

REFERENCE TITLE: TPT; luxury item classification

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

## HB 2639

Introduced by  
Representatives Sandoval: Abeytia, Aguilar, Austin, Connolly, Contreras L,  
Garcia, Liguori, Luna-Nájera, Márquez, Peshlakai, Simacek, Stahl Hamilton,  
Tsosie, Villegas

AN ACT

AMENDING SECTIONS 42-5010, 42-5010.01, 42-5029 AND 42-5061, ARIZONA  
REVISED STATUTES; AMENDING TITLE 42, CHAPTER 5, ARTICLE 2, ARIZONA REVISED  
STATUTES, BY ADDING SECTION 42-5077; RELATING TO TRANSACTION PRIVILEGE AND  
USE TAX.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Section 42-5010, Arizona Revised Statutes, is amended to  
3 read:

4 42-5010. Rates; distribution base

5 A. The tax imposed by this article is levied and shall be collected  
6 at the following rates:

7 1. Five percent of the tax base as computed for the business of  
8 every person engaging or continuing in this state in the following  
9 business classifications described in article 2 of this chapter:

10 (a) Transporting classification.

11 (b) Utilities classification.

12 (c) Telecommunications classification.

13 (d) Pipeline classification.

14 (e) Private car line classification.

15 (f) Publication classification.

16 (g) Job printing classification.

17 (h) Prime contracting classification.

18 (i) Amusement classification.

19 (j) Restaurant classification.

20 (k) Personal property rental classification.

21 (l) Retail classification and amounts equal to retail transaction  
22 privilege tax due pursuant to section 42-5008.01.

23 2. Five and one-half percent of the tax base as computed for the  
24 business of every person engaging or continuing in this state in:

25 (a) The transient lodging classification described in section  
26 42-5070.

27 (b) The online lodging marketplace classification described in  
28 section 42-5076 who has entered into an agreement with the department to  
29 register for, or has otherwise obtained from the department, a license to  
30 collect tax pursuant to section 42-5005, subsection L.

31 3. Three and one-eighth percent of the tax base as computed for the  
32 business of every person engaging or continuing in this state in the  
33 mining classification described in section 42-5072.

34 4. Zero percent of the tax base as computed for the business of  
35 every person engaging or continuing in this state in the commercial lease  
36 classification described in section 42-5069.

37 5. SIX AND ONE-HALF PERCENT OF THE TAX BASE AS COMPUTED FOR THE  
38 BUSINESS OF EVERY PERSON ENGAGING OR CONTINUING IN THIS STATE IN THE  
39 LUXURY ITEM CLASSIFICATION.

40 B. Except as provided by subsections J and K of this section,  
41 twenty percent of the tax revenues collected at the rate prescribed by  
42 subsection A, paragraph 1 of this section from persons on account of  
43 engaging in business under the business classifications listed in  
44 subsection A, paragraph 1, subdivisions (a) through (h) of this section is  
45 designated as distribution base for the purposes of section 42-5029.

1 C. Except as provided by subsection K of this section, forty  
2 percent of the tax revenues collected at the rate prescribed by subsection  
3 A, paragraph 1 of this section from persons on account of engaging in  
4 business under the business classifications listed in subsection A,  
5 paragraph 1, subdivisions (i) through (l) of this section is designated as  
6 distribution base for the purposes of section 42-5029.

7 D. Thirty-two percent of the tax revenues collected from persons on  
8 account of engaging in business under the business classification listed  
9 in subsection A, paragraph 3 of this section is designated as distribution  
10 base for the purposes of section 42-5029.

11 E. Fifty-three and one-third percent of the tax revenues collected  
12 from persons on account of engaging in business under the business  
13 classification listed in subsection A, paragraph 4 of this section is  
14 designated as distribution base for the purposes of section 42-5029.

15 F. Fifty percent of the tax revenues collected from persons on  
16 account of engaging in business under the business classification listed  
17 in subsection A, paragraph 2 of this section is designated as distribution  
18 base for the purposes of section 42-5029.

19 G. In addition to the rates prescribed by subsection A of this  
20 section, if approved by the qualified electors voting at a statewide  
21 general election, an additional rate increment is imposed and shall be  
22 collected through June 30, 2021. The taxpayer shall pay taxes pursuant to  
23 this subsection at the same time and in the same manner as under  
24 subsection A of this section. The department shall separately account for  
25 the revenues collected with respect to the rates imposed pursuant to this  
26 subsection and the state treasurer shall distribute all of those revenues  
27 in the manner prescribed by section 42-5029, subsection E. The rates  
28 imposed pursuant to this subsection shall not be considered local revenues  
29 for purposes of article IX, section 21, Constitution of Arizona. The  
30 additional tax rate increment is levied at the rate of six-tenths of one  
31 per cent of the tax base of every person engaging or continuing in this  
32 state in a business classification listed in subsection A, paragraph 1 of  
33 this section.

34 H. Any increase in the rate of tax that is imposed by this chapter  
35 and that is enacted by the legislature or by a vote of the people does not  
36 apply with respect to contracts entered into by prime contractors or  
37 pursuant to written bids made by prime contractors on or before the  
38 effective date of the legislation or the date of the election enacting the  
39 increase. To qualify for the exemption under this subsection, the prime  
40 contractor must maintain sufficient documentation, in a manner and form  
41 prescribed by the department, to verify the date of the contract or  
42 written bid.

1 I. For taxpayers that are taxable under this chapter other than  
2 prime contractors taxable pursuant to section 42-5075:

3 1. Any increase in the rate of tax that is levied by this article  
4 or article 2 of this chapter enacted by the legislature or by a vote of  
5 the people does not apply for a period of one hundred twenty days after  
6 the date of the tax rate increase to the gross proceeds of sales or gross  
7 income from the business of the taxpayer with respect to written contracts  
8 entered into before the effective date of the tax rate increase unless the  
9 taxpayer has entered into a contract that contains a provision that  
10 entitles the taxpayer to recover from the purchaser the amount of the  
11 additional tax levied.

12 2. The provisions of this subsection apply without regard to the  
13 accounting method used by the taxpayer to report the taxes imposed under  
14 article 2 of this chapter.

15 3. The provisions of this subsection shall not be considered in  
16 determining the rate of tax imposed under chapter 6, article 3 of this  
17 title.

18 J. Zero percent of the tax revenues that are collected at the rate  
19 prescribed by subsection A, paragraph 1 of this section from persons on  
20 account of engaging in business under the business classification listed  
21 in subsection A, paragraph 1, subdivision (h) of this section and that are  
22 subject to any distribution required by section 42-5032.02 is designated  
23 as distribution base for the purposes of section 42-5029 until the total  
24 amount subject to distribution pursuant to section 42-5032.02 has reached  
25 the maximum amount prescribed by section 42-5032.02, subsection C.  
26 Thereafter, twenty percent of the remaining tax revenues is designated as  
27 distribution base for the purposes of section 42-5029 as provided by  
28 subsection B of this section.

29 K. Subject to section 48-4238, beginning on October 1, 2025 through  
30 December 31, 2055, zero percent of the tax revenues that are collected at  
31 the rate prescribed by subsection A, paragraph 1 of this section from  
32 persons engaging in business under the business classifications listed in  
33 subsection A, paragraph 1, subdivisions (h), (i), (j) and (l) of this  
34 section and that are subject to transmittal required by section 42-5032.03  
35 is designated as distribution base for the purposes of section 42-5029.  
36 Beginning January 1, 2056, twenty percent of the remaining tax revenues  
37 collected at the rate prescribed by subsection A, paragraph 1 of this  
38 section from persons engaging in business under the business  
39 classification listed in subsection A, paragraph 1, subdivision (h) of  
40 this section is designated as distribution base for the purposes of  
41 section 42-5029 as provided by subsection B of this section and forty  
42 percent of the remaining tax revenues collected at the rate prescribed by  
43 subsection A, paragraph 1 of this section from persons engaging in  
44 business under the business classifications listed in subsection A,  
45 paragraph 1, subdivisions (i), (j) and (l) of this section is designated

1 as distribution base for the purposes of section 42-5029 as provided by  
2 subsection C of this section.

3 K. ZERO PERCENT OF THE TAX REVENUES THAT ARE COLLECTED AT THE RATE  
4 PRESCRIBED BY SUBSECTION A, PARAGRAPH 5 OF THIS SECTION IS DESIGNATED AS  
5 DISTRIBUTION BASE FOR THE PURPOSES OF SECTION 42-5029. THE DEPARTMENT  
6 SHALL SEPARATELY ACCOUNT FOR THE REVENUES COLLECTED PURSUANT TO SUBSECTION  
7 A, PARAGRAPH 5 OF THIS SECTION, AND THE STATE TREASURER SHALL CREDIT  
8 THOSE REVENUES TO THE STATE GENERAL FUND PURSUANT TO SECTION 42-5029,  
9 SUBSECTION M.

10 Sec. 2. Section 42-5010.01, Arizona Revised Statutes, is amended to  
11 read:

12 42-5010.01. Transaction privilege tax; additional rate  
13 increment

14 A. From and after June 30, 2021 through June 30, 2041, in addition  
15 to the rates prescribed by section 42-5010, subsection A, an additional  
16 rate increment is imposed and shall be collected. The additional tax rate  
17 increment is levied at the rate of six-tenths of one percent of the tax  
18 base of every person engaging or continuing in this state in a business  
19 classification listed in section 42-5010, subsection A, ~~paragraph~~  
20 PARAGRAPHS 1 AND 5.

21 B. The taxpayer shall pay taxes pursuant to this section at the  
22 same time and in the same manner as under section 42-5010, subsection A.  
23 The department shall separately account for the revenues collected with  
24 respect to the rates imposed by this section, and the state treasurer  
25 shall distribute all of those revenues in the manner prescribed by section  
26 42-5029.02. The rates imposed by this section are not considered local  
27 revenues for purposes of article IX, section 21, Constitution of Arizona.

28 Sec. 3. Section 42-5029, Arizona Revised Statutes, is amended to  
29 read:

30 42-5029. Remission and distribution of monies; withholding;  
31 definition

32 A. The department shall deposit, pursuant to sections 35-146 and  
33 35-147, all revenues collected under this article and articles 4, 5 and 8  
34 of this chapter pursuant to section 42-1116, separately accounting for:

35 1. Payments of estimated tax under section 42-5014, subsection D.

36 2. Revenues collected pursuant to section 42-5070.

37 3. Revenues collected under this article and article 5 of this  
38 chapter from and after June 30, 2000 from sources located on Indian  
39 reservations in this state.

40 4. Revenues collected pursuant to section 42-5010, subsection G and  
41 section 42-5155, subsection D.

42 5. Revenues collected pursuant to section 42-5010.01 and section  
43 42-5155, subsection E.

44 6. Revenues collected pursuant to section 42-5061 from a remote  
45 seller.

1           7. REVENUES COLLECTED PURSUANT TO SECTION 42-5010, SUBSECTION A,  
2 PARAGRAPH 5.

3           B. The department shall credit payments of estimated tax to an  
4 estimated tax clearing account and each month shall transfer all monies in  
5 the estimated tax clearing account to a fund designated as the transaction  
6 privilege and severance tax clearing account. The department shall credit  
7 all other payments to the transaction privilege and severance tax clearing  
8 account, separately accounting for the monies designated as distribution  
9 base under sections 42-5010, 42-5164 and 42-5205. Each month the  
10 department shall report to the state treasurer the amount of monies  
11 collected pursuant to this article and articles 4, 5 and 8 of this  
12 chapter.

13           C. On notification by the department, the state treasurer shall  
14 distribute the monies deposited in the transaction privilege and severance  
15 tax clearing account in the manner prescribed by this section and by  
16 sections 42-5164 and 42-5205, after deducting warrants drawn against the  
17 account pursuant to sections 42-1118 and 42-1254.

18           D. Of the monies designated as distribution base, the department  
19 shall:

20           1. Pay twenty-five percent to the various incorporated  
21 municipalities in this state in proportion to their population to be used  
22 by the municipalities for any municipal purpose, except a municipality  
23 shall use monies paid from revenues separately accounted for pursuant to  
24 subsection A, paragraph 6 of this section and paid pursuant to this  
25 paragraph for public safety before any other municipal purpose.

26           2. Pay 38.08 percent to the counties in this state by averaging the  
27 following proportions:

28           (a) The proportion that the population of each county bears to the  
29 total state population.

30           (b) The proportion that the distribution base monies collected  
31 during the calendar month in each county under this article, section  
32 42-5164, subsection B and section 42-5205, subsection B bear to the total  
33 distribution base monies collected under this article, section 42-5164,  
34 subsection B and section 42-5205, subsection B throughout the state for  
35 the calendar month.

36           3. Pay an additional 2.43 percent to the counties in this state as  
37 follows:

38           (a) Average the following proportions:

39           (i) The proportion that the assessed valuation used to determine  
40 secondary property taxes of each county, after deducting that part of the  
41 assessed valuation that is exempt from taxation at the beginning of the  
42 month for which the amount is to be paid, bears to the total assessed  
43 valuations used to determine secondary property taxes of all the counties  
44 after deducting that portion of the assessed valuations that is exempt  
45 from taxation at the beginning of the month for which the amount is to be

1 paid. Property of a city or town that is not within or contiguous to the  
2 municipal corporate boundaries and from which water is or may be withdrawn  
3 or diverted and transported for use on other property is considered to be  
4 taxable property in the county for purposes of determining assessed  
5 valuation in the county under this item.

6 (ii) The proportion that the distribution base monies collected  
7 during the calendar month in each county under this article, section  
8 42-5164, subsection B and section 42-5205, subsection B bear to the total  
9 distribution base monies collected under this article, section 42-5164,  
10 subsection B and section 42-5205, subsection B throughout this state for  
11 the calendar month.

12 (b) If the proportion computed under subdivision (a) of this  
13 paragraph for any county is greater than the proportion computed under  
14 paragraph 2 of this subsection, the department shall compute the  
15 difference between the amount distributed to that county under paragraph 2  
16 of this subsection and the amount that would have been distributed under  
17 paragraph 2 of this subsection using the proportion computed under  
18 subdivision (a) of this paragraph and shall pay that difference to the  
19 county from the amount available for distribution under this paragraph.  
20 Any monies remaining after all payments under this subdivision shall be  
21 distributed among the counties according to the proportions computed under  
22 paragraph 2 of this subsection.

23 4. After any distributions required by sections 42-5030,  
24 42-5030.01, 42-5031, 42-5032, 42-5032.01, 42-5032.02 and 42-5032.03 and  
25 after making any transfer to the water quality assurance revolving fund as  
26 required by section 49-282, subsection B, credit the remainder of the  
27 monies designated as distribution base to the state general fund. From  
28 this amount the legislature shall annually appropriate to:

29 (a) The department of revenue, sufficient monies to administer and  
30 enforce this article and articles 5 and 8 of this chapter.

31 (b) The department of economic security, monies to be used for the  
32 purposes stated in title 46, chapter 1.

33 (c) The firearms safety and ranges fund established by section  
34 17-273, \$50,000 derived from the taxes collected from the retail  
35 classification pursuant to section 42-5061 for the current fiscal year.

36 E. If approved by the qualified electors voting at a statewide  
37 general election, all monies collected pursuant to section 42-5010,  
38 subsection G and section 42-5155, subsection D shall be distributed each  
39 fiscal year pursuant to this subsection. The monies distributed pursuant  
40 to this subsection are in addition to any other appropriation, transfer or  
41 other allocation of public or private monies from any other source and  
42 shall not supplant, replace or cause a reduction in other school district,  
43 charter school, university or community college funding sources. The  
44 monies shall be distributed as follows:

1           1. If there are outstanding state school facilities revenue bonds  
2 pursuant to title 15, chapter 16, article 7, each month one-twelfth of the  
3 amount that is necessary to pay the fiscal year's debt service on  
4 outstanding state school improvement revenue bonds for the current fiscal  
5 year shall be transferred each month to the school improvement revenue  
6 bond debt service fund established by section 15-2084. The total amount  
7 of bonds for which these monies may be allocated for the payment of debt  
8 service shall not exceed a principal amount of eight hundred million  
9 dollars exclusive of refunding bonds and other refinancing obligations.

10           2. After any transfer of monies pursuant to paragraph 1 of this  
11 subsection, twelve per cent of the remaining monies collected during the  
12 preceding month shall be transferred to the technology and research  
13 initiative fund established by section 15-1648 to be distributed among the  
14 universities for the purpose of investment in technology and  
15 research-based initiatives.

16           3. After the transfer of monies pursuant to paragraph 1 of this  
17 subsection, three per cent of the remaining monies collected during the  
18 preceding month shall be transferred to the workforce development account  
19 established in each community college district pursuant to section 15-1472  
20 for the purpose of investment in workforce development programs.

21           4. After transferring monies pursuant to paragraphs 1, 2 and 3 of  
22 this subsection, one-twelfth of the amount a community college that is  
23 owned, operated or chartered by a qualifying Indian tribe on its own  
24 Indian reservation would receive pursuant to section 15-1472, subsection  
25 D, paragraph 2 if it were a community college district shall be  
26 distributed each month to the treasurer or other designated depository of  
27 a qualifying Indian tribe. Monies distributed pursuant to this paragraph  
28 are for the exclusive purpose of providing support to one or more  
29 community colleges owned, operated or chartered by a qualifying Indian  
30 tribe and shall be used in a manner consistent with section 15-1472,  
31 subsection B. For the purposes of this paragraph, "qualifying Indian  
32 tribe" has the same meaning as defined in section 42-5031.01,  
33 subsection D.

34           5. After transferring monies pursuant to paragraphs 1, 2 and 3 of  
35 this subsection, one-twelfth of the following amounts shall be transferred  
36 each month to the department of education for the increased cost of basic  
37 state aid under section 15-971 due to added school days and associated  
38 teacher salary increases enacted in 2000:

- 39           (a) In fiscal year 2001-2002, \$15,305,900.
- 40           (b) In fiscal year 2002-2003, \$31,530,100.
- 41           (c) In fiscal year 2003-2004, \$48,727,700.
- 42           (d) In fiscal year 2004-2005, \$66,957,200.
- 43           (e) In fiscal year 2005-2006 and each fiscal year thereafter,  
44 \$86,280,500.

1           6. After transferring monies pursuant to paragraphs 1, 2 and 3 of  
2 this subsection, seven million eight hundred thousand dollars is  
3 appropriated each fiscal year, to be paid in monthly installments, to the  
4 department of education to be used for school safety as provided in  
5 section 15-154 and two hundred thousand dollars is appropriated each  
6 fiscal year, to be paid in monthly installments to the department of  
7 education to be used for the character education matching grant program as  
8 provided in section 15-154.01.

9           7. After transferring monies pursuant to paragraphs 1, 2 and 3 of  
10 this subsection, no more than seven million dollars may be appropriated by  
11 the legislature each fiscal year to the department of education to be used  
12 for accountability purposes as described in section 15-241 and title 15,  
13 chapter 9, article 8.

14           8. After transferring monies pursuant to paragraphs 1, 2 and 3 of  
15 this subsection, one million five hundred thousand dollars is appropriated  
16 each fiscal year, to be paid in monthly installments, to the failing  
17 schools tutoring fund established by section 15-241.

18           9. After transferring monies pursuant to paragraphs 1, 2 and 3 of  
19 this subsection, twenty-five million dollars shall be transferred each  
20 fiscal year to the state general fund to reimburse the general fund for  
21 the cost of the income tax credit allowed by section 43-1072.01.

22           10. After the payment of monies pursuant to paragraphs 1 through 9  
23 of this subsection, the remaining monies collected during the preceding  
24 month shall be transferred to the classroom site fund established by  
25 section 15-977. The monies shall be allocated as follows in the manner  
26 prescribed by section 15-977:

27           (a) Forty per cent shall be allocated for teacher compensation  
28 based on performance.

29           (b) Twenty per cent shall be allocated for increases in teacher  
30 base compensation and employee related expenses.

31           (c) Forty per cent shall be allocated for maintenance and operation  
32 purposes.

33           F. The department shall credit the remainder of the monies in the  
34 transaction privilege and severance tax clearing account to the state  
35 general fund, subject to any distribution required by section 42-5030.01.

36           G. Notwithstanding subsection D of this section, if a court of  
37 competent jurisdiction finally determines that tax monies distributed  
38 under this section were illegally collected under this article or articles  
39 5 and 8 of this chapter and orders the monies to be refunded to the  
40 taxpayer, the department shall compute the amount of such monies that was  
41 distributed to each city, town and county under this section. Each  
42 city's, town's and county's proportionate share of the costs shall be  
43 based on the amount of the original tax payment each municipality and  
44 county received. Each month the state treasurer shall reduce the amount  
45 otherwise distributable to the city, town and county under this section by

1 1/36 of the total amount to be recovered from the city, town or county  
 2 until the total amount has been recovered, but the monthly reduction for  
 3 any city, town or county shall not exceed ten percent of the full monthly  
 4 distribution to that entity. The reduction shall begin for the first  
 5 calendar month after the final disposition of the case and shall continue  
 6 until the total amount, including interest and costs, has been recovered.

7 H. On receiving a certificate of default from the greater Arizona  
 8 development authority pursuant to section 41-2257 or 41-2258 and to the  
 9 extent not otherwise expressly prohibited by law, the state treasurer  
 10 shall withhold from the next succeeding distribution of monies pursuant to  
 11 this section due to the defaulting political subdivision the amount  
 12 specified in the certificate of default and immediately deposit the amount  
 13 withheld in the greater Arizona development authority revolving fund. The  
 14 state treasurer shall continue to withhold and deposit the monies until  
 15 the greater Arizona development authority certifies to the state treasurer  
 16 that the default has been cured. In no event may the state treasurer  
 17 withhold any amount that the defaulting political subdivision certifies to  
 18 the state treasurer and the authority as being necessary to make any  
 19 required deposits then due for the payment of principal and interest on  
 20 bonds of the political subdivision that were issued before the date of the  
 21 loan repayment agreement or bonds and that have been secured by a pledge  
 22 of distributions made pursuant to this section.

23 I. Except as provided by sections 42-5033 and 42-5033.01, the  
 24 population of a county, city or town as determined by the most recent  
 25 United States decennial census plus any revisions to the decennial census  
 26 certified by the United States bureau of the census shall be used as the  
 27 basis for apportioning monies pursuant to subsection D of this section.

28 J. Except as otherwise provided by this subsection, on notice from  
 29 the department of revenue pursuant to section 42-6010, subsection B, the  
 30 state treasurer shall withhold from the distribution of monies pursuant to  
 31 this section to the affected city or town the amount of the penalty for  
 32 business location municipal tax incentives provided by the city or town to  
 33 a business entity that locates a retail business facility in the city or  
 34 town. The state treasurer shall continue to withhold monies pursuant to  
 35 this subsection until the entire amount of the penalty has been withheld.  
 36 The state treasurer shall credit any monies withheld pursuant to this  
 37 subsection to the state general fund as provided by subsection D,  
 38 paragraph 4 of this section. The state treasurer shall not withhold any  
 39 amount that the city or town certifies to the department of revenue and  
 40 the state treasurer as being necessary to make any required deposits or  
 41 payments for debt service on bonds or other long-term obligations of the  
 42 city or town that were issued or incurred before the location incentives  
 43 provided by the city or town.

1 K. On notice from the auditor general pursuant to section 9-626,  
2 subsection D, the state treasurer shall withhold from the distribution of  
3 monies pursuant to this section to the affected city the amount computed  
4 pursuant to section 9-626, subsection D. The state treasurer shall  
5 continue to withhold monies pursuant to this subsection until the entire  
6 amount specified in the notice has been withheld. The state treasurer  
7 shall credit any monies withheld pursuant to this subsection to the state  
8 general fund as provided by subsection D, paragraph 4 of this section.

9 L. Except as otherwise provided by this subsection, on notice from  
10 the attorney general pursuant to section 41-194.01, subsection B,  
11 paragraph 1 that an ordinance, regulation, order or other official action  
12 adopted or taken by the governing body of a county, city or town violates  
13 state law or the Constitution of Arizona, the state treasurer shall  
14 withhold the distribution of monies pursuant to this section to the  
15 affected county, city or town and shall continue to withhold monies  
16 pursuant to this subsection until the attorney general certifies to the  
17 state treasurer that the violation has been resolved. The state treasurer  
18 shall redistribute the monies withheld pursuant to this subsection among  
19 all other counties, cities and towns in proportion to their population as  
20 provided by subsection D of this section. The state treasurer shall not  
21 withhold any amount that the county, city or town certifies to the  
22 attorney general and the state treasurer as being necessary to make any  
23 required deposits or payments for debt service on bonds or other long-term  
24 obligations of the county, city or town that were issued or incurred  
25 before committing the violation.

26 M. ALL MONIES COLLECTED PURSUANT TO SECTION 42-5010, SUBSECTION A,  
27 PARAGRAPH 5 SHALL BE CREDITED TO, AND SEPARATELY ACCOUNTED IN, THE STATE  
28 GENERAL FUND.

29 ~~M.~~ N. For the purposes of this section, "community college  
30 district" means a community college district that is established pursuant  
31 to sections 15-1402 and 15-1403 and that is a political subdivision of  
32 this state and, unless otherwise specified, includes a community college  
33 tuition financing district established pursuant to section 15-1409.

34 Sec. 4. 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.

- 1           2. Services rendered in addition to selling tangible personal  
2 property at retail.
- 3           3. Sales of warranty or service contracts. The storage, use or  
4 consumption of tangible personal property provided under the conditions of  
5 such contracts is subject to tax under section 42-5156.
- 6           4. Sales of tangible personal property by any nonprofit  
7 organization organized and operated exclusively for charitable purposes  
8 and recognized by the United States internal revenue service under section  
9 501(c)(3) of the internal revenue code.
- 10          5. Sales to persons engaged in business classified under the  
11 restaurant classification of articles used by human beings for food, drink  
12 or condiment, whether simple, mixed or compounded.
- 13          6. Business activity that is properly included in any other  
14 business classification that is taxable under this article.
- 15          7. The sale of stocks and bonds.
- 16          8. Drugs and medical oxygen, including delivery hose, mask or tent,  
17 regulator and tank, if prescribed by a member of the medical, dental or  
18 veterinarian profession who is licensed by law to administer such  
19 substances.
- 20          9. Prosthetic appliances as defined in section 23-501 and as  
21 prescribed or recommended by a health professional who is licensed  
22 pursuant to title 32, chapter 7, 8, 11, 13, 14, 15, 16, 17 or 29.
- 23          10. Insulin, insulin syringes and glucose test strips.
- 24          11. Prescription eyeglasses or contact lenses.
- 25          12. Hearing aids as defined in section 36-1901.
- 26          13. Durable medical equipment that has a centers for medicare and  
27 medicaid services common procedure code, is designated reimbursable by  
28 medicare, is prescribed by a person who is licensed under title 32,  
29 chapter 7, 8, 13, 14, 15, 17 or 29, can withstand repeated use, is  
30 primarily and customarily used to serve a medical purpose, is generally  
31 not useful to a person in the absence of illness or injury and is  
32 appropriate for use in the home.
- 33          14. Sales of motor vehicles to nonresidents of this state for use  
34 outside this state if either of the following applies:  
35           (a) The motor vehicle dealer ships or delivers the motor vehicle to  
36 a destination out of this state.  
37           (b) The vehicle, trailer or semitrailer has a gross vehicle weight  
38 rating of more than ten thousand pounds, is used or maintained to  
39 transport property in the furtherance of interstate commerce and otherwise  
40 meets the definition of commercial motor vehicle as defined in section  
41 28-5201.
- 42          15. Food, as provided in and subject to the conditions of article 3  
43 of this chapter and sections 42-5074 and 42-6017.
- 44          16. Items purchased with United States department of agriculture  
45 coupons issued under the supplemental nutrition assistance program

1 pursuant to the food and nutrition act of 2008 (P.L. 88-525; 78 Stat. 703;  
2 7 United States Code sections 2011 through 2036b) by the United States  
3 department of agriculture food and nutrition service or food instruments  
4 issued under section 17 of the child nutrition act (P.L. 95-627;  
5 92 Stat. 3603; P.L. 99-661, section 4302; P.L. 111-296; 42 United States  
6 Code section 1786).

7 17. Textbooks by any bookstore that are required by any state  
8 university or community college.

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

13 19. Articles of food, drink or condiment and accessory tangible  
14 personal property to a school district or charter school if such articles  
15 and accessory tangible personal property are to be prepared and served to  
16 persons for consumption on the premises of a public school within the  
17 district or on the premises of the charter school during school hours.

18 20. Lottery tickets or shares pursuant to title 5, chapter 5.1,  
19 article 2.

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

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

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

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

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

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

4 22. Motor vehicle fuel and use fuel that are subject to a tax  
5 imposed under title 28, chapter 16, article 1, sales of use fuel to a  
6 holder of a valid single trip use fuel tax permit issued under section  
7 28-5739, sales of aviation fuel that are subject to the tax imposed under  
8 section 28-8344 and sales of jet fuel that are subject to the tax imposed  
9 under article 8 of this chapter.

10 23. Tangible personal property sold to a person engaged in the  
11 business of leasing or renting such property under the personal property  
12 rental classification if such property is to be leased or rented by such  
13 person.

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

17 25. Tangible personal property sold to:

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

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

23 (c) A qualifying health care organization as defined in section  
24 42-5001 if the organization is dedicated to providing educational,  
25 therapeutic, rehabilitative and family medical education training for  
26 blind and visually impaired children and children with multiple  
27 disabilities from the time of birth to age twenty-one.

28 (d) A qualifying community health center as defined in section  
29 42-5001.

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

33 (f) For taxable periods beginning from and after June 30, 2001, a  
34 nonprofit charitable organization that has qualified under section  
35 501(c)(3) of the internal revenue code and that provides residential  
36 apartment housing for low-income persons over sixty-two years of age in a  
37 facility that qualifies for a federal housing subsidy, if the tangible  
38 personal property is used by the organization solely to provide  
39 residential apartment housing for low-income persons over sixty-two years  
40 of age in a facility that qualifies for a federal housing subsidy.

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

43 (h) Any person representing or working on behalf of another person  
44 described in subdivisions (a) through (g) of this paragraph if the

1 tangible personal property is incorporated or fabricated into a project  
2 described in section 42-5075, subsection P.

3 26. Magazines or other periodicals or other publications by this  
4 state to encourage tourist travel.

5 27. Tangible personal property sold to:

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

11 (i) Incorporated or fabricated by the person into any real  
12 property, structure, project, development or improvement as part of the  
13 business.

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

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

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

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

28 29. Tangible personal property purchased in this state by a  
29 nonprofit charitable organization that has qualified under section  
30 501(c)(3) of the United States internal revenue code and that engages in  
31 and uses such property exclusively in programs for persons with mental or  
32 physical disabilities if the programs are exclusively for training, job  
33 placement, rehabilitation or testing.

34 30. Sales of tangible personal property by a nonprofit organization  
35 that is exempt from taxation under section 501(c)(3), 501(c)(4) or  
36 501(c)(6) of the internal revenue code if the organization is associated  
37 with a major league baseball team or a national touring professional  
38 golfing association and no part of the organization's net earnings inures  
39 to the benefit of any private shareholder or individual. This paragraph  
40 does not apply to an organization that is owned, managed or controlled, in  
41 whole or in part, by a major league baseball team, or its owners,  
42 officers, employees or agents, or by a major league baseball association  
43 or professional golfing association, or its owners, officers, employees or  
44 agents, unless the organization conducted or operated exhibition events in

1 this state before January 1, 2018 that were exempt from taxation under  
2 section 42-5073.

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

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

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

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

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

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

32 35. Sales of natural gas or liquefied petroleum gas used to propel  
33 a motor vehicle.

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

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

1 manufacture paper, the time period begins with the date the first  
2 manufacturing, processing or production equipment is placed in service.

3 38. Sales of liquid, solid or gaseous chemicals used in  
4 manufacturing, processing, fabricating, mining, refining, metallurgical  
5 operations, research and development and, beginning on January 1, 1999,  
6 printing, if using or consuming the chemicals, alone or as part of an  
7 integrated system of chemicals, involves direct contact with the materials  
8 from which the product is produced for the purpose of causing or allowing  
9 a chemical or physical change to occur in the materials as part of the  
10 production process. This paragraph does not include chemicals that are  
11 used or consumed in activities such as packaging, storage or  
12 transportation but does not affect any deduction for such chemicals that  
13 is otherwise provided by this section. For the purposes of this  
14 paragraph, "printing" means a commercial printing operation and includes  
15 job printing, engraving, embossing, copying and bookbinding.

16 39. Through December 31, 1994, personal property liquidation  
17 transactions, conducted by a personal property liquidator. From and after  
18 December 31, 1994, personal property liquidation transactions shall be  
19 taxable under this section provided that nothing in this subsection shall  
20 be construed to authorize the taxation of casual activities or  
21 transactions under this chapter. For the purposes of this paragraph:

22 (a) "Personal property liquidation transaction" means a sale of  
23 personal property made by a personal property liquidator acting solely on  
24 behalf of the owner of the personal property sold at the dwelling of the  
25 owner or on the death of any owner, on behalf of the surviving spouse, if  
26 any, any devisee or heir or the personal representative of the estate of  
27 the deceased, if one has been appointed.

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

30 40. Sales of food, drink and condiment for consumption within the  
31 premises of any prison, jail or other institution under the jurisdiction  
32 of the state department of corrections, the department of public safety,  
33 the department of juvenile corrections or a county sheriff.

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

39 42. Sales of:

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

42 (b) Livestock and poultry feed, salts, vitamins and other additives  
43 for livestock or poultry consumption that are sold to persons for use or  
44 consumption by their own livestock or poultry, for use or consumption in  
45 the businesses of farming, ranching and producing or feeding livestock,

1 poultry, or livestock or poultry products or for use or consumption in  
2 noncommercial boarding of livestock. For the purposes of this paragraph,  
3 "poultry" includes ratites.

4 43. Sales of implants used as growth promotants and injectable  
5 medicines, not already exempt under paragraph 8 of this subsection, for  
6 livestock or poultry owned by or in possession of persons that are engaged  
7 in producing livestock, poultry, or livestock or poultry products or that  
8 are engaged in feeding livestock or poultry commercially. For the  
9 purposes of this paragraph, "poultry" includes ratites.

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

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

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

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

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

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

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

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

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

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

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

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

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

15           (b) "Curriculum design or enhancement" means planning, implementing  
16 or reporting on courses of study, lessons, assignments or other learning  
17 activities.

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

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

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

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

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

42           (a) "Affiliated Indian" means an individual Native American Indian  
43 who is duly registered on the tribal rolls of the Indian tribe for whose  
44 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 the Indian tribe.

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

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

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

22 1. Machinery, or equipment, used directly in manufacturing,  
23 processing, fabricating, job printing, refining or metallurgical  
24 operations. The terms "manufacturing", "processing", "fabricating", "job  
25 printing", "refining" and "metallurgical" as used in this paragraph refer  
26 to and include those operations commonly understood within their ordinary  
27 meaning. "Metallurgical operations" includes leaching, milling,  
28 precipitating, smelting and refining.

29 2. Mining machinery, or equipment, used directly in the process of  
30 extracting ores or minerals from the earth for commercial purposes,  
31 including equipment required to prepare the materials for extraction and  
32 handling, loading or transporting such extracted material to the surface.  
33 "Mining" includes underground, surface and open pit operations for  
34 extracting ores and minerals.

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

43 4. Machinery, equipment or transmission lines used directly in  
44 producing or transmitting electrical power, but not including  
45 distribution. Transformers and control equipment used at transmission

1 substation sites constitute equipment used in producing or transmitting  
2 electrical power.

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

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

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

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

16 6. Neat animals, horses, asses, sheep, ratites, swine or goats used  
17 or to be used as breeding or production stock, including sales of  
18 breedings or ownership shares in such animals used for breeding or  
19 production.

20 7. Pipes or valves four inches in diameter or larger used to  
21 transport oil, natural gas, artificial gas, water, wastewater or coal  
22 slurry, including compressor units, regulators, machinery and equipment,  
23 fittings, seals and any other part that is used in operating the pipes or  
24 valves.

25 8. Aircraft, navigational and communication instruments and other  
26 accessories and related equipment sold to:

27 (a) A person:

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

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

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

41 (iv) Operating an aircraft to transport persons in any manner for  
42 compensation or hire, or for use in a fractional ownership program that  
43 meets the requirements of federal aviation administration regulations  
44 (14 Code of Federal Regulations part 91, subpart K), including as an air  
45 carrier, a foreign air carrier or a commercial operator or under a

1 restricted category, within the meaning of 14 Code of Federal Regulations,  
2 regardless of whether the operation or aircraft is regulated or certified  
3 under part 91, 119, 121, 133, 135, 136 or 137, or another part of 14 Code  
4 of Federal Regulations.

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

10 (b) Any foreign government.

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

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

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

24 11. Machinery or equipment used directly to drill for oil or gas or  
25 used directly in the process of extracting oil or gas from the earth for  
26 commercial purposes.

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

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

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

44 (a) "Off-highway vehicles" means off-highway vehicles as defined in  
45 section 28-1171 that are modified at the time of sale to function as a

1 tractor or to tow tractor-drawn implements and that are not equipped with  
2 a modified exhaust system to increase horsepower or speed or an engine  
3 that is more than one thousand cubic centimeters or that have a maximum  
4 speed of fifty miles per hour or less.

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

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

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

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

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

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

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

41 17. Clean rooms that are used for manufacturing, processing,  
42 fabrication or research and development, as defined in paragraph 15 of  
43 this subsection, of semiconductor products. For the purposes of this  
44 paragraph, "clean room" means all property that comprises or creates an  
45 environment where humidity, temperature, particulate matter and

1 contamination are precisely controlled within specified parameters,  
2 without regard to whether the property is actually contained within that  
3 environment or whether any of the property is affixed to or incorporated  
4 into real property. Clean room:

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

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

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

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

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

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

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

1 (b) Machinery or equipment purchased to replace machinery or  
2 equipment for which an exemption was previously claimed and taken under  
3 this paragraph.

4 (c) Any machinery or equipment purchased after the television  
5 station has ceased analog broadcasting, or purchased after November 1,  
6 2009, whichever occurs first.

7 22. Qualifying equipment that is purchased from and after June 30,  
8 2004 through December 31, 2028 by a qualified business under section  
9 41-1516 for harvesting or processing qualifying forest products removed  
10 from qualifying projects as defined in section 41-1516. To qualify for  
11 this deduction, the qualified business at the time of purchase must  
12 present its certification approved by the department.

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

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

23 1. Expendable materials. For the purposes of this paragraph,  
24 expendable materials do not include any of the categories of tangible  
25 personal property specified in subsection B of this section regardless of  
26 the cost or useful life of that property.

27 2. Janitorial equipment and hand tools.

28 3. Office equipment, furniture and supplies.

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

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

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

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

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

41 D. In addition to the deductions from the tax base prescribed by  
42 subsection A of this section, there shall be deducted from the tax base  
43 the gross proceeds of sales or gross income derived from sales of  
44 machinery, equipment, materials and other tangible personal property used  
45 directly and predominantly to construct a qualified environmental

1 technology manufacturing, producing or processing facility as described in  
2 section 41-1514.02. This subsection applies for ten full consecutive  
3 calendar or fiscal years after the start of initial construction.

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

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

14 G. If a person is engaged in the business of selling tangible  
15 personal property at both wholesale and retail, the tax under this section  
16 applies only to the gross proceeds of the sales made other than at  
17 wholesale if the person's books are kept so as to show separately the  
18 gross proceeds of sales of each class, and if the books are not so kept,  
19 the tax under this section applies to the gross proceeds of every sale so  
20 made.

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

28 1. Agricultural producers who are owners, proprietors or tenants of  
29 agricultural lands, orchards, farms or gardens where agricultural products  
30 are grown, raised or prepared for market and who are marketing their own  
31 agricultural products.

32 2. Businesses classified under the:

- 33 (a) Transporting classification.
- 34 (b) Utilities classification.
- 35 (c) Telecommunications classification.
- 36 (d) Pipeline classification.
- 37 (e) Private car line classification.
- 38 (f) Publication classification.
- 39 (g) Job printing classification.
- 40 (h) Prime contracting classification.
- 41 (i) Restaurant classification.

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

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

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

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

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

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

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

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

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

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

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

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

1           O. For the purposes of this section, a sale of wireless  
2 telecommunications equipment to a person who holds the equipment for sale  
3 or transfer to a customer as an inducement to enter into or continue a  
4 contract for telecommunications services that are taxable under section  
5 42-5064 is considered to be a sale for resale in the regular course of  
6 business.

7           P. Retail sales of prepaid calling cards or prepaid authorization  
8 numbers for telecommunications services, including sales of  
9 reauthorization of a prepaid card or authorization number, are subject to  
10 tax under this section.

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

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

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

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

23           1. The transfer of title or possession of the coal is for the  
24 purpose of refining the coal.

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

31           S. If a seller is entitled to a deduction pursuant to subsection B,  
32 paragraph 16, subdivision (b) of this section, the department may require  
33 the purchaser to establish that the requirements of subsection B,  
34 paragraph 16, subdivision (b) of this section have been satisfied. If the  
35 purchaser cannot establish that the requirements of subsection B,  
36 paragraph 16, subdivision (b) of this section have been satisfied, the  
37 purchaser is liable in an amount equal to any tax, penalty and interest  
38 that the seller would have been required to pay under article 1 of this  
39 chapter if the seller had not made a deduction pursuant to subsection B,  
40 paragraph 16, subdivision (b) of this section. Payment of the amount  
41 under this subsection exempts the purchaser from liability for any tax  
42 imposed under article 4 of this chapter and related to the tangible  
43 personal property purchased. The amount shall be treated as transaction  
44 privilege tax to the purchaser and as tax revenues collected from the  
45 seller to designate the distribution base pursuant to section 42-5029.

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

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

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

10 U. For the purposes of section 42-5032.03 and subject to section  
11 48-4238, beginning October 1, 2025 and each month thereafter through  
12 December 31, 2055, the department shall separately account for revenues  
13 collected under the retail classification from each business selling  
14 tangible personal property at retail on the premises of a major league  
15 baseball facility or an adjacent building that is owned by a county  
16 stadium district pursuant to title 48, chapter 26 and operated by the  
17 county stadium district or the professional baseball franchise  
18 organization that occupies the major league baseball facility or adjacent  
19 building. For the purposes of this subsection, "adjacent building" and  
20 "major league baseball facility" have the same meanings prescribed in  
21 section 48-4201.

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

35 W. IN LIEU OF A SEPARATE TRANSACTION PRIVILEGE TAX LICENSE, THE  
36 DEPARTMENT SHALL PROVIDE WITHOUT ADDITIONAL COST AN ENDORSEMENT TO A  
37 RETAIL CLASSIFICATION TRANSACTION PRIVILEGE TAX LICENSE FOR A PERSON THAT  
38 IS IN THE BUSINESS OF SELLING TANGIBLE PERSONAL PROPERTY AT RETAIL AND  
39 THAT SELLS LUXURY ITEMS INCLUDED UNDER THE LUXURY ITEM CLASSIFICATION.

40 ~~W.~~ X. For the purposes of this section:

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

1           2. "Aircraft" includes:

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

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

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

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

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

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

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

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

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

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

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

1           Sec. 5. Title 42, chapter 5, article 2, Arizona Revised Statutes,  
2 is amended by adding section 42-5077, to read:

3           42-5077. Luxury item classification; definition

4           A. THE LUXURY ITEM CLASSIFICATION IS COMPRISED OF THE BUSINESS OF  
5 SELLING LUXURY ITEMS AT RETAIL.

6           B. THE TAX BASE OF THE LUXURY ITEM CLASSIFICATION IS THE GROSS  
7 PROCEEDS OF SALES OR GROSS INCOME DERIVED FROM THE BUSINESS. THE TAX BASE  
8 IS SEPARATE FROM THE TAX BASES OF OTHER RETAIL ACTIVITIES THAT THE  
9 TAXPAYER ENGAGES IN, AND THE TAX DUE UNDER THE LUXURY ITEM CLASSIFICATION  
10 IS IN ADDITION TO THE TAX DUE UNDER THE RETAIL CLASSIFICATION ON THE GROSS  
11 PROCEEDS OF LUXURY ITEMS.

12           C. FOR THE PURPOSES OF THIS SECTION, "LUXURY ITEM" MEANS:

13           1. JEWELRY SOLD AT A RETAIL PRICE OF MORE THAN \$5,000.

14           2. THE FOLLOWING ITEMS SOLD AT A RETAIL PRICE OF MORE THAN \$1,000:

15           (a) ARTICLES OF CLOTHING OR FOOTWEAR INTENDED TO BE WORN ON THE  
16 HUMAN BODY.

17           (b) LUGGAGE.

18           (c) HANDBAGS.

19           (d) UMBRELLAS.

20           (e) WALLETS.

21           (f) WATCHES.

22           Sec. 6. Requirements for enactment; two-thirds vote

23           Pursuant to article IX, section 22, Constitution of Arizona, this  
24 act is effective only on the affirmative vote of at least two-thirds of  
25 the members of each house of the legislature and is effective immediately  
26 on the signature of the governor or, if the governor vetoes this act, on  
27 the subsequent affirmative vote of at least three-fourths of the members  
28 of each house of the legislature.