

REFERENCE TITLE: online home sharing; repeal

State of Arizona
House of Representatives
Fifty-fifth Legislature
First Regular Session
2021

HB 2285

Introduced by
Representatives Lieberman: Bolding, Butler, Terán, Senator Marsh

AN ACT

REPEALING SECTIONS 5-900.39, 11-269.17, 15-1650.01 AND 42-1125.02, ARIZONA REVISED STATUTES; AMENDING SECTIONS 42-2003, 42-5005, 42-5009, 42-5010 AND 42-5014, ARIZONA REVISED STATUTES; REPEALING SECTION 42-5042, ARIZONA REVISED STATUTES; AMENDING SECTION 42-5061, AS AMENDED BY LAWS 2019, CHAPTER 273, SECTION 7 AND CHAPTER 288, SECTION 1; AMENDING SECTION 42-5061, AS AMENDED BY LAWS 2019, CHAPTER 273, SECTION 8 AND CHAPTER 288, SECTION 2; AMENDING SECTION 42-5070, ARIZONA REVISED STATUTES; REPEALING SECTION 42-5076, ARIZONA REVISED STATUTES; AMENDING SECTION 42-5159, ARIZONA REVISED STATUTES; REPEALING SECTIONS 42-6009 AND 42-6013, ARIZONA REVISED STATUTES; AMENDING SECTIONS 42-6102, 42-6108, 42-6108.01, 42-12003 AND 42-12004, ARIZONA REVISED STATUTES; REPEALING LAWS 2016, CHAPTER 208, SECTIONS 14, 15 AND 16; RELATING TO ONLINE LODGING.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Repeal

3 Sections 9-500.39, 11-269.17, 15-1650.01 and 42-1125.02, Arizona
4 Revised Statutes, are repealed.

5 Sec. 2. Section 42-2003, Arizona Revised Statutes, is amended to
6 read:

7 42-2003. Authorized disclosure of confidential information

8 A. Confidential information relating to:

9 1. A taxpayer may be disclosed to the taxpayer, its successor in
10 interest or a designee of the taxpayer who is authorized in writing by the
11 taxpayer. A principal corporate officer of a parent corporation may
12 execute a written authorization for a controlled subsidiary.

13 2. A corporate taxpayer may be disclosed to any principal officer,
14 any person designated by a principal officer or any person designated in a
15 resolution by the corporate board of directors or other similar governing
16 body. If a corporate officer signs a statement under penalty of perjury
17 representing that the officer is a principal officer, the department may
18 rely on the statement until the statement is shown to be false. For the
19 purposes of this paragraph, "principal officer" includes a chief executive
20 officer, president, secretary, treasurer, vice president of tax, chief
21 financial officer, chief operating officer or chief tax officer or any
22 other corporate officer who has the authority to bind the taxpayer on
23 matters related to state taxes.

24 3. A partnership may be disclosed to any partner of the
25 partnership. This exception does not include disclosure of confidential
26 information of a particular partner unless otherwise authorized.

27 4. A limited liability company may be disclosed to any member of
28 the company or, if the company is manager-managed, to any manager.

29 5. An estate may be disclosed to the personal representative of the
30 estate and to any heir, next of kin or beneficiary under the will of the
31 decedent if the department finds that the heir, next of kin or beneficiary
32 has a material interest that will be affected by the confidential
33 information.

34 6. A trust may be disclosed to the trustee or trustees, jointly or
35 separately, and to the grantor or any beneficiary of the trust if the
36 department finds that the grantor or beneficiary has a material interest
37 that will be affected by the confidential information.

38 7. A government entity may be disclosed to the head of the entity
39 or a member of the governing board of the entity, or any employee of the
40 entity who has been delegated the authorization in writing by the head of
41 the entity or the governing board of the entity.

42 8. Any taxpayer may be disclosed if the taxpayer has waived any
43 rights to confidentiality either in writing or on the record in any
44 administrative or judicial proceeding.

1 9. The name and taxpayer identification numbers of persons issued
2 direct payment permits may be publicly disclosed.

3 10. Any taxpayer may be disclosed during a meeting or telephone
4 call if the taxpayer is present during the meeting or telephone call and
5 authorizes the disclosure of confidential information.

6 B. Confidential information may be disclosed to:

7 1. Any employee of the department whose official duties involve tax
8 administration.

9 2. The office of the attorney general solely for its use in
10 preparation for, or in an investigation that may result in, any proceeding
11 involving tax administration before the department or any other agency or
12 board of this state, or before any grand jury or any state or federal
13 court.

14 3. The department of liquor licenses and control for its use in
15 determining whether a spirituous liquor licensee has paid all transaction
16 privilege taxes and affiliated excise taxes incurred as a result of the
17 sale of spirituous liquor, as defined in section 4-101, at the licensed
18 establishment and imposed on the licensed establishments by this state and
19 its political subdivisions.

20 4. Other state tax officials whose official duties require the
21 disclosure for proper tax administration purposes if the information is
22 sought in connection with an investigation or any other proceeding
23 conducted by the official. Any disclosure is limited to information of a
24 taxpayer who is being investigated or who is a party to a proceeding
25 conducted by the official.

26 5. The following agencies, officials and organizations, if they
27 grant substantially similar privileges to the department for the type of
28 information being sought, pursuant to statute and a written agreement
29 between the department and the foreign country, agency, state, Indian
30 tribe or organization:

31 (a) The United States internal revenue service, alcohol and tobacco
32 tax and trade bureau of the United States treasury, United States bureau
33 of alcohol, tobacco, firearms and explosives of the United States
34 department of justice, United States drug enforcement agency and federal
35 bureau of investigation.

36 (b) A state tax official of another state.

37 (c) An organization of states, federation of tax administrators or
38 multistate tax commission that operates an information exchange for tax
39 administration purposes.

40 (d) An agency, official or organization of a foreign country with
41 responsibilities that are comparable to those listed in subdivision (a),
42 (b) or (c) of this paragraph.

1 (e) An agency, official or organization of an Indian tribal
2 government with responsibilities comparable to the responsibilities of the
3 agencies, officials or organizations identified in subdivision (a), (b) or
4 (c) of this paragraph.

5 6. The auditor general, in connection with any audit of the
6 department subject to the restrictions in section 42-2002, subsection D.

7 7. Any person to the extent necessary for effective tax
8 administration in connection with:

9 (a) The processing, storage, transmission, destruction and
10 reproduction of the information.

11 (b) The programming, maintenance, repair, testing and procurement
12 of equipment for purposes of tax administration.

13 (c) The collection of the taxpayer's civil liability.

14 8. The office of administrative hearings relating to taxes
15 administered by the department pursuant to section 42-1101, but the
16 department shall not disclose any confidential information without the
17 taxpayer's written consent:

18 (a) Regarding income tax or withholding tax.

19 (b) On any tax issue relating to information associated with the
20 reporting of income tax or withholding tax.

21 9. The United States treasury inspector general for tax
22 administration for the purpose of reporting a violation of internal
23 revenue code section 7213A (26 United States Code section 7213A),
24 unauthorized inspection of returns or return information.

25 10. The financial management service of the United States treasury
26 department for use in the treasury offset program.

27 11. The United States treasury department or its authorized agent
28 for use in the state income tax levy program and in the electronic federal
29 tax payment system.

30 12. The Arizona commerce authority for its use in:

31 (a) Qualifying renewable energy operations for the tax incentives
32 under section 42-12006.

33 (b) Qualifying businesses with a qualified facility for income tax
34 credits under sections 43-1083.03 and 43-1164.04.

35 (c) Fulfilling its annual reporting responsibility pursuant to
36 section 41-1511, subsections U and V and section 41-1512, subsections U
37 and V.

38 (d) Certifying computer data centers for tax relief under section
39 41-1519.

40 13. A prosecutor for purposes of section 32-1164, subsection C.

41 14. The office of the state fire marshal for use in determining
42 compliance with and enforcing title 37, chapter 9, article 5.

43 15. The department of transportation for its use in administering
44 taxes, surcharges and penalties prescribed by title 28.

1 16. The Arizona health care cost containment system administration
2 for its use in administering nursing facility provider assessments.

3 17. The department of administration risk management division and
4 the office of the attorney general if the information relates to a claim
5 against this state pursuant to section 12-821.01 involving the department
6 of revenue.

7 18. Another state agency if the taxpayer authorizes the disclosure
8 of confidential information in writing, including an authorization that is
9 part of an application form or other document submitted to the agency.

10 19. The department of economic security for its use in determining
11 whether an employer has paid all amounts due under the unemployment
12 insurance program pursuant to title 23, chapter 4.

13 20. The department of health services for its use in determining ~~if~~
14 ~~WHETHER~~ a medical marijuana dispensary is in compliance with the tax
15 requirements of ~~title 42,~~ chapter 5 ~~OF THIS TITLE~~ for purposes of section
16 36-2806, subsection A.

17 C. Confidential information may be disclosed in any state or
18 federal judicial or administrative proceeding pertaining to tax
19 administration pursuant to the following conditions:

20 1. One or more of the following circumstances must apply:

21 (a) The taxpayer is a party to the proceeding.

22 (b) The proceeding arose out of, or in connection with, determining
23 the taxpayer's civil or criminal liability, or the collection of the
24 taxpayer's civil liability, with respect to any tax imposed under this
25 title or title 43.

26 (c) The treatment of an item reflected on the taxpayer's return is
27 directly related to the resolution of an issue in the proceeding.

28 (d) Return information directly relates to a transactional
29 relationship between a person who is a party to the proceeding and the
30 taxpayer and directly affects the resolution of an issue in the
31 proceeding.

32 2. Confidential information may not be disclosed under this
33 subsection if the disclosure is prohibited by section 42-2002, subsection
34 C or D.

35 D. Identity information may be disclosed for purposes of notifying
36 persons entitled to tax refunds if the department is unable to locate the
37 persons after reasonable effort.

38 E. The department, on the request of any person, shall provide the
39 names and addresses of bingo licensees as defined in section 5-401, verify
40 whether or not a person has a privilege license and number, a tobacco
41 product distributor's license and number or a withholding license and
42 number or disclose the information to be posted on the department's
43 website or otherwise publicly accessible pursuant to section 42-1124,
44 subsection F and section 42-3401.

1 F. A department employee, in connection with the official duties
 2 relating to any audit, collection activity or civil or criminal
 3 investigation, may disclose return information to the extent that
 4 disclosure is necessary to obtain information that is not otherwise
 5 reasonably available. These official duties include the correct
 6 determination of and liability for tax, the amount to be collected or the
 7 enforcement of other state tax revenue laws.

8 G. Confidential information relating to transaction privilege tax,
 9 use tax, severance tax, jet fuel excise and use tax and any other tax
 10 collected by the department on behalf of any jurisdiction may be disclosed
 11 to any county, city or town tax official if the information relates to a
 12 taxpayer who is or may be taxable by a county, city or town or who may be
 13 subject to audit by the department pursuant to section 42-6002. Any
 14 taxpayer information that is released by the department to the county,
 15 city or town:

16 1. May be used only for internal purposes, including audits. ~~If~~
 17 ~~there is a legitimate business need relating to enforcing laws,~~
 18 ~~regulations and ordinances pursuant to section 9-500.39 or 11-269.17, a~~
 19 ~~county, city or town tax official may redisclose transaction privilege tax~~
 20 ~~information relating to a vacation rental or short-term rental property~~
 21 ~~owner or online lodging operator from the new license report and license~~
 22 ~~update report, subject to the following:~~

23 ~~(a) The information redisclosed is limited to the following:~~
 24 ~~(i) The transaction privilege tax license number.~~
 25 ~~(ii) The type of organization or ownership of the business.~~
 26 ~~(iii) The legal business name and doing business as name, if~~
 27 ~~different from the legal name.~~
 28 ~~(iv) The business mailing address, tax record physical location~~
 29 ~~address, telephone number, email address and fax number.~~
 30 ~~(v) The date the business started in this state, the business~~
 31 ~~description and the North American industry classification system code.~~
 32 ~~(vi) The name, address and telephone number for each owner,~~
 33 ~~partner, corporate officer, member, managing member or official of the~~
 34 ~~employing unit.~~

35 ~~(b) Redisclosure is limited to nonelected officials in other units~~
 36 ~~within the county, city or town. The information may not be redisclosed~~
 37 ~~to an elected official or the elected official's staff.~~

38 ~~(c) All redisclosures of confidential information made pursuant to~~
 39 ~~this paragraph are subject to paragraph 2 of this subsection.~~

40 2. May not be disclosed to the public in any manner that does not
 41 comply with confidentiality standards established by the department. The
 42 county, city or town shall agree in writing with the department that any
 43 release of confidential information that violates the confidentiality
 44 standards adopted by the department will result in the immediate

1 suspension of any rights of the county, city or town to receive taxpayer
2 information under this subsection.

3 H. The department may disclose statistical information gathered
4 from confidential information if it does not disclose confidential
5 information attributable to any one taxpayer. The department may disclose
6 statistical information gathered from confidential information, even if it
7 discloses confidential information attributable to a taxpayer, to:

8 1. The state treasurer in order to comply with the requirements of
9 section 42-5029, subsection A, paragraph 3.

10 2. The joint legislative income tax credit review committee, the
11 joint legislative budget committee staff and the legislative staff in
12 order to comply with the requirements of section 43-221.

13 I. The department may disclose the aggregate amounts of any tax
14 credit, tax deduction or tax exemption enacted after January 1, 1994.
15 Information subject to disclosure under this subsection shall not be
16 disclosed if a taxpayer demonstrates to the department that such
17 information would give an unfair advantage to competitors.

18 J. Except as provided in section 42-2002, subsection C,
19 confidential information, described in section 42-2001, paragraph 1,
20 subdivision (a), item (ii), may be disclosed to law enforcement agencies
21 for law enforcement purposes.

22 K. The department may provide transaction privilege tax license
23 information to property tax officials in a county for the purpose of
24 identification and verification of the tax status of commercial property.

25 L. The department may provide transaction privilege tax, luxury
26 tax, use tax, property tax and severance tax information to the
27 ombudsman-citizens aide pursuant to title 41, chapter 8, article 5.

28 M. Except as provided in section 42-2002, subsection D, a court may
29 order the department to disclose confidential information pertaining to a
30 party to an action. An order shall be made only on a showing of good
31 cause and that the party seeking the information has made demand on the
32 taxpayer for the information.

33 N. This section does not prohibit the disclosure by the department
34 of any information or documents submitted to the department by a bingo
35 licensee. Before disclosing the information, the department shall obtain
36 the name and address of the person requesting the information.

37 O. If the department is required or permitted to disclose
38 confidential information, it may charge the person or agency requesting
39 the information for the reasonable cost of its services.

40 P. Except as provided in section 42-2002, subsection D, the
41 department of revenue shall release confidential information as requested
42 by the department of economic security pursuant to section 42-1122 or
43 46-291. Information disclosed under this subsection is limited to the
44 same type of information that the United States internal revenue service

1 is authorized to disclose under section 6103(1)(6) of the internal revenue
2 code.

3 Q. Except as provided in section 42-2002, subsection D, the
4 department shall release confidential information as requested by the
5 courts and clerks of the court pursuant to section 42-1122.

6 R. To comply with the requirements of section 42-5031, the
7 department may disclose to the state treasurer, to the county stadium
8 district board of directors and to any city or town tax official that is
9 part of the county stadium district confidential information attributable
10 to a taxpayer's business activity conducted in the county stadium
11 district.

12 S. The department shall release to the attorney general
13 confidential information as requested by the attorney general for purposes
14 of determining compliance with or enforcing any of the following:

15 1. Any public health control law relating to tobacco sales as
16 provided under title 36, chapter 6, article 14.

17 2. Any law relating to reduced cigarette ignition propensity
18 standards as provided under title 37, chapter 9, article 5.

19 3. Sections 44-7101 and 44-7111, the master settlement agreement
20 referred to in those sections and all agreements regarding disputes under
21 the master settlement agreement.

22 T. For proceedings before the department, the office of
23 administrative hearings, the state board of tax appeals or any state or
24 federal court involving penalties that were assessed against a return
25 preparer, an electronic return preparer or a payroll service company
26 pursuant to section 42-1103.02, 42-1125.01 or 43-419, confidential
27 information may be disclosed only before the judge or administrative law
28 judge adjudicating the proceeding, the parties to the proceeding and the
29 parties' representatives in the proceeding prior to its introduction into
30 evidence in the proceeding. The confidential information may be
31 introduced as evidence in the proceeding only if the taxpayer's name, the
32 names of any dependents listed on the return, all social security numbers,
33 the taxpayer's address, the taxpayer's signature and any attachments
34 containing any of the foregoing information are redacted and if either:

35 1. The treatment of an item reflected on such a return is or may be
36 related to the resolution of an issue in the proceeding.

37 2. Such a return or the return information relates or may relate to
38 a transactional relationship between a person who is a party to the
39 proceeding and the taxpayer that directly affects the resolution of an
40 issue in the proceeding.

41 3. The method of payment of the taxpayer's withholding tax
42 liability or the method of filing the taxpayer's withholding tax return is
43 an issue for the period.

44 U. The department and attorney general may share the information
45 specified in subsection S of this section with any of the following:

1 1. Federal, state or local agencies located in this state for the
2 purposes of enforcement of the statutes or agreements specified in
3 subsection S of this section or for the purposes of enforcement of
4 corresponding laws of other states.

5 2. Indian tribes located in this state for the purposes of
6 enforcement of the statutes or agreements specified in subsection S of
7 this section.

8 3. A court, arbitrator, data clearinghouse or similar entity for
9 the purpose of assessing compliance with or making calculations required
10 by the master settlement agreement or agreements regarding disputes under
11 the master settlement agreement, and with counsel for the parties or
12 expert witnesses in any such proceeding, if the information otherwise
13 remains confidential.

14 V. The department may provide the name and address of qualifying
15 hospitals and qualifying health care organizations, as defined in section
16 42-5001, to a business that is classified and reporting transaction
17 privilege tax under the utilities classification.

18 W. The department may disclose to an official of any city, town or
19 county in a current agreement or considering a prospective agreement with
20 the department as described in section 42-5032.02, subsection G any
21 information relating to amounts subject to distribution that are required
22 by section 42-5032.02. Information disclosed by the department under this
23 subsection:

24 1. May only be used by the city, town or county for internal
25 purposes.

26 2. May not be disclosed to the public in any manner that does not
27 comply with confidentiality standards established by the department. The
28 city, town or county must agree with the department in writing that any
29 release of confidential information that violates the confidentiality
30 standards will result in the immediate suspension of any rights of the
31 city, town or county to receive information under this subsection.

32 ~~X. Notwithstanding any other provision of this section, the~~
33 ~~department may not disclose information provided by an online lodging~~
34 ~~marketplace, as defined in section 42-5076, without the written consent of~~
35 ~~the online lodging marketplace, and the information may be disclosed only~~
36 ~~pursuant to subsection A, paragraphs 1 through 6, 8 and 10, subsection B,~~
37 ~~paragraphs 1, 2, 7 and 8 and subsections C, D and G of this section. Such~~
38 ~~information:~~

39 ~~1. is not subject to disclosure pursuant to title 39, relating to~~
40 ~~public records.~~

41 ~~2. May not be disclosed to any agency of this state or of any~~
42 ~~county, city, town or other political subdivision of this state.~~

1 Sec. 3. Section 42-5005, Arizona Revised Statutes, is amended to
2 read:

3 42-5005. Transaction privilege tax and municipal privilege
4 tax licenses; fees; renewal; revocation;
5 violation; classification

6 A. Every person who receives gross proceeds of sales or gross
7 income on which a transaction privilege tax is imposed by this article and
8 who desires to engage or continue in business shall apply to the
9 department for an annual transaction privilege tax license accompanied by
10 a fee of \$12. A person shall not engage or continue in business until the
11 person has obtained a transaction privilege tax license.

12 B. A person desiring to engage or continue in business within a
13 city or town that imposes a municipal privilege tax shall apply to the
14 department of revenue for an annual municipal privilege tax license
15 accompanied by a fee of up to \$50, as established by ordinance of the city
16 or town. The person shall submit the fee with each new license
17 application. The person may not engage or continue in business until the
18 person has obtained a municipal privilege tax license. The department
19 must collect, hold, pay and manage the fees in trust for the city or town
20 and may not use the monies for any other purposes. The fee imposed by
21 this subsection does not apply to a marketplace facilitator or remote
22 seller that is only required to obtain a transaction privilege tax license
23 pursuant to section 42-5043.

24 C. A transaction privilege tax license is valid only for the
25 calendar year in which it is issued, but it may be renewed for the
26 following calendar year. There is no fee for the renewal of the
27 transaction privilege tax license. The transaction privilege tax license
28 must be renewed at the same time and in the manner as the municipal
29 privilege tax license renewal.

30 D. A municipal privilege tax license is valid only for the calendar
31 year in which it is issued, but it may be renewed for the following
32 calendar year by the payment of a license renewal fee of up to \$50. The
33 renewal fee is due and payable on January 1 and is considered delinquent
34 if not received on or before the last business day of January. The
35 department must collect, hold, pay and manage the fees in trust for the
36 city or town and may not use the monies for any other purposes. The
37 renewal fee imposed by this subsection does not apply to a marketplace
38 facilitator or remote seller that is only required to obtain a transaction
39 privilege tax license pursuant to section 42-5043.

40 E. A licensee that remains in business after the municipal
41 privilege tax license has expired is subject to the payment of the license
42 renewal fee and the civil penalty prescribed in section 42-1125,
43 subsection R.

44 F. If the applicant is not in arrears in payment of any tax imposed
45 by this article, the department shall issue a license authorizing the

1 applicant to engage and continue in business on the condition that the
2 applicant complies with this article. The license number shall be
3 continuous.

4 G. The transaction privilege tax license and the municipal
5 privilege tax license are not transferable on a complete change of
6 ownership or change of location of the business. For the purposes of this
7 subsection:

8 1. "Location" means the business address appearing in the
9 application for the license and on the transaction privilege tax or
10 municipal privilege tax license.

11 2. "Ownership" means any right, title or interest in the business.

12 3. "Transferable" means the ability to convey or change the right
13 or privilege to engage or continue in business by virtue of the issuance
14 of the transaction privilege tax or municipal privilege tax license.

15 H. When the ownership or location of a business on which a
16 transaction privilege tax or municipal privilege tax is imposed has been
17 changed within the meaning of subsection G of this section, the licensee
18 shall surrender the license to the department. The license shall be
19 reissued to the new owners or for the new location on application by the
20 taxpayer and payment of the \$12 fee for a transaction privilege tax
21 license and a fee of up to \$50 per jurisdiction for a municipal privilege
22 tax license. The department must collect, hold, pay and manage the fees
23 in trust for the city or town and may not use the monies for any other
24 purposes.

25 I. A person who is engaged in or conducting a business in two or
26 more locations or under two or more business names shall procure a
27 transaction privilege tax license for each location or business name
28 regardless of whether all locations or business names are reported on a
29 consolidated return under a single transaction privilege tax license
30 number. This requirement shall not be construed as conflicting with
31 section 42-5020.

32 J. A person who is engaged in or conducting a business in two or
33 more locations or under two or more business names shall procure a
34 municipal privilege tax license for each location or business name
35 regardless of whether all locations or business names are reported on a
36 consolidated return.

37 K. A person who is engaged in or conducting business at two or more
38 locations or under two or more business names and who files a consolidated
39 return under a single transaction privilege tax license number as provided
40 by section 42-5020 is required to pay only a single municipal privilege
41 tax license renewal fee for each local jurisdiction pursuant to subsection
42 D of this section. A person who is engaged in or conducting business at
43 two or more locations or under two or more business names and who does not
44 file a consolidated return under a single license number is required to

1 pay a license renewal fee for each location or license in a local
2 jurisdiction.

3 ~~L. For the purposes of this chapter and chapter 6 of this title:~~

4 ~~1. Through December 31, 2018, an online lodging marketplace, as~~
5 ~~defined in section 42-5076, may register with the department for a license~~
6 ~~for the payment of taxes levied by this state and one or more counties,~~
7 ~~cities, towns or special taxing districts, at the election of the online~~
8 ~~lodging marketplace, for taxes due from an online lodging operator on any~~
9 ~~online lodging transaction facilitated by the online lodging marketplace,~~
10 ~~subject to sections 42-5076 and 42-6009.~~

11 ~~2. Beginning from and after December 31, 2018, an online lodging~~
12 ~~marketplace, as defined in section 42-5076, shall register with the~~
13 ~~department for a license for the payment of taxes levied by this state and~~
14 ~~one or more counties, cities, towns or special taxing districts for taxes~~
15 ~~due from an online lodging operator on any online lodging transaction~~
16 ~~facilitated by the online lodging marketplace, subject to sections 42-5076~~
17 ~~and 42-6009.~~

18 ~~M. For the purposes of this chapter and chapter 6 of this title, a~~
19 ~~person who is licensed pursuant to title 32, chapter 20 and who files an~~
20 ~~electronic consolidated tax return for individual real properties under~~
21 ~~management on behalf of the property owners may be licensed with the~~
22 ~~department for the payment of taxes levied by this state and by any~~
23 ~~county, city or town with respect to those properties. There is no fee~~
24 ~~for a license issued pursuant to this subsection.~~

25 ~~N.~~ L. If a person violates this article or any rule adopted under
26 this article, the department ~~upon~~ ON hearing may revoke any transaction
27 privilege tax or municipal privilege tax license issued to the
28 person. The department shall provide ten days' written notice of the
29 hearing, stating the time and place and requiring the person to appear and
30 show cause why the license or licenses should not be revoked. The
31 department shall provide written notice to the person of the revocation of
32 the license. The notices may be served personally or by mail pursuant to
33 section 42-5037. After revocation, the department shall not issue a new
34 license to the person unless the person presents evidence satisfactory to
35 the department that the person will comply with this article and with the
36 rules adopted under this article. The department may prescribe the terms
37 under which a revoked license may be reissued.

38 ~~O.~~ M. The department may revoke any transaction privilege tax or
39 municipal privilege tax license issued to any person who fails for
40 thirteen consecutive months to make and file a return required by this
41 article on or before the due date or the due date as extended by the
42 department unless the failure is due to a reasonable cause and not due to
43 wilful neglect.

44 ~~P.~~ N. A person who violates any provision of this section is
45 guilty of a class 3 misdemeanor.

1 Sec. 4. Section 42-5009, Arizona Revised Statutes, is amended to
2 read:

3 42-5009. Certificates establishing deductions; liability for
4 making false certificate

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

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

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

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

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

31 D. If a seller is entitled to a deduction by complying with
32 subsection A of this section, the department may require the purchaser
33 that caused the execution of the certificate to establish the accuracy and
34 completeness of the information required to be contained in the
35 certificate that would entitle the seller to the deduction. If the
36 purchaser cannot establish the accuracy and completeness of the
37 information, the purchaser is liable in an amount equal to any tax,
38 penalty and interest that the seller would have been required to pay under
39 this article if the seller had not complied with subsection A of this
40 section. Payment of the amount under this subsection exempts the
41 purchaser from liability for any tax imposed under article 4 of this
42 chapter. The amount shall be treated as tax revenues collected from the
43 seller in order to designate the distribution base for purposes of section
44 42-5029.

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

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

31 G. If a seller claims a deduction under section 42-5061,
32 subsection A, paragraph 25 and establishes entitlement to the deduction
33 with an exemption letter that the purchaser received from the department
34 and the exemption letter was based on a contingent event, the department
35 may require the purchaser that received the exemption letter to establish
36 the satisfaction of the contingent event within a reasonable time. If the
37 purchaser cannot establish the satisfaction of the event, the purchaser is
38 liable in an amount equal to any tax, penalty and interest that the seller
39 would have been required to pay under this article if the seller had not
40 been furnished the exemption letter. Payment of the amount under this
41 subsection exempts the purchaser from liability for any tax imposed under
42 article 4 of this chapter. The amount shall be treated as tax revenues
43 collected from the seller in order to designate the distribution base for
44 purposes of section 42-5029. For the purposes of this subsection,

"reasonable time" means a time limitation that the department determines and that does not exceed the time limitations pursuant to section 42-1104.

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

1. A valid certificate as prescribed by this subsection completed by the purchaser and obtained ~~prior to~~ BEFORE the issuance of the nonresident registration permit authorized by section 28-2154.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

25 ~~Q.~~ P. The department shall prescribe the form of a certificate to
26 be used by a person purchasing an aircraft to document eligibility for a
27 deduction pursuant to section 42-5061, subsection B, paragraph 7,
28 subdivision (a), item (v) or an exemption pursuant to section 42-5159,
29 subsection B, paragraph 7, subdivision (a), item (v), relating to
30 aircraft. The person must provide this certificate and documentation
31 confirming that the operational control of the aircraft has been
32 transferred or will be transferred immediately after the purchase to one
33 or more persons described in section 42-5061, subsection B, paragraph 7,
34 subdivision (a), item (i), (ii), (iii) or (iv) or section 42-5159,
35 subsection B, paragraph 7, subdivision (a), item (i), (ii), (iii) or (iv).
36 Operational control of the aircraft must be transferred for at least fifty
37 percent of the aircraft's flight hours. If such operational control is
38 not transferred for at least fifty percent of the aircraft's flight hours
39 during the recapture period, the owner of the aircraft is liable for an
40 amount equal to any tax that the seller or purchaser would have been
41 required to pay under this chapter at the time of the sale, plus penalty
42 and interest. The recapture period begins on the date that operational
43 control of the aircraft is first transferred and ends on the later of the
44 date the aircraft is fully depreciated for federal income tax purposes or
45 five years after operational control was first transferred. For the

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

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

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

Sec. 5. Section 42-5010, Arizona Revised Statutes, is amended to read:

42-5010. Rates; distribution base

A. The tax imposed by this article is levied and shall be collected at the following rates:

1. Five percent of the tax base as computed for the business of every person engaging or continuing in this state in the following business classifications described in article 2 of this chapter:

(a) Transporting classification.

(b) Utilities classification.

(c) Telecommunications classification.

(d) Pipeline classification.

(e) Private car line classification.

(f) Publication classification.

(g) Job printing classification.

(h) Prime contracting classification.

(i) Amusement classification.

(j) Restaurant classification.

(k) Personal property rental classification.

(l) Retail classification and amounts equal to retail transaction privilege tax due pursuant to section 42-5008.01.

2. Five and one-half percent of the tax base as computed for the business of every person engaging or continuing in this state in:

~~(a) the transient lodging classification described in section 42-5070.~~

~~(b) The online lodging marketplace classification described in section 42-5076 who has entered into an agreement with the department to register for, or has otherwise obtained from the department, a license to collect tax pursuant to section 42-5005, subsection L.~~

3. Three and one-eighth percent of the tax base as computed for the business of every person engaging or continuing in this state in the mining classification described in section 42-5072.

1 4. Zero percent of the tax base as computed for the business of
2 every person engaging or continuing in this state in the commercial lease
3 classification described in section 42-5069.

4 B. Except as provided by subsection J of this section, twenty
5 percent of the tax revenues collected at the rate prescribed by subsection
6 A, paragraph 1 of this section from persons on account of engaging in
7 business under the business classifications listed in subsection A,
8 paragraph 1, subdivisions (a) through (h) of this section is designated as
9 distribution base for purposes of section 42-5029.

10 C. Forty percent of the tax revenues collected at the rate
11 prescribed by subsection A, paragraph 1 of this section from persons on
12 account of engaging in business under the business classifications listed
13 in subsection A, paragraph 1, subdivisions (i) through (l) of this section
14 is designated as distribution base for purposes of section 42-5029.

15 D. Thirty-two percent of the tax revenues collected from persons on
16 account of engaging in business under the business classification listed
17 in subsection A, paragraph 3 of this section is designated as distribution
18 base for purposes of section 42-5029.

19 E. Fifty-three and one-third percent of the tax revenues collected
20 from persons on account of engaging in business under the business
21 classification listed in subsection A, paragraph 4 of this section is
22 designated as distribution base for purposes of section 42-5029.

23 F. Fifty percent of the tax revenues collected from persons on
24 account of engaging in business under the business classification listed
25 in subsection A, paragraph 2 of this section is designated as distribution
26 base for purposes of section 42-5029.

27 G. In addition to the rates prescribed by subsection A of this
28 section, if approved by the qualified electors voting at a statewide
29 general election, an additional rate increment is imposed and shall be
30 collected through June 30, 2021. The taxpayer shall pay taxes pursuant to
31 this subsection at the same time and in the same manner as under
32 subsection A of this section. The department shall separately account for
33 the revenues collected with respect to the rates imposed pursuant to this
34 subsection and the state treasurer shall distribute all of those revenues
35 in the manner prescribed by section 42-5029, subsection E. The rates
36 imposed pursuant to this subsection shall not be considered local revenues
37 for purposes of article IX, section 21, Constitution of Arizona. The
38 additional tax rate increment is levied at the rate of six-tenths of one
39 per cent of the tax base of every person engaging or continuing in this
40 state in a business classification listed in subsection A, paragraph 1 of
41 this section.

42 H. Any increase in the rate of tax that is imposed by this chapter
43 and that is enacted by the legislature or by a vote of the people does not
44 apply with respect to contracts entered into by prime contractors or
45 pursuant to written bids made by prime contractors on or before the

effective date of the legislation or the date of the election enacting the increase. To qualify for the exemption under this subsection, the prime contractor must maintain sufficient documentation, in a manner and form prescribed by the department, to verify the date of the contract or written bid.

I. For taxpayers taxable under this chapter other than prime contractors taxable pursuant to section 42-5075:

1. Any increase in the rate of tax that is levied by this article or article 2 of this chapter enacted by the legislature or by a vote of the people does not apply for a period of one hundred twenty days ~~from~~ AFTER the date of the tax rate increase to the gross proceeds of sales or gross income from the business of the taxpayer with respect to written contracts entered into before the effective date of the tax rate increase unless the taxpayer has entered into a contract that contains a provision that entitles the taxpayer to recover from the purchaser the amount of the additional tax levied.

2. The provisions of this subsection apply without regard to the accounting method used by the taxpayer to report the taxes imposed under article 2 of this chapter.

3. The provisions of this subsection shall not be considered in determining the rate of tax imposed under chapter 6, article 3 of this title.

J. Zero percent of the tax revenues that are collected at the rate prescribed by subsection A, paragraph 1 of this section from persons on account of engaging in business under the business classification listed in subsection A, paragraph 1, subdivision (h) of this section, and that are subject to any distribution required by section 42-5032.02, is designated as distribution base for the purposes of section 42-5029 until the total amount subject to distribution pursuant to section 42-5032.02 has reached the maximum amount prescribed by section 42-5032.02, subsection C. Thereafter, twenty percent of the remaining tax revenues is designated as distribution base for the purposes of section 42-5029 as provided by subsection B of this section.

Sec. 6. Section 42-5014, Arizona Revised Statutes, is amended to read:

42-5014. Return and payment of tax; estimated tax; extensions; abatements

A. Except as provided in subsection B, C, ~~OR D, E or F~~ of this section, the taxes levied under this article:

1. Are due and payable monthly in the form required by section 42-5018 for the amount of the tax, to the department, on or before the twentieth day of the month next succeeding the month in which the tax accrues.

2. Are delinquent as follows:

(a) For taxpayers that are required or elect to file and pay electronically in any month, if not received by the department on or before the last business day of the month.

(b) For all other taxpayers, if not received by the department on or before the business day preceding the last business day of the month.

B. The department, for any taxpayer whose estimated annual liability for taxes imposed or administered by this article or chapter 6 of this title is between \$2,000 and \$8,000, shall authorize the taxpayer to pay the taxes on a quarterly basis. The department, for any taxpayer whose estimated annual liability for taxes imposed by this article is less than \$2,000, shall authorize the taxpayer to pay the taxes on an annual basis. For the purposes of this subsection, the taxes due under this article:

1. For taxpayers that are authorized to pay on a quarterly basis, are due and payable monthly in the form required by section 42-5018 for the amount of the tax, to the department, on or before the twentieth day of the month next succeeding the quarter in which the tax accrues.

2. For taxpayers that are authorized to pay on an annual basis, are due and payable monthly in the form required by section 42-5018 for the amount of the tax, to the department, on or before the twentieth day of January next succeeding the year in which the tax accrues.

3. Are delinquent as follows:

(a) For taxpayers that are required or elect to file and pay electronically in any quarter, if not received by the department on or before the last business day of the month.

(b) For all other taxpayers that are required to file and pay quarterly, if not received by the department on or before the business day preceding the last business day of the month.

(c) For taxpayers that are required or elect to file and pay electronically on an annual basis, if not received by the department on or before the last business day of January.

(d) For all other taxpayers that are required to file and pay annually, if not received by the department on or before the business day preceding the last business day of January.

C. The department may require a taxpayer whose business is of a transient character to file the return and remit the taxes imposed by this article on a daily, a weekly or a transaction-by-transaction basis, and those returns and payments are due and payable on the date fixed by the department without a grace period otherwise allowed by this section. For the purposes of this subsection, "business of a transient character" means sales activity by a taxpayer not regularly engaged in selling within this state that is conducted from vehicles, portable stands, rented spaces, structures or booths, or concessions at fairs, carnivals, circuses, festivals or similar activities for not more than thirty consecutive days.

1 D. If the business entity under which a taxpayer reports and pays
2 income tax under title 43 has an annual total tax liability under this
3 article, article 6 of this chapter and chapter 6, article 3 of this title
4 of \$1,000,000 or more in 2019, \$1,600,000 or more in 2020, \$2,300,000 or
5 more in 2021, \$3,100,000 or more in 2022, or \$4,100,000 or more in 2023
6 and each year thereafter, based on the actual tax liability in the
7 preceding calendar year, regardless of the number of offices at which the
8 taxes imposed by this article, article 6 of this chapter or chapter 6,
9 article 3 of this title are collected, or if the taxpayer can reasonably
10 anticipate such liability in the current year, the taxpayer shall report
11 on a form prescribed by the department and pay an estimated tax payment
12 each June. Any other taxpayer may voluntarily elect to pay the estimated
13 tax payment pursuant to this subsection. The payment shall be made on or
14 before June 20 in the same manner as the taxpayer is required to make
15 regular payments and is delinquent if not received by the department on or
16 before the last business day of June if the taxpayer is required to make
17 the payment by electronic means, ~~or~~ IS delinquent on or before the
18 business day preceding the last business day of June for those taxpayers
19 allowed to file by mail, ~~or~~ IS delinquent if not received by the
20 department on the business day preceding the last business day of June for
21 those taxpayers allowed to file in person. The estimated tax paid shall
22 be credited against the taxpayer's tax liability under this article,
23 article 6 of this chapter and chapter 6, article 3 of this title for the
24 month of June for the current calendar year. The estimated tax payment
25 shall equal either:

26 1. One-half of the actual tax liability under this article plus
27 one-half of any tax liability under article 6 of this chapter and chapter
28 6, article 3 of this title for May of the current calendar year.

29 2. The actual tax liability under this article plus any tax
30 liability under article 6 of this chapter and chapter 6, article 3 of this
31 title for the first fifteen days of June of the current calendar year.

32 ~~E. An online lodging marketplace, as defined in section 42-5076,~~
33 ~~that is registered with the department pursuant to section 42-5005,~~
34 ~~subsection L:~~

35 ~~1. Shall remit to the department the applicable taxes payable~~
36 ~~pursuant to section 42-5076 and chapter 6 of this title with respect to~~
37 ~~each online lodging transaction, as defined in section 42-5076,~~
38 ~~facilitated by the online lodging marketplace.~~

39 ~~2. Shall report the taxes monthly and remit the aggregate total~~
40 ~~amounts for each of the respective taxing jurisdictions.~~

41 ~~3. Shall not be required to list or otherwise identify any~~
42 ~~individual online lodging operator, as defined in section 42-5076, on any~~
43 ~~return or any attachment to a return.~~

~~F. A person who is licensed pursuant to title 32, chapter 20 and who is licensed with the department pursuant to section 42-5005, subsection M shall:~~

~~1. File a consolidated return monthly with respect to all managed properties for which the licensee files an electronic consolidated tax return pursuant to section 42-6013.~~

~~2. Remit to the department the aggregate total amount of the applicable taxes payable pursuant to this chapter and chapter 6 of this title for all of the respective taxing jurisdictions with respect to the managed properties.~~

~~G.~~ E. The taxpayer shall prepare a return showing the amount of the tax for which the taxpayer is liable for the preceding month, and shall mail or deliver the return to the department in the same manner and time as prescribed for the payment of taxes in subsection A of this section. If the taxpayer fails to file the return in the manner and time as prescribed for the payment of taxes in subsection A of this section, the amount of the tax required to be shown on the return is subject to the penalty imposed pursuant to section 42-1125, subsection X, without any reduction for taxes paid on or before the due date of the return. The return shall be verified by the oath of the taxpayer or an authorized agent or as prescribed by the department pursuant to section 42-1105, subsection B.

~~H.~~ F. Any person who is taxable under this article and who makes cash and credit sales shall report the cash and credit sales separately and may apply for and obtain from the department an extension of time to pay taxes due on the credit sales. The department shall grant the extension under such rules as the department prescribes. When the extension is granted, the taxpayer shall thereafter include in each monthly report all collections made on such credit sales during the month next preceding and shall pay the taxes due at the time of filing such a report.

~~I.~~ G. The returns required under this article shall be made on forms prescribed by the department and shall capture data with sufficient specificity to meet the needs of all taxing jurisdictions.

~~J.~~ H. Any person who is engaged in or conducting business in two or more locations or under two or more business names shall file the return required under this article using an electronic filing program established by the department.

~~K.~~ I. For taxable periods beginning from and after December 31, 2017, any taxpayer with an annual total tax liability under this chapter and chapter 6 of this title of \$20,000 or more, based on the actual tax liability in the preceding calendar year, regardless of the number of offices at which the taxes imposed by this chapter or chapter 6 of this title are collected, or a taxpayer that can reasonably anticipate that

1 liability in the current year, shall file the return required under this
2 article using an electronic filing program established by the department.

3 ~~I.~~ J. For taxable periods beginning from and after December 31,
4 2018, any taxpayer with an annual total tax liability under this chapter
5 and chapter 6 of this title of \$10,000 or more, based on the actual tax
6 liability in the preceding calendar year, regardless of the number of
7 offices at which the taxes imposed by this chapter or chapter 6 of this
8 title are collected, or a taxpayer that can reasonably anticipate that
9 liability in the current year, shall file the return required under this
10 article using an electronic filing program established by the department.

11 ~~M.~~ K. For taxable periods beginning from and after December 31,
12 2019, any taxpayer with an annual total tax liability under this chapter
13 and chapter 6 of this title of \$5,000 or more, based on the actual tax
14 liability in the preceding calendar year, regardless of the number of
15 offices at which the taxes imposed by this chapter or chapter 6 of this
16 title are collected, or a taxpayer that can reasonably anticipate that
17 liability in the current year, shall file the return required under this
18 article using an electronic filing program established by the department.

19 ~~N.~~ L. For taxable periods beginning from and after December 31,
20 2020, any taxpayer with an annual total tax liability under this chapter
21 and chapter 6 of this title of \$500 or more, based on the actual tax
22 liability in the preceding calendar year, regardless of the number of
23 offices at which the taxes imposed by this chapter or chapter 6 of this
24 title are collected, or a taxpayer that can reasonably anticipate that
25 liability in the current year, shall file the return required under this
26 article using an electronic filing program established by the department.

27 ~~O.~~ M. Any taxpayer that is required to report and pay using an
28 electronic filing program established by the department may apply to the
29 director, on a form prescribed by the department, for an annual waiver
30 from the electronic filing requirement. The director may grant a waiver,
31 which may be renewed, if any of the following applies:

- 32 1. The taxpayer has no computer.
- 33 2. The taxpayer has no internet access.
- 34 3. Any other circumstance considered to be worthy by the director
- 35 exists.

36 ~~P.~~ N. A waiver is not required if the return cannot be
37 electronically filed for reasons beyond the taxpayer's control, including
38 situations in which the taxpayer was instructed by either the internal
39 revenue service or the department of revenue to file by paper.

40 ~~Q.~~ O. The department, for good cause, may extend the time for
41 making any return required by this article and may grant such reasonable
42 additional time within which to make the return as it deems proper, but
43 the time for filing the return shall not be extended beyond the first day
44 of the third month next succeeding the regular due date of the return.

~~R.~~ P. The department, with the approval of the attorney general, may abate small tax balances if the administration costs exceed the amount of tax due.

~~S.~~ Q. For the purposes of subsection D of this section, "taxpayer" means the business entity under which the business reports and pays state income taxes regardless of the number of offices at which the taxes imposed by this article, article 6 of this chapter or chapter 6, article 3 of this title are collected.

Sec. 7. Repeal

Section 42-5042, Arizona Revised Statutes, is repealed.

Sec. 8. Section 42-5061, Arizona Revised Statutes, as amended by Laws 2019, chapter 273, section 7 and chapter 288, section 1, is amended to read:

42-5061. Retail classification: definitions

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

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

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

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

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

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

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

7. The sale of stocks and bonds.

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

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

10. Insulin, insulin syringes and glucose test strips.

1 11. Prescription eyeglasses or contact lenses.

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

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

10 14. Sales of motor vehicles to nonresidents of this state for use
11 outside this state if the motor vehicle dealer ships or delivers the motor
12 vehicle to a destination out of this state.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

33 25. Tangible personal property sold to:

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

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

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

44 (d) A qualifying community health center as defined in section
45 42-5001.

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

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

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

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

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

27. Tangible personal property sold to:

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

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

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

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

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

28. The sale of a motor vehicle to:

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

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

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

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

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

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

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

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

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

44 34. Machinery, equipment, technology or related supplies that are
45 only useful to assist a person with a physical disability as defined in

1 section 46-191 or a person who has a developmental disability as defined
2 in section 36-551 or has a head injury as defined in section 41-3201 to be
3 more independent and functional.

4 35. Sales of natural gas or liquefied petroleum gas used to propel
5 a motor vehicle.

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

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

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

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

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

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

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

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

12 42. Sales of:

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

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

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

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

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

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

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

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

1 (b) Electronic or digital media materials, beginning July 17, 1994.
2 48. Tangible personal property sold to a commercial airline and
3 consisting of food, beverages and condiments and accessories used for
4 serving the food and beverages, if those items are to be provided without
5 additional charge to passengers for consumption in flight. For the
6 purposes of this paragraph, "commercial airline" means a person holding a
7 federal certificate of public convenience and necessity or foreign air
8 carrier permit for air transportation to transport persons, property or
9 United States mail in intrastate, interstate or foreign commerce.
10 49. Sales of alternative fuel vehicles if the vehicle was
11 manufactured as a diesel fuel vehicle and converted to operate on
12 alternative fuel and equipment that is installed in a conventional diesel
13 fuel motor vehicle to convert the vehicle to operate on an alternative
14 fuel, as defined in section 1-215.
15 50. Sales of any spirituous, vinous or malt liquor by a person that
16 is licensed in this state as a wholesaler by the department of liquor
17 licenses and control pursuant to title 4, chapter 2, article 1.
18 51. Sales of tangible personal property to be incorporated or
19 installed as part of environmental response or remediation activities
20 under section 42-5075, subsection B, paragraph 6.
21 52. Sales of tangible personal property by a nonprofit organization
22 that is exempt from taxation under section 501(c)(6) of the internal
23 revenue code if the organization produces, organizes or promotes cultural
24 or civic related festivals or events and no part of the organization's net
25 earnings inures to the benefit of any private shareholder or individual.
26 53. Application services that are designed to assess or test
27 student learning or to promote curriculum design or enhancement purchased
28 by or for any school district, charter school, community college or state
29 university. For the purposes of this paragraph:
30 (a) "Application services" means software applications provided
31 remotely using hypertext transfer protocol or another network protocol.
32 (b) "Curriculum design or enhancement" means planning, implementing
33 or reporting on courses of study, lessons, assignments or other learning
34 activities.
35 54. Sales of motor vehicle fuel and use fuel to a qualified
36 business under section 41-1516 for off-road use in harvesting, processing
37 or transporting qualifying forest products removed from qualifying
38 projects as defined in section 41-1516.
39 55. Sales of repair parts installed in equipment used directly by a
40 qualified business under section 41-1516 in harvesting, processing or
41 transporting qualifying forest products removed from qualifying projects
42 as defined in section 41-1516.
43 56. Sales or other transfers of renewable energy credits or any
44 other unit created to track energy derived from renewable energy
45 resources. For the purposes of this paragraph, "renewable energy credit"

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

35 7. Aircraft, navigational and communication instruments and other
36 accessories and related equipment sold to:

37 (a) A person:

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

42 (ii) That is certificated or licensed under federal aviation
43 administration regulations (14 Code of Federal Regulations part 121 or
44 135) as a scheduled or unscheduled carrier of persons for hire for use as

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

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

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

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

21 (b) Any foreign government.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

40 (ii) Over two-thirds of the transmissions, measured in megabytes,
41 transmitted by or on behalf of those direct broadcast television or data
42 transmission services during the test period were transmitted by the
43 facility to or on behalf of those services. For the purposes of
44 subdivision (b) of this paragraph, "test period" means the three hundred
45 sixty-five day period beginning on the later of the date on which the

1 tangible personal property is purchased or the date on which the direct
2 broadcast satellite television or data transmission service first
3 transmits information to its customers.

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

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

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

21 17. Machinery and equipment used directly in the feeding of
22 poultry, the environmental control of housing for poultry, the movement of
23 eggs within a production and packaging facility or the sorting or cooling
24 of eggs. This exemption does not apply to vehicles used for transporting
25 eggs.

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

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

44 20. Machinery or equipment that enables a television station to
45 originate and broadcast or to receive and broadcast digital television

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

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

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

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

14 21. Qualifying equipment that is purchased from and after June 30,
15 2004 through June 30, 2024 by a qualified business under section 41-1516
16 for harvesting or processing qualifying forest products removed from
17 qualifying projects as defined in section 41-1516. To qualify for this
18 deduction, the qualified business at the time of purchase must present its
19 certification approved by the department.

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

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

26 2. Janitorial equipment and hand tools.

27 3. Office equipment, furniture and supplies.

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

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

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

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

38 8. Machinery and equipment or other tangible personal property used
39 by a contractor in the performance of a contract.

40 D. In addition to the deductions from the tax base prescribed by
41 subsection A of this section, there shall be deducted from the tax base
42 the gross proceeds of sales or gross income derived from sales of
43 machinery, equipment, materials and other tangible personal property used
44 directly and predominantly to construct a qualified environmental
45 technology manufacturing, producing or processing facility as described in

1 section 41-1514.02. This subsection applies for ten full consecutive
2 calendar or fiscal years after the start of initial construction.

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

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

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

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

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

31 2. Businesses classified under the:

- 32 (a) Transporting classification.
- 33 (b) Utilities classification.
- 34 (c) Telecommunications classification.
- 35 (d) Pipeline classification.
- 36 (e) Private car line classification.
- 37 (f) Publication classification.
- 38 (g) Job printing classification.
- 39 (h) Prime contracting classification.
- 40 (i) Restaurant classification.

41 I. The gross proceeds of sales or gross income derived from the
42 following shall be deducted from the tax base for the retail
43 classification:

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

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

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

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

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

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

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

30 1. A manufacturer's cash rebate on the sales price of a motor
31 vehicle if the buyer assigns the buyer's right in the rebate to the
32 retailer.

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

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

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

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

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

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

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

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

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

1. The transfer of title or possession of the coal is for the 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.

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

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

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

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

23 V. For the purposes of this section:

24 1. "Agricultural aircraft" means an aircraft that is built for
25 agricultural use for the aerial application of pesticides or fertilizer or
26 for aerial seeding.

27 2. "Aircraft" includes:

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

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

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

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

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

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

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

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

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

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

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

29 Sec. 9. Section 42-5061, Arizona Revised Statutes, as amended by
30 Laws 2019, chapter 273, section 8 and chapter 288, section 2, is amended
31 to read:

32 42-5061. Retail classification; definitions

33 A. The retail classification is comprised of the business of
34 selling tangible personal property at retail. The tax base for the retail
35 classification is the gross proceeds of sales or gross income derived from
36 the business. The tax imposed on the retail classification does not apply
37 to the gross proceeds of sales or gross income from:

38 1. Professional or personal service occupations or businesses that
39 involve sales or transfers of tangible personal property only as
40 inconsequential elements.

41 2. Services rendered in addition to selling tangible personal
42 property at retail.

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

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

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

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

10 7. The sale of stocks and bonds.

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

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

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

19 11. Prescription eyeglasses or contact lenses.

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

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

28 14. Sales of motor vehicles to nonresidents of this state for use
29 outside this state if the motor vehicle dealer ships or delivers the motor
30 vehicle to a destination out of this state.

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

33 16. Items purchased with United States department of agriculture
34 coupons issued under the supplemental nutrition assistance program
35 pursuant to the food and nutrition act of 2008 (P.L. 88-525; 78 Stat. 703;
36 7 United States Code sections 2011 through 2036b) by the United States
37 department of agriculture food and nutrition service or food instruments
38 issued under section 17 of the child nutrition act (P.L. 95-627; 92 Stat.
39 3603; P.L. 99-661, section 4302; P.L. 111-296; 42 United States Code
40 section 1786).

41 17. Textbooks by any bookstore that are required by any state
42 university or community college.

43 18. Food and drink to a person that is engaged in a business that
44 is classified under the restaurant classification and that provides such

1 food and drink without monetary charge to its employees for their own
2 consumption on the premises during the employees' hours of employment.

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

8 20. Lottery tickets or shares pursuant to title 5, chapter 5.1,
9 article 1.

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

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

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

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

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

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

39 22. Motor vehicle fuel and use fuel that are subject to a tax
40 imposed under title 28, chapter 16, article 1, sales of use fuel to a
41 holder of a valid single trip use fuel tax permit issued under section
42 28-5739, sales of aviation fuel that are subject to the tax imposed under
43 section 28-8344 and sales of jet fuel that are subject to the tax imposed
44 under article 8 of this chapter.

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

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

8 25. Tangible personal property sold to:

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

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

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

19 (d) A qualifying community health center as defined in section
20 42-5001.

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

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

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

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

38 26. Magazines or other periodicals or other publications by this
39 state to encourage tourist travel.

40 27. Tangible personal property sold to:

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

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

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

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

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

13 28. The sale of a motor vehicle to:

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

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

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

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

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

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

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

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

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

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

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

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

38. Sales of 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

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

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

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

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

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

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

32 42. Sales of:

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

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

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

are engaged in feeding livestock or poultry commercially. For the 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 by or for any school district, charter school, community college or state university. For the purposes of this paragraph:

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

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

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

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

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

57. 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.

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

59. Sales of 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.

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. Sales of coal.

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

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

1 distribution. Transformers and control equipment used at transmission
2 substation sites constitute equipment used in producing or transmitting
3 electrical power.

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

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

12 7. Aircraft, navigational and communication instruments and other
13 accessories and related equipment sold to:

14 (a) A person:

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

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

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

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

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

42 (b) Any foreign government.

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

1 incorporated in this state, regardless of maintaining a place of business
2 in this state, if the principal corporate office is located outside this
3 state and the property will not be used in this state other than in
4 removing the property from this state.

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

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

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

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

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

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

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

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

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

1 computer software research that is not included in the definition of
2 research and development, or other nontechnological activities or
3 technical services.

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

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

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

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

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

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

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

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

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

42 17. Machinery and equipment used directly in the feeding of
43 poultry, the environmental control of housing for poultry, the movement of
44 eggs within a production and packaging facility or the sorting or cooling

1 of eggs. This exemption does not apply to vehicles used for transporting
2 eggs.

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

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

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

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

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

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

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

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

44 1. Expendable materials. For the purposes of this paragraph,
45 expendable materials do not include any of the categories of tangible

1 personal property specified in subsection B of this section regardless of
2 the cost or useful life of that property.

3 2. Janitorial equipment and hand tools.

4 3. Office equipment, furniture and supplies.

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

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

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

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

15 8. Machinery and equipment or other tangible personal property used
16 by a contractor in the performance of a contract.

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

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

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

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

42 H. A person who engages in manufacturing, baling, crating, boxing,
43 barreling, canning, bottling, sacking, preserving, processing or otherwise
44 preparing for sale or commercial use any livestock, agricultural or
45 horticultural product or any other product, article, substance or

commodity and who sells the product of such business at retail in this state is deemed, as to such sales, to be engaged in business classified under the retail classification. This subsection does not apply to:

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

2. Businesses classified under the:

(a) Transporting classification.

(b) Utilities classification.

(c) Telecommunications classification.

(d) Pipeline classification.

(e) Private car line classification.

(f) Publication classification.

(g) Job printing classification.

(h) Prime contracting classification.

(i) Restaurant classification.

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

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

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

3. 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

R. 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

1 that the seller would have been required to pay under article 1 of this
2 chapter if the seller had not made a deduction pursuant to subsection B,
3 paragraph 15, subdivision (b) of this section. Payment of the amount
4 under this subsection exempts the purchaser from liability for any tax
5 imposed under article 4 of this chapter and related to the tangible
6 personal property purchased. The amount shall be treated as transaction
7 privilege tax to the purchaser and as tax revenues collected from the
8 seller to designate the distribution base pursuant to section 42-5029.

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

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

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

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

31 U. For the purposes of this section:

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

35 2. "Aircraft" includes:

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

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

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

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

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

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

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

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

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

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

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

Sec. 10. Section 42-5070, Arizona Revised Statutes, is amended to read:

42-5070. Transient lodging classification; definition

A. The transient lodging classification is comprised of the business of operating, for occupancy by transients, a hotel or motel, including an inn, tourist home or house, dude ranch, resort, campground, studio or bachelor hotel, lodging house, rooming house, apartment house, dormitory, public or private club, mobile home or house trailer at a fixed location or other similar structure, and also including a space, lot or

slab that is occupied or intended or designed for occupancy by transients in a mobile home or house trailer furnished by them for such occupancy.

B. The transient lodging classification does not include:

1. Operating a convalescent home or facility, home for the aged, hospital, jail, military installation or fraternity or sorority house or operating any structure exclusively by an association, institution, governmental agency or corporation for religious, charitable or educational purposes, if no part of the net earnings of the association, corporation or other entity inures to the benefit of any private shareholder or individual.

2. A lease or rental of a mobile home or house trailer at a fixed location or any other similar structure, and also including a space, lot or slab that is occupied or intended or designed for occupancy by transients in a mobile home or house trailer furnished by them for such occupancy for thirty or more consecutive days.

3. Leasing or renting four or fewer rooms of an owner-occupied residential home, together with furnishing ~~no~~ NOT more than a breakfast meal, to transient lodgers at ~~no~~ NOT more than a fifty percent average annual occupancy rate.

~~4. The activities of any online lodging marketplace, as defined in section 42-5076.~~

C. The tax base for the transient lodging classification is the gross proceeds of sales or gross income derived from the business, except that the tax base does not include:

~~1.~~ the gross proceeds of sales or gross income derived from business activity that is properly included in another business classification under this article and that is taxable to the person engaged in that business classification, but the gross proceeds of sales or gross income to be deducted shall not exceed the consideration paid to the person conducting the activity.

~~2. The gross proceeds or gross income received by an online lodging operator, as defined in section 42-5076, from any online lodging transactions, as defined in section 42-5076, for which the online lodging operator has received documentation from a registered online lodging marketplace, as defined in section 42-5076, pursuant to section 42-5009, subsection P that the online lodging marketplace has remitted or will remit the applicable tax to the department pursuant to section 42-5014, subsection E.~~

D. For the purposes of this section, the tax base for the transient lodging classification does not include gross proceeds of sales or gross income derived from:

1. Transactions or activities that are not limited to transients and that would not be taxable if engaged in by a person not subject to tax under this article.

2. Transactions or activities that are not limited to transients and that would not be taxable if engaged in by a person subject to taxation under section 42-5062 or 42-5073 due to an exclusion, exemption or deduction.

3. Commissions paid to a person that is engaged in transient lodging business subject to taxation under this section by a person providing services or property to the customers of the person engaging in the transient lodging business.

E. The department shall separately account for revenues collected under the transient lodging classification for the purposes of section 42-5029, subsection D, paragraph 4, subdivision (b).

F. For the purposes of this section, "transient" means any person who either at the person's own expense or at the expense of another obtains lodging space or the use of lodging space on a daily or weekly basis, or on any other basis for less than thirty consecutive days.

Sec. 11. Repeal

Section 42-5076, Arizona Revised Statutes, is repealed.

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

42-5159. Exemptions

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

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

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

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

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

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

1 this state is subject to the tax imposed under section 28-8344, and jet
2 fuel, the sales, distribution or use of which in this state is subject to
3 the tax imposed under article 8 of this chapter.

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

9 7. Purchases of implants used as growth promotants and injectable
10 medicines, not already exempt under paragraph 16 of this subsection, for
11 livestock and poultry owned by, or in possession of, persons who are
12 engaged in producing livestock, poultry, or livestock or poultry products,
13 or who are engaged in feeding livestock or poultry commercially. For the
14 purposes of this paragraph, "poultry" includes ratites.

15 8. Purchases of:

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

18 (b) Livestock and poultry feed, salts, vitamins and other additives
19 sold to persons for use or consumption in the businesses of farming,
20 ranching and producing or feeding livestock or poultry or for use or
21 consumption in noncommercial boarding of livestock. For the purposes of
22 this paragraph, "poultry" includes ratites.

23 9. Propagative materials for use in commercially producing
24 agricultural, horticultural, viticultural or floricultural crops in this
25 state. For the purposes of this paragraph, "propagative materials":
26

27 (a) Includes seeds, seedlings, roots, bulbs, liners, transplants,
28 cuttings, soil and plant additives, agricultural minerals, auxiliary soil
29 and plant substances, micronutrients, fertilizers, insecticides,
30 herbicides, fungicides, soil fumigants, desiccants, rodenticides,
31 adjuvants, plant nutrients and plant growth regulators.

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

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

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

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

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

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

3 13. Tangible personal property purchased by:

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

7 (b) A hospital operated by this state or a political subdivision of
8 this state.

9 (c) A licensed nursing care institution or a licensed residential
10 care institution or a residential care facility operated in conjunction
11 with a licensed nursing care institution or a licensed kidney dialysis
12 center, which provides medical services, nursing services or health
13 related services and is not used or held for profit.

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

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

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

28 (g) A person that is subject to tax under this chapter by reason of
29 being engaged in business classified under section 42-5075, or a
30 subcontractor working under the control of a person that is engaged in
31 business classified under section 42-5075, if the tangible personal
32 property is any of the following:

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

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

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

39 (h) A person that is not subject to tax under section 42-5075 and
40 that has been provided a copy of a certificate described in section
41 42-5009, subsection L, if the property purchased is incorporated or
42 fabricated by the person into the real property, structure, project,
43 development or improvement described in the certificate.

44 (i) A nonprofit charitable organization that has qualified under
45 section 501(c)(3) of the internal revenue code if the property is

1 purchased from the parent or an affiliate organization that is located
2 outside this state.

3 (j) A qualifying community health center as defined in section
4 42-5001.

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

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

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

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

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

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

33 15. Tangible personal property sold by:

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

37 (b) A nonprofit organization that is exempt from taxation under
38 section 501(c)(3), 501(c)(4) or 501(c)(6) of the internal revenue code if
39 the organization is associated with a major league baseball team or a
40 national touring professional golfing association and no part of the
41 organization's net earnings inures to the benefit of any private
42 shareholder or individual. This subdivision does not apply to an
43 organization that is owned, managed or controlled, in whole or in part, by
44 a major league baseball team, or its owners, officers, employees or
45 agents, or by a major league baseball association or professional golfing

1 association, or its owners, officers, employees or agents, unless the
2 organization conducted or operated exhibition events in this state before
3 January 1, 2018 that were exempt from transaction privilege tax under
4 section 42-5073.

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

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

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

19 18. Prescription eyeglasses and contact lenses.

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

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

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

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

31 23. Items purchased with United States department of agriculture
32 coupons issued under the supplemental nutrition assistance program
33 pursuant to the food and nutrition act of 2008 (P.L. 88-525; 78 Stat. 703;
34 7 United States Code sections 2011 through 2036b) by the United States
35 department of agriculture food and nutrition service or food instruments
36 issued under section 17 of the child nutrition act (P.L. 95-627; 92 Stat.
37 3603; P.L. 99-661, section 4302; P.L. 111-296; 42 United States Code
38 section 1786).

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

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

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

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

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

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

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

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

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

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

(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

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

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

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

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

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

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

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

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

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

42. Alternative fuel, as defined in section 1-215, purchased by 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.

43. Tangible personal property purchased by 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.

44. 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.

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

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

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

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

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

48. Tangible personal property sold 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.

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

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

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

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

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

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

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

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.

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.

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

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

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

(a) A person:

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

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

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

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

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

(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

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

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

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

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

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

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

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

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

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

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

(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.

17. Machinery and equipment that are used directly in the feeding of poultry, the environmental control of housing for poultry, the movement of eggs within a production and packaging facility or the sorting or cooling of eggs. This exemption does not apply to vehicles used for transporting 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 used in the commercial production of livestock, livestock products or agricultural, horticultural, viticultural or floricultural crops or products in this state, including production by a person representing or working on behalf

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

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

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

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

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

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

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

31 C. The exemptions provided by subsection B of this section do not
32 include:

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

37 2. Janitorial equipment and hand tools.

38 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

43 (a) "Gas transportation services" means the services of
44 transporting natural gas to a natural gas customer or to a natural gas

1 distribution facility if the natural gas was purchased from a supplier
2 other than the utility.

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

10 (c) "Qualified manufacturing or smelting business" means one of the
11 following:

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

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

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

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

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

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

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

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

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

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

45 2. "Aircraft" includes:

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

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

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

10 J. For the purposes of subsection D of this section, "ancillary
11 services", "electric distribution service", "electric generation service",
12 "electric transmission service" and "other services" have the same
13 meanings prescribed in section 42-5063.

14 Sec. 13. Repeal

15 Sections 42-6009 and 42-6013, Arizona Revised Statutes, are
16 repealed.

17 Sec. 14. Section 42-6102, Arizona Revised Statutes, is amended to
18 read:

19 42-6102. Administration: exception

20 A. Unless the context otherwise requires, chapter 5, article 1 of
21 this title governs the administration of the taxes imposed by this
22 article, except that:

23 1. A separate license is not required for the taxes imposed by this
24 article, and the taxes due under this article shall be included, reported
25 and paid with the transaction privilege tax.

26 2. A separate bond is not required of employees of the department
27 in administering this article.

28 3. The taxes imposed by this article may be included without
29 segregation in any notice and lien filed for unpaid transaction privilege
30 taxes.

31 B. The taxes imposed pursuant to this article do not apply to the
32 gross proceeds of sales or gross income derived pursuant to contracts
33 entered into before the date of the election to authorize the tax by prime
34 contractors ~~and owner builders~~ who are classified under ~~sections~~ SECTION
35 42-5075 ~~and 42-5076~~ unless the contract contains a provision ~~which~~ THAT
36 entitles the contractor to recover the amount of the tax from a
37 purchaser. In order to qualify for this exemption the contractor shall
38 provide sufficient documentation, in a manner and form prescribed by the
39 department, to verify that a contract was entered into before the date of
40 the election to authorize the tax.

41 Sec. 15. Section 42-6108, Arizona Revised Statutes, is amended to
42 read:

43 42-6108. Tax on hotels

44 A. The board of supervisors of a county having a population of less
45 than two million five hundred thousand but more than five hundred thousand

persons may levy and, if levied, the department shall collect a tax on the gross proceeds of sales or gross income from the business of every person engaging or continuing in the county in a business taxed under chapter 5 of this title and classified under section 42-5070 ~~or 42-5076~~. The tax shall be levied under this section beginning January 1 or July 1, whichever date first occurs at least three months after the county resolution approving the tax levy. The rate of tax shall not exceed six ~~per cent~~ PERCENT.

B. The tax only applies in unincorporated areas of the county.

C. At the end of each month the state treasurer shall transmit the net revenues collected pursuant to this section to the treasurer of the county levying the tax. The county shall use:

1. Not more than thirty-four percent of these revenues for the purposes set forth in section 48-4204, subsection A, as financial participation by the county as required by that subsection.

2. Not more than sixteen percent of these revenues for the purposes of economic development under section 11-254.04. Any increase in tax imposed under this section shall not constitute a new tax for the purposes of section 11-254.04, subsection B.

3. All remaining revenues to promote and enhance tourism through the recognized tourism promotion agency in the county.

Sec. 16. Section 42-6108.01, Arizona Revised Statutes, is amended to read:

42-6108.01. Tax on hotels

A. The qualified electors residing in a county having a population of less than two million but more than five hundred thousand persons, by majority vote at an election held in the county, may levy and, if levied, the department of revenue shall collect a tax on the gross proceeds of sales or gross income from the business of every person engaging or continuing in a business taxed under chapter 5 of this title and classified under section 42-5070 ~~or 42-5076~~ within the county. A tax under this section:

1. Is in addition to taxes imposed by chapter 5 of this title and section 42-6108 and any tax imposed by a city or town in the county.

2. Applies in both incorporated and unincorporated areas of the county.

B. If levied, the tax shall be levied under this section beginning on the first day of the first month beginning ninety days after the election to levy the tax. The tax shall be in effect for thirty years. The tax may be extended by majority vote of the qualified electors residing in the county at an election held in the county for a period of not more than ten years.

C. The rate of the tax is one ~~per cent~~ PERCENT of the tax base prescribed by section 42-5070 ~~or 42-5076~~.

1 D. Each month the state treasurer shall credit the net revenues
2 collected pursuant to this section to the tourism fund established by
3 section 41-2306.

4 Sec. 17. Section 42-12003, Arizona Revised Statutes, is amended to
5 read:

6 42-12003. Class three property; definition

7 A. For purposes of taxation, class three is established consisting
8 of:

9 1. Real and personal property and improvements to the property that
10 are used as the owner's primary residence, that are not otherwise included
11 in class one, two, four, six, seven or eight and that are valued at full
12 cash value.

13 2. Real and personal property that is occupied by a relative of the
14 owner, as provided by section 42-12053, and used as the relative's primary
15 residence, that is not otherwise included in class one, two, four, six,
16 seven or eight and that is valued at full cash value.

17 ~~3. Real and personal property that is owned and occupied as the~~
18 ~~primary residence of the owner who also uses the property for lease or~~
19 ~~rent to lodgers.~~

20 B. For the purposes of this section, a homesite that is included in
21 class three may include:

22 1. Up to ten acres on a single parcel of real property on which the
23 residential improvement is located.

24 2. More than ten, but not more than forty, acres on a single parcel
25 of real property on which the residential improvement is located if it is
26 zoned exclusively for residential purposes or contains legal restrictions
27 or physical conditions that prevent the division of the parcel.

28 C. For the purposes of this section, "physical conditions" means
29 topography, mountains, washes, rivers, roads or any other configuration
30 that limits the residential usable land area.

31 Sec. 18. Section 42-12004, Arizona Revised Statutes, is amended to
32 read:

33 42-12004. Class four property

34 A. For purposes of taxation, class four is established consisting
35 of:

36 1. Real and personal property and improvements to the property that
37 are used for residential purposes, including residential property that is
38 owned in foreclosure by a financial institution, that is not otherwise
39 included in another classification and that is valued at full cash value.
40 The homesite that is included in class four may include:

41 (a) Up to ten acres on a single parcel of real property on which
42 the residential improvement is located.

(b) More than ten, but not more than forty, acres on a single parcel of real property on which the residential improvement is located if it is zoned exclusively for residential purposes or contains legal restrictions or physical conditions that prevent the division of the parcel. For the purposes of this subdivision, "physical conditions" means topography, mountains, washes, rivers, roads or any other configuration that limits the residential usable land area.

2. Real and personal property and improvements to the property that are used solely as leased or rented property for residential purposes, that are not included in class one, two, three, six, seven or eight and that are valued at full cash value.

3. Child care facilities that are licensed under title 36, chapter 7.1 and that are valued at full cash value.

4. Real and personal property and improvements to property that are used to operate nonprofit residential housing facilities that are structured to house or care for persons with disabilities or who are sixty-two years of age or older and that are valued at full cash value.

5. Real and personal property and improvements that are used to operate licensed residential care institutions or licensed nursing care institutions that provide medical services, nursing services or ~~health~~ ~~related~~ HEALTH-RELATED services and that are structured to house or care for persons with disabilities or who are sixty-two years of age or older and that are valued at full cash value.

6. Real and personal property consisting of ~~no~~ NOT more than eight rooms of residential property that are leased or rented to transient lodgers, together with furnishing ~~no~~ NOT more than a breakfast meal, by the owner who resides on the property and that is valued at full cash value.

7. Real and personal property consisting of residential dwellings that are maintained for occupancy by agricultural employees as a condition of employment or as a convenience to the employer, that is not included in class three and that is valued at full cash value. The land associated with these dwellings shall be valued as agricultural land pursuant to chapter 13, article 3 of this title.

8. Real property and improvements to property constituting common areas that are valued pursuant to chapter 13, article 9 of this title.

9. Real and personal property that is defined as timeshare property by section 32-2197 and valued pursuant to chapter 13, article 10 of this title, except for any property used for commercial, industrial or transient occupancy purposes and included in class one to the extent of that use.

~~10. Real and personal property and improvements that are used for residential purposes, that are leased or rented to lodgers, except for:~~

~~(a) Property occupied by the owner of the property as the owner's primary residence and included in class three.~~

1 ~~(b) Property used for commercial purposes and included in class~~
2 ~~one.~~

3 B. Subsection A, paragraphs 4 and 5 of this section ~~shall not be~~
4 ~~construed to~~ DO NOT limit eligibility for exemption from taxation under
5 chapter 11, article 3 of this title.

6 Sec. 19. Repeal

7 Laws 2016, chapter 208, sections 14, 15 and 16 are repealed.

8 Sec. 20. Conditional enactment

9 Section 42-5061, Arizona Revised Statutes, as amended by Laws 2019,
10 chapter 273, section 8, chapter 288, section 2 and this act, becomes
11 effective on the date prescribed by Laws 2018, chapter 263, section 5 but
12 only on the occurrence of the condition prescribed by Laws 2018, chapter
13 263, section 5.