

# ARIZONA STATE SENATE

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TO: MEMBERS OF THE SENATE  
FINANCE COMMITTEE

DATE: February 13, 2025

SUBJECT: Strike everything amendment to S.B. 1539, relating to TPT; clean rooms; exemption

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### Purpose

Expands the clean room transaction privilege tax (TPT) deduction and use tax exemption to include any clean room used for manufacturing, processing, fabrication or research and development, rather than only clean rooms used for manufacturing, processing, fabrication or research and development of semiconductor products.

### Background

TPT is a gross receipts tax levied for the privilege of conducting business in Arizona and is imposed under 16 business classifications. Statute requires businesses to file a TPT return monthly and pay TPT to ADOR by the 20th day of the following month after the tax is incurred (A.R.S. §§ [42-5008](#) and [42-5014](#)). Use tax is a tax imposed on individuals who purchase taxable products from out-of-state locations or online retailers and as a result, do not pay TPT ([ADOR](#)).

The gross proceeds of sales or gross income derived from sales of certain tangible personal property must be deducted from the tax base for the retail classification of TPT, including clean rooms that are used for manufacturing, processing, fabrication or research and development of semiconductors. A *clean room* is all property that comprises or creates an environment where humidity, temperature, particulate matter and contamination are precisely controlled within specified parameters, regardless of whether the property is actually within that environment or incorporated into real property.

*Research and development* is a basic and applied research in the sciences and engineering, and designing, developing or testing prototypes, processes or new products, including research and development of computer software that is embedded in or an integral part of the prototype or new product or that is required for machinery or equipment otherwise exempt from TPT or use tax to function effectively (A.R.S. §§ [42-5061](#) and [42-5159](#))

If expanding the clean room TPT deduction and use tax exemption results in a change to TPT collections, there may be an impact to the state General Fund.

### Provisions

1. Expands the clean rooms TPT deduction and use tax exemption to include clean room used for manufacturing, processing, fabrication or research and development, rather than only clean rooms that are used for manufacturing, processing, fabrication or research and development of semiconductor products.
2. Applies the modified deduction and exemption to taxable periods beginning on or after the first day of the month following the general effective date.
3. Becomes effective on the general effective date.