

Senate Engrossed
taxation; 2024-2025.

State of Arizona
Senate
Fifty-sixth Legislature
Second Regular Session
2024

SENATE BILL 1747

AN ACT

AMENDING SECTION 42-5040.01, ARIZONA REVISED STATUTES, AS ADDED BY LAWS 2024, CHAPTER 142, SECTION 1; AMENDING SECTIONS 42-5061, 42-5159, 43-1183, 43-1504 AND 43-1603, ARIZONA REVISED STATUTES; RELATING TO TAXATION.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Section 42-5040.01, Arizona Revised Statutes, as added
3 by Laws 2024, chapter 142, section 1, is amended to read:

4 42-5040.01. Sourcing of tangible personal property;
5 third-party service providers; certification

6 A. Beginning on or before January 1, ~~2026~~ 2028, the department
7 shall establish a process by which a third-party provider that offers
8 sourcing services to taxpayers for transactions involving tangible
9 personal property may become certified in this state. A certified
10 third-party service provider shall meet all of the requirements
11 established by the department.

12 B. The director shall:

13 1. Supervise and regulate all persons required by this section to
14 obtain certification.

15 2. Establish minimum standards for certification and a quality
16 assurance program for authorized third parties to ensure that a certified
17 third-party service provider is complying with the minimum standards.

18 3. Post a list of certified third-party service providers on the
19 department's website.

20 4. Adopt rules to administer and enforce this section.

21 C. The director may:

22 1. Investigate and audit third-party service providers as necessary
23 to ensure compliance with this section.

24 2. Require that a certified third-party service provider or any
25 employees or agents of the certified third-party service provider be
26 certified by the department to perform certain functions.

27 D. A person may apply to the department to be a certified
28 third-party service provider on a form prescribed and furnished by the
29 director. The person shall include with the application all documents and
30 fees prescribed by the director. The application shall contain, at a
31 minimum:

32 1. The name, telephone number and address of the applicant and
33 primary contact person.

34 2. Verification that the applicant meets the requirements
35 prescribed by the director.

36 3. Other information the director requires.

37 E. A taxpayer may use a certified third-party service provider to
38 assist the taxpayer in sourcing transactions involving tangible personal
39 property. A taxpayer that uses a certified third-party SERVICE provider
40 for sourcing transactions involving tangible personal property is not
41 liable for failing to pay the correct amount of tax due to an error in
42 sourcing the transaction. The taxpayer is liable for failing to pay the
43 correct amount of tax if the failure to pay the correct amount of tax was
44 due to an error other than an error in sourcing the transaction. A
45 certified third-party service provider is liable for the amount of tax the

1 taxpayer failed to pay if the failure to pay the correct amount of tax was
2 due to an error in sourcing the transaction, unless the error was due to
3 incorrect information the certified third-party service provider received
4 from the department.

5 Sec. 2. Section 42-5061, Arizona Revised Statutes, is amended to
6 read:

7 42-5061. Retail classification; definitions

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

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

16 2. Services rendered in addition to selling tangible personal
17 property at retail.

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

21 4. Sales of tangible personal property by any nonprofit
22 organization organized and operated exclusively for charitable purposes
23 and recognized by the United States internal revenue service under section
24 501(c)(3) of the internal revenue code.

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

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

30 7. The sale of stocks and bonds.

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

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

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

39 11. Prescription eyeglasses or contact lenses.

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

41 13. Durable medical equipment that has a centers for medicare and
42 medicaid services common procedure code, is designated reimbursable by
43 medicare, is prescribed by a person who is licensed under title 32,
44 chapter 7, 8, 13, 14, 15, 17 or 29, can withstand repeated use, is
45 primarily and customarily used to serve a medical purpose, is generally

1 not useful to a person in the absence of illness or injury and is
2 appropriate for use in the home.

3 14. Sales of motor vehicles to nonresidents of this state for use
4 outside this state if either of the following ~~apply~~ APPLIES:

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

7 (b) The vehicle, trailer or semitrailer has a gross vehicle weight
8 rating of more than ten thousand pounds, is used or maintained to
9 transport property in the furtherance of interstate commerce and otherwise
10 meets the definition of commercial motor vehicle as defined in section
11 28-5201.

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

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

22 17. Textbooks by any bookstore that are required by any state
23 university or community college.

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

28 19. Articles of food, drink or condiment and accessory tangible
29 personal property to a school district or charter school if such articles
30 and accessory tangible personal property are to be prepared and served to
31 persons for consumption on the premises of a public school within the
32 district or on the premises of the charter school during school hours.

33 20. Lottery tickets or shares pursuant to title 5, chapter 5.1,
34 article 1.

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

42 (a) "Cash equivalents" means items or intangibles, whether or not
43 negotiable, that are sold to one or more persons, through which a value
44 denominated in money is purchased in advance and may be redeemed in full
45 or in part for tangible personal property, intangibles or services. Cash

1 equivalents include gift cards, stored value cards, gift certificates,
2 vouchers, traveler's checks, money orders or other instruments, orders or
3 electronic mechanisms, such as an electronic code, personal identification
4 number or digital payment mechanism, or any other prepaid intangible right
5 to acquire tangible personal property, intangibles or services in the
6 future, whether from the seller of the cash equivalent or from another
7 person. Cash equivalents do not include either of the following:

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

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

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

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

19 22. Motor vehicle fuel and use fuel that are subject to a tax
20 imposed under title 28, chapter 16, article 1, sales of use fuel to a
21 holder of a valid single trip use fuel tax permit issued under section
22 28-5739, sales of aviation fuel that are subject to the tax imposed under
23 section 28-8344 and sales of jet fuel that are subject to the tax imposed
24 under article 8 of this chapter.

25 23. Tangible personal property sold to a person engaged in the
26 business of leasing or renting such property under the personal property
27 rental classification if such property is to be leased or rented by such
28 person.

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

32 25. Tangible personal property sold to:

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

34 (b) A qualifying health care organization as defined in section
35 42-5001 if the tangible personal property is used by the organization
36 solely to provide health and medical related educational and charitable
37 services.

38 (c) A qualifying health care organization as defined in section
39 42-5001 if the organization is dedicated to providing educational,
40 therapeutic, rehabilitative and family medical education training for
41 blind and visually impaired children and children with multiple
42 disabilities from the time of birth to age twenty-one.

43 (d) A qualifying community health center as defined in section
44 42-5001.

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

4 (f) For taxable periods beginning from and after June 30, 2001, a
5 nonprofit charitable organization that has qualified under section
6 501(c)(3) of the internal revenue code and that provides residential
7 apartment housing for low-income persons over sixty-two years of age in a
8 facility that qualifies for a federal housing subsidy, if the tangible
9 personal property is used by the organization solely to provide
10 residential apartment housing for low-income persons over sixty-two years
11 of age in a facility that qualifies for a federal housing subsidy.

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

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

18 26. Magazines or other periodicals or other publications by this
19 state to encourage tourist travel.

20 27. Tangible personal property sold to:

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

26 (i) Incorporated or fabricated by the person into any real
27 property, structure, project, development or improvement as part of the
28 business.

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

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

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

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

43 29. Tangible personal property purchased in this state by a
44 nonprofit charitable organization that has qualified under section
45 501(c)(3) of the United States internal revenue code and that engages in

1 and uses such property exclusively in programs for persons with mental or
2 physical disabilities if the programs are exclusively for training, job
3 placement, rehabilitation or testing.

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

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

22 32. Sales of tangible personal property by a nonprofit organization
23 that is exempt from taxation under section 501(c)(3), 501(c)(4),
24 501(c)(6), 501(c)(7) or 501(c)(8) of the internal revenue code if the
25 organization sponsors or operates a rodeo featuring primarily farm and
26 ranch animals and no part of the organization's net earnings inures to the
27 benefit of any private shareholder or individual.

28 33. Sales of propagative materials to persons who use those items
29 to commercially produce agricultural, horticultural, viticultural or
30 floricultural crops in this state. For the purposes of this paragraph,
31 "propagative materials":

32 (a) Includes seeds, seedlings, roots, bulbs, liners, transplants,
33 cuttings, soil and plant additives, agricultural minerals, auxiliary soil
34 and plant substances, micronutrients, fertilizers, insecticides,
35 herbicides, fungicides, soil fumigants, desiccants, rodenticides,
36 adjuvants, plant nutrients and plant growth regulators.

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

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

1 35. Sales of natural gas or liquefied petroleum gas used to propel
2 a motor vehicle.

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

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

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

30 39. Through December 31, 1994, personal property liquidation
31 transactions, conducted by a personal property liquidator. From and after
32 December 31, 1994, personal property liquidation transactions shall be
33 taxable under this section provided that nothing in this subsection shall
34 be construed to authorize the taxation of casual activities or
35 transactions under this chapter. For the purposes of this paragraph:

36 (a) "Personal property liquidation transaction" means a sale of
37 personal property made by a personal property liquidator acting solely on
38 behalf of the owner of the personal property sold at the dwelling of the
39 owner or on the death of any owner, on behalf of the surviving spouse, if
40 any, any devisee or heir or the personal representative of the estate of
41 the deceased, if one has been appointed.

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

1 40. Sales of food, drink and condiment for consumption within the
2 premises of any prison, jail or other institution under the jurisdiction
3 of the state department of corrections, the department of public safety,
4 the department of juvenile corrections or a county sheriff.

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

10 42. Sales of:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

42 56. Sales or other transfers of renewable energy credits or any
43 other unit created to track energy derived from renewable energy
44 resources. For the purposes of this paragraph, "renewable energy credit"
45 means a unit created administratively by the corporation commission or

1 governing body of a public power utility to track kilowatt hours of
2 electricity derived from a renewable energy resource or the kilowatt hour
3 equivalent of conventional energy resources displaced by distributed
4 renewable energy resources.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

43 (a) A person:

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

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

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

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

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

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

26 (b) Any foreign government.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

43 (i) Over two-thirds of the transmissions, measured in megabytes,
44 transmitted by the facility during the test period were transmitted to or
45 on behalf of one or more direct broadcast satellite television or data

1 transmission services that operate pursuant to 47 Code of Federal
2 Regulations part 25.

3 (ii) Over two-thirds of the transmissions, measured in megabytes,
4 transmitted by or on behalf of those direct broadcast television or data
5 transmission services during the test period were transmitted by the
6 facility to or on behalf of those services. For the purposes of
7 subdivision (b) of this paragraph, "test period" means the three hundred
8 sixty-five day period beginning on the later of the date on which the
9 tangible personal property is purchased or the date on which the direct
10 broadcast satellite television or data transmission service first
11 transmits information to its customers.

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

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

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

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

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

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

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

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

17 (b) Machinery or equipment purchased to replace machinery or
18 equipment for which an exemption was previously claimed and taken under
19 this paragraph.

20 (c) Any machinery or equipment purchased after the television
21 station has ceased analog broadcasting, or purchased after November 1,
22 2009, whichever occurs first.

23 22. Qualifying equipment that is purchased from and after June 30,
24 2004 through ~~June 30, 2024~~ **DECEMBER 31, 2026** by a qualified business under
25 section 41-1516 for harvesting or processing qualifying forest products
26 removed from qualifying projects as defined in section 41-1516. To
27 qualify for this deduction, the qualified business at the time of purchase
28 must present its certification approved by the department.

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

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

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

43 2. Janitorial equipment and hand tools.

44 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

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

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

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

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

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

15 I. The gross proceeds of sales or gross income derived from the
16 following shall be deducted from the tax base for the retail
17 classification:

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

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

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

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

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

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

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

3 1. A manufacturer's cash rebate on the sales price of a motor
4 vehicle if the buyer assigns the buyer's right in the rebate to the
5 retailer.

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

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

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

19 O. For the purposes of this section, a sale of wireless
20 telecommunications equipment to a person who holds the equipment for sale
21 or transfer to a customer as an inducement to enter into or continue a
22 contract for telecommunications services that are taxable under section
23 42-5064 is considered to be a sale for resale in the regular course of
24 business.

25 P. Retail sales of prepaid calling cards or prepaid authorization
26 numbers for telecommunications services, including sales of
27 reauthorization of a prepaid card or authorization number, are subject to
28 tax under this section.

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

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

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

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

41 1. The transfer of title or possession of the coal is for the
42 purpose of refining the coal.

43 2. The title or possession of the coal is transferred back to the
44 owner or operator of the power plant after completion of the coal refining
45 process. For the purposes of this paragraph, "coal refining process"

1 means the application of a coal additive system that aids in the reduction
2 of power plant emissions during the combustion of coal and the treatment
3 of flue gas.

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

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

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

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

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

41 V. For the purposes of this section:

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

1 2. "Aircraft" includes:

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

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

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

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

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

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

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

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

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

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

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

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

3 42-5159. Exemptions

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

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

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

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

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

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

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

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

43 8. Purchases of:

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

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

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

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

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

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

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

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

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

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

31 13. Tangible personal property purchased by:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

16 15. Tangible personal property sold by:

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

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

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

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

- 1 17. Prosthetic appliances, as defined in section 23-501, prescribed
2 or recommended by a person who is licensed, registered or otherwise
3 professionally credentialed as a physician, dentist, podiatrist,
4 chiropractor, naturopath, homeopath, nurse or optometrist.
- 5 18. Prescription eyeglasses and contact lenses.
- 6 19. Insulin, insulin syringes and glucose test strips.
- 7 20. Hearing aids as defined in section 36-1901.
- 8 21. Durable medical equipment that has a centers for medicare and
9 medicaid services common procedure code, is designated reimbursable by
10 medicare, is prescribed by a person who is licensed under title 32,
11 chapter 7, 13, 17 or 29, can withstand repeated use, is primarily and
12 customarily used to serve a medical purpose, is generally not useful to a
13 person in the absence of illness or injury and is appropriate for use in
14 the home.
- 15 22. Food, as provided in and subject to the conditions of article 3
16 of this chapter and sections 42-5074 and 42-6017.
- 17 23. Items purchased with United States department of agriculture
18 coupons issued under the supplemental nutrition assistance program
19 pursuant to the food and nutrition act of 2008 (P.L. 88-525; 78 Stat. 703;
20 7 United States Code sections 2011 through 2036b) by the United States
21 department of agriculture food and nutrition service or food instruments
22 issued under section 17 of the child nutrition act (P.L. 95-627; 92 Stat.
23 3603; P.L. 99-661, section 4302; P.L. 111-296; 42 United States Code
24 section 1786).
- 25 24. Food and drink provided without monetary charge by a taxpayer
26 that is subject to section 42-5074 to its employees for their own
27 consumption on the premises during the employees' hours of employment.
- 28 25. Tangible personal property that is used or consumed in a
29 business subject to section 42-5074 for human food, drink or condiment,
30 whether simple, mixed or compounded.
- 31 26. Food, drink or condiment and accessory tangible personal
32 property that are acquired for use by or provided to a school district or
33 charter school if they are to be either served or prepared and served to
34 persons for consumption on the premises of a public school in the school
35 district or on the premises of the charter school during school hours.
- 36 27. Lottery tickets or shares purchased pursuant to title 5,
37 chapter 5.1, article 1.
- 38 28. Textbooks, sold by a bookstore, that are required by any state
39 university or community college.
- 40 29. Magazines, other periodicals or other publications produced by
41 this state to encourage tourist travel.
- 42 30. Paper machine clothing, such as forming fabrics and dryer
43 felts, purchased by a paper manufacturer and directly used or consumed in
44 paper manufacturing.

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

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

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

16 (b) Public educational institutions.

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

20 33. Natural gas or liquefied petroleum gas used to propel a motor
21 vehicle.

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

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

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

44 37. A motor vehicle and any repair and replacement parts and
45 tangible personal property becoming a part of such motor vehicle sold to a

1 motor carrier that is subject to a fee prescribed in title 28, chapter 16,
2 article 4 and that is engaged in the business of leasing or renting such a
3 property.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

43 (b) "Curriculum design or enhancement" means planning, implementing
44 or reporting on courses of study, lessons, assignments or other learning
45 activities.

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

5 52. Repair parts installed in equipment used directly by a
6 qualified business under section 41-1516 in harvesting, processing or
7 transporting qualifying forest products removed from qualifying projects
8 as defined in section 41-1516.

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

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

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

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

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

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

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

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

1 56. Cash equivalents, precious metal bullion and monetized bullion
2 purchased by the ultimate consumer, but coins or other forms of money for
3 manufacture into jewelry or works of art are subject to tax, and tangible
4 personal property that is purchased through the redemption of any cash
5 equivalent by the holder as a means of payment for goods that are subject
6 to tax under this article is subject to tax. For the purposes of this
7 paragraph:

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

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

17 (ii) Prepaid calling cards for telecommunications services.

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

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

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

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

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

41 3. Tangible personal property sold to persons engaged in business
42 classified under the telecommunications classification under section
43 42-5064, including a person representing or working on behalf of such a
44 person in a manner described in section 42-5075, subsection 0, and
45 consisting of central office switching equipment, switchboards, private

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

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

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

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

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

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

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

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

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

32 (a) A person:

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

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

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

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

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

15 (b) Any foreign government.

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

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

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

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

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

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

41 14. Machinery and equipment consisting of agricultural aircraft,
42 tractors, off-highway vehicles, tractor-drawn implements, self-powered
43 implements, machinery and equipment necessary for extracting milk, and
44 machinery and equipment necessary for cooling milk and livestock, and drip
45 irrigation lines not already exempt under paragraph 7 of this subsection

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

12 22. Qualifying equipment that is purchased from and after June 30,
13 2004 through ~~June 30, 2024~~ **DECEMBER 31, 2026** by a qualified business under
14 section 41-1516 for harvesting or processing qualifying forest products
15 removed from qualifying projects as defined in section 41-1516. To
16 qualify for this exemption, the qualified business must obtain and present
17 its certification from the Arizona commerce authority at the time of
18 purchase.

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

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

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

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

39 2. Janitorial equipment and hand tools.

40 3. Office equipment, furniture and supplies.

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

44 5. Motor vehicles required to be licensed by this state, except
45 buses or other urban mass transit vehicles specifically exempted pursuant

1 to subsection B, paragraph 12 of this section, without regard to the use
2 of such motor vehicles.

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

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

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

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

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

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

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

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

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

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

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

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

1 (a) "Gas transportation services" means the services of
2 transporting natural gas to a natural gas customer or to a natural gas
3 distribution facility if the natural gas was purchased from a supplier
4 other than the utility.

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

12 (c) "Qualified manufacturing or smelting business" means one of the
13 following:

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

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

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

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

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

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

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

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

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

2 1. "Agricultural aircraft" means an aircraft that is built for
3 agricultural use for the aerial application of pesticides or fertilizer or
4 for aerial seeding.

5 2. "Aircraft" includes:

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

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

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

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

19 Sec. 4. Section 43-1183, Arizona Revised Statutes, is amended to
20 read:

21 43-1183. Credit for contributions to school tuition
22 organization

23 A. Beginning from and after June 30, 2006, a credit is allowed
24 against the taxes imposed by this title for the amount of voluntary cash
25 contributions made by the taxpayer during the taxable year to a school
26 tuition organization that is certified pursuant to chapter 15 of this
27 title at the time of donation.

28 B. The amount of the credit is the total amount of the taxpayer's
29 contributions for the taxable year under subsection A of this section and
30 is preapproved by the department of revenue pursuant to subsection D of
31 this section.

32 C. The department of revenue:

33 1. Shall not allow tax credits under this section and section
34 20-224.06 that exceed in the aggregate a combined total of ~~\$10,000,000~~
35 ~~\$135,000,000~~ in ~~any~~ fiscal year ~~2024-2025~~ AND EACH FISCAL YEAR
36 ~~THEREAFTER. Beginning in fiscal year 2007-2008, the aggregate dollar~~
37 ~~amount of the tax credit cap from the previous fiscal year shall be~~
38 ~~annually increased by twenty percent. Beginning in fiscal year 2020-2021,~~
39 ~~the aggregate dollar amount of the tax credit cap from the previous fiscal~~
40 ~~year shall be increased as follows:~~

41 ~~(a) For fiscal year 2020-2021, by fifteen percent.~~

42 ~~(b) For fiscal year 2021-2022, by ten percent.~~

43 ~~(c) For fiscal year 2022-2023, by five percent.~~

44 ~~(d) For fiscal year 2023-2024 and each fiscal year thereafter, by~~
45 ~~the greater of:~~

1 ~~(i) The percentage of the annual increase, if any, in the~~
2 ~~metropolitan Phoenix consumer price index published by the United States~~
3 ~~department of labor bureau of labor statistics.~~

4 ~~(ii) Two percent.~~

5 2. Shall preapprove tax credits under this section and section
6 20-224.06 subject to subsection D of this section.

7 3. Shall allow the tax credits under this section and section
8 20-224.06 on a first-come, first-served basis.

9 D. For the purposes of subsection C, paragraph 2 of this section,
10 before making a contribution to a school tuition organization, the
11 taxpayer under this title or title 20 must notify the school tuition
12 organization of the total amount of contributions that the taxpayer
13 intends to make to the school tuition organization. Before accepting the
14 contribution, the school tuition organization shall request preapproval
15 from the department of revenue for the taxpayer's intended contribution
16 amount. The department of revenue shall preapprove or deny the requested
17 amount within twenty days after receiving the request from the school
18 tuition organization. If the department of revenue preapproves the
19 request, the school tuition organization shall immediately notify the
20 taxpayer, and the department of insurance and financial institutions in
21 the case of a credit under section 20-224.06, that the requested amount
22 was preapproved by the department of revenue. In order to receive a tax
23 credit under this subsection, the taxpayer shall make the contribution to
24 the school tuition organization within twenty days after receiving notice
25 from the school tuition organization that the requested amount was
26 preapproved. If the school tuition organization does not receive the
27 preapproved contribution from the taxpayer within the required twenty
28 days, the school tuition organization shall immediately notify the
29 department of revenue, and the department of insurance and financial
30 institutions in the case of a credit under section 20-224.06, and the
31 department of revenue shall no longer include this preapproved
32 contribution amount when calculating the limit prescribed in subsection C,
33 paragraph 1 of this section.

34 E. If the allowable tax credit exceeds the taxes otherwise due
35 under this title on the claimant's income, or if there are no taxes due
36 under this title, the taxpayer may carry the amount of the claim not used
37 to offset the taxes under this title forward for not more than five
38 consecutive taxable years' income tax liability.

39 F. Co-owners of a business, including corporate partners in a
40 partnership and stockholders of an S corporation as defined in section
41 1361 of the internal revenue code, may each claim only the pro rata share
42 of the credit allowed under this section based on the ownership interest.
43 The total of the credits allowed all such owners may not exceed the amount
44 that would have been allowed a sole owner.

1 G. The credit allowed by this section is in lieu of any deduction
2 pursuant to section 170 of the internal revenue code and taken for state
3 tax purposes.

4 H. A taxpayer shall not claim a credit under this section and also
5 under section 43-1184 with respect to the same contribution.

6 I. The tax credit is not allowed if the taxpayer designates the
7 taxpayer's contribution to the school tuition organization for the direct
8 benefit of any specific student.

9 J. The department of revenue, with the cooperation of the
10 department of insurance and financial institutions, shall adopt rules and
11 publish and prescribe forms and procedures necessary ~~for the~~
12 ~~administration of~~ TO ADMINISTER this section.

13 Sec. 5. Section 43-1504, Arizona Revised Statutes, is amended to
14 read:

15 43-1504. Special provisions; corporate donations for
16 low-income scholarships; rules

17 A. A school tuition organization that receives contributions from a
18 corporation for the purposes of section 20-224.06 or 43-1183 must use at
19 least ninety percent of those contributions to provide educational
20 scholarships or tuition grants only to children whose family income does
21 not exceed one hundred eighty-five percent of the income limit required to
22 qualify a child for reduced-price lunches under the national school lunch
23 and child nutrition acts (42 United States Code sections 1751 through
24 1793) and to whom any of the following applies:

25 1. Attended a governmental primary or secondary school as a
26 full-time student as defined in section 15-901 or attended a preschool
27 program that offers services to students with disabilities at a
28 governmental school for at least ninety days of the prior fiscal year or
29 one full semester and transferred from a governmental school to a
30 qualified school.

31 2. Enroll in a qualified school in a kindergarten program or a
32 preschool program that offers services to students with disabilities.

33 3. Are the dependent of a member of the armed forces of the United
34 States who is stationed in this state pursuant to military orders.

35 4. Are homeschooled before enrolling in a qualified school.

36 5. Moved to this state from out of state before enrolling in a
37 qualified school.

38 6. Participated in an Arizona empowerment scholarship account and
39 did not renew the account or accept the scholarship in order to accept a
40 scholarship or tuition grant under this section.

41 7. SUBJECT TO SUBSECTION G OF THIS SECTION, ARE PLACED IN FOSTER
42 CARE PURSUANT TO TITLE 8, CHAPTER 4 AT ANY TIME BEFORE THE STUDENT
43 GRADUATES FROM HIGH SCHOOL OR OBTAINS A GENERAL EQUIVALENCY DIPLOMA AND
44 WHO MEET ALL OF THE FOLLOWING CRITERIA:

1 (a) ARE UNABLE TO ATTEND A GOVERNMENTAL PRIMARY OR SECONDARY SCHOOL
2 AS A FULL-TIME STUDENT AS DEFINED IN SECTION 15-901. FOR THE PURPOSES OF
3 THIS SUBDIVISION, "UNABLE TO ATTEND" MEANS THE STUDENT HAS BEEN EXPELLED
4 OR ASKED NOT TO RETURN DUE TO THE STUDENT'S BEHAVIOR OR THE SCHOOL IS NOT
5 ABLE TO PROVIDE NECESSARY SERVICES TO THE STUDENT.

6 (b) HAVE NOT ATTENDED A GOVERNMENTAL PRIMARY OR SECONDARY SCHOOL AS
7 A FULL-TIME STUDENT AS DEFINED IN SECTION 15-901 FOR AT LEAST NINETY DAYS
8 OF THE PRIOR FISCAL YEAR OR ONE FULL SEMESTER BEFORE ENROLLING IN A
9 QUALIFIED SCHOOL.

10 (c) THE QUALIFIED SCHOOL IN WHICH THE STUDENTS ARE ENROLLING IS
11 ONLY CONSIDERED BECAUSE A GOVERNMENTAL PRIMARY OR SECONDARY SCHOOL CANNOT
12 MEET THE STUDENTS' UNIQUE NEEDS, SUCH AS SEVERE MEDICAL OR BEHAVIORAL
13 NEEDS THAT REQUIRE SPECIALIZED PROGRAMS.

14 (d) ARE UNABLE TO RECEIVE OTHER SCHOLARSHIPS OR TUITION GRANTS
15 UNDER THIS CHAPTER OR CHAPTER 15 OF THIS TITLE IN AN AMOUNT THAT IS EQUAL
16 TO THE COST OF TUITION TO ATTEND THE QUALIFIED SCHOOL.

17 ~~7.~~ 8. Received an educational scholarship or tuition grant under
18 paragraph 1, 2, 3, 4, 5, ~~or~~ 6 OR 7 of this subsection or chapter 16,
19 article 1 of this title if the children continue to attend a qualified
20 school in a subsequent year.

21 B. A child is eligible to receive an educational scholarship or
22 tuition grant under subsection A of this section if the child meets the
23 criteria to receive a reduced-price lunch but does not actually claim that
24 benefit.

25 C. In 2021, a school tuition organization shall not issue an
26 educational scholarship or a tuition grant for the purposes of section
27 20-224.06 or 43-1183 in an amount that exceeds \$5,600 for students who are
28 in a kindergarten program, a preschool program that offers services to
29 students with disabilities or grades one through eight or \$7,500 for
30 students who are in grades nine through twelve. In each year after 2021,
31 the limit amount for a scholarship or a grant under this subsection shall
32 be increased by \$200.

33 D. A school tuition organization shall require that student
34 beneficiaries use the educational scholarships or tuition grants on a
35 full-time basis. If a child leaves the school before completing an entire
36 school year, the school shall refund a prorated amount of the educational
37 scholarship or tuition grant to the school tuition organization that
38 issued the scholarship or grant. The school tuition organization shall
39 allocate any refunds it receives under this subsection for educational
40 scholarships or tuition grants.

41 E. Students who receive an educational scholarship or tuition grant
42 under this section shall be allowed to attend any qualified school of
43 their parents' choice.

44 F. The department of revenue, with the cooperation of the
45 department of insurance and financial institutions, shall adopt rules and

1 publish and prescribe forms and procedures necessary to administer this
2 section.

3 G. IF A COURT OF COMPETENT JURISDICTION ISSUES A FINAL JUDGMENT
4 THAT THE AGGREGATE TAX CREDIT LIMIT PRESCRIBED IN SECTION 43-1183,
5 SUBSECTION C, PARAGRAPH 1 IS UNENFORCEABLE AND THAT JUDGMENT IS NO LONGER
6 SUBJECT TO FURTHER APPEAL OR REVIEW, A SCHOOL TUITION ORGANIZATION SHALL
7 NOT ISSUE AN EDUCATIONAL SCHOLARSHIP OR A TUITION GRANT UNDER SUBSECTION
8 A, PARAGRAPH 7 OR 8 OF THIS SECTION FOR CHILDREN WHO RECEIVED AN
9 EDUCATIONAL SCHOLARSHIP OR A TUITION GRANT UNDER SUBSECTION A, PARAGRAPH 7
10 OF THIS SECTION.

11 Sec. 6. Section 43-1603, Arizona Revised Statutes, is amended to
12 read:

13 43-1603. Operational requirements for school tuition
14 organizations; notice; qualified schools

15 A. A certified school tuition organization must be established to
16 receive contributions from taxpayers for the purposes of income tax
17 credits under sections 43-1089 and 43-1089.03 and to pay educational
18 scholarships or tuition grants to allow students to attend any qualified
19 school of their parents' choice.

20 B. To be eligible for certification and retain certification, the
21 school tuition organization:

22 1. Must allocate at least ninety percent of its annual revenue from
23 contributions made for the purposes of sections 43-1089 and 43-1089.03 for
24 educational scholarships or tuition grants.

25 2. Shall not limit the availability of educational scholarships or
26 tuition grants to only students of one school.

27 3. May allow donors to recommend student beneficiaries, but shall
28 not award, designate or reserve scholarships solely on the basis of donor
29 recommendations.

30 4. Shall not allow donors to designate student beneficiaries as a
31 condition of any contribution to the organization, or facilitate,
32 encourage or knowingly allow the exchange of beneficiary student
33 designations in violation of section 43-1089, subsection F, section
34 43-1089.03, subsection F and section 43-1089.04, subsection E.

35 5. Shall include on the organization's website, if one exists, the
36 percentage and total dollar amount of educational scholarships and tuition
37 grants awarded during the previous fiscal year to:

38 (a) Students whose family income meets the economic eligibility
39 requirements established under the national school lunch and child
40 nutrition acts (42 United States Code sections 1751 through 1793) for free
41 or reduced-price lunches.

42 (b) Students whose family income exceeds the threshold prescribed
43 by subdivision (a) of this paragraph but does not exceed one hundred
44 eighty-five percent of the economic eligibility requirements established

1 under the national school lunch and child nutrition acts (42 United States
2 Code sections 1751 through 1793) for free or reduced-price lunches.

3 6. Must not award educational scholarships or tuition grants to
4 students who are simultaneously enrolled in a district school or charter
5 school and a qualified school.

6 C. A school tuition organization shall include the following notice
7 in any printed materials soliciting donations, in applications for
8 scholarships and on its website, if one exists:

9 Notice

10 A school tuition organization cannot award, restrict or
11 reserve scholarships solely on the basis of a donor's
12 recommendation.

13 A taxpayer may not claim a tax credit if the taxpayer
14 agrees to swap donations with another taxpayer to benefit
15 either taxpayer's own dependent.

16 D. In evaluating applications and awarding, designating or
17 reserving scholarships, a school tuition organization:

18 1. Shall not award, designate or reserve a scholarship solely on
19 the recommendation of any person contributing money to the organization,
20 but may consider the recommendation among other factors.

21 2. Shall consider the financial need of applicants.

22 E. A taxpayer's contribution to a school tuition organization that
23 exceeds the amount of the credit allowed by section 43-1089 but does not
24 exceed the amount of the credit allowed by section 43-1089.03 is
25 considered a contribution pursuant to section 43-1089.03. A school
26 tuition organization must use at least ninety percent of contributions
27 made pursuant to section 43-1089.03 for educational scholarships or
28 tuition grants for students to whom any of the following applies:

29 1. Attended a governmental primary or secondary school as a
30 full-time student as defined in section 15-901 or attended a preschool
31 program that offers services to students with disabilities at a
32 governmental school for at least ninety days of the prior fiscal year and
33 transferred from a governmental school to a qualified school.

34 2. Enroll in a qualified school in a kindergarten program or a
35 preschool program that offers services to students with disabilities.

36 3. Are the dependent of a member of the armed forces of the United
37 States who is stationed in this state pursuant to military orders.

38 4. Are homeschooled before enrolling in a qualified school.

39 5. Moved to this state from out of state before enrolling in a
40 qualified school.

41 6. Participated in an Arizona empowerment scholarship account and
42 did not renew the account or accept the scholarship in order to accept a
43 scholarship or tuition grant under this section.

44 7. SUBJECT TO SUBSECTION H OF THIS SECTION, ARE PLACED IN FOSTER
45 CARE PURSUANT TO TITLE 8, CHAPTER 4 AT ANY TIME BEFORE THE STUDENT

1 GRADUATES FROM HIGH SCHOOL OR OBTAINS A GENERAL EQUIVALENCY DIPLOMA AND
2 WHO MEET ALL OF THE FOLLOWING CRITERIA:

3 (a) ARE UNABLE TO ATTEND A GOVERNMENTAL PRIMARY OR SECONDARY SCHOOL
4 AS A FULL-TIME STUDENT AS DEFINED IN SECTION 15-901. FOR THE PURPOSES OF
5 THIS SUBDIVISION, "UNABLE TO ATTEND" MEANS THE STUDENT HAS BEEN EXPELLED
6 OR ASKED NOT TO RETURN DUE TO THE STUDENT'S BEHAVIOR OR THE SCHOOL IS NOT
7 ABLE TO PROVIDE NECESSARY SERVICES TO THE STUDENT.

8 (b) HAVE NOT ATTENDED A GOVERNMENTAL PRIMARY OR SECONDARY SCHOOL AS
9 A FULL-TIME STUDENT AS DEFINED IN SECTION 15-901 FOR AT LEAST NINETY DAYS
10 OF THE PRIOR FISCAL YEAR OR ONE FULL SEMESTER BEFORE ENROLLING IN A
11 QUALIFIED SCHOOL.

12 (c) THE QUALIFIED SCHOOL IN WHICH THE STUDENTS ARE ENROLLING IS
13 ONLY CONSIDERED BECAUSE A GOVERNMENTAL PRIMARY OR SECONDARY SCHOOL CANNOT
14 MEET THE STUDENTS' UNIQUE NEEDS, SUCH AS SEVERE MEDICAL OR BEHAVIORAL
15 NEEDS THAT REQUIRE SPECIALIZED PROGRAMS.

16 (d) ARE UNABLE TO RECEIVE OTHER SCHOLARSHIPS OR TUITION GRANTS
17 UNDER THIS CHAPTER OR CHAPTER 15 OF THIS TITLE IN AN AMOUNT THAT IS EQUAL
18 TO THE COST OF TUITION TO ATTEND THE QUALIFIED SCHOOL.

19 ~~7.~~ 8. Received an educational scholarship or tuition grant under
20 paragraph 1, 2, 3, 4, 5, ~~or~~ 6 OR 7 of this subsection or under chapter 15
21 of this title if the student continues to attend a qualified school in a
22 subsequent year.

23 F. In awarding educational scholarships or tuition grants from
24 contributions made pursuant to section 43-1089.03, a school tuition
25 organization shall give priority to students and siblings of students on a
26 waiting list for scholarships if the school tuition organization maintains
27 a waiting list.

28 G. If an individual educational scholarship or tuition grant
29 exceeds the school's tuition, the amount in excess shall be returned to
30 the school tuition organization that made the award or grant. The school
31 tuition organization may allocate the returned monies as a multiyear award
32 for that student and report the award pursuant to section 43-1604,
33 subsection A, paragraph 5, subdivision (b) or may allocate the returned
34 monies for educational scholarships or tuition grants for other students.

35 H. IF A COURT OF COMPETENT JURISDICTION ISSUES A FINAL JUDGMENT
36 THAT THE AGGREGATE TAX CREDIT LIMIT PRESCRIBED IN SECTION 43-1183,
37 SUBSECTION C, PARAGRAPH 1 IS UNENFORCEABLE AND THAT JUDGMENT IS NO LONGER
38 SUBJECT TO FURTHER APPEAL OR REVIEW, A SCHOOL TUITION ORGANIZATION SHALL
39 NOT ISSUE AN EDUCATIONAL SCHOLARSHIP OR A TUITION GRANT UNDER SUBSECTION
40 E, PARAGRAPH 7 OR 8 OF THIS SECTION FOR CHILDREN WHO RECEIVED AN
41 EDUCATIONAL SCHOLARSHIP OR A TUITION GRANT UNDER SUBSECTION E, PARAGRAPH 7
42 OF THIS SECTION.

43 Sec. 7. Property tax reduction; 2024 tax year; delayed repeal

44 A. Each county board of supervisors that levied an additional tax
45 pursuant to section 15-992, subsection B, Arizona Revised Statutes, as

1 amended by Laws 2022, chapter 285, section 11, in a common school district
2 not within a high school district in the 2023 tax year shall reduce the
3 school district property tax levies in the 2024 tax year by the amount of
4 the additional tax that was levied pursuant to section 15-992, subsection
5 F, Arizona Revised Statutes, as added by Laws 2022, chapter 285, section
6 11, in the 2023 tax year, subject to the following:

7 1. The county board of supervisors shall reduce the additional tax
8 levy prescribed by section 15-992, subsection F, Arizona Revised Statutes,
9 as amended by Laws 2024, chapter 134, section 3, by an amount that is
10 equal to the amount of the additional tax that was levied pursuant to
11 section 15-992, subsection F, Arizona Revised Statutes, as added by Laws
12 2022, chapter 285, section 11, in the 2023 tax year.

13 2. If the amount of the additional tax that was levied pursuant to
14 section 15-992, subsection F, Arizona Revised Statutes, as added by Laws
15 2022, chapter 285, section 11, in the 2023 tax year exceeds the tax levy
16 amount prescribed by section 15-992, subsection F, Arizona Revised
17 Statutes, as amended by Laws 2024, chapter 134, section 3, in the 2024 tax
18 year, the county board of supervisors shall reduce the additional tax levy
19 prescribed by section 15-992, subsection B, Arizona Revised Statutes, as
20 amended by Laws 2024, chapter 134, section 3, by the amount of the
21 exceedance.

22 B. Notwithstanding section 15-992, Arizona Revised Statutes, as
23 amended by Laws 2024, chapter 134, section 3, the amount to be levied
24 pursuant to section 15-992, subsection B, Arizona Revised Statutes, as
25 amended by Laws 2024, chapter 134, section 3, in the 2024 tax year shall
26 be calculated without consideration of the property tax levy reductions
27 prescribed in subsection A of this section.

28 C. This section is repealed from and after December 31, 2026.

29 Sec. 8. Tax anticipation notes; state indebtedness; delayed
30 repeal; definitions

31 A. A governing body of a taxing district that is subject to a tax
32 judgment ordered in Qasimyar v. Maricopa County, Arizona Tax Court
33 No. TX2016-000882 and that estimates a property tax rate increase of four
34 percent or more from the 2023 property tax rate may:

35 1. Notwithstanding sections 35-465.02 and 35-465.04, Arizona
36 Revised Statutes, issue tax anticipation notes pursuant to title 35,
37 chapter 3, article 3.1, Arizona Revised Statutes, that mature and shall be
38 paid on or before July 31 of the fourth fiscal year following the end of
39 the fiscal year in which the notes are issued.

40 2. Request the state loan commissioners to issue bonds of the state
41 to redeem or refund tax anticipation notes issued pursuant to paragraph 1
42 of this subsection in a manner that is consistent with section 35-429,
43 Arizona Revised Statutes.

44 B. This section is repealed from and after December 31, 2030.

1 C. For the purposes of this section, "governing body" and "taxing
2 district" have the same meanings prescribed in section 35-465, Arizona
3 Revised Statutes.

4 Sec. 9. School districts; tax judgments; state aid
5 adjustments; tax anticipation notes; state
6 indebtedness bonds; notice; delayed repeal

7 A. The department of education shall:

8 1. Estimate the amount of state aid adjustments pursuant to section
9 15-915, Arizona Revised Statutes, for a prior year due to a change in
10 assessed valuation that occurred as a result of a tax judgment ordered in
11 Qasimyar v. Maricopa County, Arizona Tax Court No. TX2016-000882 for each
12 school district that is subject to the judgment.

13 2. Send the estimates calculated pursuant to paragraph 1 of this
14 subsection to each school district and to the property tax oversight
15 commission established by section 42-17002, Arizona Revised Statutes, not
16 later than August 1, 2024.

17 3. Notwithstanding section 15-915, subsection B, Arizona Revised
18 Statutes, recalculate state aid for each prior year due to a change in
19 assessed valuation that occurred as a result of a tax judgment ordered in
20 Qasimyar v. Maricopa County, Arizona Tax Court No. TX2016-000882 for each
21 school district that is subject to the judgment.

22 4. Report the recalculation amounts determined pursuant to
23 paragraph 3 of this subsection to the joint legislative budget committee
24 and the governor's office of strategic planning and budgeting.

25 5. Subject to review by the joint legislative budget committee,
26 adjust state aid for each applicable school district.

27 B. Each school district that is subject to a tax judgment ordered
28 in Qasimyar v. Maricopa County, Arizona Tax Court No. TX2016-000882 shall:

29 1. Subtract the estimated amount of the state aid adjustment made
30 pursuant to subsection A, paragraph 1 of this section from the amount of
31 the tax judgment ordered for fiscal year 2024-2025. This is the maximum
32 amount of a cash deficit resulting from the tax judgment that the school
33 district may levy pursuant to section 15-992, subsection G, paragraph 10,
34 Arizona Revised Statutes, in fiscal year 2024-2025.

35 2. Submit the amount calculated pursuant to paragraph 1 of this
36 subsection to the property tax oversight commission established by section
37 42-17002, Arizona Revised Statutes, for approval not later than August 1,
38 2024.

39 C. If the county school superintendent estimates that the 2024
40 property tax rate in a school district described in subsection A of this
41 section will be four percent or more than the 2023 property tax rate for
42 that school district, the school district may issue tax anticipation notes
43 or request the loan commissioners of this state to issue bonds of the
44 state, or both, pursuant to section 8 of this act.

1 D. The county treasurer shall include the following statement in
2 the tax bill for each school district that is subject to a tax judgment
3 ordered in Qasimyar v. Maricopa County, Arizona Tax Court No.
4 TX2016-000882: "Your tax rate includes an increase to cover the cost of
5 property tax refunds ordered in class action litigation."

6 E. Notwithstanding any other law, for fiscal year 2024-2025, a
7 governing board of a school district that is subject to a tax judgment
8 ordered in Qasimyar v. Maricopa County, Arizona Tax Court No.
9 TX2016-000882 may use any portion of the school district's total ending
10 cash balances as of June 30, 2023 from the school district's maintenance
11 and operations fund or unrestricted capital outlay fund reported in the
12 school district's annual financial report for fiscal year 2022-2023
13 pursuant to section 15-904, Arizona Revised Statutes, that was not
14 included in the school district's adopted budget for fiscal year 2023-2024
15 pursuant to section 15-905, Arizona Revised Statutes, to pay property tax
16 refunds in fiscal year 2024-2025.

17 F. This section does not prevent a school district from levying
18 sufficient property taxes to pay the required debt service on general
19 obligation bonds.

20 G. This section is repealed from and after December 31, 2030.

21 Sec. 10. Legislative intent

22 The legislature intends:

23 1. That in fiscal year 2024-2025 the fee prescribed in section
24 42-5041, subsection B, Arizona Revised Statutes, be assessed and collected
25 pursuant to the following guidelines:

26 (a) The total amount of fees for all counties, cities, towns,
27 councils of governments and regional transportation authorities may not
28 exceed \$6,626,900 in fiscal year 2024-2025.

29 (b) The share of fees assessed to all counties pursuant to
30 subdivision (a) of this paragraph shall be in proportion to the aggregate
31 amount of monies distributed to counties for the fiscal year two years
32 preceding the current fiscal year pursuant to sections 42-5029, 42-6103,
33 42-6107, 42-6108, 42-6108.01, 42-6109, 42-6109.01, 42-6110, 42-6111 and
34 42-6112, Arizona Revised Statutes, as a percentage of aggregate
35 distributions to all counties, cities, towns, councils of governments and
36 regional transportation authorities located in a county with a population
37 of more than eight hundred thousand persons for the fiscal year two years
38 preceding the current fiscal year pursuant to sections 42-5029, 42-6001,
39 42-6103, 42-6105, 42-6106, 42-6107, 42-6108, 42-6108.01, 42-6109,
40 42-6109.01, 42-6110, 42-6111, 42-6112 and 43-206, Arizona Revised
41 Statutes.

42 (c) The share of fees assessed to all cities and towns pursuant to
43 subdivision (a) of this paragraph shall be in proportion to the aggregate
44 amount of monies distributed to cities and towns for the fiscal year two
45 years preceding the current fiscal year pursuant to sections 42-5029,

1 42-6001 and 43-206, Arizona Revised Statutes, as a percentage of aggregate
2 distributions to all counties, cities, towns, councils of governments and
3 regional transportation authorities located in a county with a population
4 of more than eight hundred thousand persons for the fiscal year two years
5 preceding the current fiscal year pursuant to sections 42-5029, 42-6001,
6 42-6103, 42-6105, 42-6106, 42-6107, 42-6108, 42-6108.01, 42-6109,
7 42-6109.01, 42-6110, 42-6111, 42-6112 and 43-206, Arizona Revised
8 Statutes.

9 (d) The share of fees assessed to all councils of governments
10 pursuant to subdivision (a) of this paragraph shall be in proportion to
11 the aggregate amount of monies distributed to all councils of governments
12 for the fiscal year two years preceding the current fiscal year pursuant
13 to section 42-6105, Arizona Revised Statutes, as a percentage of aggregate
14 distributions to all counties, cities, towns, councils of governments and
15 regional transportation authorities located in a county with a population
16 of more than eight hundred thousand persons for the fiscal year two years
17 preceding the current fiscal year pursuant to sections 42-5029, 42-6001,
18 42-6103, 42-6105, 42-6106, 42-6107, 42-6108, 42-6108.01, 42-6109,
19 42-6109.01, 42-6110, 42-6111, 42-6112 and 43-206, Arizona Revised
20 Statutes.

21 (e) The share of fees assessed to all regional transportation
22 authorities located in a county with a population of more than eight
23 hundred thousand persons pursuant to subdivision (a) of this paragraph
24 shall be in proportion to the aggregate amount of monies distributed to
25 all regional transportation authorities located in a county with a
26 population of more than eight hundred thousand persons for the fiscal year
27 two years preceding the current fiscal year pursuant to section 42-6106,
28 Arizona Revised Statutes, as a percentage of aggregate distributions to
29 all counties, cities, towns, councils of governments and regional
30 transportation authorities located in a county with a population of more
31 than eight hundred thousand persons for the fiscal year two years
32 preceding the current fiscal year pursuant to sections 42-5029, 42-6001,
33 42-6103, 42-6105, 42-6106, 42-6107, 42-6108, 42-6108.01, 42-6109,
34 42-6109.01, 42-6110, 42-6111, 42-6112 and 43-206, Arizona Revised
35 Statutes.

36 (f) Except as provided by sections 42-5033 and 42-5033.01, Arizona
37 Revised Statutes, the population of a county as determined by the most
38 recent United States decennial census plus any revision to the decennial
39 census certified by the United States census bureau shall be used as the
40 basis for apportioning monies pursuant to subdivision (b) of this
41 paragraph.

42 (g) Except as provided by sections 42-5033 and 42-5033.01, Arizona
43 Revised Statutes, the population of a city or town as determined by the
44 most recent United States decennial census plus any revision to the
45 decennial census certified by the United States census bureau shall be

1 used as the basis for apportioning monies pursuant to subdivision (c) of
2 this paragraph.

3 2. That in fiscal year 2024-2025 the transfer prescribed in section
4 42-5041, subsection E, Arizona Revised Statutes, not exceed \$803,600.

5 3. That in fiscal year 2024-2025 the transfer prescribed in section
6 42-5041, subsection F, Arizona Revised Statutes, not exceed \$179,000.