

REFERENCE TITLE: TPT; exemption; utilities; repeal

State of Arizona
House of Representatives
Fifty-seventh Legislature
Second Regular Session
2026

HB 2269

Introduced by
Representative Marshall

AN ACT

AMENDING TITLE 42, CHAPTER 5, ARTICLE 1, ARIZONA REVISED STATUTES, BY ADDING SECTION 42-5046; AMENDING SECTION 42-5063, ARIZONA REVISED STATUTES; AMENDING SECTION 42-5063, ARIZONA REVISED STATUTES, AS AMENDED BY THIS ACT; RELATING TO TRANSACTION PRIVILEGE TAX.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:
2 Section 1. Title 42, chapter 5, article 1, Arizona Revised
3 Statutes, is amended by adding section 42-5046, to read:

4 42-5046. Gas and electric utilities; reporting; deduction
5 threshold; notice

6 A. A PERSON THAT IS ENGAGED IN BUSINESS UNDER SECTION 42-5063 AND
7 THAT CLAIMS THE DEDUCTION PROVIDED BY SECTION 42-5063, SUBSECTION C,
8 PARAGRAPH 3, SUBDIVISION (c) SHALL REPORT THE GROSS PROCEEDS OF SALES OR
9 THE GROSS INCOME FROM SALES TO NATURAL OR ARTIFICIAL GAS AND ELECTRICITY
10 RETAIL CUSTOMERS FOR INFORMATIONAL PURPOSES.

11 B. ON OR BEFORE DECEMBER 31 OF EACH YEAR, THE DEPARTMENT SHALL:

12 1. BASED ON THE INFORMATION REPORTED UNDER SUBSECTION A OF THIS
13 SECTION, DETERMINE THE AMOUNT OF FOREGONE REVENUE TO THIS STATE AS A
14 RESULT OF THE DEDUCTION PROVIDED BY SECTION 42-5063, SUBSECTION C,
15 PARAGRAPH 3, SUBDIVISION (c) FOR THE PRIOR FISCAL YEAR.

16 2. ESTIMATE THE DATE ON WHICH THE AMOUNT OF FOREGONE REVENUE TO
17 THIS STATE AS A RESULT OF THE DEDUCTION PROVIDED BY SECTION 42-5063,
18 SUBSECTION C, PARAGRAPH 3, SUBDIVISION (c) WILL EQUAL AT LEAST
19 \$2,300,000,000. IF THE DEPARTMENT ESTIMATES THAT THE THRESHOLD PRESCRIBED
20 BY THIS PARAGRAPH WILL BE MET WITHIN ONE YEAR AFTER THE DATE ON WHICH THE
21 ESTIMATE IS MADE, THE DEPARTMENT SHALL NOTIFY THE SPEAKER OF THE HOUSE OF
22 REPRESENTATIVES, THE PRESIDENT OF THE SENATE AND THE GOVERNOR. THE NOTICE
23 SHALL INCLUDE THE DATE ON WHICH THE THRESHOLD WILL BE MET AND THE DATE ON
24 WHICH THE DEDUCTION PROVIDED BY SECTION 42-5063, SUBSECTION C, PARAGRAPH
25 3, SUBDIVISION (c) WILL EXPIRE.

26 D. THE DEPARTMENT SHALL NOTIFY ALL PERSONS THAT ARE ENGAGED IN
27 BUSINESS UNDER SECTION 42-5063 AND THAT ARE CLAIMING THE DEDUCTION
28 PROVIDED BY SECTION 42-5063, SUBSECTION C, PARAGRAPH 3, SUBDIVISION (c) OF
29 THE DATE ON WHICH THE DEDUCTION WILL EXPIRE AT LEAST SIXTY DAYS BEFORE THE
30 EXPIRATION DATE. A PERSON THAT RECEIVES A NOTICE PURSUANT TO THIS SECTION
31 SHALL NOTIFY RETAIL CUSTOMERS IN WRITING OF THE DATE ON WHICH THE
32 DEDUCTION WILL EXPIRE AT LEAST THIRTY DAYS BEFORE THE EXPIRATION DATE.
33 THE NOTICE TO RETAIL CUSTOMERS MUST INCLUDE THE PERCENTAGE AMOUNT OF THE
34 TRANSACTION PRIVILEGE TAX RATE THAT WILL APPLY AFTER THE DEDUCTION
35 EXPIRES.

36 Sec. 2. Section 42-5063, Arizona Revised Statutes, is amended to
37 read:

38 42-5063. Utilities classification; definitions

39 A. The utilities classification is comprised of the business of:

40 1. Producing and furnishing or furnishing to consumers natural or
41 artificial gas and water.

42 2. Providing to retail electric customers ancillary services,
43 electric distribution services, electric generation services, electric
44 transmission services and other services related to providing electricity.

1 B. The utilities classification does not include:

2 1. Sales of ancillary services, electric distribution services,
3 electric generation services, electric transmission services and other
4 services related to providing electricity, gas or water to a person who
5 resells the services.

6 2. Sales of natural gas or liquefied petroleum gas used to propel a
7 motor vehicle.

8 3. Sales of alternative fuel, as defined in section 1-215, to a
9 used oil fuel burner who has received a permit to burn used oil or used
10 oil fuel under section 49-426 or 49-480.

11 4. Sales of ancillary services, electric distribution services,
12 electric generation services, electric transmission services and other
13 services that are related to providing electricity to a retail electric
14 customer who is located outside this state for use outside this state if
15 the electricity is delivered to a point of sale outside this state.

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

24 6. The leasing or renting of space to make attachments to utility
25 poles as follows:

26 (a) By a person that is engaged in business under this section.

27 (b) To a person that is engaged in business under this section or
28 section 42-5064 or that is a cable operator.

29 C. The tax base for the utilities classification is the gross
30 proceeds of sales or gross income derived from the business, but the
31 following shall be deducted from the tax base:

32 1. Revenues received by a municipally owned utility in the form of
33 fees charged to persons constructing residential, commercial or industrial
34 developments or connecting residential, commercial or industrial
35 developments to a municipal utility system or systems if the fees are
36 segregated and used only for capital expansion, system enlargement or debt
37 service of the utility system or systems.

38 2. Revenues received by any person or persons owning a utility
39 system in the form of reimbursement or contribution compensation for
40 property and equipment installed to provide utility access to, on or
41 across the land of an actual utility consumer if the property and
42 equipment become the property of the utility. This deduction shall not
43 exceed the value of such property and equipment.

44 3. Gross proceeds of sales or gross income derived from sales to:

45 (a) Qualifying hospitals as defined in section 42-5001.

5 (c) FOR TAXABLE PERIODS THROUGH DECEMBER 31, 2046 OR THE LAST DAY
6 OF THE LAST MONTH OF THE FISCAL QUARTER IN WHICH THE THRESHOLD PRESCRIBED
7 IN SECTION 42-5046 IS MET, WHICHEVER IS EARLIER, NATURAL OR ARTIFICIAL GAS
8 AND ELECTRICITY RETAIL CUSTOMERS.

9 4. The portion of gross proceeds of sales or gross income that is
10 derived from sales to a qualified environmental technology manufacturer,
11 producer or processor as defined in section 41-1514.02 of a utility
12 product and that is used directly in environmental technology
13 manufacturing, producing or processing. This paragraph shall apply for
14 twenty full consecutive calendar or fiscal years from the date the first
15 paper manufacturing machine is placed in service. In the case of a
16 qualified environmental technology manufacturer, producer or processor who
17 does not manufacture paper, the time period shall begin with the date the
18 first manufacturing, processing or production equipment is placed in
19 service.

20 5. The portion of gross proceeds of sales or gross income
21 attributable to transfers of electricity by any retail electric customer
22 owning a solar photovoltaic energy generating system to an electric
23 distribution system, if the electricity transferred is generated by the
24 customer's system.

25 6. Gross proceeds of sales or gross income derived from sales of
26 electricity, natural gas or liquefied petroleum gas to a qualified
27 manufacturing or smelting business. A utility that claims this deduction
28 shall report each month, on a form prescribed by the department, the name
29 and address of each qualified manufacturing or smelting business for which
30 this deduction is taken. This paragraph applies to gas transportation
31 services. For the purposes of this paragraph:

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

36 (b) "Manufacturing" means the performance as a business of an
37 integrated series of operations that places tangible personal property in
38 a form, composition or character different from that in which it was
39 acquired and transforms it into a different product with a distinctive
40 name, character or use. Manufacturing does not include job printing,
41 publishing, packaging, mining, generating electricity or operating a
42 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.

7. Gross proceeds of sales or gross income derived from sales of electricity or natural gas to 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.

D. For the purposes of this section:

1. "Ancillary services" means those services so designated in federal energy regulatory commission order 888 adopted in 1996 that include the services necessary to support the transmission of electricity from resources to loads while maintaining reliable operation of the transmission system according to good utility practice.

2. "Cable operator" has the same meaning prescribed in section 9-505 and includes a video service provider.

3. "Electric distribution service" means distributing electricity to retail electric customers through the use of electric distribution facilities.

4. "Electric generation service" means providing electricity for sale to retail electric customers but excluding electric distribution or transmission services.

5. "Electric transmission service" means transmitting electricity to retail electric customers or to electric distribution facilities so classified by the federal energy regulatory commission or, to the extent permitted by law, so classified by the Arizona corporation commission.

6. "Other services" includes metering, meter reading services, billing and collecting services.

1 7. "Retail electric customer" means a person who purchases
2 electricity for that person's own use, including use in that person's
3 trade or business and not for resale, redistribution or retransmission.

4 8. "Utility pole" means any wooden, metal or other pole used for
5 utility purposes and the pole's appurtenances that are attached or
6 authorized for attachment by the person controlling the pole.

7 Sec. 3. Section 42-5063, Arizona Revised Statutes, as amended by
8 section 2 of this act, is amended to read:

9 42-5063. Utilities classification; definitions

10 A. The utilities classification is comprised of the business of:

11 1. Producing and furnishing or furnishing to consumers natural or
12 artificial gas and water.

13 2. Providing to retail electric customers ancillary services,
14 electric distribution services, electric generation services, electric
15 transmission services and other services related to providing electricity.

16 B. The utilities classification does not include:

17 1. Sales of ancillary services, electric distribution services,
18 electric generation services, electric transmission services and other
19 services related to providing electricity, gas or water to a person who
20 resells the services.

21 2. Sales of natural gas or liquefied petroleum gas used to propel a
22 motor vehicle.

23 3. Sales of alternative fuel, as defined in section 1-215, to a
24 used oil fuel burner who has received a permit to burn used oil or used
25 oil fuel under section 49-426 or 49-480.

26 4. Sales of ancillary services, electric distribution services,
27 electric generation services, electric transmission services and other
28 services that are related to providing electricity to a retail electric
29 customer who is located outside this state for use outside this state if
30 the electricity is delivered to a point of sale outside this state.

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

39 6. The leasing or renting of space to make attachments to utility
40 poles as follows:

41 (a) By a person that is engaged in business under this section.

42 (b) To a person that is engaged in business under this section or
43 section 42-5064 or that is a cable operator.

1 C. The tax base for the utilities classification is the gross
2 proceeds of sales or gross income derived from the business, but the
3 following shall be deducted from the tax base:

4 1. Revenues received by a municipally owned utility in the form of
5 fees charged to persons constructing residential, commercial or industrial
6 developments or connecting residential, commercial or industrial
7 developments to a municipal utility system or systems if the fees are
8 segregated and used only for capital expansion, system enlargement or debt
9 service of the utility system or systems.

10 2. Revenues received by any person or persons owning a utility
11 system in the form of reimbursement or contribution compensation for
12 property and equipment installed to provide utility access to, on or
13 across the land of an actual utility consumer if the property and
14 equipment become the property of the utility. This deduction shall not
15 exceed the value of such property and equipment.

16 3. Gross proceeds of sales or gross income derived from sales to:

17 (a) Qualifying hospitals as defined in section 42-5001.

18 (b) A qualifying health care organization as defined in section
19 42-5001 if the tangible personal property is used by the organization
20 solely to provide health and medical related educational and charitable
21 services.

22 (c) ~~For taxable periods through December 31, 2046 or the last day
23 of the last month of the fiscal quarter in which the threshold prescribed
24 in section 42-5046 is met, whichever is earlier, natural or artificial gas
25 and electricity retail customers.~~

26 4. The portion of gross proceeds of sales or gross income that is
27 derived from sales to a qualified environmental technology manufacturer,
28 producer or processor as defined in section 41-1514.02 of a utility
29 product and that is used directly in environmental technology
30 manufacturing, producing or processing. This paragraph shall apply for
31 twenty full consecutive calendar or fiscal years from the date the first
32 paper manufacturing machine is placed in service. In the case of a
33 qualified environmental technology manufacturer, producer or processor who
34 does not manufacture paper, the time period shall begin with the date the
35 first manufacturing, processing or production equipment is placed in
36 service.

37 5. The portion of gross proceeds of sales or gross income
38 attributable to transfers of electricity by any retail electric customer
39 owning a solar photovoltaic energy generating system to an electric
40 distribution system, if the electricity transferred is generated by the
41 customer's system.

42 6. Gross proceeds of sales or gross income derived from sales of
43 electricity, natural gas or liquefied petroleum gas to a qualified
44 manufacturing or smelting business. A utility that claims this deduction
45 shall report each month, on a form prescribed by the department, the name

1 and address of each qualified manufacturing or smelting business for which
2 this deduction is taken. This paragraph applies to gas transportation
3 services. For the purposes of this paragraph:

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

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

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

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

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

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

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

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

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

36 7. Gross proceeds of sales or gross income derived from sales of
37 electricity or natural gas to a business that operates an international
38 operations center in this state and that is certified by the Arizona
39 commerce authority pursuant to section 41-1520.

40 D. For the purposes of this section:

41 1. "Ancillary services" means those services so designated in
42 federal energy regulatory commission order 888 adopted in 1996 that
43 include the services necessary to support the transmission of electricity
44 from resources to loads while maintaining reliable operation of the
45 transmission system according to good utility practice.

1 2. "Cable operator" has the same meaning prescribed in section
2 9-505 and includes a video service provider.

3 3. "Electric distribution service" means distributing electricity
4 to retail electric customers through the use of electric distribution
5 facilities.

6 4. "Electric generation service" means providing electricity for
7 sale to retail electric customers but excluding electric distribution or
8 transmission services.

9 5. "Electric transmission service" means transmitting electricity
10 to retail electric customers or to electric distribution facilities so
11 classified by the federal energy regulatory commission or, to the extent
12 permitted by law, so classified by the Arizona corporation commission.

13 6. "Other services" includes metering, meter reading services,
14 billing and collecting services.

15 7. "Retail electric customer" means a person who purchases
16 electricity for that person's own use, including use in that person's
17 trade or business and not for resale, redistribution or retransmission.

18 8. "Utility pole" means any wooden, metal or other pole used for
19 utility purposes and the pole's appurtenances that are attached or
20 authorized for attachment by the person controlling the pole.

21 Sec. 4. Applicability

22 Section 42-5063, Arizona Revised Statutes, as amended by section 2
23 of this act, applies to taxable periods beginning on or after the first
24 day of the month following the general effective date.

25 Sec. 5. Effective date; notice

26 A. Section 42-5063, Arizona Revised Statutes, as amended by section
27 3 of this act, is effective from and after December 31, 2046 or from and
28 after the last day of the last month of the fiscal quarter in which the
29 threshold prescribed in section 42-5046, Arizona Revised Statutes, as
30 added by this act, is met, whichever is earlier.

31 B. The director of the department of revenue shall notify the
32 director of the Arizona legislative council in writing on or before the
33 date on which the deduction will expire.