the taxpayer's full-year  
13 resident tax return for taxable year 2021 or more recent routing and  
14 account information provided by the taxpayer. If such attempt fails, or if  
15 the taxpayer did not provide such routing and account information, the  
16 department shall issue the rebate check by mail to the most recent home  
17 address provided by the taxpayer. Any notification from the department  
18 that relates to the rebate issued under this section shall state the  
19 following: "This rebate is being issued pursuant to Senate Bill 1734, as  
20 passed by the fifty-sixth legislature, first regular session, and signed  
21 into law by the governor." No letter relating to the Arizona families tax  
22 rebate issued under this section shall be sent from the governor's office,  
23 be sent on the governor's letterhead or reference the governor's office.

24 H. A taxpayer who does not receive the rebate issued pursuant to  
25 this section on or before November 15, 2024 may claim the rebate by filing  
26 a claim application online in the form and manner prescribed by the  
27 department of revenue. The claim application must include the claimant's  
28 name, address, taxpayer identification number and individual income tax  
29 filing status. The department shall review each claim application and  
30 verify the information provided. The department may request that a  
31 claimant provide evidence to verify the claimant's eligibility for the  
32 rebate.

33 I. In computing Arizona adjusted gross income, any rebate received  
34 by a taxpayer pursuant to this section and required to be included in  
35 Arizona gross income under the internal revenue code shall be subtracted  
36 from the taxpayer's Arizona gross income.

37 J. Notwithstanding any other administrative proceedings established  
38 by law or by rule, all appealable agency actions as defined in section  
39 41-1092, Arizona Revised Statutes, and contested cases as defined in  
40 section 41-1001, Arizona Revised Statutes, relating to a rebate issued  
41 pursuant to this section are governed by title 41, chapter 6, article 10,  
42 Arizona Revised Statutes.

43 K. NOTWITHSTANDING ANY OTHER LAW, INTEREST DOES NOT ACCRUE AND IS  
44 NOT PAYABLE FOR ANY REBATE ISSUED PURSUANT TO THIS SECTION.

1           **L.** On or before February 15, 2025, the director of the  
2 department of revenue shall report the following information to the  
3 president of the senate, the speaker of the house of representatives and  
4 the director of the joint legislative budget committee:

- 5           1. The total dollar amount of rebates paid under this section.
- 6           2. The administrative costs associated with the department's  
7 program for issuing the rebates under this section.
- 8           3. The total number of tax rebates issued.

9           **M.** The legislature finds that:

10           1. Inflation is at a forty-year high, putting gas, groceries and  
11 other necessities out of reach for many Arizonans.

12           2. Responsible budgeting has allowed this state to take action to  
13 mitigate the harmful impacts of inflation by returning a portion of the  
14 surplus to this state's taxpayers with dependents.

15           **N.** This section is repealed from and after December 31, 2029.

16           **O.** For the purposes of this section:

17           1. "Arizona small business taxable income" has the same meaning  
18 prescribed in section 43-1701, Arizona Revised Statutes.

19           2. "Arizona small business tax liability" means an Arizona small  
20 business taxpayer's Arizona small business taxable income multiplied by  
21 the Arizona small business' applicable tax rate as prescribed by section  
22 43-1711, Arizona Revised Statutes, plus any amount of recaptured Arizona  
23 small business income tax credits, minus any nonrefundable and refundable  
24 Arizona small business income tax credits claimed by the Arizona small  
25 business taxpayer under title 43, chapter 17, article 5, Arizona Revised  
26 Statutes.

27           3. "Taxable income" has the same meaning prescribed in section  
28 43-1001, Arizona Revised Statutes.

29           4. "Tax liability" means the taxpayer's taxable income multiplied  
30 by the taxpayer's applicable tax rate as prescribed in section 43-1011,  
31 Arizona Revised Statutes, plus any amount of recaptured income tax credits  
32 and the taxpayer's Arizona small business tax liability, if any, minus the  
33 sum of nonrefundable and refundable income tax credits claimed by the  
34 taxpayer under title 43, chapter 10, article 5, Arizona Revised Statutes.

35           Sec. 9. Retroactivity

36           A. Section 43-1014, Arizona Revised Statutes, as amended by this  
37 act, applies retroactively to taxable years beginning from and after  
38 December 31, 2021.

39           B. Laws 2023, chapter 147, section 3, as amended by this act,  
40 applies retroactively to from and after October 29, 2023.

APPROVED BY THE GOVERNOR MAY 13, 2025.

FILED IN THE OFFICE OF THE SECRETARY OF STATE MAY 13, 2025.