

PROPOSED
HOUSE OF REPRESENTATIVES AMENDMENTS TO S.B. 1432
(Reference to Senate engrossed bill)

1 Strike everything after the enacting clause and insert:

2 "Section 1. Repeal
3 Section 41-1519, Arizona Revised Statutes, is repealed.

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

6 42-2003. Authorized disclosure of confidential information

7 A. Confidential information relating to:

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

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

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

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

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

37 6. A trust may be disclosed to the trustee or trustees, jointly or
38 separately, and to the grantor or any beneficiary of the trust if the

1 department finds that the grantor or beneficiary has a material interest
2 that will be affected by the confidential information.

3 7. A government entity may be disclosed to the head of the entity
4 or a member of the governing board of the entity, or any employee of the
5 entity who has been delegated the authorization in writing by the head of
6 the entity or the governing board of the entity.

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

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

12 10. Any taxpayer may be disclosed during a meeting or telephone
13 call if the taxpayer is present during the meeting or telephone call and
14 authorizes the disclosure of confidential information.

15 B. Confidential information may be disclosed to:

16 1. Any employee of the department whose official duties involve tax
17 administration.

18 2. The office of the attorney general solely for its use in
19 preparation for, or in an investigation that may result in, any proceeding
20 involving tax administration before the department or any other agency or
21 board of this state, or before any grand jury or any state or federal
22 court.

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

29 4. Other state tax officials whose official duties require the
30 disclosure for proper tax administration purposes if the information is
31 sought in connection with an investigation or any other proceeding
32 conducted by the official. Any disclosure is limited to information of a
33 taxpayer who is being investigated or who is a party to a proceeding
34 conducted by the official.

35 5. The following agencies, officials and organizations, if they
36 grant substantially similar privileges to the department for the type of
37 information being sought, pursuant to statute and a written agreement
38 between the department and the foreign country, agency, state, Indian
39 tribe or organization:

40 (a) The United States internal revenue service, alcohol and tobacco
41 tax and trade bureau of the United States treasury, United States bureau
42 of alcohol, tobacco, firearms and explosives of the United States
43 department of justice, United States drug enforcement agency and federal
44 bureau of investigation.

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

46 (c) An organization of states, federation of tax administrators or
47 multistate tax commission that operates an information exchange for tax
48 administration purposes.

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

4 (e) An agency, official or organization of an Indian tribal
5 government with responsibilities comparable to the responsibilities of the
6 agencies, officials or organizations identified in subdivision (a), (b) or
7 (c) of this paragraph.

8 6. The auditor general, in connection with any audit of the
9 department subject to the restrictions in section 42-2002, subsection D.

10 7. Any person to the extent necessary for effective tax
11 administration in connection with:

12 (a) The processing, storage, transmission, destruction and
13 reproduction of the information.

14 (b) The programming, maintenance, repair, testing and procurement
15 of equipment for purposes of tax administration.

16 (c) The collection of the taxpayer's civil liability.

17 8. The office of administrative hearings relating to taxes
18 administered by the department pursuant to section 42-1101, but the
19 department shall not disclose any confidential information without the
20 taxpayer's written consent:

21 (a) Regarding income tax or withholding tax.

22 (b) On any tax issue relating to information associated with the
23 reporting of income tax or withholding tax.

24 9. The United States treasury inspector general for tax
25 administration for the purpose of reporting a violation of internal
26 revenue code section 7213A (26 United States Code section 7213A),
27 unauthorized inspection of returns or return information.

28 10. The financial management service of the United States treasury
29 department for use in the treasury offset program.

30 11. The United States treasury department or its authorized agent
31 for use in the state income tax levy program and in the electronic federal
32 tax payment system.

33 12. The Arizona commerce authority for its use in:

34 (a) Qualifying renewable energy operations for the tax incentives
35 under section 42-12006.

36 (b) Qualifying businesses with a qualified facility for income tax
37 credits under sections 43-1083.03 and 43-1164.04.

38 (c) Fulfilling its annual reporting responsibility pursuant to
39 section 41-1512, subsections U and V and section 41-1517, subsection L.

40 ~~(d) Certifying computer data centers for tax relief under section~~
41 ~~41-1519.~~

42 ~~(e)~~ (d) Certifying applicants for the tax credit for motion
43 picture production costs under sections 43-1082 and 43-1165.

44 13. A prosecutor for purposes of section 32-1164, subsection C.

45 14. The office of the state fire marshal for use in determining
46 compliance with and enforcing title 37, chapter 9, article 5.

47 15. The department of transportation for its use in administering
48 taxes, surcharges and penalties prescribed by title 28.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

47 E. The department, on the request of any person, shall provide the
48 names and addresses of bingo licensees as defined in section 5-401, verify
49 whether or not a person has a privilege license and number, a tobacco

1 product distributor's license and number or a withholding license and
2 number or disclose the information to be posted on the department's
3 website or otherwise publicly accessible pursuant to section 42-1124,
4 subsection F and section 42-3401.

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

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

20 1. May be used only for internal purposes, including audits and
21 communication with taxpayers for the purposes of the notice required by
22 section 9-499.15, subsection C. If there is a legitimate business need
23 relating to enforcing laws, regulations and ordinances pursuant to section
24 9-500.39 or 11-269.17, a county, city or town tax official may redisclose
25 transaction privilege tax information relating to a vacation rental or
26 short-term rental property owner or online lodging operator from the new
27 license report and license update report, subject to the following:

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

29 (i) The transaction privilege tax license number.

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

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

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

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

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

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

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

45 2. May not be disclosed to the public in any manner that does not
46 comply with confidentiality standards established by the department. The
47 county, city or town shall agree in writing with the department that any
48 release of confidential information that violates the confidentiality
49 standards adopted by the department will result in the immediate

1 suspension of any rights of the county, city or town to receive taxpayer
2 information under this subsection.

3 H. The department may disclose statistical information gathered
4 from confidential information if it does not disclose confidential
5 information attributable to any one taxpayer. The department may disclose
6 statistical information gathered from confidential information, even if it
7 discloses confidential information attributable to a taxpayer, to:

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

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

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

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

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

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

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

33 N. This section does not prohibit the disclosure by the department
34 of any information or documents submitted to the department by a bingo
35 licensee. Before disclosing the information, the department shall obtain
36 the name and address of the person requesting the information.

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

40 P. Except as provided in section 42-2002, subsection D, the
41 department of revenue shall release confidential information as requested
42 by the department of economic security pursuant to section 42-1122 or
43 46-291. Information disclosed under this subsection is limited to the
44 same type of information that the United States internal revenue service
45 is authorized to disclose under section 6103(l)(6) of the internal revenue
46 code.

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

1 R. To comply with the requirements of section 42-5031, the
2 department may disclose to the state treasurer, to the county stadium
3 district board of directors and to any city or town tax official that is
4 part of the county stadium district confidential information attributable
5 to a taxpayer's business activity conducted in the county stadium
6 district.

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

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

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

14 3. Sections 44-7101 and 44-7111, the master settlement agreement
15 referred to in those sections and all agreements regarding disputes under
16 the master settlement agreement.

17 T. For proceedings before the department, the office of
18 administrative hearings, the state board of tax appeals or any state or
19 federal court involving penalties that were assessed against a return
20 preparer, an electronic return preparer or a payroll service company
21 pursuant to section 42-1103.02, 42-1125.01 or 43-419, confidential
22 information may be disclosed only before the judge or administrative law
23 judge adjudicating the proceeding, the parties to the proceeding and the
24 parties' representatives in the proceeding prior to its introduction into
25 evidence in the proceeding. The confidential information may be
26 introduced as evidence in the proceeding only if the taxpayer's name, the
27 names of any dependents listed on the return, all social security numbers,
28 the taxpayer's address, the taxpayer's signature and any attachments
29 containing any of the foregoing information are redacted and if either:

30 1. The treatment of an item reflected on such a return is or may be
31 related to the resolution of an issue in the proceeding.

32 2. Such a return or the return information relates or may relate to
33 a transactional relationship between a person who is a party to the
34 proceeding and the taxpayer that directly affects the resolution of an
35 issue in the proceeding.

36 3. The method of payment of the taxpayer's withholding tax
37 liability or the method of filing the taxpayer's withholding tax return is
38 an issue for the period.

39 U. The department and attorney general may share the information
40 specified in subsection S of this section with any of the following:

41 1. Federal, state or local agencies located in this state for the
42 purposes of enforcement of the statutes or agreements specified in
43 subsection S of this section or for the purposes of enforcement of
44 corresponding laws of other states.

45 2. Indian tribes located in this state for the purposes of
46 enforcement of the statutes or agreements specified in subsection S of
47 this section.

48 3. A court, arbitrator, data clearinghouse or similar entity for
49 the purpose of assessing compliance with or making calculations required

1 by the master settlement agreement or agreements regarding disputes under
2 the master settlement agreement, and with counsel for the parties or
3 expert witnesses in any such proceeding, if the information otherwise
4 remains confidential.

5 V. The department may provide the name and address of qualifying
6 hospitals and qualifying health care organizations, as defined in section
7 42-5001, to a business that is classified and reporting transaction
8 privilege tax under the utilities classification.

9 W. The department may disclose to an official of any city, town or
10 county in a current agreement or considering a prospective agreement with
11 the department as described in section 42-5032.02, subsection G any
12 information relating to amounts that are subject to distribution and that
13 are required by section 42-5032.02. Information disclosed by the
14 department under this subsection:

15 1. May be used only by the city, town or county for internal
16 purposes.

17 2. May not be disclosed to the public in any manner that does not
18 comply with confidentiality standards established by the department. The
19 city, town or county must agree with the department in writing that any
20 release of confidential information that violates the confidentiality
21 standards will result in the immediate suspension of any rights of the
22 city, town or county to receive information under this subsection.

23 X. Notwithstanding any other provision of this section, the
24 department may not disclose information provided by an online lodging
25 marketplace, as defined in section 42-5076, without the written consent of
26 the online lodging marketplace, and the information may be disclosed only
27 pursuant to subsection A, paragraphs 1 through 6, 8 and 10, subsection B,
28 paragraphs 1, 2, 7 and 8 and subsections C, D and G of this section. Such
29 information:

30 1. Is not subject to disclosure pursuant to title 39, relating to
31 public records.

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

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

36 42-5061. Retail classification; definitions

37 A. The retail classification is comprised of the business of
38 selling tangible personal property at retail. The tax base for the retail
39 classification is the gross proceeds of sales or gross income derived from
40 the business. The tax imposed on the retail classification does not apply
41 to the gross proceeds of sales or gross income from:

42 1. Professional or personal service occupations or businesses that
43 involve sales or transfers of tangible personal property only as
44 inconsequential elements.

45 2. Services rendered in addition to selling tangible personal
46 property at retail.

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

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

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

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

10 7. The sale of stocks and bonds.

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

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

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

19 11. Prescription eyeglasses or contact lenses.

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

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

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

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

32 (b) The vehicle, trailer or semitrailer has a gross vehicle weight
33 rating of more than ten thousand pounds, is used or maintained to
34 transport property in the furtherance of interstate commerce and otherwise
35 meets the definition of commercial motor vehicle as defined in section
36 28-5201.

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

39 16. Items purchased with United States department of agriculture
40 coupons issued under the supplemental nutrition assistance program
41 pursuant to the food and nutrition act of 2008 (P.L. 88-525; 78 Stat. 703;
42 7 United States Code sections 2011 through 2036b) by the United States
43 department of agriculture food and nutrition service or food instruments
44 issued under section 17 of the child nutrition act (P.L. 95-627;
45 92 Stat. 3603; P.L. 99-661, section 4302; P.L. 111-296; 42 United States
46 Code section 1786).

47 17. Textbooks by any bookstore that are required by any state
48 university or community college.

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

5 19. Articles of food, drink or condiment and accessory tangible
6 personal property to a school district or charter school if such articles
7 and accessory tangible personal property are to be prepared and served to
8 persons for consumption on the premises of a public school within the
9 district or on the premises of the charter school during school hours.

10 20. Lottery tickets or shares pursuant to title 5, chapter 5.1,
11 article 2.

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

19 (a) "Cash equivalents" means items or intangibles, whether or not
20 negotiable, that are sold to one or more persons, through which a value
21 denominated in money is purchased in advance and may be redeemed in full
22 or in part for tangible personal property, intangibles or services. Cash
23 equivalents include gift cards, stored value cards, gift certificates,
24 vouchers, traveler's checks, money orders or other instruments, orders or
25 electronic mechanisms, such as an electronic code, personal identification
26 number or digital payment mechanism, or any other prepaid intangible right
27 to acquire tangible personal property, intangibles or services in the
28 future, whether from the seller of the cash equivalent or from another
29 person. Cash equivalents do not include either of the following:

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

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

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

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

41 22. Motor vehicle fuel and use fuel that are subject to a tax
42 imposed under title 28, chapter 16, article 1, sales of use fuel to a
43 holder of a valid single trip use fuel tax permit issued under section
44 28-5739, sales of aviation fuel that are subject to the tax imposed under
45 section 28-8344 and sales of jet fuel that are subject to the tax imposed
46 under article 8 of this chapter.

47 23. Tangible personal property sold to a person engaged in the
48 business of leasing or renting such property under the personal property

1 rental classification if such property is to be leased or rented by such
2 person.

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

6 25. Tangible personal property sold to:

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

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

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

17 (d) A qualifying community health center as defined in section
18 42-5001.

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

22 (f) For taxable periods beginning from and after June 30, 2001, a
23 nonprofit charitable organization that has qualified under section
24 501(c)(3) of the internal revenue code and that provides residential
25 apartment housing for low-income persons over sixty-two years of age in a
26 facility that qualifies for a federal housing subsidy, if the tangible
27 personal property is used by the organization solely to provide
28 residential apartment housing for low-income persons over sixty-two years
29 of age in a facility that qualifies for a federal housing subsidy.

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

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

36 26. Magazines or other periodicals or other publications by this
37 state to encourage tourist travel.

38 27. Tangible personal property sold to:

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

44 (i) Incorporated or fabricated by the person into any real
45 property, structure, project, development or improvement as part of the
46 business.

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

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

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

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

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

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

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

37 32. Sales of tangible personal property by a nonprofit organization
38 that is exempt from taxation under section 501(c)(3), 501(c)(4),
39 501(c)(6), 501(c)(7) or 501(c)(8) of the internal revenue code if the
40 organization sponsors or operates a rodeo featuring primarily farm and
41 ranch animals and no part of the organization's net earnings inures to the
42 benefit of any private shareholder or individual.

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

47 (a) Includes seeds, seedlings, roots, bulbs, liners, transplants,
48 cuttings, soil and plant additives, agricultural minerals, auxiliary soil
49 and plant substances, micronutrients, fertilizers, insecticides,

1 herbicides, fungicides, soil fumigants, desiccants, rodenticides,
2 adjuvants, plant nutrients and plant growth regulators.

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

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

12 35. Sales of natural gas or liquefied petroleum gas used to propel
13 a motor vehicle.

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

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

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

41 39. Through December 31, 1994, personal property liquidation
42 transactions, conducted by a personal property liquidator. From and after
43 December 31, 1994, personal property liquidation transactions shall be
44 taxable under this section provided that nothing in this subsection shall
45 be construed to authorize the taxation of casual activities or
46 transactions under this chapter. For the purposes of this paragraph:

47 (a) "Personal property liquidation transaction" means a sale of
48 personal property made by a personal property liquidator acting solely on
49 behalf of the owner of the personal property sold at the dwelling of the

1 owner or on the death of any owner, on behalf of the surviving spouse, if
2 any, any devisee or heir or the personal representative of the estate of
3 the deceased, if one has been appointed.

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

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

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

15 42. Sales of:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

42 56. Sales or other transfers of renewable energy credits or any
43 other unit created to track energy derived from renewable energy
44 resources. For the purposes of this paragraph, "renewable energy credit"
45 means a unit created administratively by the corporation commission or
46 governing body of a public power utility to track kilowatt hours of
47 electricity derived from a renewable energy resource or the kilowatt hour
48 equivalent of conventional energy resources displaced by distributed
49 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.

46 3. Tangible personal property sold to persons engaged in business
47 classified under the telecommunications classification, including a person
48 representing or working on behalf of such a person in a manner described
49 in section 42-5075, subsection P, and consisting of central office

1 switching equipment, switchboards, private branch exchange equipment,
2 microwave radio equipment and carrier equipment including optical fiber,
3 coaxial cable and other transmission media that are components of carrier
4 systems.

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

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

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

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

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

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

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

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

34 (a) A person:

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

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

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

48 (iv) Operating an aircraft to transport persons in any manner for
49 compensation or hire, or for use in a fractional ownership program that

1 meets the requirements of federal aviation administration regulations
2 (14 Code of Federal Regulations part 91, subpart K), including as an air
3 carrier, a foreign air carrier or a commercial operator or under a
4 restricted category, within the meaning of 14 Code of Federal Regulations,
5 regardless of whether the operation or aircraft is regulated or certified
6 under part 91, 119, 121, 133, 135, 136 or 137, or another part of 14 Code
7 of Federal Regulations.

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

13 (b) Any foreign government.

14 (c) Persons who are not residents of this state and who will not
15 use such property in this state other than in removing such property from
16 this state. This subdivision also applies to corporations that are not
17 incorporated in this state, regardless of maintaining a place of business
18 in this state, if the principal corporate office is located outside this
19 state and the property will not be used in this state other than in
20 removing the property from this state.

21 9. Machinery, tools, equipment and related supplies used or
22 consumed directly in repairing, remodeling or maintaining aircraft,
23 aircraft engines or aircraft component parts by or on behalf of a
24 certificated or licensed carrier of persons or property.

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

27 11. Machinery or equipment used directly to drill for oil or gas or
28 used directly in the process of extracting oil or gas from the earth for
29 commercial purposes.

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

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

39 14. Machinery and equipment consisting of agricultural aircraft,
40 tractors, off-highway vehicles, tractor-drawn implements, self-powered
41 implements, machinery and equipment necessary for extracting milk, and
42 machinery and equipment necessary for cooling milk and livestock, and drip
43 irrigation lines not already exempt under paragraph 7 of this subsection
44 and that are used for commercial production of agricultural,
45 horticultural, viticultural and floricultural crops and products in this
46 state. For the purposes of this paragraph:

47 (a) "Off-highway vehicles" means off-highway vehicles as defined in
48 section 28-1171 that are modified at the time of sale to function as a
49 tractor or to tow tractor-drawn implements and that are not equipped with

1 a modified exhaust system to increase horsepower or speed or an engine
2 that is more than one thousand cubic centimeters or that have a maximum
3 speed of fifty miles per hour or less.

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

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

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

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

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

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

31 (ii) Over two-thirds of the transmissions, measured in megabytes,
32 transmitted by or on behalf of those direct broadcast television or data
33 transmission services during the test period were transmitted by the
34 facility to or on behalf of those services. For the purposes of
35 subdivision (b) of this paragraph, "test period" means the three hundred
36 sixty-five day period beginning on the later of the date on which the
37 tangible personal property is purchased or the date on which the direct
38 broadcast satellite television or data transmission service first
39 transmits information to its customers.

40 17. Clean rooms that are used for manufacturing, processing,
41 fabrication or research and development, as defined in paragraph 15 of
42 this subsection, of semiconductor products. For the purposes of this
43 paragraph, "clean room" means all property that comprises or creates an
44 environment where humidity, temperature, particulate matter and
45 contamination are precisely controlled within specified parameters,
46 without regard to whether the property is actually contained within that
47 environment or whether any of the property is affixed to or incorporated
48 into real property. Clean room:

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

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

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

13 19. Machinery or equipment, including related structural components
14 and containment structures, that is employed in connection with
15 manufacturing, processing, fabricating, job printing, refining, mining,
16 natural gas pipelines, metallurgical operations, telecommunications,
17 producing or transmitting electricity or research and development and that
18 is used directly to meet or exceed rules or regulations adopted by the
19 federal energy regulatory commission, the United States environmental
20 protection agency, the United States nuclear regulatory commission, the
21 Arizona department of environmental quality or a political subdivision of
22 this state to prevent, monitor, control or reduce land, water or air
23 pollution. For the purposes of this paragraph, "containment structure"
24 means a structure that prevents, monitors, controls or reduces noxious or
25 harmful discharge into the environment.

26 20. Machinery and equipment that are sold to a person engaged in
27 commercially producing livestock, livestock products or agricultural,
28 horticultural, viticultural or floricultural crops or products in this
29 state, including a person representing or working on behalf of such a
30 person in a manner described in section 42-5075, subsection P, if the
31 machinery and equipment are used directly and primarily to prevent,
32 monitor, control or reduce air, water or land pollution.

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

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

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

45 (c) Any machinery or equipment purchased after the television
46 station has ceased analog broadcasting, or purchased after November 1,
47 2009, whichever occurs first.

48 22. Qualifying equipment that is purchased from and after June 30,
49 2004 through December 31, 2028 by a qualified business under section

1 41-1516 for harvesting or processing qualifying forest products removed
2 from qualifying projects as defined in section 41-1516. To qualify for
3 this deduction, the qualified business at the time of purchase must
4 present its certification approved by the department.

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

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

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

19 2. Janitorial equipment and hand tools.

20 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

45 F. If a person is engaged in an occupation or business to which
46 subsection A of this section applies, the person's books shall be kept so
47 as to show separately the gross proceeds of sales of tangible personal
48 property and the gross income from sales of services, and if not so kept

1 the tax shall be imposed on the total of the person's gross proceeds of
2 sales of tangible personal property and gross income from services.

3 G. If a person is engaged in the business of selling tangible
4 personal property at both wholesale and retail, the tax under this section
5 applies only to the gross proceeds of the sales made other than at
6 wholesale if the person's books are kept so as to show separately the
7 gross proceeds of sales of each class, and if the books are not so kept,
8 the tax under this section applies to the gross proceeds of every sale so
9 made.

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

17 1. Agricultural producers who are owners, proprietors or tenants of
18 agricultural lands, orchards, farms or gardens where agricultural products
19 are grown, raised or prepared for market and who are marketing their own
20 agricultural products.

- 21 2. Businesses classified under the:
- 22 (a) Transporting classification.
 - 23 (b) Utilities classification.
 - 24 (c) Telecommunications classification.
 - 25 (d) Pipeline classification.
 - 26 (e) Private car line classification.
 - 27 (f) Publication classification.
 - 28 (g) Job printing classification.
 - 29 (h) Prime contracting classification.
 - 30 (i) Restaurant classification.

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

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

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

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

47 4. Sales of overhead materials or other tangible personal property
48 to a manufacturer, modifier, assembler or repairer if the gross proceeds
49 of sales or gross income derived from the property by the manufacturer,

1 modifier, assembler or repairer will be exempt under paragraph 3 of this
2 subsection.

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

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

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

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

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

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

23 N. In computing the tax base in the case of the sale or transfer of
24 wireless telecommunications equipment as an inducement to a customer to
25 enter into or continue a contract for telecommunications services that are
26 taxable under section 42-5064, gross proceeds of sales or gross income
27 does not include any sales commissions or other compensation received by
28 the retailer as a result of the customer entering into or continuing a
29 contract for the telecommunications services.

30 O. For the purposes of this section, a sale of wireless
31 telecommunications equipment to a person who holds the equipment for sale
32 or transfer to a customer as an inducement to enter into or continue a
33 contract for telecommunications services that are taxable under section
34 42-5064 is considered to be a sale for resale in the regular course of
35 business.

36 P. Retail sales of prepaid calling cards or prepaid authorization
37 numbers for telecommunications services, including sales of
38 reauthorization of a prepaid card or authorization number, are subject to
39 tax under this section.

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

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

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

48 R. For the purposes of this section, the transfer of title or
49 possession of coal from an owner or operator of a power plant to a person

1 in the business of refining coal is not a sale of coal if both of the
2 following apply:

3 1. The transfer of title or possession of the coal is for the
4 purpose of refining the coal.

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

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

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

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

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

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

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

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

11 W. For the purposes of this section:

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

15 2. "Aircraft" includes:

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

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

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

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

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

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

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

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

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

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

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

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

14 42-5159. Exemptions

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

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

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

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

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

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

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

48 7. Purchases of implants used as growth promotants and injectable
49 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
46 with a licensed nursing care institution or a licensed kidney dialysis
47 center, which provides medical services, nursing services or health
48 related services and is not used or held for profit.

1 (d) A qualifying health care organization, as defined in section
2 42-5001, if the tangible personal property is used by the organization
3 solely to provide health and medical related educational and charitable
4 services.

5 (e) A qualifying health care organization as defined in section
6 42-5001 if the organization is dedicated to providing educational,
7 therapeutic, rehabilitative and family medical education training for
8 blind and visually impaired children and children with multiple
9 disabilities from the time of birth to age twenty-one.

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

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

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

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

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

26 (h) A person that is not subject to tax under section 42-5075 and
27 that has been provided a copy of a certificate described in section
28 42-5009, subsection L, if the property purchased is incorporated or
29 fabricated by the person into the real property, structure, project,
30 development or improvement described in the certificate.

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

35 (j) A qualifying community health center as defined in section
36 42-5001.

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

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

45 (m) For taxable periods beginning from and after June 30, 2001, a
46 nonprofit charitable organization that has qualified under section
47 501(c)(3) of the internal revenue code and that provides residential
48 apartment housing for low-income persons over sixty-two years of age in a
49 facility that qualifies for a federal housing subsidy, if the tangible

1 personal property is used by the organization solely to provide
2 residential apartment housing for low-income persons over sixty-two years
3 of age in a facility that qualifies for a federal housing subsidy.

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

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

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

16 15. Tangible personal property sold by:

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

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

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

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

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

47 18. Prescription eyeglasses and contact lenses.

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

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

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

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

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

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

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

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

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

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

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

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

38 31. Coal, petroleum, coke, natural gas, virgin fuel oil and
39 electricity purchased by a qualified environmental technology
40 manufacturer, producer or processor as defined in section 41-1514.02 and
41 directly used or consumed in generating or providing on-site power or
42 energy solely for environmental technology manufacturing, producing or
43 processing or environmental protection. This paragraph applies for twenty
44 full consecutive calendar or fiscal years from the date the first paper
45 manufacturing machine is placed in service. In the case of an
46 environmental technology manufacturer, producer or processor that does not
47 manufacture paper, the time period begins with the date the first
48 manufacturing, processing or production equipment is placed in service.

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

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

5 (b) Public educational institutions.

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

9 33. Natural gas or liquefied petroleum gas used to propel a motor
10 vehicle.

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

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

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

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

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

41 39. Overhead materials or other tangible personal property that is
42 used in performing a contract between the United States government and a
43 manufacturer, modifier, assembler or repairer, including property used in
44 performing a subcontract with a government contractor who is a
45 manufacturer, modifier, assembler or repairer, to which title passes to
46 the government under the terms of the contract or subcontract. For the
47 purposes of this paragraph:

48 (a) "Overhead materials" means tangible personal property, the
49 gross proceeds of sales or gross income derived from which would otherwise

1 be included in the retail classification, that is used or consumed in
2 performing a contract, the cost of which is charged to an overhead expense
3 account and allocated to various contracts based on generally accepted
4 accounting principles and consistent with government contract accounting
5 standards.

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

16 40. Through December 31, 1994, tangible personal property sold
17 pursuant to a personal property liquidation transaction, as defined in
18 section 42-5061. From and after December 31, 1994, tangible personal
19 property sold pursuant to a personal property liquidation transaction, as
20 defined in section 42-5061, if the gross proceeds of the sales were
21 included in the measure of the tax imposed by article 1 of this chapter or
22 if the personal property liquidation was a casual activity or transaction.

23 41. Wireless telecommunications equipment that is held for sale or
24 transfer to a customer as an inducement to enter into or continue a
25 contract for telecommunications services that are taxable under section
26 42-5064.

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

30 43. Tangible personal property purchased by a commercial airline
31 and consisting of food, beverages and condiments and accessories used for
32 serving the food and beverages, if those items are to be provided without
33 additional charge to passengers for consumption in flight. For the
34 purposes of this paragraph, "commercial airline" means a person holding a
35 federal certificate of public convenience and necessity or foreign air
36 carrier permit for air transportation to transport persons, property or
37 United States mail in intrastate, interstate or foreign commerce.

38 44. Alternative fuel vehicles if the vehicle was manufactured as a
39 diesel fuel vehicle and converted to operate on alternative fuel and
40 equipment that is installed in a conventional diesel fuel motor vehicle to
41 convert the vehicle to operate on an alternative fuel, as defined in
42 section 1-215.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

48 (b) The title or possession of the coal is transferred back to the
49 owner or operator of the power plant after completion of the coal refining

1 process. For the purposes of this subdivision, "coal refining process"
2 means the application of a coal additive system that aids the reduction of
3 power plant emissions during the combustion of coal and the treatment of
4 flue gas.

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

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

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

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

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

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

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

38 (ii) Prepaid calling cards for telecommunications services.

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

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

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

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

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

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

22 4. Machinery, equipment or transmission lines used directly in
23 producing or transmitting electrical power, but not including
24 distribution. Transformers and control equipment used at transmission
25 substation sites constitute equipment used in producing or transmitting
26 electrical power.

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

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

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

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

40 6. Neat animals, horses, asses, sheep, ratites, swine or goats used
41 or to be used as breeding or production stock, including sales of
42 breedings or ownership shares in such animals used for breeding or
43 production.

44 7. Pipes or valves four inches in diameter or larger used to
45 transport oil, natural gas, artificial gas, water, wastewater or coal
46 slurry, including compressor units, regulators, machinery and equipment,
47 fittings, seals and any other part that is used in operating the pipes or
48 valves.

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

3 (a) A person:

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

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

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

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

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

31 (b) Any foreign government.

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

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

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

45 11. Machinery or equipment used directly to drill for oil or gas or
46 used directly in the process of extracting oil or gas from the earth for
47 commercial purposes.

48 12. Buses or other urban mass transit vehicles that are used
49 directly to transport persons or property for hire or pursuant to a

1 governmentally adopted and controlled urban mass transportation program
2 and that are sold to bus companies holding a federal certificate of
3 convenience and necessity or operated by any city, town or other
4 governmental entity or by any person contracting with such governmental
5 entity as part of a governmentally adopted and controlled program to
6 provide urban mass transportation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

44 20. Machinery and equipment that are used in commercially producing
45 livestock, livestock products or agricultural, horticultural, viticultural
46 or floricultural crops or products in this state, including production by
47 a person representing or working on behalf of such a person in a manner
48 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

41 1. A qualified manufacturing or smelting business. A utility that
42 claims this deduction shall report each month, on a form prescribed by the
43 department, the name and address of each qualified manufacturing or
44 smelting business for which this deduction is taken. This paragraph
45 applies to gas transportation services. For the purposes of this
46 paragraph:

47 (a) "Gas transportation services" means the services of
48 transporting natural gas to a natural gas customer or to a natural gas

1 distribution facility if the natural gas was purchased from a supplier
2 other than the utility.

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

10 (c) "Qualified manufacturing or smelting business" means one of the
11 following:

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

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

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

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

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

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

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

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

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

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

45 2. "Aircraft" includes:

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

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

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

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

11 Sec. 5. Repeal

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

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

16 42-6004. Exemption from municipal tax; definitions

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

19 1. Exhibition events in this state sponsored, conducted or operated
20 by a nonprofit organization that is exempt from taxation under section
21 501(c)(3), 501(c)(4) or 501(c)(6) of the internal revenue code if the
22 organization is associated with a major league baseball team or a national
23 touring professional golfing association and no part of the organization's
24 net earnings inures to the benefit of any private shareholder or
25 individual. This paragraph does not apply to an organization that is
26 owned, managed or controlled, in whole or in part, by a major league
27 baseball team, or its owners, officers, employees or agents, or by a major
28 league baseball association or professional golfing association, or its
29 owners, officers, employees or agents, unless the organization conducted
30 or operated exhibition events in this state before January 1, 2018 that
31 were exempt from state transaction privilege tax under section 42-5073.

32 2. Interstate telecommunications services, which include that
33 portion of telecommunications services, such as subscriber line service,
34 allocable by federal law to interstate telecommunications service.

35 3. Sales of warranty or service contracts.

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

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

40 (b) The vehicle, trailer or semitrailer has a gross vehicle weight
41 rating of more than ten thousand pounds, is used or maintained to
42 transport property in the furtherance of interstate commerce and otherwise
43 meets the definition of commercial motor vehicle as defined in section
44 28-5201.

45 5. Interest on finance contracts.

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

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

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

3 (a) "Internet" means the computer and telecommunications facilities
4 that comprise the interconnected worldwide network of networks that employ
5 the transmission control protocol or internet protocol, or any predecessor
6 or successor protocol, to communicate information of all kinds by wire or
7 radio.

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

12 9. The gross proceeds of sales or gross income retained by the
13 Arizona exposition and state fair board from ride ticket sales at the
14 annual Arizona state fair.

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

17 (a) "Affiliated companies, businesses, persons or reciprocal
18 insurers" means the lessor holds a controlling interest in the lessee, the
19 lessee holds a controlling interest in the lessor, affiliated persons hold
20 a controlling interest in both the lessor and the lessee, or an unrelated
21 person holds a controlling interest in both the lessor and lessee.

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

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

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

30 (e) "Reciprocal insurer" has the same meaning prescribed in section
31 20-762.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

37 ~~14.~~ 13. The gross proceeds of sales or gross income derived from a
38 contract with the owner of real property or improvements to real property
39 for the maintenance, repair, replacement or alteration of existing
40 property, except as specified in this paragraph. The gross proceeds of
41 sales or gross income derived from a de minimis amount of modification
42 activity does not subject the contract or any part of the contract to tax.
43 For the purposes of this paragraph:

44 (a) Each contract is independent of another contract, except that
45 any change order that directly relates to the scope of work of the
46 original contract shall be treated the same as the original contract under
47 this paragraph, regardless of the amount of modification activities
48 included in the change order. If a change order does not directly relate
49 to the scope of work of the original contract, the change order shall be

1 treated as a new contract, with the tax treatment of any subsequent change
2 order to follow the tax treatment of the contract to which the scope of
3 work of the subsequent change order directly relates.

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

6 (c) This paragraph does not apply to a contract that primarily
7 involves surface or subsurface improvements to land and that is subject to
8 title 28, chapter 19, 20 or 22 or title 34, chapter 2 or 6 even if the
9 contract also includes vertical improvements. If a city or town imposes a
10 tax on contracts that are subject to procurement processes under those
11 provisions, the city or town shall include in the request for proposals a
12 notice to bidders when those projects are subject to the tax. This
13 subdivision does not apply to contracts with:

14 (i) Community facilities districts, fire districts, county
15 television improvement districts, community park maintenance districts,
16 cotton pest control districts, hospital districts, pest abatement
17 districts, health service districts, agricultural improvement districts,
18 county free library districts, county jail districts, county stadium
19 districts, special health care districts, public health services
20 districts, theme park districts or revitalization districts.

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

25 ~~15.~~ 14. Monitoring services relating to an alarm system as defined
26 in section 32-101.

27 ~~16.~~ 15. Tangible personal property, job printing or publications
28 sold to or purchased by, or tangible personal property leased, rented or
29 licensed for use to or by, a qualifying health sciences educational
30 institution as defined in section 42-5001.

31 ~~17.~~ 16. The transfer of title or possession of coal back and forth
32 between an owner or operator of a power plant and a person who is
33 responsible for refining coal if both of the following apply:

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

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

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

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

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

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

10 ~~19.~~ 18. The charges for the leasing or renting of space to make
11 attachments to utility poles as follows:

12 (a) By a person that is engaged in the business of providing or
13 furnishing electrical services or telecommunication services or that is a
14 cable operator.

15 (b) To a person that is engaged in the business of providing or
16 furnishing electrical services or telecommunication services or that is a
17 cable operator.

18 ~~20.~~ 19. Until March 1, 2017, the gross proceeds of sales or gross
19 income derived from entry fees paid by participants for events that
20 consist of a run, walk, swim or bicycle ride or a similar event, or any
21 combination of these events.

22 ~~21.~~ 20. The gross proceeds of sales or gross income derived from
23 entry fees paid by participants for events that are operated or conducted
24 by nonprofit organizations that are exempt from taxation under section
25 501(c)(3) of the internal revenue code and of which no part of the
26 organization's net earnings inures to the benefit of any private
27 shareholder or individual, if the event consists of a run, walk, swim or
28 bicycle ride or a similar event, or any combination of these events.

29 ~~22.~~ 21. The gross proceeds of sales or gross income derived from
30 sales of machinery and equipment used directly for energy storage for
31 later electrical use. For the purposes of this paragraph:

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

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

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

43 ~~23.~~ 22. The gross proceeds of sales or gross income derived from a
44 contract to install containment structures. For the purposes of this
45 paragraph, "containment structure" means a structure that prevents,
46 monitors, controls or reduces noxious or harmful discharge into the
47 environment.

48 B. A city, town or other taxing jurisdiction shall not levy a
49 transaction privilege, sales, use, franchise or other similar tax or fee,

1 however denominated, on natural gas or liquefied petroleum gas used to
2 propel a motor vehicle.

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

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

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

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

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

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

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

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

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

37 (c) "Development fees" means fees imposed to offset capital costs
38 of providing public infrastructure, public safety or other public services
39 to a development and authorized pursuant to section 9-463.05, section
40 11-1102 or title 48 regardless of the jurisdiction to which the fees are
41 paid.

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

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

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

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

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

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

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

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

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

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

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

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

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

42 I. For the purposes of this section:

43 1. "Cable operator" has the same meaning prescribed in section
44 9-505 and includes a video service provider.

45 2. "Electrical services" means transmitting or distributing
46 electricity, electric lights, current or power over lines, wires or
47 cables.

48 3. "Telecommunication services" means transmitting or relaying
49 sound, visual image, data, information, images or material over lines,

1 wires or cables by radio signal, light beam, telephone, telegraph or other
2 electromagnetic means.

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

6 Sec. 7. Applicability

7 This act applies to taxable periods beginning from and after the
8 first month following the general effective date.

9 Sec. 8. Requirements for enactment; two-thirds vote

10 Pursuant to article IX, section 22, Constitution of Arizona, this
11 act is effective only on the affirmative vote of at least two-thirds of
12 the members of each house of the legislature and is effective immediately
13 on the signature of the governor or, if the governor vetoes this act, on
14 the subsequent affirmative vote of at least three-fourths of the members
15 of each house of the legislature."

16 Amend title to conform

KEVIN VOLK

1432VOLK SE.docx

03/20/2026

12:52 PM

H: NL/ra

130GENDGB