

TPT; exemptions; motor vehicles; nonresidents

State of Arizona  
Senate  
Fifty-fifth Legislature  
Second Regular Session  
2022

**CHAPTER 43**  
**SENATE BILL 1372**

AN ACT

AMENDING SECTION 42-5009, ARIZONA REVISED STATUTES; 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 42-6004, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2021, CHAPTER 417, SECTION 10; AMENDING SECTION 42-6004, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2021, CHAPTER 417, SECTION 11; RELATING TO TRANSACTION PRIVILEGE AND USE TAX.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Section 42-5009, Arizona Revised Statutes, is amended to  
3 read:

4 42-5009. Certificates establishing deductions; liability for  
5 making false certificate; tax exclusion;  
6 definitions

7 A. A person who conducts any business classified under article 2 of  
8 this chapter may establish entitlement to the allowable deductions from  
9 the tax base of that business by both:

10 1. Marking the invoice for the transaction to indicate that the  
11 gross proceeds of sales or gross income derived from the transaction was  
12 deducted from the tax base.

13 2. Obtaining a certificate executed by the purchaser indicating the  
14 name and address of the purchaser, the precise nature of the business of  
15 the purchaser, the purpose for which the purchase was made, the necessary  
16 facts to establish the appropriate deduction and the tax license number of  
17 the purchaser to the extent the deduction depends on the purchaser  
18 conducting business classified under article 2 of this chapter and a  
19 certification that the person executing the certificate is authorized to  
20 do so on behalf of the purchaser. The certificate may be disregarded if  
21 the seller has reason to believe that the information contained in the  
22 certificate is not accurate or complete.

23 B. A person who does not comply with subsection A of this section  
24 may establish entitlement to the deduction by presenting facts necessary  
25 to support the entitlement, but the burden of proof is on that person.

26 C. The department may prescribe a form for the certificate  
27 described in subsection A of this section. Under such rules as it may  
28 prescribe, the department may also describe transactions with respect to  
29 which a person is not entitled to rely solely on the information contained  
30 in the certificate provided for in subsection A of this section but must  
31 instead obtain such additional information as required by the rules in  
32 order to be entitled to the deduction.

33 D. If a seller is entitled to a deduction by complying with  
34 subsection A of this section, the department may require the purchaser  
35 that caused the execution of the certificate to establish the accuracy and  
36 completeness of the information required to be contained in the  
37 certificate that would entitle the seller to the deduction. If the  
38 purchaser cannot establish the accuracy and completeness of the  
39 information, the purchaser is liable in an amount equal to any tax,  
40 penalty and interest that the seller would have been required to pay under  
41 this article if the seller had not complied with subsection A of this  
42 section. Payment of the amount under this subsection exempts the  
43 purchaser from liability for any tax imposed under article 4 of this  
44 chapter. The amount shall be treated as tax revenues collected from the

1 seller in order to designate the distribution base for purposes of section  
2 42-5029.

3 E. If a seller is entitled to a deduction by complying with  
4 subsection B of this section, the department may require the purchaser to  
5 establish the accuracy and completeness of the information provided to the  
6 seller that entitled the seller to the deduction. If the purchaser cannot  
7 establish the accuracy and completeness of the information, the purchaser  
8 is liable in an amount equal to any tax, penalty and interest that the  
9 seller would have been required to pay under this article if the seller  
10 had not complied with subsection B of this section. Payment of the amount  
11 under this subsection exempts the purchaser from liability for any tax  
12 imposed under article 4 of this chapter. The amount shall be treated as  
13 tax revenues collected from the seller in order to designate the  
14 distribution base for purposes of section 42-5029.

15 F. The department may prescribe a form for a certificate used to  
16 establish entitlement to the deductions described in section 42-5061,  
17 subsection A, paragraph 46 and section 42-5063, subsection B, paragraph 3.  
18 Under rules the department may prescribe, the department may also require  
19 additional information for the seller to be entitled to the deduction. If  
20 a seller is entitled to the deductions described in section 42-5061,  
21 subsection A, paragraph 46 and section 42-5063, subsection B, paragraph 3,  
22 the department may require the purchaser who executed the certificate to  
23 establish the accuracy and completeness of the information contained in  
24 the certificate that would entitle the seller to the deduction. If the  
25 purchaser cannot establish the accuracy and completeness of the  
26 information, the purchaser is liable in an amount equal to any tax,  
27 penalty and interest that the seller would have been required to pay under  
28 this article. Payment of the amount under this subsection exempts the  
29 purchaser from liability for any tax imposed under article 4 of this  
30 chapter. The amount shall be treated as tax revenues collected from the  
31 seller in order to designate the distribution base for purposes of section  
32 42-5029.

33 G. If a seller claims a deduction under section 42-5061,  
34 subsection A, paragraph 25 and establishes entitlement to the deduction  
35 with an exemption letter that the purchaser received from the department  
36 and the exemption letter was based on a contingent event, the department  
37 may require the purchaser that received the exemption letter to establish  
38 the satisfaction of the contingent event within a reasonable time. If the  
39 purchaser cannot establish the satisfaction of the event, the purchaser is  
40 liable in an amount equal to any tax, penalty and interest that the seller  
41 would have been required to pay under this article if the seller had not  
42 been furnished the exemption letter. Payment of the amount under this  
43 subsection exempts the purchaser from liability for any tax imposed under  
44 article 4 of this chapter. The amount shall be treated as tax revenues  
45 collected from the seller in order to designate the distribution base for

1 purposes of section 42-5029. For the purposes of this subsection,  
2 "reasonable time" means a time limitation that the department determines  
3 and that does not exceed the time limitations pursuant to section 42-1104.

4 H. The department shall prescribe forms for certificates used to  
5 establish the satisfaction of the criteria necessary to qualify the sale  
6 of a motor vehicle for the deductions described in section 42-5061,  
7 subsection A, paragraph 14, paragraph 28, subdivision (a) and paragraph 44  
8 and subsection U. Except as provided in subsection J of this section, to  
9 establish entitlement to these deductions, a motor vehicle dealer shall  
10 retain:

11 1. A valid certificate as prescribed by this subsection completed  
12 by the purchaser and obtained before the issuance of the nonresident  
13 registration permit authorized by section 28-2154.

14 2. A copy of the nonresident registration permit authorized by  
15 section 28-2154.

16 3. A legible copy of a current valid driver license issued to the  
17 purchaser by another state or foreign country that indicates an address  
18 outside of this state. For the sale of a motor vehicle to a nonresident  
19 entity, the entity's representative must have a current valid driver  
20 license issued by the same jurisdiction as that in which the entity is  
21 located.

22 4. For the purposes of the deduction provided by section 42-5061,  
23 subsection A, paragraph 14, **SUBDIVISION (a)**, a certificate documenting the  
24 delivery of the motor vehicle to an out-of-state location.

25 I. Notwithstanding subsection A, paragraph 2 of this section, if a  
26 motor vehicle dealer has established entitlement to a deduction by  
27 complying with subsection H of this section, the department may require  
28 the purchaser who executed the certificate to establish the accuracy and  
29 completeness of the information contained in the certificate that entitled  
30 the motor vehicle dealer to the deduction. If the purchaser cannot  
31 establish the accuracy and completeness of the information, the purchaser  
32 is liable in an amount equal to any tax, penalty and interest that the  
33 motor vehicle dealer would have been required to pay under this article  
34 and under articles IV and V of the model city tax code as defined in  
35 section 42-6051. Payment of the amount under this subsection exempts the  
36 purchaser from liability for any tax imposed under article 4 of this  
37 chapter and any tax imposed under article VI of the model city tax code as  
38 defined in section 42-6051. The amount shall be treated as tax revenues  
39 collected from the motor vehicle dealer in order to designate the  
40 distribution base for purposes of section 42-5029.

41 J. To establish entitlement to the deduction described in section  
42 42-5061, subsection A, paragraph 44, a public consignment auction dealer  
43 as defined in section 28-4301 shall submit the valid certificate  
44 prescribed by subsection H of this section to the department and retain a  
45 copy for its records.

1 K. Notwithstanding any other law, compliance with subsection H of  
2 this section by a motor vehicle dealer entitles the motor vehicle dealer  
3 to the exemption provided in section 42-6004, subsection A, paragraph 4.

4 L. The department shall prescribe a form for a certificate to be  
5 used by a person that is not subject to tax under section 42-5075 when the  
6 person is engaged by a contractor that is subject to tax under section  
7 42-5075 for a project that is taxable under section 42-5075. The  
8 certificate permits the person purchasing tangible personal property to be  
9 incorporated or fabricated by the person into any real property,  
10 structure, project, development or improvement to provide documentation to  
11 a retailer that the sale of tangible personal property qualifies for the  
12 deduction under section 42-5061, subsection A, paragraph 27,  
13 subdivision (b). A prime contractor shall obtain the certificate from the  
14 department and shall provide a copy to any such person working on the  
15 project. The prime contractor shall obtain a new certificate for each  
16 project to which this subsection applies. For the purposes of this  
17 subsection, the following apply:

18 1. The person that is not subject to tax under section 42-5075 may  
19 use the certificate issued pursuant to this subsection only with respect  
20 to tangible personal property that will be incorporated into a project for  
21 which the gross receipts are subject to tax under section 42-5075.

22 2. The department shall issue the certificate to the prime  
23 contractor on receiving sufficient documentation to establish that the  
24 prime contractor meets the requirements of this subsection.

25 3. If any person uses the certificate provided under this  
26 subsection to purchase tangible personal property to be used in a project  
27 that is not subject to tax under section 42-5075, the person is liable in  
28 an amount equal to any tax, penalty and interest that the seller would  
29 have been required to pay under this article if the seller had not  
30 complied with subsection A of this section. Payment of the amount under  
31 this section exempts the person from liability for any tax imposed under  
32 article 4 of this chapter. The amount shall be sourced under section  
33 42-5040, subsection A, paragraph 2.

34 M. Notwithstanding any other law, compliance with subsection L of  
35 this section by a person that is not subject to tax under section 42-5075  
36 entitles the person to the exemption allowed by section 465,  
37 subsection (k) of the model city tax code when purchasing tangible  
38 personal property to be incorporated or fabricated by the person into any  
39 real property, structure, project, development or improvement.

40 N. The requirements of subsections A and B of this section do not  
41 apply to owners, proprietors or tenants of agricultural lands or farms who  
42 sell livestock or poultry feed that is grown or raised on their lands to  
43 any of the following:

44 1. Persons who feed their own livestock or poultry.

1           2. Persons who are engaged in the business of producing livestock  
2 or poultry commercially.

3           3. Persons who are engaged in the business of feeding livestock or  
4 poultry commercially or who board livestock noncommercially.

5           0. A vendor who has reason to believe that a certificate prescribed  
6 by this section is not accurate or complete will not be relieved of the  
7 burden of proving entitlement to the exemption. A vendor that accepts a  
8 certificate in good faith will be relieved of the burden of proof and the  
9 purchaser may be required to establish the accuracy of the claimed  
10 exemption. If the purchaser cannot establish the accuracy and  
11 completeness of the information provided in the certificate, the purchaser  
12 is liable for an amount equal to the transaction privilege tax, penalty  
13 and interest that the vendor would have been required to pay if the vendor  
14 had not accepted the certificate.

15           P. Notwithstanding any other law, an online lodging operator, as  
16 defined in section 42-5076, shall be entitled to an exclusion from any  
17 applicable taxes for any online lodging transaction, as defined in section  
18 42-5076, facilitated by an online lodging marketplace, as defined in  
19 section 42-5076, for which the online lodging operator has obtained from  
20 the online lodging marketplace written notice that the online lodging  
21 marketplace is registered with the department to collect applicable taxes  
22 for all online lodging transactions facilitated by the online lodging  
23 marketplace, and transaction history documenting tax collected by the  
24 online lodging marketplace, pursuant to section 42-5005, subsection L.

25           Q. The department shall prescribe the form of a certificate to be  
26 used by a person purchasing an aircraft to document eligibility for a  
27 deduction pursuant to section 42-5061, subsection B, paragraph 8,  
28 subdivision (a), item (v) or an exemption pursuant to section 42-5159,  
29 subsection B, paragraph 8, subdivision (a), item (v), relating to  
30 aircraft. The person must provide this certificate and documentation  
31 confirming that the operational control of the aircraft has been  
32 transferred or will be transferred immediately after the purchase to one  
33 or more persons described in section 42-5061, subsection B, paragraph 8,  
34 subdivision (a), item (i), (ii), (iii) or (iv) or section 42-5159,  
35 subsection B, paragraph 8, subdivision (a), item (i), (ii), (iii) or (iv).  
36 Operational control of the aircraft must be transferred for at least fifty  
37 percent of the aircraft's flight hours. If such operational control is  
38 not transferred for at least fifty percent of the aircraft's flight hours  
39 during the recapture period, the owner of the aircraft is liable for an  
40 amount equal to any tax that the seller or purchaser would have been  
41 required to pay under this chapter at the time of the sale, plus penalty  
42 and interest. The recapture period begins on the date that operational  
43 control of the aircraft is first transferred and ends on the later of the  
44 date the aircraft is fully depreciated for federal income tax purposes or  
45 five years after operational control was first transferred. For the

1 purposes of this subsection, operational control of the aircraft must be  
2 within the meaning of federal aviation administration operations  
3 specification A008, or its successor, except that:

4 1. If it is determined that operational control has been  
5 transferred for less than fifty percent but more than forty percent of the  
6 aircraft's flight hours, the owner of the aircraft is liable for an amount  
7 equal to any tax that the seller or purchaser would have been required to  
8 pay under this chapter at the time of the sale, plus interest.

9 2. If the aircraft is sold during the recapture period, the seller  
10 is not liable for the amount determined pursuant to this subsection unless  
11 the operational control of the aircraft had not been transferred for at  
12 least fifty percent of the aircraft's flight hours at the time of the  
13 sale.

14 R. Notwithstanding any other law, a shared vehicle owner is  
15 entitled to an exclusion from any applicable taxes for a shared vehicle  
16 transaction that is facilitated by a peer-to-peer car sharing program and  
17 for which the peer-to-peer car sharing program has collected and remitted  
18 applicable taxes.

19 S. For the purposes of this section, "peer-to-peer car sharing  
20 program", "shared vehicle owner" and "shared vehicle transaction" have the  
21 same meanings prescribed in section 28-9601.

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

25 42-5061. Retail classification; definitions

26 A. The retail classification is comprised of the business of  
27 selling tangible personal property at retail. The tax base for the retail  
28 classification is the gross proceeds of sales or gross income derived from  
29 the business. The tax imposed on the retail classification does not apply  
30 to the gross proceeds of sales or gross income from:

31 1. Professional or personal service occupations or businesses that  
32 involve sales or transfers of tangible personal property only as  
33 inconsequential elements.

34 2. Services rendered in addition to selling tangible personal  
35 property at retail.

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

39 4. Sales of tangible personal property by any nonprofit  
40 organization organized and operated exclusively for charitable purposes  
41 and recognized by the United States internal revenue service under section  
42 501(c)(3) of the internal revenue code.

- 1           5. Sales to persons engaged in business classified under the  
2 restaurant classification of articles used by human beings for food, drink  
3 or condiment, whether simple, mixed or compounded.
- 4           6. Business activity that is properly included in any other  
5 business classification that is taxable under this article.
- 6           7. The sale of stocks and bonds.
- 7           8. Drugs and medical oxygen, including delivery hose, mask or tent,  
8 regulator and tank, if prescribed by a member of the medical, dental or  
9 veterinarian profession who is licensed by law to administer such  
10 substances.
- 11          9. Prosthetic appliances as defined in section 23-501 and as  
12 prescribed or recommended by a health professional who is licensed  
13 pursuant to title 32, chapter 7, 8, 11, 13, 14, 15, 16, 17 or 29.
- 14          10. Insulin, insulin syringes and glucose test strips.
- 15          11. Prescription eyeglasses or contact lenses.
- 16          12. Hearing aids as defined in section 36-1901.
- 17          13. Durable medical equipment that has a centers for medicare and  
18 medicaid services common procedure code, is designated reimbursable by  
19 medicare, is prescribed by a person who is licensed under title 32,  
20 chapter 7, 8, 13, 14, 15, 17 or 29, can withstand repeated use, is  
21 primarily and customarily used to serve a medical purpose, is generally  
22 not useful to a person in the absence of illness or injury and is  
23 appropriate for use in the home.
- 24          14. Sales of motor vehicles to nonresidents of this state for use  
25 outside this state **IF EITHER OF THE FOLLOWING APPLY:**
- 26           (a) ~~if~~ The motor vehicle dealer ships or delivers the motor vehicle  
27 to a destination out of this state.
- 28           (b) **THE VEHICLE, TRAILER OR SEMITRAILER HAS A GROSS VEHICLE WEIGHT**  
29 **RATING OF MORE THAN TEN THOUSAND POUNDS, IS USED OR MAINTAINED TO**  
30 **TRANSPORT PROPERTY IN THE FURTHERANCE OF INTERSTATE COMMERCE AND OTHERWISE**  
31 **MEETS THE DEFINITION OF COMMERCIAL MOTOR VEHICLE AS DEFINED IN SECTION**  
32 **28-5201.**
- 33          15. Food, as provided in and subject to the conditions of article 3  
34 of this chapter and sections 42-5074 and 42-6017.
- 35          16. Items purchased with United States department of agriculture  
36 coupons issued under the supplemental nutrition assistance program  
37 pursuant to the food and nutrition act of 2008 (P.L. 88-525; 78 Stat. 703;  
38 7 United States Code sections 2011 through 2036b) by the United States  
39 department of agriculture food and nutrition service or food instruments  
40 issued under section 17 of the child nutrition act (P.L. 95-627;  
41 92 Stat. 3603; P.L. 99-661, section 4302; P.L. 111-296; 42 United States  
42 Code section 1786).
- 43          17. Textbooks by any bookstore that are required by any state  
44 university or community college.



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

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

10           20. Lottery tickets or shares pursuant to title 5, chapter 5.1,  
11 article 1.

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

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

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

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

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

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

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

1 section 28-8344 and sales of jet fuel that are subject to the tax imposed  
2 under article 8 of this chapter.

3 23. Tangible personal property sold to a person engaged in the  
4 business of leasing or renting such property under the personal property  
5 rental classification if such property is to be leased or rented by such  
6 person.

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

10 25. Tangible personal property sold to:

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

12 (b) A qualifying health care organization as defined in section  
13 42-5001 if the tangible personal property is used by the organization  
14 solely to provide health and medical related educational and charitable  
15 services.

16 (c) A qualifying health care organization as defined in section  
17 42-5001 if the organization is dedicated to providing educational,  
18 therapeutic, rehabilitative and family medical education training for  
19 blind and visually impaired children and children with multiple  
20 disabilities from the time of birth to age twenty-one.

21 (d) A qualifying community health center as defined in section  
22 42-5001.

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

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

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

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

40 26. Magazines or other periodicals or other publications by this  
41 state to encourage tourist travel.

42 27. Tangible personal property sold to:

43 (a) A person that is subject to tax under this article by reason of  
44 being engaged in business classified under section 42-5075 or to a  
45 subcontractor working under the control of a person engaged in business

1 classified under section 42-5075, if the property so sold is any of the  
2 following:

3 (i) Incorporated or fabricated by the person into any real  
4 property, structure, project, development or improvement as part of the  
5 business.

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

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

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

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

20 29. Tangible personal property purchased in this state by a  
21 nonprofit charitable organization that has qualified under section  
22 501(c)(3) of the United States internal revenue code and that engages in  
23 and uses such property exclusively in programs for persons with mental or  
24 physical disabilities if the programs are exclusively for training, job  
25 placement, rehabilitation or testing.

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

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

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

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

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

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

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

25           35. Sales of natural gas or liquefied petroleum gas used to propel  
26 a motor vehicle.

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

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

41           38. Sales of liquid, solid or gaseous chemicals used in  
42 manufacturing, processing, fabricating, mining, refining, metallurgical  
43 operations, research and development and, beginning on January 1, 1999,  
44 printing, if using or consuming the chemicals, alone or as part of an  
45 integrated system of chemicals, involves direct contact with the materials

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

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

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

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

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

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

32 42. Sales of:

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

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

42 43. Sales of implants used as growth promotants and injectable  
43 medicines, not already exempt under paragraph 8 of this subsection, for  
44 livestock or poultry owned by or in possession of persons that are engaged  
45 in producing livestock, poultry, or livestock or poultry products or that

1 are engaged in feeding livestock or poultry commercially. For the  
2 purposes of this paragraph, "poultry" includes ratites.

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

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

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

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

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

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

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

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

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

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

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

1           53. 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          54. Sales of motor vehicle fuel and use fuel to a qualified  
11 business under section 41-1516 for off-road use in harvesting, processing  
12 or transporting qualifying forest products removed from qualifying  
13 projects as defined in section 41-1516.

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

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

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

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

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

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

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

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

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

13           1. Machinery, or equipment, used directly in manufacturing,  
14 processing, fabricating, job printing, refining or metallurgical  
15 operations. The terms "manufacturing", "processing", "fabricating", "job  
16 printing", "refining" and "metallurgical" as used in this paragraph refer  
17 to and include those operations commonly understood within their ordinary  
18 meaning. "Metallurgical operations" includes leaching, milling,  
19 precipitating, smelting and refining.

20           2. Mining machinery, or equipment, used directly in the process of  
21 extracting ores or minerals from the earth for commercial purposes,  
22 including equipment required to prepare the materials for extraction and  
23 handling, loading or transporting such extracted material to the surface.  
24 "Mining" includes underground, surface and open pit operations for  
25 extracting ores and minerals.

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

34           4. Machinery, equipment or transmission lines used directly in  
35 producing or transmitting electrical power, but not including  
36 distribution. Transformers and control equipment used at transmission  
37 substation sites constitute equipment used in producing or transmitting  
38 electrical power.

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

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



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

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

9 6. Neat animals, horses, asses, sheep, ratices, swine or goats used  
10 or to be used as breeding or production stock, including sales of  
11 breedings or ownership shares in such animals used for breeding or  
12 production.

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

17 8. Aircraft, navigational and communication instruments and other  
18 accessories and related equipment sold to:

19 (a) A person:

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

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

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

33 (iv) Operating an aircraft to transport persons in any manner for  
34 compensation or hire, or for use in a fractional ownership program that  
35 meets the requirements of federal aviation administration regulations  
36 (14 Code of Federal Regulations part 91, subpart K), including as an air  
37 carrier, a foreign air carrier or a commercial operator or under a  
38 restricted category, within the meaning of 14 Code of Federal Regulations,  
39 regardless of whether the operation or aircraft is regulated or certified  
40 under part 91, 119, 121, 133, 135, 136 or 137, or another part of 14 Code  
41 of Federal Regulations.

42 (v) That will lease or otherwise transfer operational control,  
43 within the meaning of federal aviation administration operations  
44 specification A008, or its successor, of the aircraft, instruments or

1 accessories to one or more persons described in item (i), (ii), (iii) or  
2 (iv) of this subdivision, subject to section 42-5009, subsection Q.

3 (b) Any foreign government.

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

11 9. Machinery, tools, equipment and related supplies used or  
12 consumed directly in repairing, remodeling or maintaining aircraft,  
13 aircraft engines or aircraft component parts by or on behalf of a  
14 certificated or licensed carrier of persons or property.

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

17 11. Machinery or equipment used directly to drill for oil or gas or  
18 used directly in the process of extracting oil or gas from the earth for  
19 commercial purposes.

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

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

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

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

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

42 15. Machinery or equipment used in research and development. For  
43 the purposes of this paragraph, "research and development" means basic and  
44 applied research in the sciences and engineering, and designing,  
45 developing or testing prototypes, processes or new products, including

1 research and development of computer software that is embedded in or an  
2 integral part of the prototype or new product or that is required for  
3 machinery or equipment otherwise exempt under this section to function  
4 effectively. Research and development do not include manufacturing  
5 quality control, routine consumer product testing, market research, sales  
6 promotion, sales service, research in social sciences or psychology,  
7 computer software research that is not included in the definition of  
8 research and development, or other nontechnological activities or  
9 technical services.

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

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

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

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

22 (ii) Over two-thirds of the transmissions, measured in megabytes,  
23 transmitted by or on behalf of those direct broadcast television or data  
24 transmission services during the test period were transmitted by the  
25 facility to or on behalf of those services. For the purposes of  
26 subdivision (b) of this paragraph, "test period" means the three hundred  
27 sixty-five day period beginning on the later of the date on which the  
28 tangible personal property is purchased or the date on which the direct  
29 broadcast satellite television or data transmission service first  
30 transmits information to its customers.

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

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

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

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

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

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

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

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

34 (b) Machinery or equipment purchased to replace machinery or  
35 equipment for which an exemption was previously claimed and taken under  
36 this paragraph.

37 (c) Any machinery or equipment purchased after the television  
38 station has ceased analog broadcasting, or purchased after November 1,  
39 2009, whichever occurs first.

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

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

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

11           1. Expendable materials. For the purposes of this paragraph,  
12 expendable materials do not include any of the categories of tangible  
13 personal property specified in subsection B of this section regardless of  
14 the cost or useful life of that property.

15           2. Janitorial equipment and hand tools.

16           3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

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

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

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

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

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

21 2. Businesses classified under the:

22 (a) Transporting classification.

23 (b) Utilities classification.

24 (c) Telecommunications classification.

25 (d) Pipeline classification.

26 (e) Private car line classification.

27 (f) Publication classification.

28 (g) Job printing classification.

29 (h) Prime contracting classification.

30 (i) Restaurant classification.

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

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

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

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

1 manufacturer, modifier, assembler or repairer, to which title passes to  
2 the government under the terms of the contract or subcontract.

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

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

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

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

19 1. A manufacturer's cash rebate on the sales price of a motor  
20 vehicle if the buyer assigns the buyer's right in the rebate to the  
21 retailer.

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

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

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

35 O. For the purposes of this section, a sale of wireless  
36 telecommunications equipment to a person who holds the equipment for sale  
37 or transfer to a customer as an inducement to enter into or continue a  
38 contract for telecommunications services that are taxable under section  
39 42-5064 is considered to be a sale for resale in the regular course of  
40 business.

41 P. Retail sales of prepaid calling cards or prepaid authorization  
42 numbers for telecommunications services, including sales of  
43 reauthorization of a prepaid card or authorization number, are subject to  
44 tax under this section.

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

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

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

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

13 1. The transfer of title or possession of the coal is for the  
14 purpose of refining the coal.

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

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

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

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

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



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

14 V. For the purposes of this section:

15 1. "Agricultural aircraft" means an aircraft that is built for  
16 agricultural use for the aerial application of pesticides or fertilizer or  
17 for aerial seeding.

18 2. "Aircraft" includes:

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

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

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

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

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

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

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

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

44 4. "Overhead materials" means tangible personal property, the gross  
45 proceeds of sales or gross income derived from that would otherwise be

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

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

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

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

21 42-5061. Retail classification; definitions

22 A. The retail classification is comprised of the business of  
23 selling tangible personal property at retail. The tax base for the retail  
24 classification is the gross proceeds of sales or gross income derived from  
25 the business. The tax imposed on the retail classification does not apply  
26 to the gross proceeds of sales or gross income from:

27 1. Professional or personal service occupations or businesses that  
28 involve sales or transfers of tangible personal property only as  
29 inconsequential elements.

30 2. Services rendered in addition to selling tangible personal  
31 property at retail.

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

35 4. Sales of tangible personal property by any nonprofit  
36 organization organized and operated exclusively for charitable purposes  
37 and recognized by the United States internal revenue service under section  
38 501(c)(3) of the internal revenue code.

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

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

44 7. The sale of stocks and bonds.

- 1           8    Drugs and medical oxygen, including delivery hose, mask or tent,  
2 regulator and tank, if prescribed by a member of the medical, dental or  
3 veterinarian profession who is licensed by law to administer such  
4 substances.
- 5           9.   Prosthetic appliances as defined in section 23-501 and as  
6 prescribed or recommended by a health professional who is licensed  
7 pursuant to title 32, chapter 7, 8, 11, 13, 14, 15, 16, 17 or 29.
- 8           10.   Insulin, insulin syringes and glucose test strips.
- 9           11.   Prescription eyeglasses or contact lenses.
- 10          12.   Hearing aids as defined in section 36-1901.
- 11          13.   Durable medical equipment that has a centers for medicare and  
12 medicaid services common procedure code, is designated reimbursable by  
13 medicare, is prescribed by a person who is licensed under title 32,  
14 chapter 7, 8, 13, 14, 15, 17 or 29, can withstand repeated use, is  
15 primarily and customarily used to serve a medical purpose, is generally  
16 not useful to a person in the absence of illness or injury and is  
17 appropriate for use in the home.
- 18          14.   Sales of motor vehicles to nonresidents of this state for use  
19 outside this state **IF EITHER OF THE FOLLOWING APPLY:**
- 20           (a) ~~if~~ The motor vehicle dealer ships or delivers the motor vehicle  
21 to a destination out of this state.
- 22           (b) **THE VEHICLE, TRAILER OR SEMITRAILER HAS A GROSS VEHICLE WEIGHT**  
23 **RATING OF MORE THAN TEN THOUSAND POUNDS, IS USED OR MAINTAINED TO**  
24 **TRANSPORT PROPERTY IN THE FURTHERANCE OF INTERSTATE COMMERCE AND OTHERWISE**  
25 **MEETS THE DEFINITION OF COMMERCIAL MOTOR VEHICLE AS DEFINED IN SECTION**  
26 **28-5201.**
- 27          15.   Food, as provided in and subject to the conditions of article 3  
28 of this chapter and sections 42-5074 and 42-6017.
- 29          16.   Items purchased with United States department of agriculture  
30 coupons issued under the supplemental nutrition assistance program  
31 pursuant to the food and nutrition act of 2008 (P.L. 88-525; 78 Stat. 703;  
32 7 United States Code sections 2011 through 2036b) by the United States  
33 department of agriculture food and nutrition service or food instruments  
34 issued under section 17 of the child nutrition act (P.L. 95-627; 92 Stat.  
35 3603; P.L. 99-661, section 4302; P.L. 111-296; 42 United States Code  
36 section 1786).
- 37          17.   Textbooks by any bookstore that are required by any state  
38 university or community college.
- 39          18.   Food and drink to a person that is engaged in a business that  
40 is classified under the restaurant classification and that provides such  
41 food and drink without monetary charge to its employees for their own  
42 consumption on the premises during the employees' hours of employment.
- 43          19.   Articles of food, drink or condiment and accessory tangible  
44 personal property to a school district or charter school if such articles  
45 and accessory tangible personal property are to be prepared and served to

1 persons for consumption on the premises of a public school within the  
2 district or on the premises of the charter school during school hours.

3 20. Lottery tickets or shares pursuant to title 5, chapter 5.1,  
4 article 1.

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

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

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

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

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

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

34 22. Motor vehicle fuel and use fuel that are subject to a tax  
35 imposed under title 28, chapter 16, article 1, sales of use fuel to a  
36 holder of a valid single trip use fuel tax permit issued under section  
37 28-5739, sales of aviation fuel that are subject to the tax imposed under  
38 section 28-8344 and sales of jet fuel that are subject to the tax imposed  
39 under article 8 of this chapter.

40 23. Tangible personal property sold to a person engaged in the  
41 business of leasing or renting such property under the personal property  
42 rental classification if such property is to be leased or rented by such  
43 person.

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

4           25. Tangible personal property sold to:

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

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

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

15          (d) A qualifying community health center as defined in section  
16 42-5001.

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

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

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

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

34          26. Magazines or other periodicals or other publications by this  
35 state to encourage tourist travel.

36          27. Tangible personal property sold to:

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

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

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

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

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

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

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

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

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

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

1           33. Sales of propagative materials to persons who use those items  
2 to commercially produce agricultural, horticultural, viticultural or  
3 floricultural crops in this state. For the purposes of this paragraph,  
4 "propagative materials":

5           (a) Includes seeds, seedlings, roots, bulbs, liners, transplants,  
6 cuttings, soil and plant additives, agricultural minerals, auxiliary soil  
7 and plant substances, micronutrients, fertilizers, insecticides,  
8 herbicides, fungicides, soil fumigants, desiccants, rodenticides,  
9 adjuvants, plant nutrients and plant growth regulators.

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

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

19           35. Sales of natural gas or liquefied petroleum gas used to propel  
20 a motor vehicle.

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

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

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

1 paragraph, "printing" means a commercial printing operation and includes  
2 job printing, engraving, embossing, copying and bookbinding.

3 39. Through December 31, 1994, personal property liquidation  
4 transactions, conducted by a personal property liquidator. From and after  
5 December 31, 1994, personal property liquidation transactions shall be  
6 taxable under this section provided that nothing in this subsection shall  
7 be construed to authorize the taxation of casual activities or  
8 transactions under this chapter. For the purposes of this paragraph:

9 (a) "Personal property liquidation transaction" means a sale of  
10 personal property made by a personal property liquidator acting solely on  
11 behalf of the owner of the personal property sold at the dwelling of the  
12 owner or on the death of any owner, on behalf of the surviving spouse, if  
13 any, any devisee or heir or the personal representative of the estate of  
14 the deceased, if one has been appointed.

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

17 40. Sales of food, drink and condiment for consumption within the  
18 premises of any prison, jail or other institution under the jurisdiction  
19 of the state department of corrections, the department of public safety,  
20 the department of juvenile corrections or a county sheriff.

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

26 42. Sales of:

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

29 (b) Livestock and poultry feed, salts, vitamins and other additives  
30 for livestock or poultry consumption that are sold to persons for use or  
31 consumption by their own livestock or poultry, for use or consumption in  
32 the businesses of farming, ranching and producing or feeding livestock,  
33 poultry, or livestock or poultry products or for use or consumption in  
34 noncommercial boarding of livestock. For the purposes of this paragraph,  
35 "poultry" includes ratites.

36 43. Sales of implants used as growth promotants and injectable  
37 medicines, not already exempt under paragraph 8 of this subsection, for  
38 livestock or poultry owned by or in possession of persons that are engaged  
39 in producing livestock, poultry, or livestock or poultry products or that  
40 are engaged in feeding livestock or poultry commercially. For the  
41 purposes of this paragraph, "poultry" includes ratites.

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



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

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

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

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

16           48. Tangible personal property sold to a commercial airline and  
17 consisting of food, beverages and condiments and accessories used for  
18 serving the food and beverages, if those items are to be provided without  
19 additional charge to passengers for consumption in flight. For the  
20 purposes of this paragraph, "commercial airline" means a person holding a  
21 federal certificate of public convenience and necessity or foreign air  
22 carrier permit for air transportation to transport persons, property or  
23 United States mail in intrastate, interstate or foreign commerce.

24           49. Sales of alternative fuel vehicles if the vehicle was  
25 manufactured as a diesel fuel vehicle and converted to operate on  
26 alternative fuel and equipment that is installed in a conventional diesel  
27 fuel motor vehicle to convert the vehicle to operate on an alternative  
28 fuel, as defined in section 1-215.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

44 60. Sales of coal.

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

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

9           1. Machinery, or equipment, used directly in manufacturing,  
10 processing, fabricating, job printing, refining or metallurgical  
11 operations. The terms "manufacturing", "processing", "fabricating", "job  
12 printing", "refining" and "metallurgical" as used in this paragraph refer  
13 to and include those operations commonly understood within their ordinary  
14 meaning. "Metallurgical operations" includes leaching, milling,  
15 precipitating, smelting and refining.

16           2. Mining machinery, or equipment, used directly in the process of  
17 extracting ores or minerals from the earth for commercial purposes,  
18 including equipment required to prepare the materials for extraction and  
19 handling, loading or transporting such extracted material to the surface.  
20 "Mining" includes underground, surface and open pit operations for  
21 extracting ores and minerals.

22           3. Tangible personal property sold to persons engaged in business  
23 classified under the telecommunications classification, including a person  
24 representing or working on behalf of such a person in a manner described  
25 in section 42-5075, subsection 0, and consisting of central office  
26 switching equipment, switchboards, private branch exchange equipment,  
27 microwave radio equipment and carrier equipment including optical fiber,  
28 coaxial cable and other transmission media that are components of carrier  
29 systems.

30           4. Machinery, equipment or transmission lines used directly in  
31 producing or transmitting electrical power, but not including  
32 distribution. Transformers and control equipment used at transmission  
33 substation sites constitute equipment used in producing or transmitting  
34 electrical power.

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

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

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

44           (c) "Machinery and equipment used directly" means all machinery and  
45 equipment that are used for electric energy storage from the point of

1 receipt of such energy in order to facilitate storage of the electric  
2 energy to the point where the electric energy is released.

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

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

11 8. Aircraft, navigational and communication instruments and other  
12 accessories and related equipment sold to:

13 (a) A person:

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

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

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

27 (iv) Operating an aircraft to transport persons in any manner for  
28 compensation or hire, or for use in a fractional ownership program that  
29 meets the requirements of federal aviation administration regulations  
30 (14 Code of Federal Regulations part 91, subpart K), including as an air  
31 carrier, a foreign air carrier or a commercial operator or under a  
32 restricted category, within the meaning of 14 Code of Federal Regulations,  
33 regardless of whether the operation or aircraft is regulated or certified  
34 under part 91, 119, 121, 133, 135, 136 or 137, or another part of 14 Code  
35 of Federal Regulations.

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

41 (b) Any foreign government.

42 (c) Persons who are not residents of this state and who will not  
43 use such property in this state other than in removing such property from  
44 this state. This subdivision also applies to corporations that are not  
45 incorporated in this state, regardless of maintaining a place of business

1 in this state, if the principal corporate office is located outside this  
2 state and the property will not be used in this state other than in  
3 removing the property from this state.

4 9. Machinery, tools, equipment and related supplies used or  
5 consumed directly in repairing, remodeling or maintaining aircraft,  
6 aircraft engines or aircraft component parts by or on behalf of a  
7 certificated or licensed carrier of persons or property.

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

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

13 12. Buses or other urban mass transit vehicles that are used  
14 directly to transport persons or property for hire or pursuant to a  
15 governmentally adopted and controlled urban mass transportation program  
16 and that are sold to bus companies holding a federal certificate of  
17 convenience and necessity or operated by any city, town or other  
18 governmental entity or by any person contracting with such governmental  
19 entity as part of a governmentally adopted and controlled program to  
20 provide urban mass transportation.

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

22 14. New machinery and equipment consisting of agricultural  
23 aircraft, tractors, tractor-drawn implements, self-powered implements,  
24 machinery and equipment necessary for extracting milk, and machinery and  
25 equipment necessary for cooling milk and livestock, and drip irrigation  
26 lines not already exempt under paragraph 7 of this subsection and that are  
27 used for commercial production of agricultural, horticultural,  
28 viticultural and floricultural crops and products in this state. For the  
29 purposes of this paragraph:

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

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

35 15. Machinery or equipment used in research and development. For  
36 the purposes of this paragraph, "research and development" means basic and  
37 applied research in the sciences and engineering, and designing,  
38 developing or testing prototypes, processes or new products, including  
39 research and development of computer software that is embedded in or an  
40 integral part of the prototype or new product or that is required for  
41 machinery or equipment otherwise exempt under this section to function  
42 effectively. Research and development do not include manufacturing  
43 quality control, routine consumer product testing, market research, sales  
44 promotion, sales service, research in social sciences or psychology,  
45 computer software research that is not included in the definition of

1 research and development, or other nontechnological activities or  
2 technical services.

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

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

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

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

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

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

24 17. Clean rooms that are used for manufacturing, processing,  
25 fabrication or research and development, as defined in paragraph 15 of  
26 this subsection, of semiconductor products. For the purposes of this  
27 paragraph, "clean room" means all property that comprises or creates an  
28 environment where humidity, temperature, particulate matter and  
29 contamination are precisely controlled within specified parameters,  
30 without regard to whether the property is actually contained within that  
31 environment or whether any of the property is affixed to or incorporated  
32 into real property. Clean room:

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

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

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

1           19. Machinery or equipment, including related structural components  
2 and containment structures, that is employed in connection with  
3 manufacturing, processing, fabricating, job printing, refining, mining,  
4 natural gas pipelines, metallurgical operations, telecommunications,  
5 producing or transmitting electricity or research and development and that  
6 is used directly to meet or exceed rules or regulations adopted by the  
7 federal energy regulatory commission, the United States environmental  
8 protection agency, the United States nuclear regulatory commission, the  
9 Arizona department of environmental quality or a political subdivision of  
10 this state to prevent, monitor, control or reduce land, water or air  
11 pollution.

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

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

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

28           (b) Machinery or equipment purchased to replace machinery or  
29 equipment for which an exemption was previously claimed and taken under  
30 this paragraph.

31           (c) Any machinery or equipment purchased after the television  
32 station has ceased analog broadcasting, or purchased after November 1,  
33 2009, whichever occurs first.

34           22. Qualifying equipment that is purchased from and after June 30,  
35 2004 through June 30, 2024 by a qualified business under section 41-1516  
36 for harvesting or processing qualifying forest products removed from  
37 qualifying projects as defined in section 41-1516. To qualify for this  
38 deduction, the qualified business at the time of purchase must present its  
39 certification approved by the department.

40           23. Computer data center equipment sold to the owner, operator or  
41 qualified colocation tenant of a computer data center that is certified by  
42 the Arizona commerce authority under section 41-1519 or an authorized  
43 agent of the owner, operator or qualified colocation tenant during the  
44 qualification period for use in the qualified computer data center. For  
45 the purposes of this paragraph, "computer data center", "computer data

1 center equipment", "qualification period" and "qualified colocation  
2 tenant" have the same meanings prescribed in section 41-1519.

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

5 1. Expendable materials. For the purposes of this paragraph,  
6 expendable materials do not include any of the categories of tangible  
7 personal property specified in subsection B of this section regardless of  
8 the cost or useful life of that property.

9 2. Janitorial equipment and hand tools.

10 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

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

41 G. If a person is engaged in the business of selling tangible  
42 personal property at both wholesale and retail, the tax under this section  
43 applies only to the gross proceeds of the sales made other than at  
44 wholesale if the person's books are kept so as to show separately the  
45 gross proceeds of sales of each class, and if the books are not so kept,



1 the tax under this section applies to the gross proceeds of every sale so  
2 made.

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

10 1. Agricultural producers who are owners, proprietors or tenants of  
11 agricultural lands, orchards, farms or gardens where agricultural products  
12 are grown, raised or prepared for market and who are marketing their own  
13 agricultural products.

14 2. Businesses classified under the:

15 (a) Transporting classification.

16 (b) Utilities classification.

17 (c) Telecommunications classification.

18 (d) Pipeline classification.

19 (e) Private car line classification.

20 (f) Publication classification.

21 (g) Job printing classification.

22 (h) Prime contracting classification.

23 (i) Restaurant classification.

24 I. The gross proceeds of sales or gross income derived from the  
25 following shall be deducted from the tax base for the retail  
26 classification:

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

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

34 3. Overhead materials or other tangible personal property that is  
35 used in performing a contract between the United States government and a  
36 manufacturer, modifier, assembler or repairer, including property used in  
37 performing a subcontract with a government contractor who is a  
38 manufacturer, modifier, assembler or repairer, to which title passes to  
39 the government under the terms of the contract or subcontract.

40 4. Sales of overhead materials or other tangible personal property  
41 to a manufacturer, modifier, assembler or repairer if the gross proceeds  
42 of sales or gross income derived from the property by the manufacturer,  
43 modifier, assembler or repairer will be exempt under paragraph 3 of this  
44 subsection.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

38 U. For the purposes of this section:

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

42 2. "Aircraft" includes:

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

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

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

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

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

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

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

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

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

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

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

1           Sec. 4. Section 42-6004, Arizona Revised Statutes, as amended by  
2 Laws 2021, chapter 417, section 10, is amended to read:

3           42-6004. Exemption from municipal tax; definitions

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

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

19           2. Interstate telecommunications services, which include that  
20 portion of telecommunications services, such as subscriber line service,  
21 allocable by federal law to interstate telecommunications service.

22           3. Sales of warranty or service contracts.

23           4. Sales of motor vehicles to nonresidents of this state for use  
24 outside this state **IF EITHER OF THE FOLLOWING APPLY:**

25           (a) ~~if~~ The motor vehicle dealer ships or delivers the motor vehicle  
26 to a destination out of this state.

27           (b) **THE VEHICLE, TRAILER OR SEMITRAILER HAS A GROSS VEHICLE WEIGHT**  
28 **RATING OF MORE THAN TEN THOUSAND POUNDS, IS USED OR MAINTAINED TO**  
29 **TRANSPORT PROPERTY IN THE FURTHERANCE OF INTERSTATE COMMERCE AND OTHERWISE**  
30 **MEETS THE DEFINITION OF COMMERCIAL MOTOR VEHICLE AS DEFINED IN SECTION**  
31 **28-5201.**

32           5. Interest on finance contracts.

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

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

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

39           (a) "Internet" means the computer and telecommunications facilities  
40 that comprise the interconnected worldwide network of networks that employ  
41 the transmission control protocol or internet protocol, or any predecessor  
42 or successor protocol, to communicate information of all kinds by wire or  
43 radio.

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

5 9. The gross proceeds of sales or gross income retained by the  
6 Arizona exposition and state fair board from ride ticket sales at the  
7 annual Arizona state fair.

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

10 (a) "Affiliated companies, businesses, persons or reciprocal  
11 insurers" means the lessor holds a controlling interest in the lessee, the  
12 lessee holds a controlling interest in the lessor, affiliated persons hold  
13 a controlling interest in both the lessor and the lessee, or an unrelated  
14 person holds a controlling interest in both the lessor and lessee.

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

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

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

23 (e) "Reciprocal insurer" has the same meaning prescribed in section  
24 20-762.

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

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

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

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

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

42 (b) The deduction provided in this paragraph does not include gross  
43 proceeds of sales or gross income from the portion of any contracting  
44 activity that consists of the development of, or modification to, real  
45 property in order to facilitate the installation, assembly, repair,

1 maintenance or removal of machinery, equipment or other tangible personal  
2 property described in section 42-5061, subsection B.

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

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

10 (i) Assembling the machinery, equipment or other tangible personal  
11 property.

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

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

17 (iv) Stabilizing or protecting the machinery, equipment or other  
18 tangible personal property during operation by bolting, burying or  
19 performing other dissimilar nonpermanent connections to either real  
20 property or real property improvements.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

42 18. Tangible personal property incorporated or fabricated into a  
43 project described in paragraph 14 of this subsection, that is located  
44 within the exterior boundaries of an Indian reservation for which the



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

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

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

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

15 19. The charges for the leasing or renting of space to make  
16 attachments to utility poles as follows:

17 (a) By a person that is engaged in the business of providing or  
18 furnishing electrical services or telecommunication services or that is a  
19 cable operator.

20 (b) To a person that is engaged in the business of providing or  
21 furnishing electrical services or telecommunication services or that is a  
22 cable operator.

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

27 21. The gross proceeds of sales or gross income derived from entry  
28 fees paid by participants for events that are operated or conducted by  
29 nonprofit organizations that are exempt from taxation under section  
30 501(c)(3) of the internal revenue code and of which no part of the  
31 organization's net earnings inures to the benefit of any private  
32 shareholder or individual, if the event consists of a run, walk, swim or  
33 bicycle ride or a similar event, or any combination of these events.

34 22. The gross proceeds of sales or gross income derived from sales  
35 of machinery and equipment used directly for energy storage for later  
36 electrical use. For the purposes of this paragraph:

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

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

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

5 B. A city, town or other taxing jurisdiction shall not levy a  
6 transaction privilege, sales, use, franchise or other similar tax or fee,  
7 however denominated, on natural gas or liquefied petroleum gas used to  
8 propel a motor vehicle.

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

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

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

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

23 4. Incarcerating or detaining in a privately operated prison, jail  
24 or detention facility prisoners who are under the jurisdiction of the  
25 United States, this state or any other state or a political subdivision of  
26 this state or of any other state.

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

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

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

36 (b) The attributable amount is equal to the total amount of  
37 development fees paid by the taxpayer or by a contractor providing  
38 services to the taxpayer and the total development fees credited in  
39 exchange for the construction of, contribution to or dedication of real  
40 property for providing public infrastructure, public safety or other  
41 public services necessary to the development. The real property must be  
42 the subject of the development fees.

43 (c) "Development fees" means fees imposed to offset capital costs  
44 of providing public infrastructure, public safety or other public services  
45 to a development and authorized pursuant to section 9-463.05, section

1 11-1102 or title 48 regardless of the jurisdiction to which the fees are  
2 paid.

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

5 8. Transporting for hire persons by transportation network company  
6 drivers on transactions involving transportation network services as  
7 defined in section 28-9551.

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

10 10. Transporting for hire persons by vehicle for hire drivers on  
11 transactions involving vehicle for hire services as defined in section  
12 28-9501.

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

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

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

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

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

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

42 H. For the purposes of this section:

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

1           2. "Electrical services" means transmitting or distributing  
2 electricity, electric lights, current or power over lines, wires or  
3 cables.

4           3. "Telecommunication services" means transmitting or relaying  
5 sound, visual image, data, information, images or material over lines,  
6 wires or cables by radio signal, light beam, telephone, telegraph or other  
7 electromagnetic means.

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

11           Sec. 5. Section 42-6004, Arizona Revised Statutes, as amended by  
12 Laws 2021, chapter 417, section 11, is amended to read:

13           42-6004. Exemption from municipal tax; definitions

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

16           1. Exhibition events in this state sponsored, conducted or operated  
17 by a nonprofit organization that is exempt from taxation under section  
18 501(c)(3), 501(c)(4) or 501(c)(6) of the internal revenue code if the  
19 organization is associated with a major league baseball team or a national  
20 touring professional golfing association and no part of the organization's  
21 net earnings inures to the benefit of any private shareholder or  
22 individual. This paragraph does not apply to an organization that is  
23 owned, managed or controlled, in whole or in part, by a major league  
24 baseball team, or its owners, officers, employees or agents, or by a major  
25 league baseball association or professional golfing association, or its  
26 owners, officers, employees or agents, unless the organization conducted  
27 or operated exhibition events in this state before January 1, 2018 that  
28 were exempt from state transaction privilege tax under section 42-5073.

29           2. Interstate telecommunications services, which include that  
30 portion of telecommunications services, such as subscriber line service,  
31 allocable by federal law to interstate telecommunications service.

32           3. Sales of warranty or service contracts.

33           4. Sales of motor vehicles to nonresidents of this state for use  
34 outside this state **IF EITHER OF THE FOLLOWING APPLY:**

35           (a) ~~if~~ The motor vehicle dealer ships or delivers the motor vehicle  
36 to a destination out of this state.

37           (b) **THE VEHICLE, TRAILER OR SEMITRAILER HAS A GROSS VEHICLE WEIGHT**  
38 **RATING OF MORE THAN TEN THOUSAND POUNDS, IS USED OR MAINTAINED TO**  
39 **TRANSPORT PROPERTY IN THE FURTHERANCE OF INTERSTATE COMMERCE AND OTHERWISE**  
40 **MEETS THE DEFINITION OF COMMERCIAL MOTOR VEHICLE AS DEFINED IN SECTION**  
41 **28-5201.**

42           5. Interest on finance contracts.

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

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

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

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

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

15           9. The gross proceeds of sales or gross income retained by the  
16 Arizona exposition and state fair board from ride ticket sales at the  
17 annual Arizona state fair.

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

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

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

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

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

33           (e) "Reciprocal insurer" has the same meaning prescribed in section  
34 20-762.

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

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

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

44           (ii) Any activity performed on any tangible personal property  
45 relating to machinery, equipment or other tangible personal property with

1 independent functional utility in furtherance of any of the purposes  
2 provided for under subdivision (d) of this paragraph.

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

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

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

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

20 (i) Assembling the machinery, equipment or other tangible personal  
21 property.

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

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

27 (iv) Stabilizing or protecting the machinery, equipment or other  
28 tangible personal property during operation by bolting, burying or  
29 performing other dissimilar nonpermanent connections to either real  
30 property or real property improvements.

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

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

43 14. The gross proceeds of sales or gross income derived from a  
44 contract with the owner of real property or improvements to real property  
45 for the maintenance, repair, replacement or alteration of existing

1 property, except as specified in this paragraph. The gross proceeds of  
2 sales or gross income derived from a de minimis amount of modification  
3 activity does not subject the contract or any part of the contract to tax.  
4 For the purposes of this paragraph:

5 (a) Each contract is independent of another contract, except that  
6 any change order that directly relates to the scope of work of the  
7 original contract shall be treated the same as the original contract under  
8 this paragraph, regardless of the amount of modification activities  
9 included in the change order. If a change order does not directly relate  
10 to the scope of work of the original contract, the change order shall be  
11 treated as a new contract, with the tax treatment of any subsequent change  
12 order to follow the tax treatment of the contract to which the scope of  
13 work of the subsequent change order directly relates.

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

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

24 (i) Community facilities districts, fire districts, county  
25 television improvement districts, community park maintenance districts,  
26 cotton pest control districts, hospital districts, pest abatement  
27 districts, health service districts, agricultural improvement districts,  
28 county free library districts, county jail districts, county stadium  
29 districts, special health care districts, public health services  
30 districts, theme park districts or revitalization districts.

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

35 15. Monitoring services relating to an alarm system as defined in  
36 section 32-101.

37 16. Tangible personal property, job printing or publications sold  
38 to or purchased by, or tangible personal property leased, rented or  
39 licensed for use to or by, a qualifying health sciences educational  
40 institution as defined in section 42-5001.

41 17. The sale of coal.

42 18. Tangible personal property incorporated or fabricated into a  
43 project described in paragraph 14 of this subsection, that is located  
44 within the exterior boundaries of an Indian reservation for which the

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

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

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

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

15 19. The charges for the leasing or renting of space to make  
16 attachments to utility poles as follows:

17 (a) By a person that is engaged in the business of providing or  
18 furnishing electrical services or telecommunication services or that is a  
19 cable operator.

20 (b) To a person that is engaged in the business of providing or  
21 furnishing electrical services or telecommunication services or that is a  
22 cable operator.

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

27 21. The gross proceeds of sales or gross income derived from entry  
28 fees paid by participants for events that are operated or conducted by  
29 nonprofit organizations that are exempt from taxation under section  
30 501(c)(3) of the internal revenue code and of which no part of the  
31 organization's net earnings inures to the benefit of any private  
32 shareholder or individual, if the event consists of a run, walk, swim or  
33 bicycle ride or a similar event, or any combination of these events.

34 22. The gross proceeds of sales or gross income derived from sales  
35 of machinery and equipment used directly for energy storage for later  
36 electrical use. For the purposes of this paragraph:

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

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

44 (c) "Machinery and equipment used directly" means all machinery and  
45 equipment that are used for electric energy storage from the point of



1 receipt of such energy in order to facilitate storage of the electric  
2 energy to the point where the electric energy is released.

3 B. A city, town or other taxing jurisdiction shall not levy a  
4 transaction privilege, sales, use, franchise or other similar tax or fee,  
5 however denominated, on natural gas or liquefied petroleum gas used to  
6 propel a motor vehicle.

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

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

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

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

21 4. Incarcerating or detaining in a privately operated prison, jail  
22 or detention facility prisoners who are under the jurisdiction of the  
23 United States, this state or any other state or a political subdivision of  
24 this state or of any other state.

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

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

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

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

41 (c) "Development fees" means fees imposed to offset capital costs  
42 of providing public infrastructure, public safety or other public services  
43 to a development and authorized pursuant to section 9-463.05, section  
44 11-1102 or title 48 regardless of the jurisdiction to which the fees are  
45 paid.

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

3           8. Transporting for hire persons by transportation network company  
4 drivers on transactions involving transportation network services as  
5 defined in section 28-9551.

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

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

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

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

21           1. A manufacturer's cash rebate on the sales price of a motor  
22 vehicle if the buyer assigns the buyer's right in the rebate to the  
23 retailer.

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

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

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

40           H. For the purposes of this section:

41           1. "Cable operator" has the same meaning prescribed in section  
42 9-505 and includes a video service provider.

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

1           3. "Telecommunication services" means transmitting or relaying  
2 sound, visual image, data, information, images or material over lines,  
3 wires or cables by radio signal, light beam, telephone, telegraph or other  
4 electromagnetic means.

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

8           Sec. 6. Applicability

9           Except as provided in section 10 of this act, this act applies to  
10 taxable periods beginning on or after the first day of the month following  
11 the general effective date.

12           Sec. 7. Conditional enactment

13           Section 42-5061, Arizona Revised Statutes, as amended by Laws 2021,  
14 chapter 266, section 4, chapter 412, section 8, chapter 417, section 5,  
15 chapter 443, section 3 and this act and section 42-6004, Arizona Revised  
16 Statutes, as amended by Laws 2021, chapter 417, section 11 and this act  
17 become effective on the date prescribed by Laws 2018, chapter 263, section  
18 5 and apply to taxable periods beginning on or after the first day of the  
19 month following the general effective date of this act but only on the  
20 occurrence of the condition prescribed by Laws 2018, chapter 263,  
21 section 5.

APPROVED BY THE GOVERNOR MARCH 23, 2022.

FILED IN THE OFFICE OF THE SECRETARY OF STATE MARCH 23, 2022.