

REFERENCE TITLE: data centers; tax relief; repeal

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

HB 2631

Introduced by
Representatives Austin: Cavero, Contreras P, Crews, Garcia, Liguori,
Sandoval, Villegas

AN ACT

REPEALING SECTION 41-1519, ARIZONA REVISED STATUTES; AMENDING SECTIONS 42-2003 AND 42-5061, ARIZONA REVISED STATUTES; AMENDING SECTION 42-5159, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2025, CHAPTER 135, SECTION 2 AND CHAPTER 247, SECTION 2; REPEALING SECTION 42-5159, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2025, CHAPTER 251, SECTION 13; AMENDING SECTION 42-6004, ARIZONA REVISED STATUTES; RELATING TO TRANSACTION PRIVILEGE AND USE TAX.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Repeal

3 Section 41-1519, Arizona Revised Statutes, is repealed.

4 Sec. 2. Section 42-2003, Arizona Revised Statutes, is amended to
5 read:

6 42-2003. Authorized disclosure of confidential information

7 A. Confidential information relating to:

8 1. A taxpayer may be disclosed to the taxpayer, its successor in
9 interest or a designee of the taxpayer who is authorized in writing by the
10 taxpayer. A principal corporate officer of a parent corporation may
11 execute a written authorization for a controlled subsidiary. If a
12 taxpayer elects to file an Arizona small business income tax return under
13 section 43-302, a written authorization by the taxpayer to allow the
14 department to disclose personal income tax information to a designee
15 includes the corresponding Arizona small business income tax return.

16 2. A corporate taxpayer may be disclosed to any principal officer,
17 any person designated by a principal officer or any person designated in a
18 resolution by the corporate board of directors or other similar governing
19 body. If a corporate officer signs a statement under penalty of perjury
20 representing that the officer is a principal officer, the department may
21 rely on the statement until the statement is shown to be false. For the
22 purposes of this paragraph, "principal officer" includes a chief executive
23 officer, president, secretary, treasurer, vice president of tax, chief
24 financial officer, chief operating officer or chief tax officer or any
25 other corporate officer who has the authority to bind the taxpayer on
26 matters related to state taxes.

27 3. A partnership may be disclosed to any partner of the
28 partnership. This exception does not include disclosure of confidential
29 information of a particular partner unless otherwise authorized.

30 4. A limited liability company may be disclosed to any member of
31 the company or, if the company is manager-managed, to any manager.

32 5. An estate may be disclosed to the personal representative of the
33 estate and to any heir, next of kin or beneficiary under the will of the
34 decedent if the department finds that the heir, next of kin or beneficiary
35 has a material interest that will be affected by the confidential
36 information.

37 6. A trust may be disclosed to the trustee or trustees, jointly or
38 separately, and to the grantor or any beneficiary of the trust if the
39 department finds that the grantor or beneficiary has a material interest
40 that will be affected by the confidential information.

41 7. A government entity may be disclosed to the head of the entity
42 or a member of the governing board of the entity, or any employee of the
43 entity who has been delegated the authorization in writing by the head of
44 the entity or the governing board of the entity.

1 8. Any taxpayer may be disclosed if the taxpayer has waived any
2 rights to confidentiality either in writing or on the record in any
3 administrative or judicial proceeding.

4 9. The name and taxpayer identification numbers of persons issued
5 direct payment permits may be publicly disclosed.

6 10. Any taxpayer may be disclosed during a meeting or telephone
7 call if the taxpayer is present during the meeting or telephone call and
8 authorizes the disclosure of confidential information.

9 B. Confidential information may be disclosed to:

10 1. Any employee of the department whose official duties involve tax
11 administration.

12 2. The office of the attorney general solely for its use in
13 preparation for, or in an investigation that may result in, any proceeding
14 involving tax administration before the department or any other agency or
15 board of this state, or before any grand jury or any state or federal
16 court.

17 3. The department of liquor licenses and control for its use in
18 determining whether a spirituous liquor licensee has paid all transaction
19 privilege taxes and affiliated excise taxes incurred as a result of the
20 sale of spirituous liquor, as defined in section 4-101, at the licensed
21 establishment and imposed on the licensed establishments by this state and
22 its political subdivisions.

23 4. Other state tax officials whose official duties require the
24 disclosure for proper tax administration purposes if the information is
25 sought in connection with an investigation or any other proceeding
26 conducted by the official. Any disclosure is limited to information of a
27 taxpayer who is being investigated or who is a party to a proceeding
28 conducted by the official.

29 5. The following agencies, officials and organizations, if they
30 grant substantially similar privileges to the department for the type of
31 information being sought, pursuant to statute and a written agreement
32 between the department and the foreign country, agency, state, Indian
33 tribe or organization:

34 (a) The United States internal revenue service, alcohol and tobacco
35 tax and trade bureau of the United States treasury, United States bureau
36 of alcohol, tobacco, firearms and explosives of the United States
37 department of justice, United States drug enforcement agency and federal
38 bureau of investigation.

39 (b) A state tax official of another state.

40 (c) An organization of states, federation of tax administrators or
41 multistate tax commission that operates an information exchange for tax
42 administration purposes.

43 (d) An agency, official or organization of a foreign country with
44 responsibilities that are comparable to those listed in subdivision (a),
45 (b) or (c) of this paragraph.

- 1 (e) An agency, official or organization of an Indian tribal
2 government with responsibilities comparable to the responsibilities of the
3 agencies, officials or organizations identified in subdivision (a), (b) or
4 (c) of this paragraph.
- 5 6. The auditor general, in connection with any audit of the
6 department subject to the restrictions in section 42-2002, subsection D.
- 7 7. Any person to the extent necessary for effective tax
8 administration in connection with:
- 9 (a) The processing, storage, transmission, destruction and
10 reproduction of the information.
- 11 (b) The programming, maintenance, repair, testing and procurement
12 of equipment for purposes of tax administration.
- 13 (c) The collection of the taxpayer's civil liability.
- 14 8. The office of administrative hearings relating to taxes
15 administered by the department pursuant to section 42-1101, but the
16 department shall not disclose any confidential information without the
17 taxpayer's written consent:
- 18 (a) Regarding income tax or withholding tax.
- 19 (b) On any tax issue relating to information associated with the
20 reporting of income tax or withholding tax.
- 21 9. The United States treasury inspector general for tax
22 administration for the purpose of reporting a violation of internal
23 revenue code section 7213A (26 United States Code section 7213A),
24 unauthorized inspection of returns or return information.
- 25 10. The financial management service of the United States treasury
26 department for use in the treasury offset program.
- 27 11. The United States treasury department or its authorized agent
28 for use in the state income tax levy program and in the electronic federal
29 tax payment system.
- 30 12. The Arizona commerce authority for its use in:
- 31 (a) Qualifying renewable energy operations for the tax incentives
32 under section 42-12006.
- 33 (b) Qualifying businesses with a qualified facility for income tax
34 credits under sections 43-1083.03 and 43-1164.04.
- 35 (c) Fulfilling its annual reporting responsibility pursuant to
36 section 41-1512, subsections U and V and section 41-1517, subsection L.
- 37 ~~(d) Certifying computer data centers for tax relief under section~~
38 ~~41-1519.~~
- 39 ~~(e)~~ (d) Certifying applicants for the tax credit for motion
40 picture production costs under sections 43-1082 and 43-1165.
- 41 13. A prosecutor for purposes of section 32-1164, subsection C.
- 42 14. The office of the state fire marshal for use in determining
43 compliance with and enforcing title 37, chapter 9, article 5.
- 44 15. The department of transportation for its use in administering
45 taxes, surcharges and penalties prescribed by title 28.

1 16. The Arizona health care cost containment system administration
2 for its use in administering nursing facility provider assessments.

3 17. The department of administration risk management division and
4 the office of the attorney general if the information relates to a claim
5 against this state pursuant to section 12-821.01 involving the department
6 of revenue.

7 18. Another state agency if the taxpayer authorizes the disclosure
8 of confidential information in writing, including an authorization that is
9 part of an application form or other document submitted to the agency.

10 19. The department of economic security for its use in determining
11 whether an employer has paid all amounts due under the unemployment
12 insurance program pursuant to title 23, chapter 4.

13 20. The department of health services for its use in determining
14 the following:

15 (a) Whether a medical marijuana dispensary is in compliance with
16 the tax requirements of chapter 5 of this title for the purposes of
17 section 36-2806, subsection A.

18 (b) Whether a marijuana establishment, marijuana testing facility
19 or dual licensee licensed under title 36, chapter 28.2 is in compliance
20 with the tax obligations under this title or title 43.

21 21. The Arizona department of agriculture for the purpose of
22 ascertaining compliance with the licensing provisions in title 3.

23 22. The office of economic opportunity for the purpose of
24 performing the duties and obligations to or on behalf of this state
25 prescribed by title 41, chapter 53.

26 C. Confidential information may be disclosed in any state or
27 federal judicial or administrative proceeding pertaining to tax
28 administration pursuant to the following conditions:

29 1. One or more of the following circumstances must apply:

30 (a) The taxpayer is a party to the proceeding.

31 (b) The proceeding arose out of, or in connection with, determining
32 the taxpayer's civil or criminal liability, or the collection of the
33 taxpayer's civil liability, with respect to any tax imposed under this
34 title or title 43.

35 (c) The treatment of an item reflected on the taxpayer's return is
36 directly related to the resolution of an issue in the proceeding.

37 (d) Return information directly relates to a transactional
38 relationship between a person who is a party to the proceeding and the
39 taxpayer and directly affects the resolution of an issue in the
40 proceeding.

41 2. Confidential information may not be disclosed under this
42 subsection if the disclosure is prohibited by section 42-2002, subsection
43 C or D.

1 D. Identity information may be disclosed for purposes of notifying
2 persons entitled to tax refunds if the department is unable to locate the
3 persons after reasonable effort.

4 E. The department, on the request of any person, shall provide the
5 names and addresses of bingo licensees as defined in section 5-401, verify
6 whether or not a person has a privilege license and number, a tobacco
7 product distributor's license and number or a withholding license and
8 number or disclose the information to be posted on the department's
9 website or otherwise publicly accessible pursuant to section 42-1124,
10 subsection F and section 42-3401.

11 F. A department employee, in connection with the official duties
12 relating to any audit, collection activity or civil or criminal
13 investigation, may disclose return information to the extent that
14 disclosure is necessary to obtain information that is not otherwise
15 reasonably available. These official duties include the correct
16 determination of and liability for tax, the amount to be collected or the
17 enforcement of other state tax revenue laws.

18 G. Confidential information relating to transaction privilege tax,
19 use tax, severance tax, jet fuel excise and use tax and any other tax
20 collected by the department on behalf of any jurisdiction may be disclosed
21 to any county, city or town tax official if the information relates to a
22 taxpayer who is or may be taxable by a county, city or town or who may be
23 subject to audit by the department pursuant to section 42-6002. Any
24 taxpayer information that is released by the department to the county,
25 city or town:

26 1. May be used only for internal purposes, including audits and
27 communication with taxpayers for the purposes of the notice required by
28 section 9-499.15, subsection C. If there is a legitimate business need
29 relating to enforcing laws, regulations and ordinances pursuant to section
30 9-500.39 or 11-269.17, a county, city or town tax official may redisclose
31 transaction privilege tax information relating to a vacation rental or
32 short-term rental property owner or online lodging operator from the new
33 license report and license update report, subject to the following:

34 (a) The information redisclosed is limited to the following:

35 (i) The transaction privilege tax license number.

36 (ii) The type of organization or ownership of the business.

37 (iii) The legal business name and doing business as name, if
38 different from the legal name.

39 (iv) The business mailing address, tax record physical location
40 address, telephone number, email address and fax number.

41 (v) The date the business started in this state, the business
42 description and the North American industry classification system code.

43 (vi) The name, address and telephone number for each owner,
44 partner, corporate officer, member, managing member or official of the
45 employing unit.

1 (b) Redisclosure is limited to nonelected officials in other units
2 within the county, city or town. The information may not be redisclosed
3 to an elected official or the elected official's staff.

4 (c) All redisclosures of confidential information made pursuant to
5 this paragraph are subject to paragraph 2 of this subsection.

6 2. May not be disclosed to the public in any manner that does not
7 comply with confidentiality standards established by the department. The
8 county, city or town shall agree in writing with the department that any
9 release of confidential information that violates the confidentiality
10 standards adopted by the department will result in the immediate
11 suspension of any rights of the county, city or town to receive taxpayer
12 information under this subsection.

13 H. The department may disclose statistical information gathered
14 from confidential information if it does not disclose confidential
15 information attributable to any one taxpayer. The department may disclose
16 statistical information gathered from confidential information, even if it
17 discloses confidential information attributable to a taxpayer, to:

18 1. The state treasurer in order to comply with the requirements of
19 section 42-5029, subsection A, paragraph 3.

20 2. The joint legislative income tax credit review committee, the
21 joint legislative budget committee staff and the legislative staff in
22 order to comply with the requirements of section 43-221.

23 I. The department may disclose the aggregate amounts of any tax
24 credit, tax deduction or tax exemption enacted after January 1, 1994.
25 Information subject to disclosure under this subsection shall not be
26 disclosed if a taxpayer demonstrates to the department that such
27 information would give an unfair advantage to competitors.

28 J. Except as provided in section 42-2002, subsection C,
29 confidential information, described in section 42-2001, paragraph 1,
30 subdivision (a), item (ii), may be disclosed to law enforcement agencies
31 for law enforcement purposes.

32 K. The department may provide transaction privilege tax license
33 information to property tax officials in a county for the purpose of
34 identification and verification of the tax status of commercial property.

35 L. The department may provide transaction privilege tax, luxury
36 tax, use tax, property tax and severance tax information to the
37 ombudsman-citizens aide pursuant to title 41, chapter 8, article 5.

38 M. Except as provided in section 42-2002, subsection D, a court may
39 order the department to disclose confidential information pertaining to a
40 party to an action. An order shall be made only on a showing of good
41 cause and that the party seeking the information has made demand on the
42 taxpayer for the information.

43 N. This section does not prohibit the disclosure by the department
44 of any information or documents submitted to the department by a bingo

1 licensee. Before disclosing the information, the department shall obtain
2 the name and address of the person requesting the information.

3 O. If the department is required or allowed to disclose
4 confidential information, it may charge the person or agency requesting
5 the information for the reasonable cost of its services.

6 P. Except as provided in section 42-2002, subsection D, the
7 department of revenue shall release confidential information as requested
8 by the department of economic security pursuant to section 42-1122 or
9 46-291. Information disclosed under this subsection is limited to the
10 same type of information that the United States internal revenue service
11 is authorized to disclose under section 6103(1)(6) of the internal revenue
12 code.

13 Q. Except as provided in section 42-2002, subsection D, the
14 department shall release confidential information as requested by the
15 courts and clerks of the court pursuant to section 42-1122.

16 R. To comply with the requirements of section 42-5031, the
17 department may disclose to the state treasurer, to the county stadium
18 district board of directors and to any city or town tax official that is
19 part of the county stadium district confidential information attributable
20 to a taxpayer's business activity conducted in the county stadium
21 district.

22 S. The department shall release to the attorney general
23 confidential information as requested by the attorney general for purposes
24 of determining compliance with or enforcing any of the following:

25 1. Any public health control law relating to tobacco sales as
26 provided under title 36, chapter 6, article 14.

27 2. Any law relating to reduced cigarette ignition propensity
28 standards as provided under title 37, chapter 9, article 5.

29 3. Sections 44-7101 and 44-7111, the master settlement agreement
30 referred to in those sections and all agreements regarding disputes under
31 the master settlement agreement.

32 T. For proceedings before the department, the office of
33 administrative hearings, the state board of tax appeals or any state or
34 federal court involving penalties that were assessed against a return
35 preparer, an electronic return preparer or a payroll service company
36 pursuant to section 42-1103.02, 42-1125.01 or 43-419, confidential
37 information may be disclosed only before the judge or administrative law
38 judge adjudicating the proceeding, the parties to the proceeding and the
39 parties' representatives in the proceeding prior to its introduction into
40 evidence in the proceeding. The confidential information may be
41 introduced as evidence in the proceeding only if the taxpayer's name, the
42 names of any dependents listed on the return, all social security numbers,
43 the taxpayer's address, the taxpayer's signature and any attachments
44 containing any of the foregoing information are redacted and if either:

- 1 1. The treatment of an item reflected on such a return is or may be
2 related to the resolution of an issue in the proceeding.
- 3 2. Such a return or the return information relates or may relate to
4 a transactional relationship between a person who is a party to the
5 proceeding and the taxpayer that directly affects the resolution of an
6 issue in the proceeding.
- 7 3. The method of payment of the taxpayer's withholding tax
8 liability or the method of filing the taxpayer's withholding tax return is
9 an issue for the period.
- 10 U. The department and attorney general may share the information
11 specified in subsection S of this section with any of the following:
- 12 1. Federal, state or local agencies located in this state for the
13 purposes of enforcement of the statutes or agreements specified in
14 subsection S of this section or for the purposes of enforcement of
15 corresponding laws of other states.
- 16 2. Indian tribes located in this state for the purposes of
17 enforcement of the statutes or agreements specified in subsection S of
18 this section.
- 19 3. A court, arbitrator, data clearinghouse or similar entity for
20 the purpose of assessing compliance with or making calculations required
21 by the master settlement agreement or agreements regarding disputes under
22 the master settlement agreement, and with counsel for the parties or
23 expert witnesses in any such proceeding, if the information otherwise
24 remains confidential.
- 25 V. The department may provide the name and address of qualifying
26 hospitals and qualifying health care organizations, as defined in section
27 42-5001, to a business that is classified and reporting transaction
28 privilege tax under the utilities classification.
- 29 W. The department may disclose to an official of any city, town or
30 county in a current agreement or considering a prospective agreement with
31 the department as described in section 42-5032.02, subsection G any
32 information relating to amounts that are subject to distribution and that
33 are required by section 42-5032.02. Information disclosed by the
34 department under this subsection:
- 35 1. May be used only by the city, town or county for internal
36 purposes.
- 37 2. May not be disclosed to the public in any manner that does not
38 comply with confidentiality standards established by the department. The
39 city, town or county must agree with the department in writing that any
40 release of confidential information that violates the confidentiality
41 standards will result in the immediate suspension of any rights of the
42 city, town or county to receive information under this subsection.
- 43 X. Notwithstanding any other provision of this section, the
44 department may not disclose information provided by an online lodging
45 marketplace, as defined in section 42-5076, without the written consent of

1 the online lodging marketplace, and the information may be disclosed only
2 pursuant to subsection A, paragraphs 1 through 6, 8 and 10, subsection B,
3 paragraphs 1, 2, 7 and 8 and subsections C, D and G of this section. Such
4 information:

5 1. Is not subject to disclosure pursuant to title 39, relating to
6 public records.

7 2. May not be disclosed to any agency of this state or of any
8 county, city, town or other political subdivision of this state.

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

11 42-5061. Retail classification; definitions

12 A. The retail classification is comprised of the business of
13 selling tangible personal property at retail. The tax base for the retail
14 classification is the gross proceeds of sales or gross income derived from
15 the business. The tax imposed on the retail classification does not apply
16 to the gross proceeds of sales or gross income from:

17 1. Professional or personal service occupations or businesses that
18 involve sales or transfers of tangible personal property only as
19 inconsequential elements.

20 2. Services rendered in addition to selling tangible personal
21 property at retail.

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

25 4. Sales of tangible personal property by any nonprofit
26 organization organized and operated exclusively for charitable purposes
27 and recognized by the United States internal revenue service under section
28 501(c)(3) of the internal revenue code.

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

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

34 7. The sale of stocks and bonds.

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

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

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

43 11. Prescription eyeglasses or contact lenses.

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

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

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

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

12 (b) The vehicle, trailer or semitrailer has a gross vehicle weight
13 rating of more than ten thousand pounds, is used or maintained to
14 transport property in the furtherance of interstate commerce and otherwise
15 meets the definition of commercial motor vehicle as defined in section
16 28-5201.

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

19 16. Items purchased with United States department of agriculture
20 coupons issued under the supplemental nutrition assistance program
21 pursuant to the food and nutrition act of 2008 (P.L. 88-525; 78 Stat. 703;
22 7 United States Code sections 2011 through 2036b) by the United States
23 department of agriculture food and nutrition service or food instruments
24 issued under section 17 of the child nutrition act (P.L. 95-627;
25 92 Stat. 3603; P.L. 99-661, section 4302; P.L. 111-296; 42 United States
26 Code section 1786).

27 17. Textbooks by any bookstore that are required by any state
28 university or community college.

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

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

38 20. Lottery tickets or shares pursuant to title 5, chapter 5.1,
39 article 2.

40 21. The sale of cash equivalents and the sale of precious metal
41 bullion and monetized bullion to the ultimate consumer, but the sale of
42 coins or other forms of money for manufacture into jewelry or works of art
43 is subject to the tax and the gross proceeds of sales or gross income
44 derived from the redemption of any cash equivalent by the holder as a

1 means of payment for goods or services that are taxable under this article
2 is subject to the tax. For the purposes of this paragraph:

3 (a) "Cash equivalents" means items or intangibles, whether or not
4 negotiable, that are sold to one or more persons, through which a value
5 denominated in money is purchased in advance and may be redeemed in full
6 or in part for tangible personal property, intangibles or services. Cash
7 equivalents include gift cards, stored value cards, gift certificates,
8 vouchers, traveler's checks, money orders or other instruments, orders or
9 electronic mechanisms, such as an electronic code, personal identification
10 number or digital payment mechanism, or any other prepaid intangible right
11 to acquire tangible personal property, intangibles or services in the
12 future, whether from the seller of the cash equivalent or from another
13 person. Cash equivalents do not include either of the following:

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

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

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

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

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

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

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

38 25. Tangible personal property sold to:

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

40 (b) A qualifying health care organization as defined in section
41 42-5001 if the tangible personal property is used by the organization
42 solely to provide health and medical related educational and charitable
43 services.

44 (c) A qualifying health care organization as defined in section
45 42-5001 if the organization is dedicated to providing educational,

1 therapeutic, rehabilitative and family medical education training for
2 blind and visually impaired children and children with multiple
3 disabilities from the time of birth to age twenty-one.

4 (d) A qualifying community health center as defined in section
5 42-5001.

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

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

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

19 (h) Any person representing or working on behalf of another person
20 described in subdivisions (a) through (g) of this paragraph if the
21 tangible personal property is incorporated or fabricated into a project
22 described in section 42-5075, subsection P.

23 26. Magazines or other periodicals or other publications by this
24 state to encourage tourist travel.

25 27. Tangible personal property sold to:

26 (a) A person that is subject to tax under this article by reason of
27 being engaged in business classified under section 42-5075 or to a
28 subcontractor working under the control of a person engaged in business
29 classified under section 42-5075, if the property so sold is any of the
30 following:

31 (i) Incorporated or fabricated by the person into any real
32 property, structure, project, development or improvement as part of the
33 business.

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

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

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

43 28. The sale of a motor vehicle to a nonresident of this state if
44 the purchaser's state of residence does not allow a corresponding use tax
45 exemption to the tax imposed by article 1 of this chapter and if the

1 nonresident has secured a special ninety day nonresident registration
2 permit for the vehicle as prescribed by sections 28-2154 and 28-2154.01.

3 29. Tangible personal property purchased in this state by a
4 nonprofit charitable organization that has qualified under section
5 501(c)(3) of the United States internal revenue code and that engages in
6 and uses such property exclusively in programs for persons with mental or
7 physical disabilities if the programs are exclusively for training, job
8 placement, rehabilitation or testing.

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

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

27 32. Sales of tangible personal property by a nonprofit organization
28 that is exempt from taxation under section 501(c)(3), 501(c)(4),
29 501(c)(6), 501(c)(7) or 501(c)(8) of the internal revenue code if the
30 organization sponsors or operates a rodeo featuring primarily farm and
31 ranch animals and no part of the organization's net earnings inures to the
32 benefit of any private shareholder or individual.

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

37 (a) Includes seeds, seedlings, roots, bulbs, liners, transplants,
38 cuttings, soil and plant additives, agricultural minerals, auxiliary soil
39 and plant substances, micronutrients, fertilizers, insecticides,
40 herbicides, fungicides, soil fumigants, desiccants, rodenticides,
41 adjuvants, plant nutrients and plant growth regulators.

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

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

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

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

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

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

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

41 (a) "Personal property liquidation transaction" means a sale of
42 personal property made by a personal property liquidator acting solely on
43 behalf of the owner of the personal property sold at the dwelling of the
44 owner or on the death of any owner, on behalf of the surviving spouse, if

1 any, any devisee or heir or the personal representative of the estate of
2 the deceased, if one has been appointed.

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

5 40. Sales of food, drink and condiment for consumption within the
6 premises of any prison, jail or other institution under the jurisdiction
7 of the state department of corrections, the department of public safety,
8 the department of juvenile corrections or a county sheriff.

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

14 42. Sales of:

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

17 (b) Livestock and poultry feed, salts, vitamins and other additives
18 for livestock or poultry consumption that are sold to persons for use or
19 consumption by their own livestock or poultry, for use or consumption in
20 the businesses of farming, ranching and producing or feeding livestock,
21 poultry, or livestock or poultry products or for use or consumption in
22 noncommercial boarding of livestock. For the purposes of this paragraph,
23 "poultry" includes ratites.

24 43. Sales of implants used as growth promotants and injectable
25 medicines, not already exempt under paragraph 8 of this subsection, for
26 livestock or poultry owned by or in possession of persons that are engaged
27 in producing livestock, poultry, or livestock or poultry products or that
28 are engaged in feeding livestock or poultry commercially. For the
29 purposes of this paragraph, "poultry" includes ratites.

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

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

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

43 47. Sales of materials that are purchased by or for publicly funded
44 libraries, including school district libraries, charter school libraries,

1 community college libraries, state university libraries or federal, state,
2 county or municipal libraries, for use by the public as follows:

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

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

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

13 49. Sales of alternative fuel vehicles if the vehicle was
14 manufactured as a diesel fuel vehicle and converted to operate on
15 alternative fuel and equipment that is installed in a conventional diesel
16 fuel motor vehicle to convert the vehicle to operate on an alternative
17 fuel, as defined in section 1-215.

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

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

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

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

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

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

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

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

1 56. Sales or other transfers of renewable energy credits or any
2 other unit created to track energy derived from renewable energy
3 resources. For the purposes of this paragraph, "renewable energy credit"
4 means a unit created administratively by the corporation commission or
5 governing body of a public power utility to track kilowatt hours of
6 electricity derived from a renewable energy resource or the kilowatt hour
7 equivalent of conventional energy resources displaced by distributed
8 renewable energy resources.

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

12 58. Sales of tangible personal property incorporated or fabricated
13 into a project described in section 42-5075, subsection P, that is located
14 within the exterior boundaries of an Indian reservation for which the
15 owner, as defined in section 42-5075, of the project is an Indian tribe or
16 an affiliated Indian. For the purposes of this paragraph:

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

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

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

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

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

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

41 1. Machinery, or equipment, used directly in manufacturing,
42 processing, fabricating, job printing, refining or metallurgical
43 operations. The terms "manufacturing", "processing", "fabricating", "job
44 printing", "refining" and "metallurgical" as used in this paragraph refer
45 to and include those operations commonly understood within their ordinary

1 meaning. "Metallurgical operations" includes leaching, milling,
2 precipitating, smelting and refining.

3 2. Mining machinery, or equipment, used directly in the process of
4 extracting ores or minerals from the earth for commercial purposes,
5 including equipment required to prepare the materials for extraction and
6 handling, loading or transporting such extracted material to the surface.
7 "Mining" includes underground, surface and open pit operations for
8 extracting ores and minerals.

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

17 4. Machinery, equipment or transmission lines used directly in
18 producing or transmitting electrical power, but not including
19 distribution. Transformers and control equipment used at transmission
20 substation sites constitute equipment used in producing or transmitting
21 electrical power.

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

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

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

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

35 6. Neat animals, horses, asses, sheep, ratites, swine or goats used
36 or to be used as breeding or production stock, including sales of
37 breedings or ownership shares in such animals used for breeding or
38 production.

39 7. Pipes or valves four inches in diameter or larger used to
40 transport oil, natural gas, artificial gas, water, wastewater or coal
41 slurry, including compressor units, regulators, machinery and equipment,
42 fittings, seals and any other part that is used in operating the pipes or
43 valves.

44 8. Aircraft, navigational and communication instruments and other
45 accessories and related equipment sold to:

- 1 (a) A person:
- 2 (i) Holding, or exempted by federal law from obtaining, a federal
- 3 certificate of public convenience and necessity for use as, in conjunction
- 4 with or becoming part of an aircraft to be used to transport persons for
- 5 hire in intrastate, interstate or foreign commerce.
- 6 (ii) That is certificated or licensed under federal aviation
- 7 administration regulations (14 Code of Federal Regulations part 121 or
- 8 135) as a scheduled or unscheduled carrier of persons for hire for use as
- 9 or in conjunction with or becoming part of an aircraft to be used to
- 10 transport persons for hire in intrastate, interstate or foreign commerce.
- 11 (iii) Holding a foreign air carrier permit for air transportation
- 12 for use as or in conjunction with or becoming a part of aircraft to be
- 13 used to transport persons, property or United States mail in intrastate,
- 14 interstate or foreign commerce.
- 15 (iv) Operating an aircraft to transport persons in any manner for
- 16 compensation or hire, or for use in a fractional ownership program that
- 17 meets the requirements of federal aviation administration regulations
- 18 (14 Code of Federal Regulations part 91, subpart K), including as an air
- 19 carrier, a foreign air carrier or a commercial operator or under a
- 20 restricted category, within the meaning of 14 Code of Federal Regulations,
- 21 regardless of whether the operation or aircraft is regulated or certified
- 22 under part 91, 119, 121, 133, 135, 136 or 137, or another part of 14 Code
- 23 of Federal Regulations.
- 24 (v) That will lease or otherwise transfer operational control,
- 25 within the meaning of federal aviation administration operations
- 26 specification A008, or its successor, of the aircraft, instruments or
- 27 accessories to one or more persons described in item (i), (ii), (iii) or
- 28 (iv) of this subdivision, subject to section 42-5009, subsection Q.
- 29 (b) Any foreign government.
- 30 (c) Persons who are not residents of this state and who will not
- 31 use such property in this state other than in removing such property from
- 32 this state. This subdivision also applies to corporations that are not
- 33 incorporated in this state, regardless of maintaining a place of business
- 34 in this state, if the principal corporate office is located outside this
- 35 state and the property will not be used in this state other than in
- 36 removing the property from this state.
- 37 9. Machinery, tools, equipment and related supplies used or
- 38 consumed directly in repairing, remodeling or maintaining aircraft,
- 39 aircraft engines or aircraft component parts by or on behalf of a
- 40 certificated or licensed carrier of persons or property.
- 41 10. Railroad rolling stock, rails, ties and signal control
- 42 equipment used directly to transport persons or property.
- 43 11. Machinery or equipment used directly to drill for oil or gas or
- 44 used directly in the process of extracting oil or gas from the earth for
- 45 commercial purposes.

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

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

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

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

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

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

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

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

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

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

6 (ii) Over two-thirds of the transmissions, measured in megabytes,
7 transmitted by or on behalf of those direct broadcast television or data
8 transmission services during the test period were transmitted by the
9 facility to or on behalf of those services. For the purposes of
10 subdivision (b) of this paragraph, "test period" means the three hundred
11 sixty-five day period beginning on the later of the date on which the
12 tangible personal property is purchased or the date on which the direct
13 broadcast satellite television or data transmission service first
14 transmits information to its customers.

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

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

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

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

36 19. Machinery or equipment, including related structural components
37 and containment structures, that is employed in connection with
38 manufacturing, processing, fabricating, job printing, refining, mining,
39 natural gas pipelines, metallurgical operations, telecommunications,
40 producing or transmitting electricity or research and development and that
41 is used directly to meet or exceed rules or regulations adopted by the
42 federal energy regulatory commission, the United States environmental
43 protection agency, the United States nuclear regulatory commission, the
44 Arizona department of environmental quality or a political subdivision of
45 this state to prevent, monitor, control or reduce land, water or air

1 pollution. For the purposes of this paragraph, "containment structure"
2 means a structure that prevents, monitors, controls or reduces noxious or
3 harmful discharge into the environment.

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

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

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

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

23 (c) Any machinery or equipment purchased after the television
24 station has ceased analog broadcasting, or purchased after November 1,
25 2009, whichever occurs first.

26 22. Qualifying equipment that is purchased from and after June 30,
27 2004 through December 31, 2028 by a qualified business under section
28 41-1516 for harvesting or processing qualifying forest products removed
29 from qualifying projects as defined in section 41-1516. To qualify for
30 this deduction, the qualified business at the time of purchase must
31 present its certification approved by the department.

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

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

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

1 2. Janitorial equipment and hand tools.

2 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

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

33 G. If a person is engaged in the business of selling tangible
34 personal property at both wholesale and retail, the tax under this section
35 applies only to the gross proceeds of the sales made other than at
36 wholesale if the person's books are kept so as to show separately the
37 gross proceeds of sales of each class, and if the books are not so kept,
38 the tax under this section applies to the gross proceeds of every sale so
39 made.

40 H. A person who engages in manufacturing, baling, crating, boxing,
41 barreling, canning, bottling, sacking, preserving, processing or otherwise
42 preparing for sale or commercial use any livestock, agricultural or
43 horticultural product or any other product, article, substance or
44 commodity and who sells the product of such business at retail in this

1 state is deemed, as to such sales, to be engaged in business classified
2 under the retail classification. This subsection does not apply to:

3 1. Agricultural producers who are owners, proprietors or tenants of
4 agricultural lands, orchards, farms or gardens where agricultural products
5 are grown, raised or prepared for market and who are marketing their own
6 agricultural products.

7 2. Businesses classified under the:

8 (a) Transporting classification.

9 (b) Utilities classification.

10 (c) Telecommunications classification.

11 (d) Pipeline classification.

12 (e) Private car line classification.

13 (f) Publication classification.

14 (g) Job printing classification.

15 (h) Prime contracting classification.

16 (i) Restaurant classification.

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

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

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

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

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

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

42 K. The department shall require every person claiming a deduction
43 provided by subsection I or J of this section to file on forms prescribed
44 by the department at such times as the department directs a sworn

1 statement disclosing the name of the purchaser and the exact amount of
2 sales on which the exclusion or deduction is claimed.

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

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

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

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

14 N. In computing the tax base in the case of the sale or transfer of
15 wireless telecommunications equipment as an inducement to a customer to
16 enter into or continue a contract for telecommunications services that are
17 taxable under section 42-5064, gross proceeds of sales or gross income
18 does not include any sales commissions or other compensation received by
19 the retailer as a result of the customer entering into or continuing a
20 contract for the telecommunications services.

21 O. For the purposes of this section, a sale of wireless
22 telecommunications equipment to a person who holds the equipment for sale
23 or transfer to a customer as an inducement to enter into or continue a
24 contract for telecommunications services that are taxable under section
25 42-5064 is considered to be a sale for resale in the regular course of
26 business.

27 P. Retail sales of prepaid calling cards or prepaid authorization
28 numbers for telecommunications services, including sales of
29 reauthorization of a prepaid card or authorization number, are subject to
30 tax under this section.

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

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

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

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

43 1. The transfer of title or possession of the coal is for the
44 purpose of refining the coal.

1 2. The title or possession of the coal is transferred back to the
2 owner or operator of the power plant after completion of the coal refining
3 process. For the purposes of this paragraph, "coal refining process"
4 means the application of a coal additive system that aids in the reduction
5 of power plant emissions during the combustion of coal and the treatment
6 of flue gas.

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

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

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

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

31 U. For the purposes of section 42-5032.03 and subject to section
32 48-4238, beginning October 1, 2025 and each month thereafter through
33 December 31, 2055, the department shall separately account for revenues
34 collected under the retail classification from each business selling
35 tangible personal property at retail on the premises of a major league
36 baseball facility or an adjacent building that is owned by a county
37 stadium district pursuant to title 48, chapter 26 and operated by the
38 county stadium district or the professional baseball franchise
39 organization that occupies the major league baseball facility or adjacent
40 building. For the purposes of this subsection, "adjacent building" and
41 "major league baseball facility" have the same meanings prescribed in
42 section 48-4201.

43 V. In computing the tax base for the sale of a motor vehicle to a
44 nonresident of this state, if the purchaser's state of residence allows a
45 corresponding use tax exemption to the tax imposed by article 1 of this

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

11 W. For the purposes of this section:

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

15 2. "Aircraft" includes:

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

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

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

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

31 X. For the purposes of subsection I of this section:

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

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

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

41 4. "Overhead materials" means tangible personal property, the gross
42 proceeds of sales or gross income derived from that would otherwise be
43 included in the retail classification, and that are used or consumed in
44 performing a contract, the cost of which is charged to an overhead expense
45 account and allocated to various contracts based on generally accepted

1 accounting principles and consistent with government contract accounting
2 standards.

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

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

15 Sec. 4. Section 42-5159, Arizona Revised Statutes, as amended by
16 Laws 2025, chapter 135, section 2 and chapter 247, section 2, is amended
17 to read:

18 42-5159. Exemptions

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

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

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

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

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

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

1 fuel, the sales, distribution or use of which in this state is subject to
2 the tax imposed under article 8 of this chapter.

3 6. Tangible personal property brought into this state by an
4 individual who was a nonresident at the time the property was purchased
5 for storage, use or consumption by the individual if the first actual use
6 or consumption of the property was outside this state, unless the property
7 is used in conducting a business in this state.

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

14 8. Purchases of:

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

17 (b) Livestock and poultry feed, salts, vitamins and other additives
18 sold to persons for use or consumption in the businesses of farming,
19 ranching and producing or feeding livestock or poultry or for use or
20 consumption in noncommercial boarding of livestock. For the purposes of
21 this paragraph, "poultry" includes ratites.

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

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

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

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

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

41 12. Materials that are purchased by or for publicly funded
42 libraries, including school district libraries, charter school libraries,
43 community college libraries, state university libraries or federal, state,
44 county or municipal libraries, for use by the public as follows:

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

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

2 13. Tangible personal property purchased by:

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

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

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

13 (d) A qualifying health care organization, as defined in section
14 42-5001, if the tangible personal property is used by the organization
15 solely to provide health and medical related educational and charitable
16 services.

17 (e) A qualifying health care organization as defined in section
18 42-5001 if the organization is dedicated to providing educational,
19 therapeutic, rehabilitative and family medical education training for
20 blind and visually impaired children and children with multiple
21 disabilities from the time of birth to age twenty-one.

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

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

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

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

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

38 (h) A person that is not subject to tax under section 42-5075 and
39 that has been provided a copy of a certificate described in section
40 42-5009, subsection L, if the property purchased is incorporated or
41 fabricated by the person into the real property, structure, project,
42 development or improvement described in the certificate.

43 (i) A nonprofit charitable organization that has qualified under
44 section 501(c)(3) of the internal revenue code if the property is

1 purchased from the parent or an affiliate organization that is located
2 outside this state.

3 (j) A qualifying community health center as defined in section
4 42-5001.

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

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

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

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

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

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

33 15. Tangible personal property sold by:

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

37 (b) A nonprofit organization that is exempt from taxation under
38 section 501(c)(3), 501(c)(4) or 501(c)(6) of the internal revenue code if
39 the organization is associated with a major league baseball team or a
40 national touring professional golfing association and no part of the
41 organization's net earnings inures to the benefit of any private
42 shareholder or individual. This subdivision does not apply to an
43 organization that is owned, managed or controlled, in whole or in part, by
44 a major league baseball team, or its owners, officers, employees or
45 agents, or by a major league baseball association or professional golfing

1 association, or its owners, officers, employees or agents, unless the
2 organization conducted or operated exhibition events in this state before
3 January 1, 2018 that were exempt from transaction privilege tax under
4 section 42-5073.

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

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

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

19 18. Prescription eyeglasses and contact lenses.

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

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

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

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

31 23. Items purchased with United States department of agriculture
32 coupons issued under the supplemental nutrition assistance program
33 pursuant to the food and nutrition act of 2008 (P.L. 88-525; 78 Stat. 703;
34 7 United States Code sections 2011 through 2036b) by the United States
35 department of agriculture food and nutrition service or food instruments
36 issued under section 17 of the child nutrition act (P.L. 95-627; 92 Stat.
37 3603; P.L. 99-661, section 4302; P.L. 111-296; 42 United States Code
38 section 1786).

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

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

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

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

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

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

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

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

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

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

30 (b) Public educational institutions.

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

34 33. Natural gas or liquefied petroleum gas used to propel a motor
35 vehicle.

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

41 35. Liquid, solid or gaseous chemicals used in manufacturing,
42 processing, fabricating, mining, refining, metallurgical operations,
43 research and development and, beginning on January 1, 1999, printing, if
44 using or consuming the chemicals, alone or as part of an integrated system
45 of chemicals, involves direct contact with the materials from which the

1 product is produced for the purpose of causing or allowing a chemical or
2 physical change to occur in the materials as part of the production
3 process. This paragraph does not include chemicals that are used or
4 consumed in activities such as packaging, storage or transportation but
5 does not affect any exemption for such chemicals that is otherwise
6 provided by this section. For the purposes of this paragraph, "printing"
7 means a commercial printing operation and includes job printing,
8 engraving, embossing, copying and bookbinding.

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

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

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

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

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

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

1 40. Through December 31, 1994, tangible personal property sold
2 pursuant to a personal property liquidation transaction, as defined in
3 section 42-5061. From and after December 31, 1994, tangible personal
4 property sold pursuant to a personal property liquidation transaction, as
5 defined in section 42-5061, if the gross proceeds of the sales were
6 included in the measure of the tax imposed by article 1 of this chapter or
7 if the personal property liquidation was a casual activity or transaction.

8 41. Wireless telecommunications equipment that is held for sale or
9 transfer to a customer as an inducement to enter into or continue a
10 contract for telecommunications services that are taxable under section
11 42-5064.

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

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

23 44. Alternative fuel vehicles if the vehicle was manufactured as a
24 diesel fuel vehicle and converted to operate on alternative fuel and
25 equipment that is installed in a conventional diesel fuel motor vehicle to
26 convert the vehicle to operate on an alternative fuel, as defined in
27 section 1-215.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

41 55. Tangible personal property incorporated or fabricated into a
42 project described in section 42-5075, subsection ~~6~~ P, that is located
43 within the exterior boundaries of an Indian reservation for which the
44 owner, as defined in section 42-5075, of the project is an Indian tribe or
45 an affiliated Indian. For the purposes of this paragraph:

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

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

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

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

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

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

29 (ii) Prepaid calling cards for telecommunications services.

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

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

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

40 1. Machinery, or equipment, used directly in manufacturing,
41 processing, fabricating, job printing, refining or metallurgical
42 operations. The terms "manufacturing", "processing", "fabricating", "job
43 printing", "refining" and "metallurgical" as used in this paragraph refer
44 to and include those operations commonly understood within their ordinary

1 meaning. "Metallurgical operations" includes leaching, milling,
2 precipitating, smelting and refining.

3 2. Machinery, or equipment, used directly in the process of
4 extracting ores or minerals from the earth for commercial purposes,
5 including equipment required to prepare the materials for extraction and
6 handling, loading or transporting such extracted material to the surface.
7 "Mining" includes underground, surface and open pit operations for
8 extracting ores and minerals.

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

17 4. Machinery, equipment or transmission lines used directly in
18 producing or transmitting electrical power, but not including
19 distribution. Transformers and control equipment used at transmission
20 substation sites constitute equipment used in producing or transmitting
21 electrical power.

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

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

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

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

35 6. Neat animals, horses, asses, sheep, ratites, swine or goats used
36 or to be used as breeding or production stock, including sales of
37 breedings or ownership shares in such animals used for breeding or
38 production.

39 7. Pipes or valves four inches in diameter or larger used to
40 transport oil, natural gas, artificial gas, water, wastewater or coal
41 slurry, including compressor units, regulators, machinery and equipment,
42 fittings, seals and any other part that is used in operating the pipes or
43 valves.

1 8. Aircraft, navigational and communication instruments and other
2 accessories and related equipment sold to:

3 (a) A person:

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

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

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

17 (iv) Operating an aircraft to transport persons in any manner for
18 compensation or hire, or for use in a fractional ownership program that
19 meets the requirements of federal aviation administration regulations
20 (14 Code of Federal Regulations part 91, subpart K), including as an air
21 carrier, a foreign air carrier or a commercial operator or under a
22 restricted category, within the meaning of 14 Code of Federal Regulations,
23 regardless of whether the operation or aircraft is regulated or certified
24 under part 91, 119, 121, 133, 135, 136 or 137, or another part of 14 Code
25 of Federal Regulations.

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

31 (b) Any foreign government.

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

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

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

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

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

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

13 14. Machinery and equipment consisting of agricultural aircraft,
14 tractors, off-highway vehicles, tractor-drawn implements, self-powered
15 implements, machinery and equipment necessary for extracting milk, and
16 machinery and equipment necessary for cooling milk and livestock, and drip
17 irrigation lines not already exempt under paragraph 7 of this subsection
18 and that are used for commercially producing agricultural, horticultural,
19 viticultural and floricultural crops and products in this state. For the
20 purposes of this paragraph:

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

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

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

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

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

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

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

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

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

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

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

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

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

40 19. Machinery or equipment, including related structural components
41 and containment structures, that is employed in connection with
42 manufacturing, processing, fabricating, job printing, refining, mining,
43 natural gas pipelines, metallurgical operations, telecommunications,
44 producing or transmitting electricity or research and development and that
45 is used directly to meet or exceed rules or regulations adopted by the

1 federal energy regulatory commission, the United States environmental
2 protection agency, the United States nuclear regulatory commission, the
3 Arizona department of environmental quality or a political subdivision of
4 this state to prevent, monitor, control or reduce land, water or air
5 pollution. For the purposes of this paragraph, "containment structure"
6 means a structure that prevents, monitors, controls or reduces noxious or
7 harmful discharge into the environment.

8 20. Machinery and equipment that are used in commercially producing
9 livestock, livestock products or agricultural, horticultural, viticultural
10 or floricultural crops or products in this state, including production by
11 a person representing or working on behalf of such a person in a manner
12 described in section 42-5075, subsection ~~Q~~ P, if the machinery and
13 equipment are used directly and primarily to prevent, monitor, control or
14 reduce air, water or land pollution.

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

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

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

27 (c) Any machinery or equipment purchased after the television
28 station has ceased analog broadcasting, or purchased after November 1,
29 2009, whichever occurs first.

30 22. Qualifying equipment that is purchased from and after June 30,
31 2004 through December 31, 2028 by a qualified business under section
32 41-1516 for harvesting or processing qualifying forest products removed
33 from qualifying projects as defined in section 41-1516. To qualify for
34 this exemption, the qualified business must obtain and present its
35 certification from the Arizona commerce authority at the time of purchase.

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

42 ~~24. Computer data center equipment sold to the owner, operator or~~
43 ~~qualified colocation tenant of a computer data center that is certified by~~
44 ~~the Arizona commerce authority under section 41-1519 or an authorized~~
45 ~~agent of the owner, operator or qualified colocation tenant during the~~

~~1 qualification period for use in the qualified computer data center. For
2 the purposes of this paragraph, "computer data center", "computer data
3 center equipment", "qualification period" and "qualified colocation
4 tenant" have the same meanings prescribed in section 41-1519.~~

5 C. The exemptions provided by subsection B of this section do not
6 include:

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

11 2. Janitorial equipment and hand tools.

12 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

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

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

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

43 1. Fees charged by a municipally owned utility to persons
44 constructing residential, commercial or industrial developments or
45 connecting residential, commercial or industrial developments to a

1 municipal utility system or systems if the fees are segregated and used
2 only for capital expansion, system enlargement or debt service of the
3 utility system or systems.

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

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

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

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

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

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

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

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

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

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

43 (v) A business that uses at least fifty-one percent of the value of
44 its capitalized assets in this state, as reflected on the business's books

1 and records, for manufacturing or smelting and business activities
2 directly related to manufacturing or smelting.

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

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

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

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

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

19 2. "Aircraft" includes:

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

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

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

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

33 Sec. 5. Repeal

34 Section 42-5159, Arizona Revised Statutes, as amended by Laws 2025,
35 chapter 251, section 13, is repealed.

36 Sec. 6. Section 42-6004, Arizona Revised Statutes, is amended to
37 read:

38 42-6004. Exemption from municipal tax; definitions

39 A. A city, town or special taxing district shall not levy a
40 transaction privilege, sales, use or other similar tax on:

41 1. Exhibition events in this state sponsored, conducted or operated
42 by a nonprofit organization that is exempt from taxation under section
43 501(c)(3), 501(c)(4) or 501(c)(6) of the internal revenue code if the
44 organization is associated with a major league baseball team or a national
45 touring professional golfing association and no part of the organization's

1 net earnings inures to the benefit of any private shareholder or
2 individual. This paragraph does not apply to an organization that is
3 owned, managed or controlled, in whole or in part, by a major league
4 baseball team, or its owners, officers, employees or agents, or by a major
5 league baseball association or professional golfing association, or its
6 owners, officers, employees or agents, unless the organization conducted
7 or operated exhibition events in this state before January 1, 2018 that
8 were exempt from state transaction privilege tax under section 42-5073.

9 2. Interstate telecommunications services, which include that
10 portion of telecommunications services, such as subscriber line service,
11 allocable by federal law to interstate telecommunications service.

12 3. Sales of warranty or service contracts.

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

15 (a) The motor vehicle dealer ships or delivers the motor vehicle to
16 a destination outside this state.

17 (b) The vehicle, trailer or semitrailer has a gross vehicle weight
18 rating of more than ten thousand pounds, is used or maintained to
19 transport property in the furtherance of interstate commerce and otherwise
20 meets the definition of commercial motor vehicle as defined in section
21 28-5201.

22 5. Interest on finance contracts.

23 6. Dealer documentation fees on the sales of motor vehicles.

24 7. Orthodontic devices dispensed by a dental professional who is
25 licensed under title 32, chapter 11 to a patient as part of the practice
26 of dentistry.

27 8. Sales of internet access services to the person's subscribers
28 and customers. For the purposes of this paragraph:

29 (a) "Internet" means the computer and telecommunications facilities
30 that comprise the interconnected worldwide network of networks that employ
31 the transmission control protocol or internet protocol, or any predecessor
32 or successor protocol, to communicate information of all kinds by wire or
33 radio.

34 (b) "Internet access" means a service that enables users to access
35 content, information, electronic mail or other services over the internet.
36 Internet access does not include telecommunication services provided by a
37 common carrier.

38 9. The gross proceeds of sales or gross income retained by the
39 Arizona exposition and state fair board from ride ticket sales at the
40 annual Arizona state fair.

41 10. Leasing real property between affiliated companies, businesses,
42 persons or reciprocal insurers. For the purposes of this paragraph:

43 (a) "Affiliated companies, businesses, persons or reciprocal
44 insurers" means the lessor holds a controlling interest in the lessee, the
45 lessee holds a controlling interest in the lessor, affiliated persons hold

1 a controlling interest in both the lessor and the lessee, or an unrelated
2 person holds a controlling interest in both the lessor and lessee.

3 (b) "Affiliated persons" means members of the individual's family
4 or persons who have ownership or control of a business entity.

5 (c) "Controlling interest" means direct or indirect ownership of at
6 least eighty percent of the voting shares of a corporation or of the
7 interests in a company, business or person other than a corporation.

8 (d) "Members of the individual's family" means the individual's
9 spouse and brothers and sisters, whether by whole or half blood, including
10 adopted persons, ancestors and lineal descendants.

11 (e) "Reciprocal insurer" has the same meaning prescribed in section
12 20-762.

13 11. The gross proceeds of sales or gross income derived from a
14 contract for the installation, assembly, repair or maintenance of
15 machinery, equipment or other tangible personal property that is described
16 in section 42-5061, subsection B and that has independent functional
17 utility, pursuant to the following provisions:

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

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

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

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

30 (b) The deduction provided in this paragraph does not include gross
31 proceeds of sales or gross income from the portion of any contracting
32 activity that consists of the development of, or modification to, real
33 property in order to facilitate the installation, assembly, repair,
34 maintenance or removal of machinery, equipment or other tangible personal
35 property described in section 42-5061, subsection B.

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

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

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

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

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

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

10 12. The leasing or renting of certified ignition interlock devices
11 installed pursuant to the requirements prescribed by section 28-1461. For
12 the purposes of this paragraph, "certified ignition interlock device" has
13 the same meaning prescribed in section 28-1301.

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

22 ~~14.~~ 13. The gross proceeds of sales or gross income derived from a
23 contract with the owner of real property or improvements to real property
24 for the maintenance, repair, replacement or alteration of existing
25 property, except as specified in this paragraph. The gross proceeds of
26 sales or gross income derived from a de minimis amount of modification
27 activity does not subject the contract or any part of the contract to tax.
28 For the purposes of this paragraph:

29 (a) Each contract is independent of another contract, except that
30 any change order that directly relates to the scope of work of the
31 original contract shall be treated the same as the original contract under
32 this paragraph, regardless of the amount of modification activities
33 included in the change order. If a change order does not directly relate
34 to the scope of work of the original contract, the change order shall be
35 treated as a new contract, with the tax treatment of any subsequent change
36 order to follow the tax treatment of the contract to which the scope of
37 work of the subsequent change order directly relates.

38 (b) Any term not defined in this paragraph that is defined in
39 section 42-5075 has the same meaning prescribed in section 42-5075.

40 (c) This paragraph does not apply to a contract that primarily
41 involves surface or subsurface improvements to land and that is subject to
42 title 28, chapter 19, 20 or 22 or title 34, chapter 2 or 6 even if the
43 contract also includes vertical improvements. If a city or town imposes a
44 tax on contracts that are subject to procurement processes under those
45 provisions, the city or town shall include in the request for proposals a

1 notice to bidders when those projects are subject to the tax. This
2 subdivision does not apply to contracts with:

3 (i) Community facilities districts, fire districts, county
4 television improvement districts, community park maintenance districts,
5 cotton pest control districts, hospital districts, pest abatement
6 districts, health service districts, agricultural improvement districts,
7 county free library districts, county jail districts, county stadium
8 districts, special health care districts, public health services
9 districts, theme park districts or revitalization districts.

10 (ii) Any special taxing district not specified in item (i) of this
11 subdivision if the district does not substantially engage in the
12 modification, maintenance, repair, replacement or alteration of surface or
13 subsurface improvements to land.

14 ~~15.~~ 14. Monitoring services relating to an alarm system as defined
15 in section 32-101.

16 ~~16.~~ 15. Tangible personal property, job printing or publications
17 sold to or purchased by, or tangible personal property leased, rented or
18 licensed for use to or by, a qualifying health sciences educational
19 institution as defined in section 42-5001.

20 ~~17.~~ 16. The transfer of title or possession of coal back and forth
21 between an owner or operator of a power plant and a person who is
22 responsible for refining coal if both of the following apply:

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

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

31 ~~18.~~ 17. Tangible personal property incorporated or fabricated into
32 a project described in paragraph ~~14~~ 13 of this subsection, that is located
33 within the exterior boundaries of an Indian reservation for which the
34 owner, as defined in section 42-5075, of the project is an Indian tribe or
35 an affiliated Indian. For the purposes of this paragraph:

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

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

44 (c) "Indian tribe" means any organized nation, tribe, band or
45 community that is recognized as an Indian tribe by the United States

1 department of the interior and includes any entity formed under the laws
2 of that Indian tribe.

3 ~~19.~~ 18. The charges for the leasing or renting of space to make
4 attachments to utility poles as follows:

5 (a) By a person that is engaged in the business of providing or
6 furnishing electrical services or telecommunication services or that is a
7 cable operator.

8 (b) To a person that is engaged in the business of providing or
9 furnishing electrical services or telecommunication services or that is a
10 cable operator.

11 ~~20.~~ 19. Until March 1, 2017, the gross proceeds of sales or gross
12 income derived from entry fees paid by participants for events that
13 consist of a run, walk, swim or bicycle ride or a similar event, or any
14 combination of these events.

15 ~~21.~~ 20. The gross proceeds of sales or gross income derived from
16 entry fees paid by participants for events that are operated or conducted
17 by nonprofit organizations that are exempt from taxation under section
18 501(c)(3) of the internal revenue code and of which no part of the
19 organization's net earnings inures to the benefit of any private
20 shareholder or individual, if the event consists of a run, walk, swim or
21 bicycle ride or a similar event, or any combination of these events.

22 ~~22.~~ 21. The gross proceeds of sales or gross income derived from
23 sales of machinery and equipment used directly for energy storage for
24 later electrical use. For the purposes of this paragraph:

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

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

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

36 ~~23.~~ 22. The gross proceeds of sales or gross income derived from a
37 contract to install containment structures. For the purposes of this
38 paragraph, "containment structure" means a structure that prevents,
39 monitors, controls or reduces noxious or harmful discharge into the
40 environment.

41 B. A city, town or other taxing jurisdiction shall not levy a
42 transaction privilege, sales, use, franchise or other similar tax or fee,
43 however denominated, on natural gas or liquefied petroleum gas used to
44 propel a motor vehicle.

1 C. A city, town or other taxing jurisdiction shall not levy a
2 transaction privilege, sales, gross receipts, use, franchise or other
3 similar tax or fee, however denominated, on gross proceeds of sales or
4 gross income derived from any of the following:

5 1. A motor carrier's use on the public highways in this state if
6 the motor carrier is subject to a fee prescribed in title 28, chapter 16,
7 article 4.

8 2. Leasing, renting or licensing a motor vehicle subject to and on
9 which the fee has been paid under title 28, chapter 16, article 4.

10 3. The sale of a motor vehicle and any repair and replacement parts
11 and tangible personal property becoming a part of such motor vehicle to a
12 motor carrier who is subject to a fee prescribed in title 28, chapter 16,
13 article 4 and who is engaged in the business of leasing, renting or
14 licensing such property.

15 4. Incarcerating or detaining in a privately operated prison, jail
16 or detention facility prisoners who are under the jurisdiction of the
17 United States, this state or any other state or a political subdivision of
18 this state or of any other state.

19 5. Transporting for hire persons, freight or property by light
20 motor vehicles subject to a fee under title 28, chapter 15, article 4.

21 6. Any amount attributable to development fees that are incurred in
22 relation to the construction, development or improvement of real property
23 and paid by the taxpayer as defined in the model city tax code or by a
24 contractor providing services to the taxpayer. For the purposes of this
25 paragraph:

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

28 (b) The attributable amount is equal to the total amount of
29 development fees paid by the taxpayer or by a contractor providing
30 services to the taxpayer and the total development fees credited in
31 exchange for the construction of, contribution to or dedication of real
32 property for providing public infrastructure, public safety or other
33 public services necessary to the development. The real property must be
34 the subject of the development fees.

35 (c) "Development fees" means fees imposed to offset capital costs
36 of providing public infrastructure, public safety or other public services
37 to a development and authorized pursuant to section 9-463.05, section
38 11-1102 or title 48 regardless of the jurisdiction to which the fees are
39 paid.

40 7. Any amount attributable to fees collected by transportation
41 network companies issued a permit pursuant to section 28-9552.

42 8. Transporting for hire persons by transportation network company
43 drivers on transactions involving transportation network services as
44 defined in section 28-9551.

1 9. Transporting for hire persons by vehicle for hire companies that
2 are issued permits pursuant to section 28-9503.

3 10. Transporting for hire persons by vehicle for hire drivers on
4 transactions involving vehicle for hire services as defined in section
5 28-9501.

6 D. A city, town or other taxing jurisdiction shall not levy a
7 transaction privilege, sales, use, franchise or other similar tax or fee,
8 however denominated, in excess of one-tenth of one percent of the value of
9 the entire product mined, smelted, extracted, refined, produced or
10 prepared for sale, profit or commercial use, on persons engaged in the
11 business of mineral processing, except to the extent that the tax is
12 computed on the gross proceeds or gross income from sales at retail.

13 E. In computing the tax base, any city, town or other taxing
14 jurisdiction shall not include in the gross proceeds of sales or gross
15 income:

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

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

20 F. A city or town shall not levy a use tax on the storage, use or
21 consumption of tangible personal property in the city or town by a school
22 district or charter school.

23 G. A city, town or taxing jurisdiction shall not levy a transaction
24 privilege, sales, gross receipts, use, franchise or other similar tax or
25 fee, however denominated, on gross proceeds of sales or gross income
26 derived from over-the-top services. For the purposes of this subsection,
27 "over-the-top services" means audio or video programming services that are
28 received by the purchaser by means of an internet connection, regardless
29 of the technology used, that include linear or live programming and that
30 are generally considered comparable to programming provided by a radio or
31 television broadcast station and includes related on-demand programming
32 that is provided at no additional charge, regardless of whether the
33 services are provided independently or packaged with other audio or video
34 programming.

35 H. From and after December 31, 2024, a city, town or other taxing
36 jurisdiction may not levy a transaction privilege, sales, gross receipts,
37 use, franchise or other similar tax or fee, however denominated, on the
38 business of renting or leasing real property for residential purposes.
39 This subsection:

40 1. Does not apply to health care facilities, long-term care
41 facilities or hotel, motel or other transient lodging businesses.

42 2. Applies regardless of whether the city or town has adopted the
43 model city tax code pursuant to article 2 of this chapter.

1 I. For the purposes of this section:
2 1. "Cable operator" has the same meaning prescribed in section
3 9-505 and includes a video service provider.
4 2. "Electrical services" means transmitting or distributing
5 electricity, electric lights, current or power over lines, wires or
6 cables.
7 3. "Telecommunication services" means transmitting or relaying
8 sound, visual image, data, information, images or material over lines,
9 wires or cables by radio signal, light beam, telephone, telegraph or other
10 electromagnetic means.
11 4. "Utility pole" means any wooden, metal or other pole used for
12 utility purposes and the pole's appurtenances that are attached or
13 authorized for attachment by the person controlling the pole.
14 Sec. 7. Applicability
15 This act applies to taxable periods beginning from and after the
16 first month following the general effective date.
17 Sec. 8. Requirements for enactment; two-thirds vote
18 Pursuant to article IX, section 22, Constitution of Arizona, this
19 act is effective only on the affirmative vote of at least two-thirds of
20 the members of each house of the legislature and is effective immediately
21 on the signature of the governor or, if the governor vetoes this act, on
22 the subsequent affirmative vote of at least three-fourths of the members
23 of each house of the legislature.