

REFERENCE TITLE: TPT; diapers; formula; feminine hygiene

State of Arizona  
House of Representatives  
Fifty-third Legislature  
Second Regular Session  
2018

# HB 2217

Introduced by  
Representatives Hernandez: Bolding, Clodfelter, John, Ugenti-Rita

AN ACT

AMENDING SECTIONS 42-5061, 42-5159 AND 42-6004, ARIZONA REVISED STATUTES;  
RELATING TO TAX EXEMPTIONS.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Section 42-5061, Arizona Revised Statutes, is amended to  
3 read:

4 42-5061. Retail classification: definitions

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

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

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

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

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

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

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

27 7. The sale of stocks and bonds.

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

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

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

36 11. Prescription eyeglasses or contact lenses.

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

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

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

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

6           16. Items purchased with United States department of agriculture  
7 food stamp coupons issued under the food stamp act of 1977 (P.L. 95-113;  
8 91 Stat. 958) or food instruments issued under section 17 of the child  
9 nutrition act (P.L. 95-627; 92 Stat. 3603; P.L. 99-661, section 4302; 42  
10 United States Code section 1786).

11           17. Textbooks by any bookstore that are required by any state  
12 university or community college.

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

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

22           20. Lottery tickets or shares pursuant to title 5, chapter 5.1,  
23 article 1.

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

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

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

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

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

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

8 22. Motor vehicle fuel and use fuel that are subject to a tax  
9 imposed under title 28, chapter 16, article 1, sales of use fuel to a  
10 holder of a valid single trip use fuel tax permit issued under section  
11 28-5739, sales of aviation fuel that are subject to the tax imposed under  
12 section 28-8344 and sales of jet fuel that are subject to the tax imposed  
13 under article 8 of this chapter.

14 23. Tangible personal property sold to a person engaged in the  
15 business of leasing or renting such property under the personal property  
16 rental classification if such property is to be leased or rented by such  
17 person.

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

21 25. Tangible personal property sold to:

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

23 (b) A qualifying health care organization as defined in section  
24 42-5001 if the tangible personal property is used by the organization  
25 solely to provide health and medical related educational and charitable  
26 services.

27 (c) A qualifying health care organization as defined in section  
28 42-5001 if the organization is dedicated to providing educational,  
29 therapeutic, rehabilitative and family medical education training for  
30 blind and visually impaired children and children with multiple  
31 disabilities from the time of birth to age twenty-one.

32 (d) A qualifying community health center as defined in section  
33 42-5001.

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

37 (f) For taxable periods beginning from and after June 30, 2001, a  
38 nonprofit charitable organization that has qualified under section  
39 501(c)(3) of the internal revenue code and that provides residential  
40 apartment housing for low income persons over sixty-two years of age in a  
41 facility that qualifies for a federal housing subsidy, if the tangible  
42 personal property is used by the organization solely to provide  
43 residential apartment housing for low income persons over sixty-two years  
44 of age in a facility that qualifies for a federal housing subsidy.

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

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

7 26. Magazines or other periodicals or other publications by this  
8 state to encourage tourist travel.

9 27. Tangible personal property sold to:

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

15 (i) Incorporated or fabricated by the person into any real  
16 property, structure, project, development or improvement as part of the  
17 business.

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

27 28. The sale of a motor vehicle to:

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

33 (b) An enrolled member of an Indian tribe who resides on the Indian  
34 reservation established for that tribe.

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

41 30. Sales of tangible personal property by a nonprofit organization  
42 that is exempt from taxation under section 501(c)(3), 501(c)(4) or  
43 501(c)(6) of the internal revenue code if the organization is associated  
44 with a major league baseball team or a national touring professional

1 golfing association and no part of the organization's net earnings inures  
2 to the benefit of any private shareholder or individual.

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

8 32. Sales of tangible personal property by a nonprofit organization  
9 that is exempt from taxation under section 501(c)(3), 501(c)(4),  
10 501(c)(6), 501(c)(7) or 501(c)(8) of the internal revenue code if the  
11 organization sponsors or operates a rodeo featuring primarily farm and  
12 ranch animals and no part of the organization's net earnings inures to the  
13 benefit of any private shareholder or individual.

14 33. Sales of seeds, seedlings, roots, bulbs, cuttings and other  
15 propagative material to persons who use those items to commercially  
16 produce agricultural, horticultural, viticultural or floricultural crops  
17 in this state.

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

23 35. Sales of natural gas or liquefied petroleum gas used to propel  
24 a motor vehicle.

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

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

39 38. Sales of liquid, solid or gaseous chemicals used in  
40 manufacturing, processing, fabricating, mining, refining, metallurgical  
41 operations, research and development and, beginning on January 1, 1999,  
42 printing, if using or consuming the chemicals, alone or as part of an  
43 integrated system of chemicals, involves direct contact with the materials  
44 from which the product is produced for the purpose of causing or  
45 permitting a chemical or physical change to occur in the materials as part

1 of the production process. This paragraph does not include chemicals that  
2 are used or consumed in activities such as packaging, storage or  
3 transportation but does not affect any deduction for such chemicals that  
4 is otherwise provided by this section. For the purposes of this  
5 paragraph, "printing" means a commercial printing operation and includes  
6 job printing, engraving, embossing, copying and bookbinding.

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

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

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

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

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

30 42. Sales of:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

53. Application services that are designed to assess or test student learning or to promote curriculum design or enhancement purchased

1 by or for any school district, charter school, community college or state  
2 university. For the purposes of this paragraph:

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

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

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

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

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

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

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

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

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

43 (b) "Indian reservation" means all lands that are within the limits  
44 of areas set aside by the United States for the exclusive use and  
45 occupancy of an Indian tribe by treaty, law or executive order and that

are recognized as Indian reservations by the United States department of the interior.

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

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

61. THROUGH DECEMBER 31, 2026, TAMPONS, SANITARY NAPKINS, MENSTRUAL SPONGES, MENSTRUAL CUPS AND SIMILAR ITEMS USED FOR FEMININE HYGIENE.

62. THROUGH DECEMBER 31, 2026, DISPOSABLE DIAPERS AND OTHER SIMILAR DISPOSABLE ITEMS COMMONLY USED BY INDIVIDUALS FOR INCONTINENCE.

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

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

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

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

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

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

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

9           7. Aircraft, navigational and communication instruments and other  
10 accessories and related equipment sold to:

11           (a) A person:

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

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

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

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

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

39           (b) Any foreign government.

40           (c) Persons who are not residents of this state and who will not  
41 use such property in this state other than in removing such property from  
42 this state. This subdivision also applies to corporations that are not  
43 incorporated in this state, regardless of maintaining a place of business  
44 in this state, if the principal corporate office is located outside this

1 state and the property will not be used in this state other than in  
2 removing the property from this state.

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

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

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

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

20 12. Groundwater measuring devices required under section 45-604.

21 13. New machinery and equipment consisting of agricultural  
22 aircraft, tractors, tractor-drawn implements, self-powered implements,  
23 machinery and equipment necessary for extracting milk, and machinery and  
24 equipment necessary for cooling milk and livestock, and drip irrigation  
25 lines not already exempt under paragraph 6 of this subsection and that are  
26 used for commercial production of agricultural, horticultural,  
27 viticultural and floricultural crops and products in this state. For the  
28 purposes of this paragraph:

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

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

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

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

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

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

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

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

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

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

24 16. Clean rooms that are used for manufacturing, processing,  
25 fabrication or research and development, as defined in paragraph 14 of  
26 this subsection, of semiconductor products. For the purposes of this  
27 paragraph, "clean room" means all property that comprises or creates an  
28 environment where humidity, temperature, particulate matter and  
29 contamination are precisely controlled within specified parameters,  
30 without regard to whether the property is actually contained within that  
31 environment or whether any of the property is affixed to or incorporated  
32 into real property. Clean room:

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

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

41 17. Machinery and equipment used directly in the feeding of  
42 poultry, the environmental control of housing for poultry, the movement of  
43 eggs within a production and packaging facility or the sorting or cooling  
44 of eggs. This exemption does not apply to vehicles used for transporting  
45 eggs.

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

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

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

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

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

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

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

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

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

1           2. Janitorial equipment and hand tools.  
2           3. Office equipment, furniture and supplies.  
3           4. Tangible personal property used in selling or distributing  
4 activities, other than the telecommunications transmissions described in  
5 subsection B, paragraph 15 of this section.  
6           5. Motor vehicles required to be licensed by this state, except  
7 buses or other urban mass transit vehicles specifically exempted pursuant  
8 to subsection B, paragraph 11 of this section, without regard to the use  
9 of such motor vehicles.  
10          6. Shops, buildings, docks, depots and all other materials of  
11 whatever kind or character not specifically included as exempt.  
12          7. Motors and pumps used in drip irrigation systems.  
13          8. Machinery and equipment or other tangible personal property used  
14 by a contractor in the performance of a contract.  
15          D. In addition to the deductions from the tax base prescribed by  
16 subsection A of this section, there shall be deducted from the tax base  
17 the gross proceeds of sales or gross income derived from sales of  
18 machinery, equipment, materials and other tangible personal property used  
19 directly and predominantly to construct a qualified environmental  
20 technology manufacturing, producing or processing facility as described in  
21 section 41-1514.02. This subsection applies for ten full consecutive  
22 calendar or fiscal years after the start of initial construction.  
23          E. In computing the tax base, gross proceeds of sales or gross  
24 income from retail sales of heavy trucks and trailers does not include any  
25 amount attributable to federal excise taxes imposed by 26 United States  
26 Code section 4051.  
27          F. If a person is engaged in an occupation or business to which  
28 subsection A of this section applies, the person's books shall be kept so  
29 as to show separately the gross proceeds of sales of tangible personal  
30 property and the gross income from sales of services, and if not so kept  
31 the tax shall be imposed on the total of the person's gross proceeds of  
32 sales of tangible personal property and gross income from services.  
33          G. If a person is engaged in the business of selling tangible  
34 personal property at both wholesale and retail, the tax under this section  
35 applies only to the gross proceeds of the sales made other than at  
36 wholesale if the person's books are kept so as to show separately the  
37 gross proceeds of sales of each class, and if the books are not so kept,  
38 the tax under this section applies to the gross proceeds of every sale so  
39 made.  
40          H. A person who engages in manufacturing, baling, crating, boxing,  
41 barreling, canning, bottling, sacking, preserving, processing or otherwise  
42 preparing for sale or commercial use any livestock, agricultural or  
43 horticultural product or any other product, article, substance or  
44 commodity and who sells the product of such business at retail in this

1 state is deemed, as to such sales, to be engaged in business classified  
2 under the retail classification. This subsection does not apply to:

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

7 2. Businesses classified under the:

8 (a) Transporting classification.

9 (b) Utilities classification.

10 (c) Telecommunications classification.

11 (d) Pipeline classification.

12 (e) Private car line classification.

13 (f) Publication classification.

14 (g) Job printing classification.

15 (h) Prime contracting classification.

16 (i) Restaurant classification.

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

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

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

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

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

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

42 K. The department shall require every person claiming a deduction  
43 provided by subsection I or J of this section to file on forms prescribed  
44 by the department at such times as the department directs a sworn

1 statement disclosing the name of the purchaser and the exact amount of  
2 sales on which the exclusion or deduction is claimed.

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

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

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

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

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

21 O. For the purposes of this section, a sale of wireless  
22 telecommunications equipment to a person who holds the equipment for sale  
23 or transfer to a customer as an inducement to enter into or continue a  
24 contract for telecommunications services that are taxable under section  
25 42-5064 is considered to be a sale for resale in the regular course of  
26 business.

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

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

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

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

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

43 1. The transfer of title or possession of the coal is for the  
44 purpose of refining the coal.

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

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

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

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

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

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

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

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

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

25 2. "Manufacturer" means a person who is principally engaged in the  
26 fabrication, production or manufacture of products, wares or articles for  
27 use from raw or prepared materials, imparting to those materials new  
28 forms, qualities, properties and combinations.

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

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

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

40 6. "Subcontract" means an agreement between a contractor and any  
41 person who is not an employee of the contractor for furnishing of supplies  
42 or services that, in whole or in part, are necessary to the performance of  
43 one or more government contracts, or under which any portion of the  
44 contractor's obligation under one or more government contracts is  
45 performed, undertaken or assumed and that includes provisions causing

1 title to overhead materials or other tangible personal property used in  
2 the performance of the subcontract to pass to the government or that  
3 includes provisions incorporating such title passing clauses in a  
4 government contract into the subcontract.

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

7 42-5159. Exemptions

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

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

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

20 3. Tangible personal property, the storage, use or consumption of  
21 which the constitution or laws of the United States prohibit this state  
22 from taxing or to the extent that the rate or imposition of tax is  
23 unconstitutional under the laws of the United States.

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

28 5. Motor vehicle fuel and use fuel, the sales, distribution or use  
29 of which in this state is subject to the tax imposed under title 28,  
30 chapter 16, article 1, use fuel that is sold to or used by a person  
31 holding a valid single trip use fuel tax permit issued under section  
32 28-5739, aviation fuel, the sales, distribution or use of which in this  
33 state is subject to the tax imposed under section 28-8344, and jet fuel,  
34 the sales, distribution or use of which in this state is subject to the  
35 tax imposed under article 8 of this chapter.

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

41 7. Purchases of implants used as growth promotants and injectable  
42 medicines, not already exempt under paragraph 16 of this subsection, for  
43 livestock and poultry owned by, or in possession of, persons who are  
44 engaged in producing livestock, poultry, or livestock or poultry products,

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

3 8. Purchases of:

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

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

11 9. Seeds, seedlings, roots, bulbs, cuttings and other propagative  
12 material for use in commercially producing agricultural, horticultural,  
13 viticultural or floricultural crops in this state.

14 10. Tangible personal property not exceeding two hundred dollars in  
15 any one month purchased by an individual at retail outside the continental  
16 limits of the United States for the individual's own personal use and  
17 enjoyment.

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

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

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

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

28 13. Tangible personal property purchased by:

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

32 (b) A hospital operated by this state or a political subdivision of  
33 this state.

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

39 (d) A qualifying health care organization, as defined in section  
40 42-5001, if the tangible personal property is used by the organization  
41 solely to provide health and medical related educational and charitable  
42 services.

43 (e) A qualifying health care organization as defined in section  
44 42-5001 if the organization is dedicated to providing educational,  
45 therapeutic, rehabilitative and family medical education training for

1 blind and visually impaired children and children with multiple  
2 disabilities from the time of birth to age twenty-one.

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

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

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

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

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

19 (h) A person that is not subject to tax under section 42-5075 and  
20 that has been provided a copy of a certificate described in section  
21 42-5009, subsection L, if the property purchased is incorporated or  
22 fabricated by the person into the real property, structure, project,  
23 development or improvement described in the certificate.

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

28 (j) A qualifying community health center as defined in section  
29 42-5001.

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

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

38 (m) For taxable periods beginning from and after June 30, 2001, a  
39 nonprofit charitable organization that has qualified under section  
40 501(c)(3) of the internal revenue code and that provides residential  
41 apartment housing for low income persons over sixty-two years of age in a  
42 facility that qualifies for a federal housing subsidy, if the tangible  
43 personal property is used by the organization solely to provide  
44 residential apartment housing for low income persons over sixty-two years  
45 of age in a facility that qualifies for a federal housing subsidy.

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

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

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

13 15. Tangible personal property sold by:

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

17 (b) A nonprofit organization that is exempt from taxation under  
18 section 501(c)(3), 501(c)(4) or 501(c)(6) of the internal revenue code if  
19 the organization is associated with a major league baseball team or a  
20 national touring professional golfing association and no part of the  
21 organization's net earnings inures to the benefit of any private  
22 shareholder or individual.

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

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

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

37 18. Prescription eyeglasses and contact lenses.

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

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

40 21. Durable medical equipment that has a centers for medicare and  
41 medicaid services common procedure code, is designated reimbursable by  
42 medicare, is prescribed by a person who is licensed under title 32,  
43 chapter 7, 13, 17 or 29, can withstand repeated use, is primarily and  
44 customarily used to serve a medical purpose, is generally not useful to a

1 person in the absence of illness or injury and is appropriate for use in  
2 the home.

3 22. Food, as provided in and subject to the conditions of article 3  
4 of this chapter and section 42-5074.

5 23. Items purchased with United States department of agriculture  
6 food stamp coupons issued under the food stamp act of 1977 (P.L. 95-113;  
7 91 Stat. 958) or food instruments issued under section 17 of the child  
8 nutrition act (P.L. 95-627; 92 Stat. 3603; P.L. 99-661, section 4302;  
9 42 United States Code section 1786).

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

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

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

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

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

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

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

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

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

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

45 (b) Public educational institutions.

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

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

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

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

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

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

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

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

(a) "Overhead materials" means tangible personal property, the gross proceeds of sales or gross income derived from which would otherwise be included in the retail classification, that is used or consumed in the

1 performance of a contract, the cost of which is charged to an overhead  
2 expense account and allocated to various contracts based on generally  
3 accepted accounting principles and consistent with government contract  
4 accounting standards.

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

15 40. Through December 31, 1994, tangible personal property sold  
16 pursuant to a personal property liquidation transaction, as defined in  
17 section 42-5061. From and after December 31, 1994, tangible personal  
18 property sold pursuant to a personal property liquidation transaction, as  
19 defined in section 42-5061, if the gross proceeds of the sales were  
20 included in the measure of the tax imposed by article 1 of this chapter or  
21 if the personal property liquidation was a casual activity or transaction.

22 41. Wireless telecommunications equipment that is held for sale or  
23 transfer to a customer as an inducement to enter into or continue a  
24 contract for telecommunications services that are taxable under section  
25 42-5064.

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

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

37 44. Alternative fuel vehicles if the vehicle was manufactured as a  
38 diesel fuel vehicle and converted to operate on alternative fuel and  
39 equipment that is installed in a conventional diesel fuel motor vehicle to  
40 convert the vehicle to operate on an alternative fuel, as defined in  
41 section 1-215.

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

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

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

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

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

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

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

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

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

28 (b) "Curriculum design or enhancement" means planning, implementing  
29 or reporting on courses of study, lessons, assignments or other learning  
30 activities.

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

35 52. Repair parts installed in equipment used directly by a  
36 qualified business under section 41-1516 in harvesting, processing or  
37 transporting qualifying forest products removed from qualifying projects  
38 as defined in section 41-1516.

39 53. Renewable energy credits or any other unit created to track  
40 energy derived from renewable energy resources. For the purposes of this  
41 paragraph, "renewable energy credit" means a unit created administratively  
42 by the corporation commission or governing body of a public power entity  
43 to track kilowatt hours of electricity derived from a renewable energy  
44 resource or the kilowatt hour equivalent of conventional energy resources  
45 displaced by distributed renewable energy resources.

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

55. Coal acquired from an owner or operator of a power plant by a person who is responsible for refining coal if both of the following apply:

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

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

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

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

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

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

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

(a) "Cash equivalents" means items, whether or not negotiable, that are sold to one or more persons, through which a value denominated in

money is purchased in advance and that may be redeemed in full or in part for tangible personal property, intangibles or services. Cash equivalents include gift cards, stored value cards, gift certificates, vouchers, traveler's checks, money orders or other tangible instruments or orders. Cash equivalents do not include either of the following:

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

(ii) Prepaid calling cards for telecommunications services.

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

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

58. THROUGH DECEMBER 31, 2026, TAMPONS, SANITARY NAPKINS, MENSTRUAL SPONGES, MENSTRUAL CUPS AND SIMILAR ITEMS USED FOR FEMININE HYGIENE.

59. THROUGH DECEMBER 31, 2026, DISPOSABLE DIAPERS AND OTHER SIMILAR DISPOSABLE ITEMS COMMONLY USED BY INDIVIDUALS FOR INCONTINENCE.

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

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

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

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

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

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

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

14          7. Aircraft, navigational and communication instruments and other  
15 accessories and related equipment sold to:

16           (a) A person:

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

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

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

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

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

44           (b) Any foreign government.

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

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

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

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

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

12. Groundwater measuring devices required under section 45-604.

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

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

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

14. Machinery or equipment used in research and development. For the purposes of this paragraph, "research and development" means 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 under this section to function

effectively. Research and development do not include manufacturing quality control, routine consumer product testing, market research, sales promotion, sales service, research in social sciences or psychology, computer software research that is not included in the definition of research and development, or other nontechnological activities or technical services.

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

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

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

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

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

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

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

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

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

1        17. Machinery and equipment that are used directly in the feeding  
2 of poultry, the environmental control of housing for poultry, the movement  
3 of eggs within a production and packaging facility or the sorting or  
4 cooling of eggs. This exemption does not apply to vehicles used for  
5 transporting eggs.

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

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

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

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

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

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

38        21. Qualifying equipment that is purchased from and after June 30,  
39 2004 through June 30, 2024 by a qualified business under section 41-1516  
40 for harvesting or processing qualifying forest products removed from  
41 qualifying projects as defined in section 41-1516. To qualify for this  
42 exemption, the qualified business must obtain and present its  
43 certification from the Arizona commerce authority at the time of purchase.

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

7           C. The exemptions provided by subsection B of this section do not  
8 include:

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

13           2. Janitorial equipment and hand tools.

14           3. Office equipment, furniture and supplies.

15           4. Tangible personal property used in selling or distributing  
16 activities, other than the telecommunications transmissions described in  
17 subsection B, paragraph 15 of this section.

18           5. Motor vehicles required to be licensed by this state, except  
19 buses or other urban mass transit vehicles specifically exempted pursuant  
20 to subsection B, paragraph 11 of this section, without regard to the use  
21 of such motor vehicles.

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

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

25           8. Machinery and equipment or tangible personal property used by a  
26 contractor in the performance of a contract.

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

29           1. Revenues received from sales of ancillary services, electric  
30 distribution services, electric generation services, electric transmission  
31 services and other services related to providing electricity to a retail  
32 electric customer who is located outside this state for use outside this  
33 state if the electricity is delivered to a point of sale outside this  
34 state.

35           2. Revenues received from providing electricity, including  
36 ancillary services, electric distribution services, electric generation  
37 services, electric transmission services and other services related to  
38 providing electricity with respect to which the transaction privilege tax  
39 imposed under section 42-5063 has been paid.

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

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

3 1. Fees charged by a municipally owned utility to persons  
4 constructing residential, commercial or industrial developments or  
5 connecting residential, commercial or industrial developments to a  
6 municipal utility system or systems if the fees are segregated and used  
7 only for capital expansion, system enlargement or debt service of the  
8 utility system or systems.

9 2. Reimbursement or contribution compensation to any person or  
10 persons owning a utility system for property and equipment installed to  
11 provide utility access to, on or across the land of an actual utility  
12 consumer if the property and equipment become the property of the utility.  
13 This deduction shall not exceed the value of such property and equipment.

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

16 1. A qualified manufacturing or smelting business. A utility that  
17 claims this deduction shall report each month, on a form prescribed by the  
18 department, the name and address of each qualified manufacturing or  
19 smelting business for which this deduction is taken. This paragraph  
20 applies to gas transportation services. For the purposes of this  
21 paragraph:

22 (a) "Gas transportation services" means the services of  
23 transporting natural gas to a natural gas customer or to a natural gas  
24 distribution facility if the natural gas was purchased from a supplier  
25 other than the utility.

26 (b) "Manufacturing" means the performance as a business of an  
27 integrated series of operations that places tangible personal property in  
28 a form, composition or character different from that in which it was  
29 acquired and transforms it into a different product with a distinctive  
30 name, character or use. Manufacturing does not include job printing,  
31 publishing, packaging, mining, generating electricity or operating a  
32 restaurant.

33 (c) "Qualified manufacturing or smelting business" means one of the  
34 following:

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

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

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

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

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

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

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

13 H. For the purposes of subsection B of this section:

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

17 2. "Aircraft" includes:

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

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

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

27 I. For the purposes of subsection D of this section, "ancillary  
28 services", "electric distribution service", "electric generation service",  
29 "electric transmission service" and "other services" have the same  
30 meanings prescribed in section 42-5063.

31 Sec. 3. Section 42-6004, Arizona Revised Statutes, is amended to  
32 read:

33 42-6004. Exemption from municipal tax; definitions

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

36 1. Exhibition events in this state sponsored, conducted or operated  
37 by a nonprofit organization that is exempt from taxation under section  
38 501(c)(3), 501(c)(4) or 501(c)(6) of the internal revenue code if the  
39 organization is associated with a major league baseball team or a national  
40 touring professional golfing association and no part of the organization's  
41 net earnings inures to the benefit of any private shareholder or  
42 individual.

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

4           3. Sales of warranty or service contracts.

5           4. Sales of motor vehicles to nonresidents of this state for use  
6 outside this state if the motor vehicle dealer ships or delivers the motor  
7 vehicle to a destination outside this state.

8           5. Interest on finance contracts.

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

10          7. Sales of food or other items purchased with United States  
11 department of agriculture food stamp coupons issued under the food stamp  
12 act of 1977 (P.L. 95-113; 91 Stat. 958) or food instruments issued under  
13 section 17 of the child nutrition act (P.L. 95-627; 92 Stat. 3603;  
14 P.L. 99-661, section 4302; 42 United States Code section 1786) but may  
15 impose such a tax on other sales of food. If a city, town or special  
16 taxing district exempts sales of food from its tax or imposes a different  
17 transaction privilege rate on the gross proceeds of sales or gross income  
18 from sales of food and nonfood items, it shall use the definition of food  
19 prescribed by rule adopted by the department pursuant to section 42-5106.

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

23          9. Sales of internet access services to the person's subscribers  
24 and customers. For the purposes of this paragraph:

25           (a) "Internet" means the computer and telecommunications facilities  
26 that comprise the interconnected worldwide network of networks that employ  
27 the transmission control protocol or internet protocol, or any predecessor  
28 or successor protocol, to communicate information of all kinds by wire or  
29 radio.

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

34          10. The gross proceeds of sales or gross income retained by the  
35 Arizona exposition and state fair board from ride ticket sales at the  
36 annual Arizona state fair.

37          11. Leasing real property between affiliated companies, businesses,  
38 persons or reciprocal insurers. For the purposes of this paragraph:

39           (a) "Affiliated companies, businesses, persons or reciprocal  
40 insurers" means the lessor holds a controlling interest in the lessee, the  
41 lessee holds a controlling interest in the lessor, affiliated persons hold  
42 a controlling interest in both the lessor and the lessee, or an unrelated  
43 person holds a controlling interest in both the lessor and lessee.

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

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

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

7 (e) "Reciprocal insurer" has the same meaning prescribed in section  
8 20-762.

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

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

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

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

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

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

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

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

39 (i) Assembling the machinery, equipment or other tangible personal  
40 property.

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

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

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

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

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

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

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

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

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

(i) Community facilities districts, fire districts, county television improvement districts, community park maintenance districts, cotton pest control districts, hospital districts, pest abatement

1 districts, health service districts, agricultural improvement districts,  
2 county free library districts, county jail districts, county stadium  
3 districts, special health care districts, public health services  
4 districts, theme park districts or revitalization districts.

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

9 16. Monitoring services relating to an alarm system as defined in  
10 section 32-101.

11 17. Tangible personal property, job printing or publications sold  
12 to or purchased by, or tangible personal property leased, rented or  
13 licensed for use to or by, a qualifying health sciences educational  
14 institution as defined in section 42-5001.

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

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

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

26 19. The gross proceeds of sales or gross income from sales of low  
27 or reduced cost articles of food or drink to eligible elderly or homeless  
28 persons or persons with a disability by a business subject to tax under  
29 section 42-5074 that contracts with the department of economic security  
30 and that is approved by the food and nutrition service of the United  
31 States department of agriculture pursuant to the supplemental nutrition  
32 assistance program established by the food and nutrition act of 2008  
33 (P.L. 110-246; 122 Stat. 1651; 7 United States Code sections 2011 through  
34 2036a), if the purchases are made with the benefits issued pursuant to the  
35 supplemental nutrition assistance program.

36 20. Tangible personal property incorporated or fabricated into a  
37 project described in paragraph 15 of this subsection, that is located  
38 within the exterior boundaries of an Indian reservation for which the  
39 owner, as defined in section 42-5075, of the project is an Indian tribe or  
40 an affiliated Indian. For the purposes of this paragraph:

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

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

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

10 21. The charges for the leasing or renting of space to make  
11 attachments to utility poles as follows:

12 (a) By a person that is engaged in the business of providing or  
13 furnishing electrical services or telecommunication services or that is a  
14 cable operator.

15 (b) To a person that is engaged in the business of providing or  
16 furnishing electrical services or telecommunication services or that is a  
17 cable operator.

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

22 23. The gross proceeds of sales or gross income derived from entry  
23 fees paid by participants for events that are operated or conducted by  
24 nonprofit organizations that are exempt from taxation under section  
25 501(c)(3) of the internal revenue code and of which no part of the  
26 organization's net earnings inures to the benefit of any private  
27 shareholder or individual, if the event consists of a run, walk, swim or  
28 bicycle ride or a similar event, or any combination of these events.

29 24. THROUGH DECEMBER 31, 2026, TAMPONS, SANITARY NAPKINS, MENSTRUAL  
30 SPONGES, MENSTRUAL CUPS AND SIMILAR ITEMS USED FOR FEMININE HYGIENE.

31 25. THROUGH DECEMBER 31, 2026, BABY FORMULA.

32 26. THROUGH DECEMBER 31, 2026, DISPOSABLE DIAPERS AND OTHER SIMILAR  
33 DISPOSABLE ITEMS COMMONLY USED BY INDIVIDUALS FOR INCONTINENCE.

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

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

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

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

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

8           4. Incarcerating or detaining in a privately operated prison, jail  
9 or detention facility prisoners who are under the jurisdiction of the  
10 United States, this state or any other state or a political subdivision of  
11 this state or of any other state.

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

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

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

21           (b) The attributable amount is equal to the total amount of  
22 development fees paid by the taxpayer or by a contractor providing  
23 services to the taxpayer and the total development fees credited in  
24 exchange for the construction of, contribution to or dedication of real  
25 property for providing public infrastructure, public safety or other  
26 public services necessary to the development. The real property must be  
27 the subject of the development fees.

28           (c) "Development fees" means fees imposed to offset capital costs  
29 of providing public infrastructure, public safety or other public services  
30 to a development and authorized pursuant to section 9-463.05, section  
31 11-1102 or title 48 regardless of the jurisdiction to which the fees are  
32 paid.

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

35           8. Transporting for hire persons by transportation network company  
36 drivers on transactions involving transportation network services as  
37 defined in section 28-9551.

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

40           10. Transporting for hire persons by vehicle for hire drivers on  
41 transactions involving vehicle for hire services as defined in section  
42 28-9501.

43           D. A city, town or other taxing jurisdiction shall not levy a  
44 transaction privilege, sales, use, franchise or other similar tax or fee,  
45 however denominated, in excess of one-tenth of one percent of the value of

1 the entire product mined, smelted, extracted, refined, produced or  
2 prepared for sale, profit or commercial use, on persons engaged in the  
3 business of mineral processing, except to the extent that the tax is  
4 computed on the gross proceeds or gross income from sales at retail.

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

8 1. A manufacturer's cash rebate on the sales price of a motor  
9 vehicle if the buyer assigns the buyer's right in the rebate to the  
10 retailer.

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

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

15 G. For the purposes of this section:

16 1. "Cable operator" has the same meaning prescribed in section  
17 9-505.

18 2. "Electrical services" means transmitting or distributing  
19 electricity, electric lights, current or power over lines, wires or  
20 cables.

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

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