

REFERENCE TITLE: TPT; diapers; feminine hygiene; exemption

State of Arizona
House of Representatives
Fifty-fifth Legislature
Second Regular Session
2022

HB 2534

Introduced by
Representative Hernandez D

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 SECTION 42-5159, ARIZONA REVISED STATUTES; RELATING TO TAX EXEMPTIONS.

(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;
12 92 Stat. 3603; P.L. 99-661, section 4302; P.L. 111-296; 42 United States
13 Code 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 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 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 61. THROUGH DECEMBER 31, 2030, TAMPONS, SANITARY NAPKINS, MENSTRUAL
27 SPONGES, MENSTRUAL CUPS AND SIMILAR ITEMS USED FOR FEMININE HYGIENE.

28 62. THROUGH DECEMBER 31, 2030, DISPOSABLE DIAPERS AND OTHER SIMILAR
29 DISPOSABLE ITEMS COMMONLY USED BY INDIVIDUALS FOR INCONTINENCE.

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

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

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

1 "Mining" includes underground, surface and open pit operations for
2 extracting ores and minerals.

3 3. Tangible personal property sold to persons engaged in business
4 classified under the telecommunications classification, including a person
5 representing or working on behalf of such a person in a manner described
6 in section 42-5075, subsection 0, and consisting of central office
7 switching equipment, switchboards, private branch exchange equipment,
8 microwave radio equipment and carrier equipment including optical fiber,
9 coaxial cable and other transmission media that are components of carrier
10 systems.

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

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

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

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

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

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

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

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

39 (a) A person:

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

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

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

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

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

24 (b) Any foreign government.

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

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

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

38 11. Machinery or equipment used directly to drill for oil or gas or
39 used directly in the process of extracting oil or gas from the earth for
40 commercial purposes.

41 12. Buses or other urban mass transit vehicles that are used
42 directly to transport persons or property for hire or pursuant to a
43 governmentally adopted and controlled urban mass transportation program
44 and that are sold to bus companies holding a federal certificate of
45 convenience and necessity or operated by any city, town or other

1 governmental entity or by any person contracting with such governmental
2 entity as part of a governmentally adopted and controlled program to
3 provide urban mass transportation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

36 2. Janitorial equipment and hand tools.

37 3. Office equipment, furniture and supplies.

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

41 5. Motor vehicles required to be licensed by this state, except
42 buses or other urban mass transit vehicles specifically exempted pursuant
43 to subsection B, paragraph 12 of this section, without regard to the use
44 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 other tangible personal property used
5 by a contractor in performing a contract.

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

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

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

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

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

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

42 2. Businesses classified under the:

43 (a) Transporting classification.

44 (b) Utilities classification.

45 (c) Telecommunications classification.

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

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

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

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

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

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

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

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

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

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

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

43 M. There shall be deducted from the tax base the amount received
44 from sales of solar energy devices. The retailer shall register with the
45 department as a solar energy retailer. By registering, the retailer

1 acknowledges that it will make its books and records relating to sales of
2 solar energy devices available to the department for examination.

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

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

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

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

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

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

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

32 1. The transfer of title or possession of the coal is for the
33 purpose of refining the coal.

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

40 S. If a seller is entitled to a deduction pursuant to subsection B,
41 paragraph 16, subdivision (b) of this section, the department may require
42 the purchaser to establish that the requirements of subsection B,
43 paragraph 16, subdivision (b) of this section have been satisfied. If the
44 purchaser cannot establish that the requirements of subsection B,
45 paragraph 16, subdivision (b) of this section have been satisfied, the

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

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

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

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

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

32 V. For the purposes of this section:

33 1. "Agricultural aircraft" means an aircraft that is built for
34 agricultural use for the aerial application of pesticides or fertilizer or
35 for aerial seeding.

36 2. "Aircraft" includes:

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

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

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

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

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

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

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

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

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

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

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

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

39 42-5061. Retail classification; definitions

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

- 1 1. Professional or personal service occupations or businesses that
2 involve sales or transfers of tangible personal property only as
3 inconsequential elements.
- 4 2. Services rendered in addition to selling tangible personal
5 property at retail.
- 6 3. Sales of warranty or service contracts. The storage, use or
7 consumption of tangible personal property provided under the conditions of
8 such contracts is subject to tax under section 42-5156.
- 9 4. Sales of tangible personal property by any nonprofit
10 organization organized and operated exclusively for charitable purposes
11 and recognized by the United States internal revenue service under section
12 501(c)(3) of the internal revenue code.
- 13 5. Sales to persons engaged in business classified under the
14 restaurant classification of articles used by human beings for food, drink
15 or condiment, whether simple, mixed or compounded.
- 16 6. Business activity that is properly included in any other
17 business classification that is taxable under this article.
- 18 7. The sale of stocks and bonds.
- 19 8. Drugs and medical oxygen, including delivery hose, mask or tent,
20 regulator and tank, if prescribed by a member of the medical, dental or
21 veterinarian profession who is licensed by law to administer such
22 substances.
- 23 9. Prosthetic appliances as defined in section 23-501 and as
24 prescribed or recommended by a health professional who is licensed
25 pursuant to title 32, chapter 7, 8, 11, 13, 14, 15, 16, 17 or 29.
- 26 10. Insulin, insulin syringes and glucose test strips.
- 27 11. Prescription eyeglasses or contact lenses.
- 28 12. Hearing aids as defined in section 36-1901.
- 29 13. Durable medical equipment that has a centers for medicare and
30 medicaid services common procedure code, is designated reimbursable by
31 medicare, is prescribed by a person who is licensed under title 32,
32 chapter 7, 8, 13, 14, 15, 17 or 29, can withstand repeated use, is
33 primarily and customarily used to serve a medical purpose, is generally
34 not useful to a person in the absence of illness or injury and is
35 appropriate for use in the home.
- 36 14. Sales of motor vehicles to nonresidents of this state for use
37 outside this state if the motor vehicle dealer ships or delivers the motor
38 vehicle to a destination out of this state.
- 39 15. Food, as provided in and subject to the conditions of article 3
40 of this chapter and sections 42-5074 and 42-6017.
- 41 16. Items purchased with United States department of agriculture
42 coupons issued under the supplemental nutrition assistance program
43 pursuant to the food and nutrition act of 2008 (P.L. 88-525; 78 Stat. 703;
44 7 United States Code sections 2011 through 2036b) by the United States
45 department of agriculture food and nutrition service or food instruments

1 issued under section 17 of the child nutrition act (P.L. 95-627; 92 Stat.
2 3603; P.L. 99-661, section 4302; P.L. 111-296; 42 United States Code
3 section 1786).

4 17. Textbooks by any bookstore that are required by any state
5 university or community college.

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

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

15 20. Lottery tickets or shares pursuant to title 5, chapter 5.1,
16 article 1.

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

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

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

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

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

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

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

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

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

14 25. Tangible personal property sold to:

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

16 (b) A qualifying health care organization as defined in section
17 42-5001 if the tangible personal property is used by the organization
18 solely to provide health and medical related educational and charitable
19 services.

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

25 (d) A qualifying community health center as defined in section
26 42-5001.

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

30 (f) For taxable periods beginning from and after June 30, 2001, a
31 nonprofit charitable organization that has qualified under section
32 501(c)(3) of the internal revenue code and that provides residential
33 apartment housing for low-income persons over sixty-two years of age in a
34 facility that qualifies for a federal housing subsidy, if the tangible
35 personal property is used by the organization solely to provide
36 residential apartment housing for low-income persons over sixty-two years
37 of age in a facility that qualifies for a federal housing subsidy.

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

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

44 26. Magazines or other periodicals or other publications by this
45 state to encourage tourist travel.

1 27. Tangible personal property sold to:

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

7 (i) Incorporated or fabricated by the person into any real
8 property, structure, project, development or improvement as part of the
9 business.

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

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

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

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

24 29. Tangible personal property purchased in this state by a
25 nonprofit charitable organization that has qualified under section
26 501(c)(3) of the United States internal revenue code and that engages in
27 and uses such property exclusively in programs for persons with mental or
28 physical disabilities if the programs are exclusively for training, job
29 placement, rehabilitation or testing.

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

43 31. Sales of commodities, as defined by title 7 United States Code
44 section 2, that are consigned for resale in a warehouse in this state in
45 or from which the commodity is deliverable on a contract for future

1 delivery subject to the rules of a commodity market regulated by the
2 United States commodity futures trading commission.

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

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

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

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

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

27 35. Sales of natural gas or liquefied petroleum gas used to propel
28 a motor vehicle.

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

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

43 38. Sales of liquid, solid or gaseous chemicals used in
44 manufacturing, processing, fabricating, mining, refining, metallurgical
45 operations, research and development and, beginning on January 1, 1999,

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

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

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

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

25 40. Sales of food, drink and condiment for consumption within the
26 premises of any prison, jail or other institution under the jurisdiction
27 of the state department of corrections, the department of public safety,
28 the department of juvenile corrections or a county sheriff.

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

34 42. Sales of:

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

37 (b) Livestock and poultry feed, salts, vitamins and other additives
38 for livestock or poultry consumption that are sold to persons for use or
39 consumption by their own livestock or poultry, for use or consumption in
40 the businesses of farming, ranching and producing or feeding livestock,
41 poultry, or livestock or poultry products or for use or consumption in
42 noncommercial boarding of livestock. For the purposes of this paragraph,
43 "poultry" includes ratites.

44 43. Sales of implants used as growth promotants and injectable
45 medicines, not already exempt under paragraph 8 of this subsection, for

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

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

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

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

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

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

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

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

32 49. Sales of alternative fuel vehicles if the vehicle was
33 manufactured as a diesel fuel vehicle and converted to operate on
34 alternative fuel and equipment that is installed in a conventional diesel
35 fuel motor vehicle to convert the vehicle to operate on an alternative
36 fuel, as defined in section 1-215.

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

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

43 52. Sales of tangible personal property by a nonprofit organization
44 that is exempt from taxation under section 501(c)(6) of the internal
45 revenue code if the organization produces, organizes or promotes cultural

1 or civic related festivals or events and no part of the organization's net
2 earnings inures to the benefit of any private shareholder or individual.

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

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

9 (b) "Curriculum design or enhancement" means planning, implementing
10 or reporting on courses of study, lessons, assignments or other learning
11 activities.

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

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

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

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

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

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

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

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

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

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

7 60. Sales of coal.

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

12 62. THROUGH DECEMBER 31, 2030, TAMPONS, SANITARY NAPKINS, MENSTRUAL
13 SPONGES, MENSTRUAL CUPS AND SIMILAR ITEMS USED FOR FEMININE HYGIENE.

14 63. THROUGH DECEMBER 31, 2030, DISPOSABLE DIAPERS AND OTHER SIMILAR
15 DISPOSABLE ITEMS COMMONLY USED BY INDIVIDUALS FOR INCONTINENCE.

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

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

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

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

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

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

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

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

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

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

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

22 8. Aircraft, navigational and communication instruments and other
23 accessories and related equipment sold to:

24 (a) A person:

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

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

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

38 (iv) Operating an aircraft to transport persons in any manner for
39 compensation or hire, or for use in a fractional ownership program that
40 meets the requirements of federal aviation administration regulations
41 (14 Code of Federal Regulations part 91, subpart K), including as an air
42 carrier, a foreign air carrier or a commercial operator or under a
43 restricted category, within the meaning of 14 Code of Federal Regulations,
44 regardless of whether the operation or aircraft is regulated or certified

1 under part 91, 119, 121, 133, 135, 136 or 137, or another part of 14 Code
2 of Federal Regulations.

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

8 (b) Any foreign government.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

24 20. Machinery and equipment that are sold to a person engaged in
25 commercially producing livestock, livestock products or agricultural,
26 horticultural, viticultural or floricultural crops or products in this
27 state, including a person representing or working on behalf of such a
28 person in a manner described in section 42-5075, subsection 0, if the
29 machinery and equipment are used directly and primarily to prevent,
30 monitor, control or reduce air, water or land pollution.

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

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

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

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

1 22. Qualifying equipment that is purchased from and after June 30,
2 2004 through June 30, 2024 by a qualified business under section 41-1516
3 for harvesting or processing qualifying forest products removed from
4 qualifying projects as defined in section 41-1516. To qualify for this
5 deduction, the qualified business at the time of purchase must present its
6 certification approved by the department.

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

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

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

21 2. Janitorial equipment and hand tools.

22 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

43 E. In computing the tax base, gross proceeds of sales or gross
44 income from retail sales of heavy trucks and trailers does not include any

1 amount attributable to federal excise taxes imposed by 26 United States
2 Code section 4051.

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

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

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

23 1. Agricultural producers who are owners, proprietors or tenants of
24 agricultural lands, orchards, farms or gardens where agricultural products
25 are grown, raised or prepared for market and who are marketing their own
26 agricultural products.

27 2. Businesses classified under the:

28 (a) Transporting classification.

29 (b) Utilities classification.

30 (c) Telecommunications classification.

31 (d) Pipeline classification.

32 (e) Private car line classification.

33 (f) Publication classification.

34 (g) Job printing classification.

35 (h) Prime contracting classification.

36 (i) Restaurant classification.

37 I. The gross proceeds of sales or gross income derived from the
38 following shall be deducted from the tax base for the retail
39 classification:

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

43 2. Sales made directly to a manufacturer, modifier, assembler or
44 repairer if such sales are of any ingredient or component part of products

1 sold directly to the United States government or its departments or
2 agencies by the manufacturer, modifier, assembler or repairer.

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

9 4. Sales of overhead materials or other tangible personal property
10 to a manufacturer, modifier, assembler or repairer if the gross proceeds
11 of sales or gross income derived from the property by the manufacturer,
12 modifier, assembler or repairer will be exempt under paragraph 3 of this
13 subsection.

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

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

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

25 1. A manufacturer's cash rebate on the sales price of a motor
26 vehicle if the buyer assigns the buyer's right in the rebate to the
27 retailer.

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

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

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

41 O. For the purposes of this section, a sale of wireless
42 telecommunications equipment to a person who holds the equipment for sale
43 or transfer to a customer as an inducement to enter into or continue a
44 contract for telecommunications services that are taxable under section

1 42-5064 is considered to be a sale for resale in the regular course of
2 business.

3 P. Retail sales of prepaid calling cards or prepaid authorization
4 numbers for telecommunications services, including sales of
5 reauthorization of a prepaid card or authorization number, are subject to
6 tax under this section.

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

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

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

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

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

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

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

39 T. In computing the tax base for the sale of a motor vehicle to a
40 nonresident of this state, if the purchaser's state of residence allows a
41 corresponding use tax exemption to the tax imposed by article 1 of this
42 chapter and the rate of the tax in the purchaser's state of residence is
43 lower than the rate prescribed in article 1 of this chapter or if the
44 purchaser's state of residence does not impose an excise tax, and the
45 nonresident has secured a special ninety day nonresident registration

1 permit for the vehicle as prescribed by sections 28-2154 and 28-2154.01,
2 there shall be deducted from the tax base a portion of the gross proceeds
3 or gross income from the sale so that the amount of transaction privilege
4 tax that is paid in this state is equal to the excise tax that is imposed
5 by the purchaser's state of residence on the nonexempt sale or use of the
6 motor vehicle.

7 U. For the purposes of this section:

8 1. "Agricultural aircraft" means an aircraft that is built for
9 agricultural use for the aerial application of pesticides or fertilizer or
10 for aerial seeding.

11 2. "Aircraft" includes:

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

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

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

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

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

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

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

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

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

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

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

11 Sec. 3. Section 42-5159, Arizona Revised Statutes, is amended to
12 read:

13 42-5159. Exemptions

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

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

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

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

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

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

42 6. Tangible personal property brought into this state by an
43 individual who was a nonresident at the time the property was purchased
44 for storage, use or consumption by the individual if the first actual use

1 or consumption of the property was outside this state, unless the property
2 is used in conducting a business in this state.

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

9 8. Purchases of:

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

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

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

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

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

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

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

36 12. Materials that are purchased by or for publicly funded
37 libraries, including school district libraries, charter school libraries,
38 community college libraries, state university libraries or federal, state,
39 county or municipal libraries, for use by the public as follows:

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

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

42 13. Tangible personal property purchased by:

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

1 (b) A hospital operated by this state or a political subdivision of
2 this state.

3 (c) A licensed nursing care institution or a licensed residential
4 care institution or a residential care facility operated in conjunction
5 with a licensed nursing care institution or a licensed kidney dialysis
6 center, which provides medical services, nursing services or health
7 related services and is not used or held for profit.

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

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

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

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

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

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

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

33 (h) A person that is not subject to tax under section 42-5075 and
34 that has been provided a copy of a certificate described in section
35 42-5009, subsection L, if the property purchased is incorporated or
36 fabricated by the person into the real property, structure, project,
37 development or improvement described in the certificate.

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

42 (j) A qualifying community health center as defined in section
43 42-5001.

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

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

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

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

19 (o) A person representing or working on behalf of any person
20 described in subdivision (a), (b), (c), (d), (e), (f), (i), (j), (k), (m)
21 or (n) of this paragraph, if the tangible personal property is
22 incorporated or fabricated into a project described in section 42-5075,
23 subsection 0.

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

29 15. Tangible personal property sold by:

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

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

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

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

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

15 18. Prescription eyeglasses and contact lenses.

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

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

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

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

27 23. Items purchased with United States department of agriculture
28 coupons issued under the supplemental nutrition assistance program
29 pursuant to the food and nutrition act of 2008 (P.L. 88-525; 78 Stat. 703;
30 7 United States Code sections 2011 through 2036b) by the United States
31 department of agriculture food and nutrition service or food instruments
32 issued under section 17 of the child nutrition act (P.L. 95-627; 92 Stat.
33 3603; P.L. 99-661, section 4302; P.L. 111-296; 42 United States Code
34 section 1786).

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

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

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

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

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

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

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

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

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

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

25 (b) Public educational institutions.

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

29 33. Natural gas or liquefied petroleum gas used to propel a motor
30 vehicle.

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

36 35. Liquid, solid or gaseous chemicals used in manufacturing,
37 processing, fabricating, mining, refining, metallurgical operations,
38 research and development and, beginning on January 1, 1999, printing, if
39 using or consuming the chemicals, alone or as part of an integrated system
40 of chemicals, involves direct contact with the materials from which the
41 product is produced for the purpose of causing or allowing a chemical or
42 physical change to occur in the materials as part of the production
43 process. This paragraph does not include chemicals that are used or
44 consumed in activities such as packaging, storage or transportation but
45 does not affect any exemption for such chemicals that is otherwise

1 provided by this section. For the purposes of this paragraph, "printing"
2 means a commercial printing operation and includes job printing,
3 engraving, embossing, copying and bookbinding.

4 36. Food, drink and condiment purchased for consumption within the
5 premises of any prison, jail or other institution under the jurisdiction
6 of the state department of corrections, the department of public safety,
7 the department of juvenile corrections or a county sheriff.

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

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

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

23 (a) "Overhead materials" means tangible personal property, the
24 gross proceeds of sales or gross income derived from which would otherwise
25 be included in the retail classification, that is 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 (b) "Subcontract" means an agreement between a contractor and any
31 person who is not an employee of the contractor for furnishing of supplies
32 or services that, in whole or in part, are necessary to perform one or
33 more government contracts, or under which any portion of the contractor's
34 obligation under one or more government contracts is performed, undertaken
35 or assumed, and that includes provisions causing title to overhead
36 materials or other tangible personal property used in performing the
37 subcontract to pass to the government or that includes provisions
38 incorporating such title passing clauses in a government contract into the
39 subcontract.

40 40. Through December 31, 1994, tangible personal property sold
41 pursuant to a personal property liquidation transaction, as defined in
42 section 42-5061. From and after December 31, 1994, tangible personal
43 property sold pursuant to a personal property liquidation transaction, as
44 defined in section 42-5061, if the gross proceeds of the sales were

1 included in the measure of the tax imposed by article 1 of this chapter or
2 if the personal property liquidation was a casual activity or transaction.

3 41. Wireless telecommunications equipment that is held for sale or
4 transfer to a customer as an inducement to enter into or continue a
5 contract for telecommunications services that are taxable under section
6 42-5064.

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

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

18 44. Alternative fuel vehicles if the vehicle was manufactured as a
19 diesel fuel vehicle and converted to operate on alternative fuel and
20 equipment that is installed in a conventional diesel fuel motor vehicle to
21 convert the vehicle to operate on an alternative fuel, as defined in
22 section 1-215.

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

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

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

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

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

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

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

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

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

7 (b) "Curriculum design or enhancement" means planning, implementing
8 or reporting on courses of study, lessons, assignments or other learning
9 activities.

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

14 52. Repair parts installed in equipment used directly by a
15 qualified business under section 41-1516 in harvesting, processing or
16 transporting qualifying forest products removed from qualifying projects
17 as defined in section 41-1516.

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

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

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

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

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

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

44 (b) "Indian reservation" means all lands that are within the limits
45 of areas set aside by the United States for the exclusive use and

1 occupancy of an Indian tribe by treaty, law or executive order and that
2 are recognized as Indian reservations by the United States department of
3 the interior.

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

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

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

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

24 (ii) Prepaid calling cards for telecommunications services.

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

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

32 57. THROUGH DECEMBER 31, 2030, TAMPONS, SANITARY NAPKINS, MENSTRUAL
33 SPONGES, MENSTRUAL CUPS AND SIMILAR ITEMS USED FOR FEMININE HYGIENE.

34 58. THROUGH DECEMBER 31, 2030, DISPOSABLE DIAPERS AND OTHER SIMILAR
35 DISPOSABLE ITEMS COMMONLY USED BY INDIVIDUALS FOR INCONTINENCE.

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

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

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

7 3. Tangible personal property sold to persons engaged in business
8 classified under the telecommunications classification under section
9 42-5064, including a person representing or working on behalf of such a
10 person in a manner described in section 42-5075, subsection 0, and
11 consisting of central office switching equipment, switchboards, private
12 branch exchange equipment, microwave radio equipment and carrier equipment
13 including optical fiber, coaxial cable and other transmission media that
14 are components of carrier systems.

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

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

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

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

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

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

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

41 8. Aircraft, navigational and communication instruments and other
42 accessories and related equipment sold to:

43 (a) A person:

44 (i) Holding, or exempted by federal law from obtaining, a federal
45 certificate of public convenience and necessity for use as, in conjunction

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

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

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

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

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

26 (b) Any foreign government.

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

34 9. Machinery, tools, equipment and related supplies used or
35 consumed directly in repairing, remodeling or maintaining aircraft,
36 aircraft engines or aircraft component parts by or on behalf of a
37 certificated or licensed carrier of persons or property.

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

40 11. Machinery or equipment used directly to drill for oil or gas or
41 used directly in the process of extracting oil or gas from the earth for
42 commercial purposes.

43 12. Buses or other urban mass transit vehicles that are used
44 directly to transport persons or property for hire or pursuant to a
45 governmentally adopted and controlled urban mass transportation program

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

43 20. Machinery and equipment that are used in commercially producing
44 livestock, livestock products or agricultural, horticultural, viticultural
45 or floricultural crops or products in this state, including production by

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

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

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

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

17 (c) Any machinery or equipment purchased after the television
18 station has ceased analog broadcasting, or purchased after November 1,
19 2009, whichever occurs first.

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

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

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

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

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

- 1 2. Janitorial equipment and hand tools.
- 2 3. Office equipment, furniture and supplies.
- 3 4. Tangible personal property used in selling or distributing
- 4 activities, other than the telecommunications transmissions described in
- 5 subsection B, paragraph 16 of this section.
- 6 5. Motor vehicles required to be licensed by this state, except
- 7 buses or other urban mass transit vehicles specifically exempted pursuant
- 8 to subsection B, paragraph 12 of this section, without regard to the use
- 9 of such motor vehicles.
- 10 6. Shops, buildings, docks, depots and all other materials of
- 11 whatever kind or character not specifically included as exempt.
- 12 7. Motors and pumps used in drip irrigation systems.
- 13 8. Machinery and equipment or tangible personal property used by a
- 14 contractor in performing a contract.
- 15 D. The following shall be deducted in computing the purchase price
- 16 of electricity by a retail electric customer from a utility business:
- 17 1. Revenues received from sales of ancillary services, electric
- 18 distribution services, electric generation services, electric transmission
- 19 services and other services related to providing electricity to a retail
- 20 electric customer who is located outside this state for use outside this
- 21 state if the electricity is delivered to a point of sale outside this
- 22 state.
- 23 2. Revenues received from providing electricity, including
- 24 ancillary services, electric distribution services, electric generation
- 25 services, electric transmission services and other services related to
- 26 providing electricity with respect to which the transaction privilege tax
- 27 imposed under section 42-5063 has been paid.
- 28 E. The tax levied by this article does not apply to the purchase of
- 29 solar energy devices from a retailer that is registered with the
- 30 department as a solar energy retailer or a solar energy contractor.
- 31 F. The following shall be deducted in computing the purchase price
- 32 of electricity by a retail electric customer from a utility business:
- 33 1. Fees charged by a municipally owned utility to persons
- 34 constructing residential, commercial or industrial developments or
- 35 connecting residential, commercial or industrial developments to a
- 36 municipal utility system or systems if the fees are segregated and used
- 37 only for capital expansion, system enlargement or debt service of the
- 38 utility system or systems.
- 39 2. Reimbursement or contribution compensation to any person or
- 40 persons owning a utility system for property and equipment installed to
- 41 provide utility access to, on or across the land of an actual utility
- 42 consumer if the property and equipment become the property of the utility.
- 43 This deduction shall not exceed the value of such property and equipment.

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

3 1. A qualified manufacturing or smelting business. A utility that
4 claims this deduction shall report each month, on a form prescribed by the
5 department, the name and address of each qualified manufacturing or
6 smelting business for which this deduction is taken. This paragraph
7 applies to gas transportation services. For the purposes of this
8 paragraph:

9 (a) "Gas transportation services" means the services of
10 transporting natural gas to a natural gas customer or to a natural gas
11 distribution facility if the natural gas was purchased from a supplier
12 other than the utility.

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

20 (c) "Qualified manufacturing or smelting business" means one of the
21 following:

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

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

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

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

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

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

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

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

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

9 1. "Agricultural aircraft" means an aircraft that is built for
10 agricultural use for the aerial application of pesticides or fertilizer or
11 for aerial seeding.

12 2. "Aircraft" includes:

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

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

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

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

26 Sec. 4. Applicability

27 Except as provided in section 5 of this act, this act applies to
28 taxable periods beginning on or after the first day of the month following
29 the general effective date.

30 Sec. 5. Conditional enactment; applicability

31 Section 42-5061, Arizona Revised Statutes, as amended by Laws 2021,
32 chapter 266, section 4, chapter 412, section 8, chapter 417, section 5,
33 chapter 443, section 3 and this act, becomes effective on the date
34 prescribed by Laws 2018, chapter 263, section 5 and applies to taxable
35 periods beginning on or after the first day of the month following the
36 general effective date of this act but only on the occurrence of the
37 condition prescribed by Laws 2018, chapter 263, section 5.