

House Engrossed Senate Bill

tax corrections act of 2026

State of Arizona
Senate
Fifty-seventh Legislature
Second Regular Session
2026

CHAPTER 30

SENATE BILL 1430

AN ACT

AMENDING SECTION 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 43-1504, ARIZONA REVISED STATUTES; RELATING TO THE DEPARTMENT OF REVENUE.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Section 42-5061, Arizona Revised Statutes, is amended to
3 read:

4 42-5061. Retail classification; definitions

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

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

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

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

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

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

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

27 7. The sale of stocks and bonds.

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

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

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

36 11. Prescription eyeglasses or contact lenses.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

30 25. Tangible personal property sold to:

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

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

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

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

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

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

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

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

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

17 27. Tangible personal property sold to:

18 (a) A person that is subject to tax under this article by reason of
19 being engaged in business classified under section 42-5075 or to a
20 subcontractor working under the control of a person engaged in business
21 classified under section 42-5075, if the property so sold is any of the
22 following:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

6 42. Sales of:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

38 (a) A person:

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

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

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

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

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

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

21 (b) Any foreign government.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

18 22. Qualifying equipment that is purchased from and after June 30,
19 2004 through December 31, 2028 by a qualified business under section
20 41-1516 for harvesting or processing qualifying forest products removed
21 from qualifying projects as defined in section 41-1516. To qualify for
22 this deduction, the qualified business at the time of purchase must
23 present its certification approved by the department.

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

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

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

38 2. Janitorial equipment and hand tools.

39 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

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

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

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

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

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

44 2. Businesses classified under the:

45 (a) Transporting classification.

- 1 (b) Utilities classification.
- 2 (c) Telecommunications classification.
- 3 (d) Pipeline classification.
- 4 (e) Private car line classification.
- 5 (f) Publication classification.
- 6 (g) Job printing classification.
- 7 (h) Prime contracting classification.
- 8 (i) Restaurant classification.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

22 U. For the purposes of section 42-5032.03 and subject to section
23 48-4238, beginning October 1, 2025 and each month thereafter through
24 December 31, 2055, the department shall separately account for revenues
25 collected under the retail classification from each business selling
26 tangible personal property at retail on the premises of a major league
27 baseball facility or an adjacent building that is owned by a county
28 stadium district pursuant to title 48, chapter 26 and operated by the
29 county stadium district or the professional baseball franchise
30 organization that occupies the major league baseball facility or adjacent
31 building. For the purposes of this subsection, "adjacent building" and
32 "major league baseball facility" have the same meanings prescribed in
33 section 48-4201.

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

1 by the purchaser's state of residence on the nonexempt sale or use of the
2 motor vehicle.

3 W. For the purposes of this section:

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

7 2. "Aircraft" includes:

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

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

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

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

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

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

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

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

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

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

42 6. "Subcontract" means an agreement between a contractor and any
43 person who is not an employee of the contractor for furnishing supplies or
44 services that, in whole or in part, are necessary to perform one or more
45 government contracts, or under which any portion of the contractor's

1 obligation under one or more government contracts is performed, undertaken
2 or assumed and that includes provisions causing title to overhead
3 materials or other tangible personal property used in performing the
4 subcontract to pass to the government or that includes provisions
5 incorporating such title passing clauses in a government contract into the
6 subcontract.

7 Sec. 2. Section 42-5159, Arizona Revised Statutes, as amended by
8 Laws 2025, chapter 135, section 2 and chapter 247, section 2, is amended
9 to read:

10 42-5159. Exemptions

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

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

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

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

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

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

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

44 7. Purchases of implants used as growth promotants and injectable
45 medicines, not already exempt under paragraph 16 of this subsection, for

1 livestock and poultry owned by, or in possession of, persons who are
2 engaged in producing livestock, poultry, or livestock or poultry products,
3 or who are engaged in feeding livestock or poultry commercially. For the
4 purposes of this paragraph, "poultry" includes ratites.

5 8. Purchases of:

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

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

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

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

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

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

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

32 12. Materials that are purchased by or for publicly funded
33 libraries, including school district libraries, charter school libraries,
34 community college libraries, state university libraries or federal, state,
35 county or municipal libraries, for use by the public as follows:

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

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

38 13. Tangible personal property purchased by:

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

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

44 (c) A licensed nursing care institution or a licensed residential
45 care institution or a residential care facility operated in conjunction

1 with a licensed nursing care institution or a licensed kidney dialysis
2 center, which provides medical services, nursing services or health
3 related services and is not used or held for profit.

4 (d) A qualifying health care organization, as defined in section
5 42-5001, if the tangible personal property is used by the organization
6 solely to provide health and medical related educational and charitable
7 services.

8 (e) A qualifying health care organization as defined in section
9 42-5001 if the organization is dedicated to providing educational,
10 therapeutic, rehabilitative and family medical education training for
11 blind and visually impaired children and children with multiple
12 disabilities from the time of birth to age twenty-one.

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

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

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

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

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

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

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

38 (j) A qualifying community health center as defined in section
39 42-5001.

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

43 (l) A person engaged in business under the transient lodging
44 classification if the property is a personal hygiene item or articles used
45 by human beings for food, drink or condiment, except alcoholic beverages,

1 which are furnished without additional charge to and intended to be
2 consumed by the transient during the transient's occupancy.

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

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

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

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

23 15. Tangible personal property sold by:

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

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

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

- 1 16. Drugs and medical oxygen, including delivery hose, mask or
2 tent, regulator and tank, if prescribed by a member of the medical, dental
3 or veterinarian profession who is licensed by law to administer such
4 substances.
- 5 17. Prosthetic appliances, as defined in section 23-501, prescribed
6 or recommended by a person who is licensed, registered or otherwise
7 professionally credentialed as a physician, dentist, podiatrist,
8 chiropractor, naturopath, homeopath, nurse or optometrist.
- 9 18. Prescription eyeglasses and contact lenses.
- 10 19. Insulin, insulin syringes and glucose test strips.
- 11 20. Hearing aids as defined in section 36-1901.
- 12 21. Durable medical equipment that has a centers for medicare and
13 medicaid services common procedure code, is designated reimbursable by
14 medicare, is prescribed by a person who is licensed under title 32,
15 chapter 7, 13, 17 or 29, can withstand repeated use, is primarily and
16 customarily used to serve a medical purpose, is generally not useful to a
17 person in the absence of illness or injury and is appropriate for use in
18 the home.
- 19 22. Food, as provided in and subject to the conditions of article 3
20 of this chapter and sections 42-5074 and 42-6017.
- 21 23. Items purchased with United States department of agriculture
22 coupons issued under the supplemental nutrition assistance program
23 pursuant to the food and nutrition act of 2008 (P.L. 88-525; 78 Stat. 703;
24 7 United States Code sections 2011 through 2036b) by the United States
25 department of agriculture food and nutrition service or food instruments
26 issued under section 17 of the child nutrition act (P.L. 95-627; 92 Stat.
27 3603; P.L. 99-661, section 4302; P.L. 111-296; 42 United States Code
28 section 1786).
- 29 24. Food and drink provided without monetary charge by a taxpayer
30 that is subject to section 42-5074 to its employees for their own
31 consumption on the premises during the employees' hours of employment.
- 32 25. Tangible personal property that is used or consumed in a
33 business subject to section 42-5074 for human food, drink or condiment,
34 whether simple, mixed or compounded.
- 35 26. Food, drink or condiment and accessory tangible personal
36 property that are acquired for use by or provided to a school district or
37 charter school if they are to be either served or prepared and served to
38 persons for consumption on the premises of a public school in the school
39 district or on the premises of the charter school during school hours.
- 40 27. Lottery tickets or shares purchased pursuant to title 5,
41 chapter 5.1, article 1.
- 42 28. Textbooks, sold by a bookstore, that are required by any state
43 university or community college.
- 44 29. Magazines, other periodicals or other publications produced by
45 this state to encourage tourist travel.

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

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

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

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

19 (b) Public educational institutions.

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

23 33. Natural gas or liquefied petroleum gas used to propel a motor
24 vehicle.

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

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

43 36. Food, drink and condiment purchased for consumption within the
44 premises of any prison, jail or other institution under the jurisdiction

1 of the state department of corrections, the department of public safety,
2 the department of juvenile corrections or a county sheriff.

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

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

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

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

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

35 40. Through December 31, 1994, tangible personal property sold
36 pursuant to a personal property liquidation transaction, as defined in
37 section 42-5061. From and after December 31, 1994, tangible personal
38 property sold pursuant to a personal property liquidation transaction, as
39 defined in section 42-5061, if the gross proceeds of the sales were
40 included in the measure of the tax imposed by article 1 of this chapter or
41 if the personal property liquidation was a casual activity or transaction.

42 41. Wireless telecommunications equipment that is held for sale or
43 transfer to a customer as an inducement to enter into or continue a
44 contract for telecommunications services that are taxable under section
45 42-5064.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

43 (c) "Indian tribe" means any organized nation, tribe, band or
44 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 the Indian tribe.

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

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

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

19 (ii) Prepaid calling cards for telecommunications services.

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

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

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

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

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

43 3. Tangible personal property sold to persons engaged in business
44 classified under the telecommunications classification under section
45 42-5064, including a person representing or working on behalf of such a

1 person in a manner described in section 42-5075, subsection ~~P~~ P, and
2 consisting of central office switching equipment, switchboards, private
3 branch exchange equipment, microwave radio equipment and carrier equipment
4 including optical fiber, coaxial cable and other transmission media that
5 are components of carrier systems.

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

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

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

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

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

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

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

33 8. Aircraft, navigational and communication instruments and other
34 accessories and related equipment sold to:

35 (a) A person:

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

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

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

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

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

19 (b) Any foreign government.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

40 20. Machinery and equipment that are used in commercially producing
41 livestock, livestock products or agricultural, horticultural, viticultural
42 or floricultural crops or products in this state, including production by
43 a person representing or working on behalf of such a person in a manner
44 described in section 42-5075, subsection ~~θ~~ P, if the machinery and

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

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

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

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

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

18 22. Qualifying equipment that is purchased from and after June 30,
19 2004 through December 31, 2028 by a qualified business under section
20 41-1516 for harvesting or processing qualifying forest products removed
21 from qualifying projects as defined in section 41-1516. To qualify for
22 this exemption, the qualified business must obtain and present its
23 certification from the Arizona commerce authority at the time of purchase.

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

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

38 C. The exemptions provided by subsection B of this section do not
39 include:

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

44 2. Janitorial equipment and hand tools.

45 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

15 1. Revenues received from sales of ancillary services, electric
16 distribution services, electric generation services, electric transmission
17 services and other services related to providing electricity to a retail
18 electric customer who is located outside this state for use outside this
19 state if the electricity is delivered to a point of sale outside this
20 state.

21 2. Revenues received from providing electricity, including
22 ancillary services, electric distribution services, electric generation
23 services, electric transmission services and other services related to
24 providing electricity with respect to which the transaction privilege tax
25 imposed under section 42-5063 has been paid.

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

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

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

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

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

44 1. A qualified manufacturing or smelting business. A utility that
45 claims this deduction shall report each month, on a form prescribed by the

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

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

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

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

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

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

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

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

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

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

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

40 H. A city or town may exempt proceeds from sales of paintings,
41 sculptures or similar works of fine art if such works of fine art are sold
42 by the original artist. For the purposes of this subsection, fine art
43 does not include an art creation such as jewelry, macrame, glasswork,
44 pottery, woodwork, metalwork, furniture or clothing if the art creation

1 has a dual purpose, both aesthetic and utilitarian, whether sold by the
2 artist or by another person.

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

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

7 2. "Aircraft" includes:

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

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

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

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

21 Sec. 3. Repeal

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

24 Sec. 4. Section 43-1504, Arizona Revised Statutes, is amended to
25 read:

26 43-1504. Special provisions; corporate donations for
27 low-income scholarships; rules

28 A. A school tuition organization that receives contributions from a
29 corporation for the purposes of section 20-224.06 or 43-1183 must use at
30 least ninety percent of those contributions to provide educational
31 scholarships or tuition grants only to children whose family income does
32 not exceed one hundred eighty-five percent of the income limit required to
33 qualify a child for reduced-price lunches under the national school lunch
34 and child nutrition acts (42 United States Code sections 1751 through
35 1793) and to whom any of the following applies:

36 1. Attended a governmental primary or secondary school as a
37 full-time student as defined in section 15-901 or attended a preschool
38 program that offers services to students with disabilities at a
39 governmental school for at least ninety days of the prior fiscal year or
40 one full semester and transferred from a governmental school to a
41 qualified school.

42 2. Enroll in a qualified school in a kindergarten program or a
43 preschool program that offers services to students with disabilities.

44 3. Are the dependent of a member of the armed forces of the United
45 States who is stationed in this state pursuant to military orders.

- 1 4. Are homeschooled before enrolling in a qualified school.
2 5. Moved to this state from out of state before enrolling in a
3 qualified school.
4 6. Participated in an Arizona empowerment scholarship account and
5 did not renew the account or accept the scholarship in order to accept a
6 scholarship or tuition grant under this section.
7 7. Subject to subsection G of this section, are placed in foster
8 care pursuant to title 8, chapter 4 at any time before ~~the student~~
9 ~~graduates~~ GRADUATING from high school or ~~obtains~~ OBTAINING a general
10 equivalency diploma and who meet all of the following criteria:
11 (a) Are unable to attend a governmental primary or secondary school
12 as a full-time student as defined in section 15-901. For the purposes of
13 this subdivision, "unable to attend" means the student has been expelled
14 or asked not to return due to the student's behavior or the school is not
15 able to provide necessary services to the student.
16 (b) Have not attended a governmental primary or secondary school as
17 a full-time student as defined in section 15-901 for at least ninety days
18 of the prior fiscal year or one full semester before enrolling in a
19 qualified school.
20 (c) The qualified school in which the ~~students~~ CHILDREN are
21 enrolling is only considered because a governmental primary or secondary
22 school cannot meet the students' unique needs, such as severe medical or
23 behavioral needs that require specialized programs.
24 (d) Are unable to receive other scholarships or tuition grants
25 under this chapter or chapter ~~15~~ 16 of this title in an amount that is
26 equal to the cost of tuition to attend the qualified school.
27 8. Received an educational scholarship or tuition grant under
28 paragraph 1, 2, 3, 4, 5, 6 or 7 of this subsection or chapter 16, article
29 1 of this title if the children continue to attend a qualified school in a
30 subsequent year.
31 B. A child is eligible to receive an educational scholarship or
32 tuition grant under subsection A of this section if the child meets the
33 criteria to receive a reduced-price lunch but does not actually claim that
34 benefit.
35 C. In 2021, a school tuition organization shall not issue an
36 educational scholarship or a tuition grant for the purposes of section
37 20-224.06 or 43-1183 in an amount that exceeds \$5,600 for students who are
38 in a kindergarten program, a preschool program that offers services to
39 students with disabilities or grades one through eight or \$7,500 for
40 students who are in grades nine through twelve. In each year after 2021,
41 the limit amount for a scholarship or a grant under this subsection shall
42 be increased by \$200.

1 D. A school tuition organization shall require that student
2 beneficiaries use the educational scholarships or tuition grants on a
3 full-time basis. If a child leaves the school before completing an entire
4 school year, the school shall refund a prorated amount of the educational
5 scholarship or tuition grant to the school tuition organization that
6 issued the scholarship or grant. The school tuition organization shall
7 allocate any refunds it receives under this subsection for educational
8 scholarships or tuition grants.

9 E. Students who receive an educational scholarship or tuition grant
10 under this section shall be allowed to attend any qualified school of
11 their parents' choice.

12 F. The department of revenue, with the cooperation of the
13 department of insurance and financial institutions, shall adopt rules and
14 publish and prescribe forms and procedures necessary to administer this
15 section.

16 G. If a court of competent jurisdiction issues a final judgment
17 that the aggregate tax credit limit prescribed in section 43-1183,
18 subsection C, paragraph 1 is unenforceable and that judgment is no longer
19 subject to further appeal or review, a school tuition organization shall
20 not issue an educational scholarship or a tuition grant under subsection
21 A, paragraph 7 or 8 of this section for children who received an
22 educational scholarship or a tuition grant under subsection A, paragraph 7
23 of this section.

APPROVED BY THE GOVERNOR APRIL 9, 2026.

FILED IN THE OFFICE OF THE SECRETARY OF STATE APRIL 9, 2026.