

REFERENCE TITLE: TPT; exemption; agricultural equipment

State of Arizona
House of Representatives
Fifty-fifth Legislature
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2022

HB 2400

Introduced by
Representatives Dunn: Blackman, Carroll, Carter, Cook, John, Kaiser,
Senator Kerr

AN ACT

AMENDING SECTION 42-5061, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2021, CHAPTER 266, SECTION 3, CHAPTER 412, SECTION 7, CHAPTER 417, SECTION 4 AND CHAPTER 443, SECTION 2; AMENDING SECTION 42-5061, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2021, CHAPTER 266, SECTION 4, CHAPTER 412, SECTION 8, CHAPTER 417, SECTION 5 AND CHAPTER 443, SECTION 3; AMENDING SECTIONS 42-5071 AND 42-5159, ARIZONA REVISED STATUTES; RELATING TO TRANSACTION PRIVILEGE AND USE TAX.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Section 42-5061, Arizona Revised Statutes, as amended by
3 Laws 2021, chapter 266, section 3, chapter 412, section 7, chapter 417,
4 section 4 and chapter 443, section 2, is amended to read:

5 42-5061. Retail classification; definitions

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

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

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

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

19 4. Sales of tangible personal property by any nonprofit
20 organization organized and operated exclusively for charitable purposes
21 and recognized by the United States internal revenue service under section
22 501(c)(3) of the internal revenue code.

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

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

28 7. The sale of stocks and bonds.

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

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

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

37 11. Prescription eyeglasses or contact lenses.

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

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

1 14. Sales of motor vehicles to nonresidents of this state for use
2 outside this state if the motor vehicle dealer ships or delivers the motor
3 vehicle to a destination out of this state.

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

6 16. Items purchased with United States department of agriculture
7 coupons issued under the supplemental nutrition assistance program
8 pursuant to the food and nutrition act of 2008 (P.L. 88-525; 78 Stat. 703;
9 7 United States Code sections 2011 through 2036b) by the United States
10 department of agriculture food and nutrition service or food instruments
11 issued under section 17 of the child nutrition act (P.L. 95-627; 92
12 Stat. 3603; P.L. 99-661, section 4302; P.L. 111-296; 42 United States Code
13 section 1786).

14 17. Textbooks by any bookstore that are required by any state
15 university or community college.

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

20 19. Articles of food, drink or condiment and accessory tangible
21 personal property to a school district or charter school if such articles
22 and accessory tangible personal property are to be prepared and served to
23 persons for consumption on the premises of a public school within the
24 district or on the premises of the charter school during school hours.

25 20. Lottery tickets or shares pursuant to title 5, chapter 5.1,
26 article 1.

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

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

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

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

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

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

12 22. Motor vehicle fuel and use fuel that are subject to a tax
13 imposed under title 28, chapter 16, article 1, sales of use fuel to a
14 holder of a valid single trip use fuel tax permit issued under section
15 28-5739, sales of aviation fuel that are subject to the tax imposed under
16 section 28-8344 and sales of jet fuel that are subject to the tax imposed
17 under article 8 of this chapter.

18 23. Tangible personal property sold to a person engaged in the
19 business of leasing or renting such property under the personal property
20 rental classification if such property is to be leased or rented by such
21 person.

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

25 25. Tangible personal property sold to:

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

27 (b) A qualifying health care organization as defined in section
28 42-5001 if the tangible personal property is used by the organization
29 solely to provide health and medical related educational and charitable
30 services.

31 (c) A qualifying health care organization as defined in section
32 42-5001 if the organization is dedicated to providing educational,
33 therapeutic, rehabilitative and family medical education training for
34 blind and visually impaired children and children with multiple
35 disabilities from the time of birth to age twenty-one.

36 (d) A qualifying community health center as defined in section
37 42-5001.

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

41 (f) For taxable periods beginning from and after June 30, 2001, a
42 nonprofit charitable organization that has qualified under section
43 501(c)(3) of the internal revenue code and that provides residential
44 apartment housing for low-income persons over sixty-two years of age in a
45 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 (g) A qualifying health sciences educational institution as defined
5 in section 42-5001.

6 (h) Any person representing or working on behalf of another person
7 described in subdivisions (a) through (g) of this paragraph if the
8 tangible personal property is incorporated or fabricated into a project
9 described in section 42-5075, subsection 0.

10 26. Magazines or other periodicals or other publications by this
11 state to encourage tourist travel.

12 27. Tangible personal property sold to:

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

18 (i) Incorporated or fabricated by the person into any real
19 property, structure, project, development or improvement as part of the
20 business.

21 (ii) Incorporated or fabricated by the person into any project
22 described in section 42-5075, subsection 0.

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

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

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

35 29. Tangible personal property purchased in this state by a
36 nonprofit charitable organization that has qualified under section
37 501(c)(3) of the United States internal revenue code and that engages in
38 and uses such property exclusively in programs for persons with mental or
39 physical disabilities if the programs are exclusively for training, job
40 placement, rehabilitation or testing.

41 30. Sales of tangible personal property by a nonprofit organization
42 that is exempt from taxation under section 501(c)(3), 501(c)(4) or
43 501(c)(6) of the internal revenue code if the organization is associated
44 with a major league baseball team or a national touring professional
45 golfing association and no part of the organization's net earnings inures

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

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

14 32. Sales of tangible personal property by a nonprofit organization
15 that is exempt from taxation under section 501(c)(3), 501(c)(4),
16 501(c)(6), 501(c)(7) or 501(c)(8) of the internal revenue code if the
17 organization sponsors or operates a rodeo featuring primarily farm and
18 ranch animals and no part of the organization's net earnings inures to the
19 benefit of any private shareholder or individual.

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

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

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

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

38 35. Sales of natural gas or liquefied petroleum gas used to propel
39 a motor vehicle.

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

43 37. Coal, petroleum, coke, natural gas, virgin fuel oil and
44 electricity sold to a qualified environmental technology manufacturer,
45 producer or processor as defined in section 41-1514.02 and directly used

1 or consumed in generating or providing on-site power or energy solely
 2 for environmental technology manufacturing, producing or processing or
 3 environmental protection. This paragraph applies for twenty full
 4 consecutive calendar or fiscal years from the date the first paper
 5 manufacturing machine is placed in service. In the case of an
 6 environmental technology manufacturer, producer or processor that does not
 7 manufacture paper, the time period begins with the date the first
 8 manufacturing, processing or production equipment is placed in service.

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

22 39. Through December 31, 1994, personal property liquidation
 23 transactions, conducted by a personal property liquidator. From and after
 24 December 31, 1994, personal property liquidation transactions shall be
 25 taxable under this section provided that nothing in this subsection shall
 26 be construed to authorize the taxation of casual activities or
 27 transactions under this chapter. For the purposes of this paragraph:

28 (a) "Personal property liquidation transaction" means a sale of
 29 personal property made by a personal property liquidator acting solely on
 30 behalf of the owner of the personal property sold at the dwelling of the
 31 owner or on the death of any owner, on behalf of the surviving spouse, if
 32 any, any devisee or heir or the personal representative of the estate of
 33 the deceased, if one has been appointed.

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

36 40. Sales of food, drink and condiment for consumption within the
 37 premises of any prison, jail or other institution under the jurisdiction
 38 of the state department of corrections, the department of public safety,
 39 the department of juvenile corrections or a county sheriff.

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

1 42. Sales of:

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

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

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

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

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

27 46. Sales of alternative fuel, as defined in section 1-215, to 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 47. Sales of materials that are purchased by or for publicly funded
31 libraries, including school district libraries, charter school libraries,
32 community college libraries, state university libraries or federal, state,
33 county or municipal libraries, for use by the public as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1 58. Sales of tangible personal property incorporated or fabricated
2 into a project described in section 42-5075, subsection 0, that is located
3 within the exterior boundaries of an Indian reservation for which the
4 owner, as defined in section 42-5075, of the project is an Indian tribe or
5 an affiliated Indian. For the purposes of this paragraph:

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

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

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

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

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

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

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

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

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

1 in section 42-5075, subsection 0, and consisting of central office
2 switching equipment, switchboards, private branch exchange equipment,
3 microwave radio equipment and carrier equipment including optical fiber,
4 coaxial cable and other transmission media that are components of carrier
5 systems.

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

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

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

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

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

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

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

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

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

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

19 (b) Any foreign government.

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

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

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

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

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

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

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

9 ~~(a) "New machinery and equipment" means machinery and equipment~~
10 ~~that have never been sold at retail except pursuant to leases or rentals~~
11 ~~that do not total two years or more.~~

12 (a) "OFF-HIGHWAY VEHICLES" MEANS OFF-HIGHWAY VEHICLES AS DEFINED IN
13 SECTION 28-1171 THAT ARE NOT EQUIPPED WITH A MODIFIED EXHAUST SYSTEM TO
14 INCREASE HORSEPOWER OR SPEED OR AN ENGINE THAT IS MORE THAN ONE THOUSAND
15 CUBIC CENTIMETERS OR THAT HAVE A MAXIMUM SPEED OF FIFTY MILES PER HOUR OR
16 LESS.

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

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

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

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

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

39 (i) Over two-thirds of the transmissions, measured in megabytes,
40 transmitted by the facility during the test period were transmitted to or
41 on behalf of one or more direct broadcast satellite television or data
42 transmission services that operate pursuant to 47 Code of Federal
43 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. For the purposes of
5 subdivision (b) of this paragraph, "test period" means the three hundred
6 sixty-five day period beginning on the later of the date on which the
7 tangible personal property is purchased or the date on which the direct
8 broadcast satellite television or data transmission service first
9 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 used directly in feeding poultry,
28 environmentally controlling housing for poultry, moving eggs within a
29 production and packaging facility or sorting or cooling eggs. This
30 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.

42 20. Machinery and equipment that are sold to a person engaged in
43 commercially producing livestock, livestock products or agricultural,
44 horticultural, viticultural or floricultural crops or products in this
45 state, including a person representing or working on behalf of such a

1 person in a manner described in section 42-5075, subsection 0, if the
2 machinery and equipment are used directly and primarily to prevent,
3 monitor, control or reduce air, water or land pollution.

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

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

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

16 (c) Any machinery or equipment purchased after the television
17 station has ceased analog broadcasting, or purchased after November 1,
18 2009, whichever occurs first.

19 22. Qualifying equipment that is purchased from and after June 30,
20 2004 through June 30, 2024 by a qualified business under section 41-1516
21 for harvesting or processing qualifying forest products removed from
22 qualifying projects as defined in section 41-1516. To qualify for this
23 deduction, the qualified business at the time of purchase must present its
24 certification approved by the department.

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

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

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

39 2. Janitorial equipment and hand tools.

40 3. Office equipment, furniture and supplies.

41 4. Tangible personal property used in selling or distributing
42 activities, other than the telecommunications transmissions described in
43 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 other tangible personal property used
9 by a contractor in performing a contract.

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

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

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

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

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

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

- 1 2. Businesses classified under the:
- 2 (a) Transporting classification.
- 3 (b) Utilities classification.
- 4 (c) Telecommunications classification.
- 5 (d) Pipeline classification.
- 6 (e) Private car line classification.
- 7 (f) Publication classification.
- 8 (g) Job printing classification.
- 9 (h) Prime contracting classification.
- 10 (i) Restaurant classification.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

38 V. For the purposes of this section:

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

42 2. "Aircraft" includes:

43 (a) An airplane flight simulator that is approved by the federal
44 aviation administration for use as a phase II or higher flight simulator
45 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 4. "Selling at retail" means a sale for any purpose other than for
8 resale in the regular course of business in the form of tangible personal
9 property, but transfer of possession, lease and rental as used in the
10 definition of sale mean only such transactions as are found on
11 investigation to be in lieu of sales as defined without the words lease or
12 rental.

13 W. For the purposes of subsection I of this section:

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

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

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

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

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

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

1 Sec. 2. Section 42-5061, Arizona Revised Statutes, as amended by
2 Laws 2021, chapter 266, section 4, chapter 412, section 8, chapter 417,
3 section 5 and chapter 443, section 3, is amended to read:

4 42-5061. Retail classification; definitions

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

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

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

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

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

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

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

27 7. The sale of stocks and bonds.

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

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

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

36 11. Prescription eyeglasses or contact lenses.

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

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

1 14. Sales of motor vehicles to nonresidents of this state for use
2 outside this state if the motor vehicle dealer ships or delivers the motor
3 vehicle to a destination out of this state.

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

6 16. Items purchased with United States department of agriculture
7 coupons issued under the supplemental nutrition assistance program
8 pursuant to the food and nutrition act of 2008 (P.L. 88-525; 78 Stat. 703;
9 7 United States Code sections 2011 through 2036b) by the United States
10 department of agriculture food and nutrition service or food instruments
11 issued under section 17 of the child nutrition act (P.L. 95-627; 92 Stat.
12 3603; P.L. 99-661, section 4302; P.L. 111-296; 42 United States Code
13 section 1786).

14 17. Textbooks by any bookstore that are required by any state
15 university or community college.

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

20 19. Articles of food, drink or condiment and accessory tangible
21 personal property to a school district or charter school if such articles
22 and accessory tangible personal property are to be prepared and served to
23 persons for consumption on the premises of a public school within the
24 district or on the premises of the charter school during school hours.

25 20. Lottery tickets or shares pursuant to title 5, chapter 5.1,
26 article 1.

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

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

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

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

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

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

12 22. Motor vehicle fuel and use fuel that are subject to a tax
13 imposed under title 28, chapter 16, article 1, sales of use fuel to a
14 holder of a valid single trip use fuel tax permit issued under section
15 28-5739, sales of aviation fuel that are subject to the tax imposed under
16 section 28-8344 and sales of jet fuel that are subject to the tax imposed
17 under article 8 of this chapter.

18 23. Tangible personal property sold to a person engaged in the
19 business of leasing or renting such property under the personal property
20 rental classification if such property is to be leased or rented by such
21 person.

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

25 25. Tangible personal property sold to:

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

27 (b) A qualifying health care organization as defined in section
28 42-5001 if the tangible personal property is used by the organization
29 solely to provide health and medical related educational and charitable
30 services.

31 (c) A qualifying health care organization as defined in section
32 42-5001 if the organization is dedicated to providing educational,
33 therapeutic, rehabilitative and family medical education training for
34 blind and visually impaired children and children with multiple
35 disabilities from the time of birth to age twenty-one.

36 (d) A qualifying community health center as defined in section
37 42-5001.

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

41 (f) For taxable periods beginning from and after June 30, 2001, a
42 nonprofit charitable organization that has qualified under section
43 501(c)(3) of the internal revenue code and that provides residential
44 apartment housing for low-income persons over sixty-two years of age in a
45 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 (g) A qualifying health sciences educational institution as defined
5 in section 42-5001.

6 (h) Any person representing or working on behalf of another person
7 described in subdivisions (a) through (g) of this paragraph if the
8 tangible personal property is incorporated or fabricated into a project
9 described in section 42-5075, subsection 0.

10 26. Magazines or other periodicals or other publications by this
11 state to encourage tourist travel.

12 27. Tangible personal property sold to:

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

18 (i) Incorporated or fabricated by the person into any real
19 property, structure, project, development or improvement as part of the
20 business.

21 (ii) Incorporated or fabricated by the person into any project
22 described in section 42-5075, subsection 0.

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

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

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

35 29. Tangible personal property purchased in this state by a
36 nonprofit charitable organization that has qualified under section
37 501(c)(3) of the United States internal revenue code and that engages in
38 and uses such property exclusively in programs for persons with mental or
39 physical disabilities if the programs are exclusively for training, job
40 placement, rehabilitation or testing.

41 30. Sales of tangible personal property by a nonprofit organization
42 that is exempt from taxation under section 501(c)(3), 501(c)(4) or
43 501(c)(6) of the internal revenue code if the organization is associated
44 with a major league baseball team or a national touring professional
45 golfing association and no part of the organization's net earnings inures

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

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

14 32. Sales of tangible personal property by a nonprofit organization
15 that is exempt from taxation under section 501(c)(3), 501(c)(4),
16 501(c)(6), 501(c)(7) or 501(c)(8) of the internal revenue code if the
17 organization sponsors or operates a rodeo featuring primarily farm and
18 ranch animals and no part of the organization's net earnings inures to the
19 benefit of any private shareholder or individual.

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

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

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

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

38 35. Sales of natural gas or liquefied petroleum gas used to propel
39 a motor vehicle.

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

43 37. Petroleum, coke, natural gas, virgin fuel oil and electricity
44 sold to a qualified environmental technology manufacturer, producer or
45 processor as defined in section 41-1514.02 and directly used or consumed

1 in generating or providing on-site power or energy solely for
 2 environmental technology manufacturing, producing or processing or
 3 environmental protection. This paragraph applies for twenty full
 4 consecutive calendar or fiscal years from the date the first paper
 5 manufacturing machine is placed in service. In the case of an
 6 environmental technology manufacturer, producer or processor that does
 7 not manufacture paper, the time period begins with the date the first
 8 manufacturing, processing or production equipment is placed in service.

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

22 39. Through December 31, 1994, personal property liquidation
 23 transactions, conducted by a personal property liquidator. From and after
 24 December 31, 1994, personal property liquidation transactions shall be
 25 taxable under this section provided that nothing in this subsection shall
 26 be construed to authorize the taxation of casual activities or
 27 transactions under this chapter. For the purposes of this paragraph:

28 (a) "Personal property liquidation transaction" means a sale of
 29 personal property made by a personal property liquidator acting solely on
 30 behalf of the owner of the personal property sold at the dwelling of the
 31 owner or on the death of any owner, on behalf of the surviving spouse, if
 32 any, any devisee or heir or the personal representative of the estate of
 33 the deceased, if one has been appointed.

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

36 40. Sales of food, drink and condiment for consumption within the
 37 premises of any prison, jail or other institution under the jurisdiction
 38 of the state department of corrections, the department of public safety,
 39 the department of juvenile corrections or a county sheriff.

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

1 42. Sales of:
2 (a) Livestock and poultry to persons engaging in the businesses of
3 farming, ranching or producing livestock or poultry.
4 (b) Livestock and poultry feed, salts, vitamins and other additives
5 for livestock or poultry consumption that are sold to persons for use or
6 consumption by their own livestock or poultry, for use or consumption in
7 the businesses of farming, ranching and producing or feeding livestock,
8 poultry, or livestock or poultry products or for use or consumption in
9 noncommercial boarding of livestock. For the purposes of this paragraph,
10 "poultry" includes ratites.

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

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

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

27 46. Sales of alternative fuel, as defined in section 1-215, to 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 47. Sales of materials that are purchased by or for publicly funded
31 libraries, including school district libraries, charter school libraries,
32 community college libraries, state university libraries or federal, state,
33 county or municipal libraries, for use by the public as follows:
34 (a) Printed or photographic materials, beginning August 7, 1985.
35 (b) Electronic or digital media materials, beginning July 17, 1994.

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

44 49. Sales of alternative fuel vehicles if the vehicle was
45 manufactured as a diesel fuel vehicle and converted to operate on

1 alternative fuel and equipment that is installed in a conventional diesel
2 fuel motor vehicle to convert the vehicle to operate on an alternative
3 fuel, as defined in section 1-215.

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

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

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

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

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

21 (b) "Curriculum design or enhancement" means planning, implementing
22 or reporting on courses of study, lessons, assignments or other learning
23 activities.

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

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

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

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

43 58. Sales of tangible personal property incorporated or fabricated
44 into a project described in section 42-5075, subsection 0, that is located
45 within the exterior boundaries of an Indian reservation for which the

1 owner, as defined in section 42-5075, of the project is an Indian tribe or
2 an affiliated Indian. For the purposes of this paragraph:

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

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

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

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

19 60. Sales of coal.

20 61. Sales of tangible personal property by a marketplace seller
21 that are facilitated by a marketplace facilitator in which the marketplace
22 facilitator has remitted or will remit the applicable tax to the
23 department pursuant to section 42-5014.

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

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

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

41 3. Tangible personal property sold to persons engaged in business
42 classified under the telecommunications classification, including a person
43 representing or working on behalf of such a person in a manner described
44 in section 42-5075, subsection 0, and consisting of central office
45 switching equipment, switchboards, private branch exchange equipment,

1 microwave radio equipment and carrier equipment including optical fiber,
2 coaxial cable and other transmission media that are components of carrier
3 systems.

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

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

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

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

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

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

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

30 8. Aircraft, navigational and communication instruments and other
31 accessories and related equipment sold to:

32 (a) A person:

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

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

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

1 (iv) Operating an aircraft to transport persons in any manner for
2 compensation or hire, or for use in a fractional ownership program that
3 meets the requirements of federal aviation administration regulations
4 (14 Code of Federal Regulations part 91, subpart K), including as an air
5 carrier, a foreign air carrier or a commercial operator or under a
6 restricted category, within the meaning of 14 Code of Federal Regulations,
7 regardless of whether the operation or aircraft is regulated or certified
8 under part 91, 119, 121, 133, 135, 136 or 137, or another part of 14 Code
9 of Federal Regulations.

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

15 (b) Any foreign government.

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

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

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

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

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

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

41 14. ~~New~~ Machinery and equipment consisting of agricultural
42 aircraft, tractors, **OFF-HIGHWAY VEHICLES**, tractor-drawn implements,
43 self-powered implements, machinery and equipment necessary for extracting
44 milk, and machinery and equipment necessary for cooling milk and
45 livestock, and drip irrigation lines not already exempt under paragraph 7

1 of this subsection and that are used for commercial production of
2 agricultural, horticultural, viticultural and floricultural crops and
3 products in this state. For the purposes of this paragraph:

4 ~~(a) "New machinery and equipment" means machinery and equipment~~
5 ~~that have never been sold at retail except pursuant to leases or rentals~~
6 ~~that do not total two years or more.~~

7 (a) "OFF-HIGHWAY VEHICLES" MEANS OFF-HIGHWAY VEHICLES AS DEFINED IN
8 SECTION 28-1171 THAT ARE NOT EQUIPPED WITH A MODIFIED EXHAUST SYSTEM TO
9 INCREASE HORSEPOWER OR SPEED OR AN ENGINE THAT IS MORE THAN ONE THOUSAND
10 CUBIC CENTIMETERS OR THAT HAVE A MAXIMUM SPEED OF FIFTY MILES PER HOUR OR
11 LESS.

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

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

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

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

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

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

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

43 For the purposes of subdivision (b) of this paragraph, "test period" means
44 the three hundred sixty-five day period beginning on the later of the date
45 on which the tangible personal property is purchased or the date on which

1 the direct broadcast satellite television or data transmission service
2 first transmits information to its customers.

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

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

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

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

24 19. Machinery or equipment, including related structural components
25 and containment structures, that is employed in connection with
26 manufacturing, processing, fabricating, job printing, refining, mining,
27 natural gas pipelines, metallurgical operations, telecommunications,
28 producing or transmitting electricity or research and development and that
29 is used directly to meet or exceed rules or regulations adopted by the
30 federal energy regulatory commission, the United States environmental
31 protection agency, the United States nuclear regulatory commission, the
32 Arizona department of environmental quality or a political subdivision of
33 this state to prevent, monitor, control or reduce land, water or air
34 pollution.

35 20. Machinery and equipment that are sold to a person engaged in
36 commercially producing livestock, livestock products or agricultural,
37 horticultural, viticultural or floricultural crops or products in this
38 state, including a person representing or working on behalf of such a
39 person in a manner described in section 42-5075, subsection 0, if the
40 machinery and equipment are used directly and primarily to prevent,
41 monitor, control or reduce air, water or land pollution.

42 21. Machinery or equipment that enables a television station to
43 originate and broadcast or to receive and broadcast digital television
44 signals and that was purchased to facilitate compliance with the
45 telecommunications act of 1996 (P.L. 104-104; 110 Stat. 56; 47 United

1 States Code section 336) and the federal communications commission order
2 issued April 21, 1997 (47 Code of Federal Regulations part 73). This
3 paragraph does not exempt any of the following:

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

6 (b) Machinery or equipment purchased to replace machinery or
7 equipment for which an exemption was previously claimed and taken under
8 this paragraph.

9 (c) Any machinery or equipment purchased after the television
10 station has ceased analog broadcasting, or purchased after November 1,
11 2009, whichever occurs first.

12 22. Qualifying equipment that is purchased from and after June 30,
13 2004 through June 30, 2024 by a qualified business under section 41-1516
14 for harvesting or processing qualifying forest products removed from
15 qualifying projects as defined in section 41-1516. To qualify for this
16 deduction, the qualified business at the time of purchase must present its
17 certification approved by the department.

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

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

28 1. Expendable materials. For the purposes of this paragraph,
29 expendable materials do not include any of the categories of tangible
30 personal property specified in subsection B of this section regardless of
31 the cost or useful life of that property.

32 2. Janitorial equipment and hand tools.

33 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

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

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

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

33 1. Agricultural producers who are owners, proprietors or tenants of
34 agricultural lands, orchards, farms or gardens where agricultural products
35 are grown, raised or prepared for market and who are marketing their own
36 agricultural products.

- 37 2. Businesses classified under the:
38 (a) Transporting classification.
39 (b) Utilities classification.
40 (c) Telecommunications classification.
41 (d) Pipeline classification.
42 (e) Private car line classification.
43 (f) Publication classification.
44 (g) Job printing classification.
45 (h) Prime contracting classification.

1 (i) Restaurant classification.

2 I. The gross proceeds of sales or gross income derived from the
3 following shall be deducted from the tax base for the retail
4 classification:

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

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

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

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

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

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

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

34 1. A manufacturer's cash rebate on the sales price of a motor
35 vehicle if the buyer assigns the buyer's right in the rebate to the
36 retailer.

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

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

43 N. In computing the tax base in the case of the sale or transfer of
44 wireless telecommunications equipment as an inducement to a customer to
45 enter into or continue a contract for telecommunications services that are

1 taxable under section 42-5064, gross proceeds of sales or gross income
2 does not include any sales commissions or other compensation received by
3 the retailer as a result of the customer entering into or continuing a
4 contract for the telecommunications services.

5 O. For the purposes of this section, a sale of wireless
6 telecommunications equipment to a person who holds the equipment for sale
7 or transfer to a customer as an inducement to enter into or continue a
8 contract for telecommunications services that are taxable under section
9 42-5064 is considered to be a sale for resale in the regular course of
10 business.

11 P. Retail sales of prepaid calling cards or prepaid authorization
12 numbers for telecommunications services, including sales of
13 reauthorization of a prepaid card or authorization number, are subject to
14 tax under this section.

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

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

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

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

38 S. For the purposes of section 42-5032.01, the department shall
39 separately account for revenues collected under the retail classification
40 from businesses selling tangible personal property at retail:

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

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

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

17 U. For the purposes of this section:

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

21 2. "Aircraft" includes:

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

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

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

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

37 V. For the purposes of subsection I of this section:

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

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

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

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

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

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

22 Sec. 3. Section 42-5071, Arizona Revised Statutes, is amended to
23 read:

24 42-5071. Personal property rental classification; definitions

25 A. The personal property rental classification is comprised of the
26 business of leasing or renting tangible personal property for a
27 consideration and includes peer-to-peer car sharing. The tax does not
28 apply to:

29 1. Leasing or renting films, tapes or slides used by theaters or
30 movies, which are engaged in business under the amusement classification,
31 or used by television stations or radio stations.

32 2. Activities engaged in by the Arizona exposition and state fair
33 board or county fair commissions in connection with events sponsored by
34 such entities.

35 3. Leasing or renting tangible personal property by a parent
36 business entity to a subsidiary business entity or by a subsidiary
37 business entity to another subsidiary of the same parent business entity
38 if taxes were paid under this chapter on the gross proceeds or gross
39 income accruing from the initial sale of the tangible personal property.
40 For the purposes of this paragraph, "subsidiary" means a business entity
41 of which at least eighty percent of the voting shares are owned by the
42 parent business entity.

43 4. Operating coin-operated washing, drying and dry cleaning
44 machines or coin-operated car washing machines at establishments for the
45 use of such machines.

1 5. Leasing or renting tangible personal property for incorporation
2 into or comprising any part of a qualified environmental technology
3 facility as described in section 41-1514.02. This paragraph shall apply
4 for ten full consecutive calendar or fiscal years following the initial
5 lease or rental by each qualified environmental technology manufacturer,
6 producer or processor.

7 6. Leasing or renting aircraft, flight simulators or similar
8 training equipment to students or staff by nonprofit, accredited
9 educational institutions that offer associate or baccalaureate degrees in
10 aviation or aerospace related fields.

11 7. Leasing or renting photographs, transparencies or other creative
12 works used by this state on internet websites, in magazines or in other
13 publications that encourage tourism.

14 8. Leasing or renting certified ignition interlock devices
15 installed pursuant to the requirements prescribed by section 28-1461. For
16 the purposes of this paragraph, "certified ignition interlock device" has
17 the same meaning prescribed in section 28-1301.

18 9. The leasing or renting of space to make attachments to utility
19 poles, as follows:

20 (a) By a person that is engaged in business under section 42-5063
21 or 42-5064 or that is a cable operator.

22 (b) To a person that is engaged in business under section 42-5063
23 or 42-5064 or that is a cable operator.

24 10. Leasing or renting billboards that are designed, intended or
25 used to advertise or inform and that are visible from any street, road or
26 other highway.

27 B. The tax base for the personal property rental classification is
28 the gross proceeds of sales or gross income derived from the business, but
29 the gross proceeds of sales or gross income derived from the following
30 shall be deducted from the tax base:

31 1. Reimbursements by the lessee to the lessor of a motor vehicle
32 for payments by the lessor of the applicable fees and taxes imposed by
33 sections 28-2003, 28-2352, 28-2402, 28-2481 and 28-5801, title 28, chapter
34 15, article 2 and article IX, section 11, Constitution of Arizona, to the
35 extent such amounts are separately identified as such fees and taxes and
36 are billed to the lessee.

37 2. Leases or rentals of tangible personal property that, if it had
38 been purchased instead of leased or rented by the lessee, would have been
39 exempt under:

40 (a) Section 42-5061, subsection A, paragraph 8, 9, 12, 13, 25, 29,
41 49 or 53.

42 (b) Section 42-5061, subsection B, ~~except that a lease or rental of~~
43 ~~new machinery or equipment is not exempt pursuant to section 42-5061,~~
44 ~~subsection B, paragraph 14 if the lease is for less than two years.~~

45 (c) Section 42-5061, subsection I, paragraph 1.

1 (d) Section 42-5061, subsection M.

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

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

9 5. Amounts received by a motor vehicle dealer for the first month
10 of a lease payment if the lease and the lease payment for the first month
11 of the lease are transferred to a third-party leasing company.

12 C. Sales of tangible personal property to be leased or rented to a
13 person engaged in a business classified under the personal property rental
14 classification are deemed to be resale sales.

15 D. In computing the tax base, the gross proceeds of sales or gross
16 income from the lease or rental of a motor vehicle does not include any
17 amount attributable to the car rental surcharge under section 5-839,
18 28-5810 or 48-4234.

19 E. Until December 31, 1988, leasing or renting animals for
20 recreational purposes is exempt from the tax imposed by this section.
21 Beginning January 1, 1989, the gross proceeds or gross income from leasing
22 or renting animals for recreational purposes is subject to taxation under
23 this section. Tax liabilities, penalties and interest paid for taxable
24 periods before January 1, 1989 shall not be refunded unless the taxpayer
25 requesting the refund provides proof satisfactory to the department that
26 the monies paid as taxes will be returned to the customer.

27 F. The tax base of the personal property rental classification does
28 not include the gross proceeds or gross income received by a shared
29 vehicle owner from a peer-to-peer car sharing program pursuant to section
30 42-5009, subsection R.

31 G. For the purposes of this section:

32 1. "Cable operator" has the same meaning prescribed in section
33 9-505 and includes a video service provider.

34 2. "Peer-to-peer car sharing" has the same meaning prescribed in
35 section 28-9601.

36 3. "Peer-to-peer car sharing program" has the same meaning
37 prescribed in section 28-9601.

38 4. "Shared vehicle owner" has the same meaning prescribed in
39 section 28-9601.

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

1 Sec. 4. Section 42-5159, Arizona Revised Statutes, is amended to
2 read:

3 42-5159. Exemptions

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

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

10 2. Tangible personal property, the sale or use of which has already
11 been subjected to an excise tax at a rate equal to or exceeding the tax
12 imposed by this article under the laws of another state of the United
13 States. If the excise tax imposed by the other state is at a rate less
14 than the tax imposed by this article, the tax imposed by this article is
15 reduced by the amount of the tax already imposed by the other state.

16 3. Tangible personal property, the storage, use or consumption of
17 which the constitution or laws of the United States prohibit this state
18 from taxing or to the extent that the rate or imposition of tax is
19 unconstitutional under the laws of the United States.

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

24 5. Motor vehicle fuel and use fuel, the sales, distribution or use
25 of which in this state is subject to the tax imposed under title 28,
26 chapter 16, article 1, use fuel that is sold to or used by a person
27 holding a valid single trip use fuel tax permit issued under
28 section 28-5739, aviation fuel, the sales, distribution or use of which in
29 this state is subject to the tax imposed under section 28-8344, and jet
30 fuel, the sales, distribution or use of which in this state is subject to
31 the tax imposed under article 8 of this chapter.

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

37 7. Purchases of implants used as growth promotants and injectable
38 medicines, not already exempt under paragraph 16 of this subsection, for
39 livestock and poultry owned by, or in possession of, persons who are
40 engaged in producing livestock, poultry, or livestock or poultry products,
41 or who are engaged in feeding livestock or poultry commercially. For the
42 purposes of this paragraph, "poultry" includes ratites.

43 8. Purchases of:

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

1 (b) Livestock and poultry feed, salts, vitamins and other additives
2 sold to persons for use or consumption in the businesses of farming,
3 ranching and producing or feeding livestock or poultry or for use or
4 consumption in noncommercial boarding of livestock. For the purposes of
5 this paragraph, "poultry" includes ratites.

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

10 (a) Includes seeds, seedlings, roots, bulbs, liners, transplants,
11 cuttings, soil and plant additives, agricultural minerals, auxiliary soil
12 and plant substances, micronutrients, fertilizers, insecticides,
13 herbicides, fungicides, soil fumigants, desiccants, rodenticides,
14 adjuvants, plant nutrients and plant growth regulators.

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

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

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

26 12. Materials that are purchased by or for publicly funded
27 libraries, including school district libraries, charter school libraries,
28 community college libraries, state university libraries or federal, state,
29 county or municipal libraries, for use by the public as follows:

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

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

32 13. Tangible personal property purchased by:

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

36 (b) A hospital operated by this state or a political subdivision of
37 this state.

38 (c) A licensed nursing care institution or a licensed residential
39 care institution or a residential care facility operated in conjunction
40 with a licensed nursing care institution or a licensed kidney dialysis
41 center, which provides medical services, nursing services or health
42 related services and is not used or held for profit.

43 (d) A qualifying health care organization, as defined in section
44 42-5001, if the tangible personal property is used by the organization
45 solely to provide health and medical related educational and charitable
services.

1 (e) A qualifying health care organization as defined in section
2 42-5001 if the organization is dedicated to providing educational,
3 therapeutic, rehabilitative and family medical education training for
4 blind and visually impaired children and children with multiple
5 disabilities from the time of birth to age twenty-one.

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

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

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

18 (ii) Incorporated or fabricated by the person into any project
19 described in section 42-5075, subsection 0.

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

22 (h) A person that is not subject to tax under section 42-5075 and
23 that has been provided a copy of a certificate described in section
24 42-5009, subsection L, if the property purchased is incorporated or
25 fabricated by the person into the real property, structure, project,
26 development or improvement described in the certificate.

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

31 (j) A qualifying community health center as defined in section
32 42-5001.

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

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

41 (m) For taxable periods beginning from and after June 30, 2001, a
42 nonprofit charitable organization that has qualified under section
43 501(c)(3) of the internal revenue code and that provides residential
44 apartment housing for low-income persons over sixty-two years of age in a
45 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 0.

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

1 professionally credentialed as a physician, dentist, podiatrist,
2 chiropractor, naturopath, homeopath, nurse or optometrist.

3 18. Prescription eyeglasses and contact lenses.

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

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

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

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

15 23. Items purchased with United States department of agriculture
16 coupons issued under the supplemental nutrition assistance program
17 pursuant to the food and nutrition act of 2008 (P.L. 88-525; 78 Stat. 703;
18 7 United States Code sections 2011 through 2036b) by the United States
19 department of agriculture food and nutrition service or food instruments
20 issued under section 17 of the child nutrition act (P.L. 95-627; 92 Stat.
21 3603; P.L. 99-661, section 4302; P.L. 111-296; 42 United States Code
22 section 1786).

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

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

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

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

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

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

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

43 31. Coal, petroleum, coke, natural gas, virgin fuel oil and
44 electricity purchased by a qualified environmental technology
45 manufacturer, producer or processor as defined in section 41-1514.02 and

1 directly used or consumed in generating or providing on-site power or
2 energy solely for environmental technology manufacturing, producing or
3 processing or environmental protection. This paragraph applies for twenty
4 full consecutive calendar or fiscal years from the date the first paper
5 manufacturing machine is placed in service. In the case of an
6 environmental technology manufacturer, producer or processor that does not
7 manufacture paper, the time period begins with the date the first
8 manufacturing, processing or production equipment is placed in service.

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

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

13 (b) Public educational institutions.

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

17 33. Natural gas or liquefied petroleum gas used to propel a motor
18 vehicle.

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

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

37 36. Food, drink and condiment purchased for consumption within the
38 premises of any prison, jail or other institution under the jurisdiction
39 of the state department of corrections, the department of public safety,
40 the department of juvenile corrections or a county sheriff.

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

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

4 39. Overhead materials or other tangible personal property that is
5 used in performing a contract between the United States government and a
6 manufacturer, modifier, assembler or repairer, including property used in
7 performing a subcontract with a government contractor who is a
8 manufacturer, modifier, assembler or repairer, to which title passes to
9 the government under the terms of the contract or subcontract. For the
10 purposes of this paragraph:

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

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

28 40. Through December 31, 1994, tangible personal property sold
29 pursuant to a personal property liquidation transaction, as defined in
30 section 42-5061. From and after December 31, 1994, tangible personal
31 property sold pursuant to a personal property liquidation transaction, as
32 defined in section 42-5061, if the gross proceeds of the sales were
33 included in the measure of the tax imposed by article 1 of this chapter or
34 if the personal property liquidation was a casual activity or transaction.

35 41. Wireless telecommunications equipment that is held for sale or
36 transfer to a customer as an inducement to enter into or continue a
37 contract for telecommunications services that are taxable under section
38 42-5064.

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

42 43. Tangible personal property purchased by a commercial airline
43 and consisting of food, beverages and condiments and accessories used for
44 serving the food and beverages, if those items are to be provided without
45 additional charge to passengers for consumption in flight. For the

1 purposes of this paragraph, "commercial airline" means a person holding a
2 federal certificate of public convenience and necessity or foreign air
3 carrier permit for air transportation to transport persons, property or
4 United States mail in intrastate, interstate or foreign commerce.

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

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

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

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

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

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

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

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

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

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

39 (b) "Curriculum design or enhancement" means planning, implementing
40 or reporting on courses of study, lessons, assignments or other learning
41 activities.

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

1 52. Repair parts installed in equipment used directly by a
2 qualified business under section 41-1516 in harvesting, processing or
3 transporting qualifying forest products removed from qualifying projects
4 as defined in section 41-1516.

5 53. Renewable energy credits or any other unit created to track
6 energy derived from renewable energy resources. For the purposes of this
7 paragraph, "renewable energy credit" means a unit created administratively
8 by the corporation commission or governing body of a public power entity
9 to track kilowatt hours of electricity derived from a renewable energy
10 resource or the kilowatt hour equivalent of conventional energy resources
11 displaced by distributed renewable energy resources.

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

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

17 (b) The title or possession of the coal is transferred back to the
18 owner or operator of the power plant after completion of the coal refining
19 process. For the purposes of this subdivision, "coal refining process"
20 means the application of a coal additive system that aids the reduction of
21 power plant emissions during the combustion of coal and the treatment of
22 flue gas.

23 55. Tangible personal property incorporated or fabricated into a
24 project described in section 42-5075, subsection 0, that is located within
25 the exterior boundaries of an Indian reservation for which the owner, as
26 defined in section 42-5075, of the project is an Indian tribe or an
27 affiliated Indian. For the purposes of this paragraph:

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

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

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

40 56. Cash equivalents, precious metal bullion and monetized bullion
41 purchased by the ultimate consumer, but coins or other forms of money for
42 manufacture into jewelry or works of art are subject to tax, and tangible
43 personal property that is purchased through the redemption of any cash
44 equivalent by the holder as a means of payment for goods that are subject

1 to tax under this article is subject to tax. For the purposes of this
2 paragraph:

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

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

12 (ii) Prepaid calling cards for telecommunications services.

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

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

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

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

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

36 3. Tangible personal property sold to persons engaged in business
37 classified under the telecommunications classification under section
38 42-5064, including a person representing or working on behalf of such a
39 person in a manner described in section 42-5075, subsection 0, and
40 consisting of central office switching equipment, switchboards, private
41 branch exchange equipment, microwave radio equipment and carrier equipment
42 including optical fiber, coaxial cable and other transmission media that
43 are components of carrier systems.

44 4. Machinery, equipment or transmission lines used directly in
45 producing or transmitting electrical power, but not including

1 distribution. Transformers and control equipment used at transmission
2 substation sites constitute equipment used in producing or transmitting
3 electrical power.

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

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

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

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

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

21 7. Pipes or valves four inches in diameter or larger used to
22 transport oil, natural gas, artificial gas, water or coal slurry,
23 including compressor units, regulators, machinery and equipment, fittings,
24 seals and any other part that is used in operating the pipes or 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 (14
44 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. Rolling stock, rails, ties and signal control equipment used
23 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. ~~New~~ Machinery and equipment consisting of agricultural
37 aircraft, tractors, **OFF-HIGHWAY VEHICLES**, tractor-drawn implements,
38 self-powered implements, machinery and equipment necessary for extracting
39 milk, and machinery and equipment necessary for cooling milk and
40 livestock, and drip irrigation lines not already exempt under paragraph 7
41 of this subsection and that are used for commercially producing
42 agricultural, horticultural, viticultural and floricultural crops and
43 products in this state. For the purposes of this paragraph:

1 ~~(a) "New machinery and equipment" means machinery or equipment that~~
2 ~~has never been sold at retail except pursuant to leases or rentals that do~~
3 ~~not total two years or more.~~

4 (a) "OFF-HIGHWAY VEHICLES" MEANS OFF-HIGHWAY VEHICLES AS DEFINED IN
5 SECTION 28-1171 THAT ARE NOT EQUIPPED WITH A MODIFIED EXHAUST SYSTEM TO
6 INCREASE HORSEPOWER OR SPEED OR AN ENGINE THAT IS MORE THAN ONE THOUSAND
7 CUBIC CENTIMETERS OR THAT HAVE A MAXIMUM SPEED OF FIFTY MILES PER HOUR OR
8 LESS.

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

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

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

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

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

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

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

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

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

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

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

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

23 19. Machinery or equipment, including related structural components
24 and containment structures, that is employed in connection with
25 manufacturing, processing, fabricating, job printing, refining, mining,
26 natural gas pipelines, metallurgical operations, telecommunications,
27 producing or transmitting electricity or research and development and that
28 is used directly to meet or exceed rules or regulations adopted by the
29 federal energy regulatory commission, the United States environmental
30 protection agency, the United States nuclear regulatory commission, the
31 Arizona department of environmental quality or a political subdivision of
32 this state to prevent, monitor, control or reduce land, water or air
33 pollution.

34 20. Machinery and equipment that are used in commercially producing
35 livestock, livestock products or agricultural, horticultural, viticultural
36 or floricultural crops or products in this state, including production by
37 a person representing or working on behalf of such a person in a manner
38 described in section 42-5075, subsection 0, if the machinery and equipment
39 are used directly and primarily to prevent, monitor, control or reduce
40 air, water or land pollution.

41 21. Machinery or equipment that enables a television station to
42 originate and broadcast or to receive and broadcast digital television
43 signals and that was purchased to facilitate compliance with the
44 telecommunications act of 1996 (P.L. 104-104; 110 Stat. 56; 47 United
45 States Code section 336) and the federal communications commission order

1 issued April 21, 1997 (47 Code of Federal Regulations part 73). This
2 paragraph does not exempt any of the following:

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

5 (b) Machinery or equipment purchased to replace machinery or
6 equipment for which an exemption was previously claimed and taken under
7 this paragraph.

8 (c) Any machinery or equipment purchased after the television
9 station has ceased analog broadcasting, or purchased after November 1,
10 2009, whichever occurs first.

11 22. Qualifying equipment that is purchased from and after June 30,
12 2004 through June 30, 2024 by a qualified business under section 41-1516
13 for harvesting or processing qualifying forest products removed from
14 qualifying projects as defined in section 41-1516. To qualify for this
15 exemption, the qualified business must obtain and present its
16 certification from the Arizona commerce authority at the time of purchase.

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

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

31 C. The exemptions provided by subsection B of this section do not
32 include:

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

37 2. Janitorial equipment and hand tools.

38 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

43 (a) "Gas transportation services" means the services of
44 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 does
37 not include an art creation such as jewelry, macrame, glasswork, pottery,
38 woodwork, metalwork, furniture or clothing if the art creation has a dual
39 purpose, both aesthetic and utilitarian, whether sold by the artist or by
40 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.

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

15 Sec. 5. Applicability

16 Except as provided in section 6 of this act, this act applies to
17 taxable periods beginning on or after the first day of the month following
18 the general effective date.

19 Sec. 6. Conditional enactment; applicability

20 Section 42-5061, Arizona Revised Statutes, as amended by Laws 2021,
21 chapter 266, section 4, chapter 412, section 8, chapter 417, section 5,
22 chapter 443, section 3 and this act, becomes effective on the date
23 prescribed by Laws 2018, chapter 263, section 5 and applies to taxable
24 periods beginning on or after the first day of the month following the
25 general effective date of this act but only on the occurrence of the
26 condition prescribed by Laws 2018, chapter 263, section 5.