

REFERENCE TITLE: alternative fuel incentive remedies

State of Arizona
House of Representatives
Forty-fourth Legislature
Seventh Special Session
2000

HB 2005

Introduced by
Representative Burns R

AN ACT

AMENDING SECTIONS 28-5805, 41-1516, 42-5159, 42-6004, 43-1086, 43-1086.01, 43-1086.02, 43-1174, 43-1174.01 AND 43-1174.02, ARIZONA REVISED STATUTES; AMENDING SECTION 42-5061, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2000, CHAPTER 63, SECTION 5, CHAPTER 401, SECTION 1 AND CHAPTER 405, SECTION 23; REPEALING SECTION 42-5061, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2000, CHAPTER 372, SECTION 7; REPEALING SECTIONS 9-500.19, 11-269.05, 28-737, 28-4414 AND 30-814, ARIZONA REVISED STATUTES; PROVIDING FOR DELAYED REPEAL OF SECTIONS 43-1086, 43-1086.01, 43-1086.02, 43-1174, 43-1174.01 AND 43-1174.02, ARIZONA REVISED STATUTES; BLENDING MULTIPLE ENACTMENTS; RELATING TO ALTERNATIVE FUEL INCENTIVES.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Section 28-5805, Arizona Revised Statutes, is amended to
3 read:

4 28-5805. Motor vehicle powered by alternative fuel;
5 classification; vehicle license tax; definitions

6 A. A separate classification of motor vehicles is established for
7 purposes of taxation pursuant to article IX, section 11, Constitution of
8 Arizona, that consists of motor vehicles powered by alternative fuel **AND THAT**
9 **WERE INITIALLY REGISTERED IN THIS STATE BEFORE JANUARY 1, 2002.**

10 B. Notwithstanding section 28-5801, the vehicle license tax rate for a
11 motor vehicle that has a gross vehicle weight of twelve thousand pounds or
12 less and that is classified under this section is as follows:

13 1. On initial registration, a one-time vehicle license tax of fifty
14 dollars.

15 2. On renewal of registration, a one-time vehicle license tax of
16 thirty-five dollars.

17 C. Notwithstanding section 28-5801, the registering officer shall
18 collect at the time of application for and before registration of the motor
19 vehicle that has a gross vehicle weight of more than twelve thousand pounds
20 and that is classified under this section an annual license tax of four
21 dollars for each one hundred dollars in value. During the first twelve
22 months of the life of the motor vehicle as determined by its initial
23 registration, the value is one per cent of the manufacturer's base retail
24 price of the motor vehicle. During each succeeding twelve month period the
25 value of the motor vehicle is fifteen per cent less than the value of the
26 preceding twelve month period. The minimum amount of the license tax
27 computed under this subsection is five dollars per year for each motor
28 vehicle subject to the tax.

29 D. Except as specifically provided in this section, the vehicle
30 license tax on a motor vehicle classified under this section is governed by
31 this article.

32 E. Proof of eligibility for the special license tax rate provided by
33 this section shall be provided as follows:

34 1. For an original equipment manufactured alternative fuel vehicle,
35 the dealer who sells the motor vehicle shall provide to the department of
36 transportation and the owner of the motor vehicle a certificate indicating:

37 (a) That the motor vehicle is powered by an alternative fuel.

38 (b) The emission classification of the motor vehicle as low,
39 inherently low, ultralow or zero.

40 2. For a converted motor vehicle or a motor vehicle that is assembled
41 by the owner, the department of environmental quality or an agent of the
42 department of environmental quality shall provide a certificate to the
43 department of transportation and the owner of the motor vehicle indicating
44 that the motor vehicle is powered by an alternative fuel.

45 F. For purposes of this section:

- 1 1. "Alternative fuel" has the same meaning prescribed in section
2 1-215.
- 3 2. "Motor vehicle" means a vehicle that meets the safety standards of
4 the national highway traffic safety administration and includes neighborhood
5 electric vehicles that meet the standards prescribed in 49 Code of Federal
6 Regulations section 571.500, except that, if a vehicle is designed to be
7 operated at speeds of twenty miles per hour or less, the vehicle is not
8 required to have a seventeen digit vehicle identification number.
- 9 Sec. 2. Section 41-1516, Arizona Revised Statutes, is amended to read:
10 41-1516. Arizona clean air fund; purposes; vehicle
11 certification program; definition
- 12 A. The Arizona clean air fund is established consisting of the
13 following:
- 14 1. Monies appropriated by the legislature.
- 15 2. Monies from the air quality fund pursuant to section 49-551,
16 subsection C, paragraph 2.
- 17 3. Any monies that are appropriated to state agencies for alternative
18 fuel vehicles or conversion of conventional vehicles to operate on
19 alternative fuels and that have not been spent by the state agency at the end
20 of each fiscal year.
- 21 4. Monies collected pursuant to section 49-543, subsection B, except
22 that beginning on January 1, 2001 until the contract entered into pursuant to
23 section 49-545 and in effect on April 28, 2000 expires, the department shall
24 deposit, pursuant to sections 35-146 and 35-147, sixteen dollars eighty-one
25 cents of the fee collected pursuant to section 49-543, subsection B in area A
26 as defined in section 49-541 and two dollars fifty-one cents of the fee
27 collected pursuant to section 43-543, subsection B in area B as defined in
28 section 49-541 in the emissions inspection fund established by section 49-544
29 for the purpose of reducing the emissions inspection fees prescribed pursuant
30 to section 49-543, subsection A.
- 31 5. Monies from the state lottery fund pursuant to section 5-522,
32 subsection A, paragraph 4.
- 33 6. Monies deposited pursuant to sections ~~28-737~~, 28-876, 28-2416,
34 43-1086 and 43-1174.
- 35 7. Any other monies received through gifts, grants and donations.
- 36 B. The director shall administer the fund.
- 37 C. Except as provided in subsection 0 of this section, monies in the
38 fund may be used for any of the following:
- 39 1. To promote public use of alternative fuels by providing individual
40 grants for alternative fuel delivery systems that have had their equipment
41 certified by the department of commerce energy office as follows:
- 42 (a) A grant of not more than one hundred thousand dollars for each
43 variation of alternative fuel type dispensed through a newly constructed
44 alternative fuel delivery system or an alternative fuel delivery system that

1 is added to an existing facility if the alternative fuel delivery system is
2 accessible to the general public.

3 (b) In addition to the grant prescribed in subdivision (a) of this
4 paragraph, a grant for one hundred per cent of the cost of installing or
5 retrofitting automatic debit or credit card access to an alternative fuel
6 delivery system that is accessible to the general public.

7 (c) A grant of not more than fifty thousand dollars or the cost of the
8 alternative fuel delivery system, whichever is less, for each variation of
9 alternative fuel type dispensed through a newly constructed alternative fuel
10 delivery system or an alternative fuel delivery system that is added to an
11 existing facility if the alternative fuel delivery system is not accessible
12 to the general public.

13 (d) A grant of not more than fifty thousand dollars for retrofitting a
14 private alternative fuel delivery system to make it accessible to the general
15 public.

16 (e) A grant of not more than fifty thousand dollars for retrofitting
17 an alternative fuel delivery system owned by this state or a political
18 subdivision of this state to make it accessible to other governmental
19 entities.

20 2. Not more than one-half of the monies deposited in the fund shall be
21 used by the department to establish a program that would provide grants to
22 individuals, small businesses or nonprofit corporations for the purchase and
23 installation of an alternative fuel delivery system for use on the
24 individual's, small business' or nonprofit corporation's property in this
25 state. Grants awarded pursuant to this paragraph shall not be more than the
26 cost of the alternative fuel delivery system. The cost of the alternative
27 fuel delivery system does not include the cost of wall sockets or extension
28 cords. The department of commerce shall promptly notify the department of
29 revenue of individuals and small businesses that have received a grant
30 pursuant to this paragraph and the amount of the grant. For the purposes of
31 this paragraph, "small business" has the same meaning prescribed in section
32 41-1001.

33 3. Grants to school districts to pay a portion of the cost incurred
34 for the alternative fuels program prescribed in section 15-349.

35 4. Grants to community college districts to pay a portion of the cost
36 incurred for the alternative fuels program prescribed in section 41-803.

37 5. Grants to cities and towns to pay a portion of the cost incurred
38 for the alternative fuels vehicle program and for the incremental cost of
39 alternative fuel buses pursuant to section 9-500.04.

40 6. Grants to counties to pay a portion of the cost incurred for the
41 alternative fuels program prescribed in section 49-474.01.

42 7. Grants to nonprofit corporations to pay a portion of the cost
43 incurred by nonprofit corporations in acquiring alternative fuel vehicles.

1 8. Grants to provide service to fleets that have been converted for
2 use of alternative fuel within the previous five years so that the vehicles
3 in the fleets may function on alternative fuel.

4 9. To pay the costs of high occupancy vehicle lane sign markings
5 required by section 28-2416 and the costs of providing the information
6 prescribed in section 28-5801, subsection A, paragraph 2.

7 10. Administrative costs incurred by the department in administering
8 the programs prescribed in this subsection.

9 11. To conduct public awareness programs for alternative fuels.

10 12. To provide for training for persons involved in alternative fuel
11 activities with automobiles.

12 13. To allocate resources to reduce the cost of converting or acquiring
13 alternative fuel vehicles and equipment as prescribed by sections 43-1086,
14 43-1086.01, 43-1086.02, 43-1174, 43-1174.01 and 43-1174.02.

15 14. To allocate resources to reduce the cost of an alternative fuel as
16 prescribed by sections 43-1086, 43-1086.01, 43-1086.02, 43-1174, 43-1174.01
17 and 43-1174.02.

18 D. Except as provided in subsections E and O of this section, the
19 department shall use fifty per cent of the monies deposited in the fund in
20 fiscal years 2000-2001 through 2009-2010 to provide grants to persons for
21 purchasing alternative fuel vehicles, converting conventionally fueled
22 vehicles to operate on an alternative fuel or retrofitting alternative fuel
23 vehicles, except that:

24 1. Beginning on July 1, 2002, if twelve months after deposit of the
25 monies applications for grants pursuant to this subsection have not been
26 submitted in a total amount equal to the prescribed percentage of the monies
27 deposited, the department shall use the difference between the prescribed
28 percentage of the monies deposited and the total amount of grant applications
29 to provide grants to a regional planning agency in a county with a population
30 of more than one million two hundred thousand persons for conversion of
31 diesel fleets in the county to use alternative fuels or for acquisition of
32 alternative fuel vehicles to replace diesel fleets in the county.

33 2. Any monies that are provided to a regional planning agency pursuant
34 to paragraph 1 of this subsection and that are not spent within six months
35 revert to the fund to be used for grants as provided in this subsection.

36 E. The time periods prescribed in subsection D of this section are
37 rolling time periods and begin whenever monies are deposited in the fund.
38 Neighborhood electric vehicles as defined in section 43-1086 are not eligible
39 for grants pursuant to subsection D of this section. A grant provided
40 pursuant to subsection D of this section for the purchase of an alternative
41 fuel vehicle or the conversion of a conventionally fueled vehicle to operate
42 on alternative fuel shall be in an amount that is equal to the amount of the
43 tax credit prescribed in section 43-1086, subsection B or 43-1174, subsection
44 B. The department of commerce shall promptly notify the department of
45 revenue of persons who have received a grant pursuant to subsection D of this

1 section and the amount of the grant. If monies are not available for grants
2 to persons pursuant to subsection D of this section, the department of
3 commerce shall provide the eligible person with an affidavit stating that
4 monies are not available in the fund for grants, that the person would
5 qualify for a grant if monies were available in the fund and that the person
6 is eligible for a tax credit pursuant to section 43-1086 or 43-1174. The
7 department of commerce shall not provide grants pursuant to subsection D of
8 this section in a calendar year after the month in which the motor vehicle
9 division reports to the department as provided in section 43-1086 that the
10 number of new alternative fuel vehicles, excluding neighborhood electric
11 vehicles, vehicles registered pursuant to section 28-2511 and commercial
12 vehicles, newly registered in this state in the current calendar year exceeds
13 one per cent of the total number of motor vehicles registered in this state
14 in the previous calendar year. If grants are not provided in a calendar year
15 based on a motor vehicle division report pursuant to section 43-1086, the
16 restriction only applies to the remainder of that calendar year. If a person
17 who applies for a grant pursuant to subsection D of this section submits a
18 purchase order and proof of at least a ten per cent down payment on an
19 alternative fuel vehicle, conversion or retrofit or a bill of sale for an
20 alternative fuel vehicle, conversion or retrofit at the time of application,
21 the department shall secure monies for a grant for that person until the
22 person completes the transaction and the department shall not use those
23 monies to provide grants to a regional planning agency pursuant to subsection
24 D, paragraph 1 of this section if the transaction is completed within one
25 year. In order to qualify for a grant pursuant to subsection D of this
26 section or a tax credit pursuant to section 43-1086 or 43-1174, a person
27 shall apply for a grant pursuant to subsection D of this section no later
28 than one year after the person purchases, converts or retrofits an
29 alternative fuel vehicle.

30 F. The department shall use monies in the fund for a grant to pay for
31 the cost of an alternative fuel delivery system at northern Arizona
32 university that is accessible to the general public. The amount of this
33 grant shall not be more than three hundred thousand dollars. Alternative fuel
34 sold from that alternative fuel delivery system shall not be marked up more
35 than fifteen per cent.

36 G. The department shall use monies in the fund for grants to pay costs
37 incurred for successful certification tests that are necessary to meet the
38 requirements of memorandum 1-A issued by the United States environmental
39 protection agency, that are performed in this state and the results of which
40 are filed with the department of commerce energy office, except that fees
41 required by the United States environmental protection agency are not
42 eligible for grants pursuant to this subsection. Costs that are eligible for
43 grants pursuant to this subsection include the following:

44 1. Procurement and operating costs for a single platform, including
45 expenses for testing a vehicle up to its degradation mileage limit.

1 2. The cost of conversion equipment and installation for the single
2 engine platform.

3 3. Expenses directly related to the process of obtaining certification,
4 including:

5 (a) Personnel time.

6 (b) Additional materials.

7 (c) Specialized equipment rentals or leases.

8 (d) Operating costs and payments on purchased specialized emissions
9 equipment during the time it is required for the certification process.

10 (e) The cost of installation for specialized emissions testing
11 equipment.

12 (f) Ongoing maintenance, upgrading and repair costs for specialized
13 emissions testing equipment during the time it is used for certification
14 testing.

15 (g) The costs involved in obtaining technical information or access
16 charges for information used for the certification process.

17 (h) Independent emissions laboratory fees required for validating
18 certification criteria.

19 (i) Facility expenses that are prorated to the equivalent area of the
20 required size of one bay large enough to house the platform and the necessary
21 related equipment to perform the certification research and development and
22 validation testing.

23 H. The department shall use monies in the fund to pay for one-half of
24 the hydrogen program grants awarded pursuant to section 41-1515 in fiscal
25 year 2000-2001 and fiscal year 2001-2002. Notwithstanding section 41-1515, an
26 applicant for a grant of monies provided pursuant to this subsection shall
27 provide funding in an amount that at least equals the grant award and if
28 monies provided pursuant to this subsection are not used within five years
29 the monies revert to the Arizona clean air fund.

30 I. No later than January 1, 2007, the department shall use monies in
31 the fund to provide grants for at least sixteen natural gas delivery systems.
32 These grants shall be provided to private entities to install and operate
33 natural gas delivery systems that are accessible to the general public at the
34 private entities' existing motor vehicle fueling stations. These grants
35 shall be provided for at least eight natural gas delivery systems in area A
36 as defined in section 49-541, at least three natural gas delivery systems in
37 area B as defined in section 49-541, one natural gas delivery system in
38 Kingman, one natural gas delivery system in Yuma, one natural gas delivery
39 system in Casa Grande, one natural gas delivery system in Show Low and one
40 natural gas delivery system in Payson. A recipient of a grant pursuant to
41 this subsection shall not charge for natural gas provided from a delivery
42 system installed and operated under the grant more than the following amounts
43 over the recipient's cost of the natural gas:

44 1. Fifteen cents per gallon to cover the cost of compression, including
45 electricity, maintenance and wear and tear.

1 2. An additional fifteen cents per gallon as profit.

2 J. If a grant is awarded pursuant to this section for an alternative
3 fuel delivery system located at a fueling station, the price of the
4 alternative fuel sold from the alternative fuel delivery system shall be
5 included on the standardized sign that contains the price of other fuels sold
6 at the fueling station. The department of commerce energy office shall
7 design these signs, including the alternative fuel logo for these signs.
8 Notwithstanding any other law and because the legislature finds it a matter
9 of statewide concern, these signs shall be uniform throughout the state and
10 local ordinances, rules or laws are preempted for design, placement, size,
11 type and height.

12 K. The department may provide certification of alternative fuel
13 vehicles and equipment converted or purchased in previous tax years if the
14 taxpayer provides appropriate documentation to the department and if the
15 department deems the documentation and certification acceptable.

16 L. Except as provided in sections 43-1086 and 43-1174, tax credits for
17 alternative fuel vehicles authorized pursuant to state law shall only be
18 allowed if the vehicle meets one of the following:

19 1. The vehicle engine is certified to meet at a minimum the United
20 States environmental protection agency low emission vehicle standard pursuant
21 to 40 Code of Federal Regulations section 88.104-94 or 88.105-94.

22 2. The vehicle engine meets the requirements of the addendum to
23 memorandum 1-A, issued by the United States environmental protection agency,
24 as printed in the federal register, volume 62, number 207, October 27, 1997,
25 pages 55635 through 55637.

26 3. The vehicle engine is the subject of a waiver for that specific
27 engine application from the United States environmental protection agency's
28 memorandum 1-A requirements and that waiver is documented to the reasonable
29 satisfaction of the department.

30 M. The director shall report annually to the legislature on the status
31 of the Arizona clean air fund including a report on expenditures from the
32 fund pursuant to this section. The report shall include a summary of
33 alternative fuel delivery systems for which funding was provided during the
34 preceding fiscal year. The report shall be submitted to the president of the
35 senate and the speaker of the house of representatives no later than
36 September 1 of each year.

37 N. Monies in the Arizona clean air fund are exempt from the provisions
38 of section 35-190 relating to lapsing of appropriations. On notice from the
39 department of commerce, the state treasurer shall invest and divest monies in
40 the fund as provided by section 35-313, and monies earned from investment
41 shall be credited to the fund.

42 O. The department shall not provide grants or affidavits to any person
43 who enters into a contract or signs a purchase order for any of the following
44 beginning on October 20, 2000 through October 19, 2001:

- 1 1. The purchase of an alternative fuel vehicle as defined in section
2 43-1086.
- 3 2. The conversion of a conventionally fueled vehicle to operate on an
4 alternative fuel.
- 5 3. The retrofitting of an alternative fuel vehicle.
- 6 4. The purchase and installation of an alternative fuel delivery
7 system for use on an individual's, small business' or nonprofit corporation's
8 property in this state pursuant to subsection C, paragraph 2 of this section.
- 9 5. Alternative fuel delivery system construction or modification
10 pursuant to subsection C, paragraph 1 of this section.
- 11 P. No later than November 13, 2000, each person who sells alternative
12 fuel vehicles in this state, who converts conventionally fueled vehicles to
13 operate on an alternative fuel in this state, who sells or installs
14 alternative fuel delivery systems for use on an individual's, small business'
15 or nonprofit corporation's property in this state or who constructs or
16 modifies alternative fuel delivery systems in this state shall provide
17 information to the department of commerce, in a form determined by the
18 department of commerce in consultation with the department of revenue, that
19 is necessary to administer this program and to determine the full extent to
20 which individuals and businesses are potentially eligible for grants pursuant
21 to this section. The information shall include all persons who entered into
22 contracts or signed purchase orders on or after January 1, 2000 through
23 October 19, 2000 but shall not include any cancellations that occur before
24 November 13, 2000. The department of commerce shall send a notice to each
25 person known to the department to be required to provide information pursuant
26 to this subsection. The department of commerce and the department of revenue
27 shall keep confidential any social security numbers, other assigned taxpayer
28 identification numbers or telephone numbers provided in the information
29 required pursuant to this section. For the purposes of this subsection, the
30 department of commerce is exempt from the rule making requirements of chapter
31 6 of this title.
- 32 Q. For the purposes of this section, "alternative fuel delivery
33 system" means any facility that provides for the fueling of an alternative
34 fuel vehicle.
- 35 Sec. 3. Section 42-5061, Arizona Revised Statutes, as amended by Laws
36 2000, chapter 63, section 5, chapter 401, section 1 and chapter 405, section
37 23, is amended to read:
- 38 42-5061. Retail classification; definitions
- 39 A. The retail classification is comprised of the business of selling
40 tangible personal property at retail. The tax base for the retail
41 classification is the gross proceeds of sales or gross income derived from
42 the business. The tax imposed on the retail classification does not apply to
43 the gross proceeds of sales or gross income from:

- 1 1. Professional or personal service occupations or businesses which
2 involve sales or transfers of tangible personal property only as
3 inconsequential elements.
- 4 2. Services rendered in addition to selling tangible personal property
5 at retail.
- 6 3. Sales of warranty or service contracts. The storage, use or
7 consumption of tangible personal property provided under the conditions of
8 such contracts is subject to tax under section 42-5156.
- 9 4. Sales of tangible personal property by any nonprofit organization
10 organized and operated exclusively for charitable purposes and recognized by
11 the United States internal revenue service under section 501(c)(3) of the
12 internal revenue code.
- 13 5. Sales to persons engaged in business classified under the
14 restaurant classification of articles used by human beings for food, drink or
15 condiment, whether simple, mixed or compounded.
- 16 6. Business activity which is properly included in any other business
17 classification which is taxable under article 1 of this chapter.
- 18 7. The sale of stocks and bonds.
- 19 8. Drugs and medical oxygen, including delivery hose, mask or tent,
20 regulator and tank, on the prescription of a member of the medical, dental or
21 veterinarian profession who is licensed by law to administer such substances.
- 22 9. Prosthetic appliances as defined in section 23-501 prescribed or
23 recommended by a health professional licensed pursuant to title 32, chapter
24 7, 8, 11, 13, 14, 15, 16, 17 or 29.
- 25 10. Insulin, insulin syringes and glucose test strips.
- 26 11. Prescription eyeglasses or contact lenses.
- 27 12. Hearing aids as defined in section 36-1901.
- 28 13. Durable medical equipment which has a federal health care financing
29 administration common procedure code, is designated reimbursable by medicare,
30 is prescribed by a person who is licensed under title 32, chapter 7, 8, 13,
31 14, 15, 17 or 29, can withstand repeated use, is primarily and customarily
32 used to serve a medical purpose, is generally not useful to a person in the
33 absence of illness or injury and is appropriate for use in the home.
- 34 14. Sales to nonresidents of this state for use outside this state if
35 the vendor ships or delivers the tangible personal property out of this
36 state.
- 37 15. Food, as provided in and subject to the conditions of article 3 of
38 this chapter and section 42-5074.
- 39 16. Items purchased with United States department of agriculture food
40 stamp coupons issued under the food stamp act of 1977 (P.L. 95-113; 91 Stat.
41 958) or food instruments issued under section 17 of the child nutrition act
42 (P.L. 95-627; 92 Stat. 3603; P.L. 99-661, section 4302; 42 United States Code
43 section 1786).
- 44 17. Textbooks by any bookstore that are required by any state
45 university or community college.

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

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

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

12 21. The sale of precious metal bullion and monetized bullion to the
13 ultimate consumer, but the sale of coins or other forms of money for
14 manufacture into jewelry or works of art is subject to the tax. In this
15 paragraph:

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

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

23 22. Motor vehicle fuel and use fuel which are subject to a tax imposed
24 under title 28, chapter 16, article 1 or 2, sales of use fuel to a holder of
25 a valid single trip use fuel tax permit issued under section 28-5739, sales
26 of aviation fuel which are subject to the tax imposed under section 28-8344
27 and sales of jet fuel which are subject to the tax imposed under article 8 of
28 this chapter.

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

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

35 25. Tangible personal property sold to:

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

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

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

1 (d) A qualifying community health center as defined in section
2 42-5001.

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

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

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

16 27. Tangible personal property sold to a person that is subject to tax
17 under this article by reason of being engaged in business classified under
18 the prime contracting classification under section 42-5075, or to a
19 subcontractor working under the control of a prime contractor that is subject
20 to tax under article 1 of this chapter, if the property so sold is any of the
21 following:

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

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

26 (c) Incorporated or fabricated by the person into any lake facility
27 development in a commercial enhancement reuse district under conditions
28 prescribed for the deduction allowed by section 42-5075, subsection B,
29 paragraph 8.

30 28. The sale of a motor vehicle to:

31 (a) A nonresident of this state if the purchaser's state of residence
32 does not allow a corresponding use tax exemption to the tax imposed by
33 article 1 of this chapter and if the nonresident has secured a special
34 thirty-day nonresident registration of the vehicle by applying according to
35 section 28-2154.

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

38 29. Tangible personal property purchased or leased in this state by a
39 nonprofit charitable organization that has qualified under section 501(c)(3)
40 of the United States internal revenue code and that engages in and uses such
41 property exclusively for training, job placement or rehabilitation programs
42 or testing for mentally or physically handicapped persons.

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

1 league baseball team or a national touring professional golfing association
2 and no part of the organization's net earnings inures to the benefit of any
3 private shareholder or individual.

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

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

15 33. Sales of new semitrailers, as defined in section 28-101,
16 manufactured in Arizona, or new parts manufactured in Arizona for
17 semitrailers sold by the manufacturer to a person who holds an interstate
18 commerce commission license for use in interstate commerce.

19 34. Sales of seeds, seedlings, roots, bulbs, cuttings and other
20 propagative material to persons who use those items to commercially produce
21 agricultural, horticultural, viticultural or floricultural crops in this
22 state.

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

28 36. Sales of tangible personal property that is shipped or delivered
29 directly to a destination outside the United States for use in that foreign
30 country.

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

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

36 39. Coal, petroleum, coke, natural gas, virgin fuel oil and electricity
37 sold to a qualified environmental technology manufacturer, producer or
38 processor as defined in section 41-1514.02 and directly used or consumed in
39 the generation or provision of on-site power or energy solely for
40 environmental technology manufacturing, producing or processing or
41 environmental protection. This paragraph shall apply for fifteen full
42 consecutive calendar or fiscal years from the date the first paper
43 manufacturing machine is placed in service. In the case of an environmental
44 technology manufacturer, producer or processor who does not manufacture

1 paper, the time period shall begin with the date the first manufacturing,
2 processing or production equipment is placed in service.

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

15 41. Through December 31, 1994, personal property liquidation
16 transactions, conducted by a personal property liquidator. From and after
17 December 31, 1994, personal property liquidation transactions shall be
18 taxable under this section provided that nothing in this subsection shall be
19 construed to authorize the taxation of casual activities or transactions
20 under this chapter. In this paragraph:

21 (a) "Personal property liquidation transaction" means a sale of
22 personal property made by a personal property liquidator acting solely on
23 behalf of the owner of the personal property sold at the dwelling of the
24 owner or upon the death of any owner, on behalf of the surviving spouse, if
25 any, any devisee or heir or the personal representative of the estate of the
26 deceased, if one has been appointed.

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

29 42. Sales of food, drink and condiment for consumption within the
30 premises of any prison, jail or other institution under the jurisdiction of
31 the state department of corrections, the department of public safety, the
32 department of juvenile corrections or a county sheriff.

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

37 44. Livestock and poultry feed, salts, vitamins and other additives for
38 livestock or poultry consumption that are sold to persons who are engaged in
39 producing livestock, poultry, or livestock or poultry products or who are
40 engaged in feeding livestock or poultry commercially. For purposes of this
41 paragraph, "poultry" includes ratites.

42 45. 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 in
45 producing livestock, poultry, or livestock or poultry products or who are

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

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

7 47. Tangible personal property sold to a person engaged in business and
8 subject to tax under the transient lodging classification if the tangible
9 personal property is a personal hygiene item which is furnished to and
10 intended to be consumed by the transient during the transient's occupancy.

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

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

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

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

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

28 51. **THROUGH DECEMBER 31, 2001**, sales of alternative fuel vehicles, as
29 defined in section 43-1086, and equipment that is installed in a conventional
30 motor vehicle to convert the vehicle to operate on an alternative fuel, as
31 defined in section 1-215. **FROM AND AFTER DECEMBER 31, 2001, SALES OF**
32 **ALTERNATIVE FUEL VEHICLES AND CONVERSION EQUIPMENT ARE SUBJECT TO TAX UNDER**
33 **THIS SECTION.**

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

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

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

44 1. Machinery, or equipment, used directly in manufacturing,
45 processing, fabricating, job printing, refining or metallurgical operations.

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

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

12 3. Tangible personal property sold to persons engaged in business
13 classified under the telecommunications classification and consisting of
14 central office switching equipment, switchboards, private branch exchange
15 equipment, microwave radio equipment and carrier equipment including optical
16 fiber, coaxial cable and other transmission media which are components of
17 carrier systems.

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

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

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

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

31 (a) A person holding a federal certificate of public convenience and
32 necessity, a supplemental air carrier certificate under federal aviation
33 regulations (14 Code of Federal Regulations part 121) or a foreign air
34 carrier permit for air transportation for use as or in conjunction with or
35 becoming a part of aircraft to be used to transport persons, property or
36 United States mail in intrastate, interstate or foreign commerce.

37 (b) Any foreign government for use by such government outside of this
38 state.

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

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

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

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

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

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

18 13. New machinery and equipment consisting of tractors, tractor-drawn
19 implements, self-powered implements, machinery and equipment necessary for
20 extracting milk and for producing livestock, and machinery and equipment
21 necessary for cooling milk and producing livestock, and drip irrigation lines
22 not already exempt under paragraph 6 of this subsection and that are used for
23 commercial production of agricultural, horticultural, viticultural and
24 floricultural crops and products in this state. In this paragraph:

25 (a) "New machinery and equipment" means machinery and equipment which
26 have never been sold at retail except pursuant to leases or rentals which do
27 not total two years or more.

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

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

42 15. Machinery and equipment that are purchased by or on behalf of the
43 owners of a soundstage complex and primarily used for motion picture,
44 multimedia or interactive video production in the complex. This paragraph
45 applies only if the initial construction of the soundstage complex begins

1 after June 30, 1996 and before January 1, 2002 and the machinery and
2 equipment are purchased before the expiration of five years after the start
3 of initial construction. For purposes of this paragraph:

4 (a) "Motion picture, multimedia or interactive video production"
5 includes products for theatrical and television release, educational
6 presentations, electronic retailing, documentaries, music videos, industrial
7 films, CD-ROM, video game production, commercial advertising and television
8 episode production and other genres that are introduced through developing
9 technology.

10 (b) "Soundstage complex" means a facility of multiple stages including
11 production offices, construction shops and related areas, prop and costume
12 shops, storage areas, parking for production vehicles and areas that are
13 leased to businesses that complement the production needs and orientation of
14 the overall facility.

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

18 (a) Any direct broadcast satellite television or data transmission
19 service that operates pursuant to 47 Code of Federal Regulations parts 25 and
20 100.

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

23 (i) Over two-thirds of the transmissions, measured in megabytes,
24 transmitted by the facility during the test period were transmitted to or on
25 behalf of one or more direct broadcast satellite television or data
26 transmission services that operate pursuant to 47 Code of Federal Regulations
27 parts 25 and 100.

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

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

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

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

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

9 18. Machinery and equipment used directly in the feeding of poultry,
10 the environmental control of housing for poultry, the movement of eggs within
11 a production and packaging facility or the sorting or cooling of eggs. This
12 exemption does not apply to vehicles used for transporting eggs.

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

23 20. Machinery and equipment that are sold to a person engaged in the
24 commercial production of livestock, livestock products or agricultural,
25 horticultural, viticultural or floricultural crops or products in this state
26 and that are used directly and primarily to prevent, monitor, control or
27 reduce air, water or land pollution.

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

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

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

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

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

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

1 specified in subsection B of this section regardless of the cost or useful
2 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 16 of this section.

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

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

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

15 D. In computing the tax base, gross proceeds of sales or gross income
16 from retail sales of automobiles does not include any amount attributable to
17 federal excise taxes imposed by 26 United States Code section 4001.

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

26 F. In computing the tax base, gross proceeds of sales or gross income
27 from retail sales of heavy trucks and trailers does not include any amount
28 attributable to federal excise taxes imposed by 26 United States Code section
29 4051.

30 G. In computing the tax base, gross proceeds of sales or gross income
31 from the sale of use fuel, as defined in section 28-5701, does not include
32 any amount attributable to federal excise taxes imposed by 26 United States
33 Code section 4091.

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

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

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

- 9 1. Transporting classification.
- 10 2. Utility classification.
- 11 3. Telecommunications classification.
- 12 4. Pipeline classification.
- 13 5. Private car line classification.
- 14 6. Publication classification.
- 15 7. Job printing classification.
- 16 8. Prime contracting classification.
- 17 9. Owner builder sales classification.
- 18 10. Restaurant classification.

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

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

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

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

38 L. There shall be deducted from the tax base fifty per cent of the
39 gross proceeds or gross income from any sale of tangible personal property
40 made directly to the United States government or its departments or agencies,
41 which is not deducted under subsection K of this section.

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

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

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

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

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

8 O. There shall be deducted from the tax base the amount received from
9 sales of solar energy devices, but the deduction shall not exceed five
10 thousand dollars for each solar energy device. Before deducting any amount
11 under this subsection, the retailer shall register with the department as a
12 solar energy retailer. By registering, the retailer acknowledges that it
13 will make its books and records relating to sales of solar energy devices
14 available to the department for examination.

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

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

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

31 S. For the purposes of this section, the diversion of gas from a
32 pipeline by a person engaged in the business of operating a natural or
33 artificial gas pipeline, for the sole purpose of fueling compressor equipment
34 to pressurize the pipeline, is not a sale of the gas to the operator of the
35 pipeline.

36 T. If a seller is entitled to a deduction pursuant to subsection B,
37 paragraph 16, subdivision (b) of this section, the department may require the
38 purchaser to establish that the requirements of subsection B, paragraph 16,
39 subdivision (b) of this section have been satisfied. If the purchaser cannot
40 establish that the requirements of subsection B, paragraph 16, subdivision
41 (b) of this section have been satisfied, the purchaser is liable in an amount
42 equal to any tax, penalty and interest which the seller would have been
43 required to pay under article 1 of this chapter if the seller had not made a
44 deduction pursuant to subsection B, paragraph 16, subdivision (b) of this
45 section. Payment of the amount under this subsection exempts the purchaser

1 from liability for any tax imposed under article 4 of this chapter and
2 related to the tangible personal property purchased. The amount shall be
3 treated as transaction privilege tax to the purchaser and as tax revenues
4 collected from the seller to designate the distribution base pursuant to
5 section 42-5029.

6 U. FOR PURPOSES OF SECTION 42-5032.01, THE DEPARTMENT SHALL SEPARATELY
7 ACCOUNT FOR REVENUES COLLECTED UNDER THE RETAIL CLASSIFICATION FROM
8 BUSINESSES SELLING TANGIBLE PERSONAL PROPERTY AT RETAIL:

9 1. ON THE PREMISES OF A MULTIPURPOSE FACILITY THAT IS OWNED, LEASED OR
10 OPERATED BY THE TOURISM AND SPORTS AUTHORITY PURSUANT TO TITLE 5, CHAPTER 8.

11 2. AT PROFESSIONAL FOOTBALL CONTESTS THAT ARE HELD IN A STADIUM
12 LOCATED ON THE CAMPUS OF AN INSTITUTION UNDER THE JURISDICTION OF THE ARIZONA
13 BOARD OF REGENTS.

14 ~~U.~~ V. For the purposes of this section:

15 1. "Aircraft" includes:

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

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

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

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

30 ~~V.~~ W. For purposes of subsection K of this section:

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

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

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

40 4. "Overhead materials" means tangible personal property, the gross
41 proceeds of sales or gross income derived from which would otherwise be
42 included in the retail classification, and which are used or consumed in the
43 performance of a contract, the cost of which is charged to an overhead
44 expense account and allocated to various contracts based upon generally

1 accepted accounting principles and consistent with government contract
2 accounting standards.

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

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

14 Sec. 4. Repeal

15 Section 42-5061, Arizona Revised Statutes, as amended by Laws 2000,
16 chapter 372, section 7, is repealed.

17 Sec. 5. Section 42-5159, Arizona Revised Statutes, is amended to read:
18 42-5159. Exemptions

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

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

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

31 3. Tangible personal property, the storage, use or consumption of
32 which the constitution or laws of the United States prohibit this state from
33 taxing.

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

37 5. Motor vehicle fuel and use fuel, the sales, distribution or use of
38 which in this state is subject to the tax imposed under the provisions of
39 title 28, chapter 16, article 1 or 2, use fuel which is sold to or used by a
40 person holding a valid single trip use fuel tax permit issued under section
41 28-5739, aviation fuel, the sales, distribution or use of which in this state
42 is subject to the tax imposed under section 28-8344, and jet fuel, the sales,
43 distribution or use of which in this state is subject to the tax imposed
44 under article 8 of this chapter.

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

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

12 8. Livestock, poultry, supplies, feed, salts, vitamins and other
13 additives for use or consumption in the businesses of farming, ranching and
14 feeding livestock or poultry, not including fertilizers, herbicides and
15 insecticides. For purposes of this paragraph, "poultry" includes ratites.

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

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

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

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

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

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

32 13. Tangible personal property purchased by:

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

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

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

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

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

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

11 (g) A person that is subject to tax under article 1 of this chapter by
12 reason of being engaged in business classified under the prime contracting
13 classification under section 42-5075, or a subcontractor working under the
14 control of a prime contractor, if the tangible personal property is any of
15 the following:

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

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

20 (iii) Incorporated or fabricated by the person into any lake facility
21 development in a commercial enhancement reuse district under conditions
22 prescribed for the deduction allowed by section 42-5075, subsection B,
23 paragraph 8.

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

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

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

33 (k) A person engaged in business under the transient lodging
34 classification if the property is a personal hygiene product which is
35 furnished without additional charge to and intended to be consumed by the
36 transient during the transient's occupancy.

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

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

6 15. Tangible personal property sold by:

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

10 (b) A nonprofit organization that is exempt from taxation under
11 section 501(c)(3) or 501(c)(6) of the internal revenue code if the
12 organization is associated with a major league baseball team or a national
13 touring professional golfing association and no part of the organization's
14 net earnings inures to the benefit of any private shareholder or individual.

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

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

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

27 18. Prescription eyeglasses and contact lenses.

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

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

30 21. Durable medical equipment which has a federal health care financing
31 administration common procedure code, is designated reimbursable by medicare,
32 is prescribed by a person who is licensed under title 32, chapter 7, 13, 17
33 or 29, can withstand repeated use, is primarily and customarily used to serve
34 a medical purpose, is generally not useful to a person in the absence of
35 illness or injury and is appropriate for use in the home.

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

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

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

- 1 25. Tangible personal property that is used or consumed in a business
2 subject to section 42-5074 for human food, drink or condiment, whether
3 simple, mixed or compounded.
- 4 26. Food, drink or condiment and accessory tangible personal property
5 if they are to be prepared and served to persons for consumption on the
6 premises of a public school in a school district during school hours.
- 7 27. Lottery tickets or shares purchased pursuant to title 5, chapter 5,
8 article 1.
- 9 28. Textbooks, sold by a bookstore, that are required by any state
10 university or community college.
- 11 29. Magazines, other periodicals or other publications produced by this
12 state to encourage tourist travel.
- 13 30. Paper machine clothing, such as forming fabrics and dryer felts,
14 purchased by a paper manufacturer and directly used or consumed in paper
15 manufacturing.
- 16 31. Coal, petroleum, coke, natural gas, virgin fuel oil and electricity
17 purchased by a qualified environmental technology manufacturer, producer or
18 processor as defined in section 41-1514.02 and directly used or consumed in
19 the generation or provision of on-site power or energy solely for
20 environmental technology manufacturing, producing or processing or
21 environmental protection. This paragraph shall apply for fifteen full
22 consecutive calendar or fiscal years from the date the first paper
23 manufacturing machine is placed in service. In the case of an environmental
24 technology manufacturer, producer or processor who does not manufacture
25 paper, the time period shall begin with the date the first manufacturing,
26 processing or production equipment is placed in service.
- 27 32. Motor vehicles that are removed from inventory by a motor vehicle
28 dealer as defined in section 28-4301 and that are provided to:
- 29 (a) Charitable or educational institutions that are exempt from
30 taxation under section 501(c)(3) of the internal revenue code.
- 31 (b) Public educational institutions.
- 32 (c) State universities or affiliated organizations of a state
33 university if no part of the organization's net earnings inures to the
34 benefit of any private shareholder or individual.
- 35 33. Natural gas or liquefied petroleum gas used to propel a motor
36 vehicle.
- 37 34. Machinery, equipment, technology or related supplies that are only
38 useful to assist a person who is physically disabled as defined in section
39 46-191, has a developmental disability as defined in section 36-551 or has a
40 head injury as defined in section 41-3201 to be more independent and
41 functional.
- 42 35. Liquid, solid or gaseous chemicals used in manufacturing,
43 processing, fabricating, mining, refining, metallurgical operations, research
44 and development and, beginning on January 1, 1999, printing, if using or
45 consuming the chemicals, alone or as part of an integrated system of

1 chemicals, involves direct contact with the materials from which the product
2 is produced for the purpose of causing or permitting a chemical or physical
3 change to occur in the materials as part of the production process. This
4 paragraph does not include chemicals that are used or consumed in activities
5 such as packaging, storage or transportation but does not affect any
6 exemption for such chemicals that is otherwise provided by this section. For
7 purposes of this paragraph "printing" means a commercial printing operation
8 and includes job printing, 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 of
11 the state department of corrections, the department of public safety, the
12 department of juvenile corrections or a county sheriff.

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

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

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

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

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

43 40. Through December 31, 1994, tangible personal property sold pursuant
44 to a personal property liquidation transaction, as defined in section
45 42-5061. From and after December 31, 1994, tangible personal property sold

1 pursuant to a personal property liquidation transaction, as defined in
2 section 42-5061, if the gross proceeds of the sales were included in the
3 measure of the tax imposed by article 1 of this chapter or if the personal
4 property liquidation was a casual activity or transaction.

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

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

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

19 44. **THROUGH DECEMBER 31, 2001**, alternative fuel vehicles, as defined in
20 section 43-1086, and equipment that is installed in a conventional motor
21 vehicle to convert the vehicle to operate on an alternative fuel, as defined
22 in section 1-215. **FROM AND AFTER DECEMBER 31, 2001, ALTERNATIVE FUEL**
23 **VEHICLES AND CONVERSION EQUIPMENT IF THE GROSS PROCEEDS OF THE SALES WERE**
24 **INCLUDED IN THE MEASURE OF THE TAX IMPOSED BY ARTICLE 1 OF THIS CHAPTER.**

25 45. Gas diverted from a pipeline, by a person engaged in the business
26 of operating a natural or artificial gas pipeline, and used or consumed for
27 the sole purpose of fueling compressor equipment that pressurizes the
28 pipeline.

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

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

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

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

44 2. Machinery, or equipment, used directly in the process of extracting
45 ores or minerals from the earth for commercial purposes, including equipment

1 required to prepare the materials for extraction and handling, loading or
2 transporting such extracted material to the surface. "Mining" includes
3 underground, surface and open pit operations for extracting ores and
4 minerals.

5 3. Tangible personal property sold to persons engaged in business
6 classified under the telecommunications classification under section 42-5064
7 and consisting of central office switching equipment, switchboards, private
8 branch exchange equipment, microwave radio equipment and carrier equipment
9 including optical fiber, coaxial cable and other transmission media which are
10 components of carrier systems.

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

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

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

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

24 (a) A person holding a federal certificate of public convenience and
25 necessity, a supplemental air carrier certificate under federal aviation
26 regulations (14 Code of Federal Regulations part 121) or a foreign air
27 carrier permit for air transportation for use as or in conjunction with or
28 becoming a part of aircraft to be used to transport persons, property or
29 United States mail in intrastate, interstate or foreign commerce.

30 (b) Any foreign government for use by such government outside of this
31 state, or sold to persons who are not residents of this state and who will
32 not use such property in this state other than in removing such property from
33 this state.

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

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

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

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

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

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

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

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

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

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

29 15. Machinery and equipment that are purchased by or on behalf of the
30 owners of a soundstage complex and primarily used for motion picture,
31 multimedia or interactive video production in the complex. This paragraph
32 applies only if the initial construction of the soundstage complex begins
33 after June 30, 1996 and before January 1, 2002 and the machinery and
34 equipment are purchased before the expiration of five years after the start
35 of initial construction. For purposes of this paragraph:

36 (a) "Motion picture, multimedia or interactive video production"
37 includes products for theatrical and television release, educational
38 presentations, electronic retailing, documentaries, music videos, industrial
39 films, CD-ROM, video game production, commercial advertising and television
40 episode production and other genres that are introduced through developing
41 technology.

42 (b) "Soundstage complex" means a facility of multiple stages including
43 production offices, construction shops and related areas, prop and costume
44 shops, storage areas, parking for production vehicles and areas that are

1 leased to businesses that complement the production needs and orientation of
2 the overall facility.

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

6 (a) Any direct broadcast satellite television or data transmission
7 service that operates pursuant to 47 Code of Federal Regulations parts 25 and
8 100.

9 (b) Any satellite television or data transmission facility, if both of
10 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 on
13 behalf of one or more direct broadcast satellite television or data
14 transmission services that operate pursuant to 47 Code of Federal Regulations
15 parts 25 and 100.

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 facility
19 to or on behalf of those services.

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

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

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

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

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

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

11 20. Machinery and equipment that are used in the commercial production
12 of livestock, livestock products or agricultural, horticultural, viticultural
13 or floricultural crops or products in this state and that are used directly
14 and primarily to prevent, monitor, control or reduce air, water or land
15 pollution.

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

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

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

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

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

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

36 2. Janitorial equipment and hand tools.

37 3. Office equipment, furniture and supplies.

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

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

- 1 6. Shops, buildings, docks, depots and all other materials of whatever
2 kind or character not specifically included as exempt.
- 3 7. Motors and pumps used in drip irrigation systems.
- 4 D. The following shall be deducted in computing the purchase price of
5 electricity by a retail electric customer from a utility business:
- 6 1. Revenues received from sales of ancillary services, electric
7 distribution services, electric generation services, electric transmission
8 services and other services related to providing electricity to a retail
9 electric customer who is located outside this state for use outside this
10 state if the electricity is delivered to a point of sale outside this state.
- 11 2. Revenues received from providing electricity, including ancillary
12 services, electric distribution services, electric generation services,
13 electric transmission services and other services related to providing
14 electricity with respect to which the transaction privilege tax imposed under
15 section 42-5063 has been paid.
- 16 E. The tax levied by this article does not apply to:
- 17 1. The storage, use or consumption in Arizona of machinery, equipment,
18 materials or other tangible personal property if used directly and
19 predominantly to construct a qualified environmental technology
20 manufacturing, producing or processing facility, as described in section
21 41-1514.02. This paragraph applies for ten full consecutive calendar or
22 fiscal years after the start of initial construction.
- 23 2. The purchase of electricity by a qualified environmental technology
24 manufacturer, producer or processor as defined in section 41-1514.02 that is
25 used directly in environmental technology manufacturing, producing or
26 processing. This paragraph shall apply for fifteen full consecutive calendar
27 or fiscal years from the date the first paper manufacturing machine is placed
28 in service. In the case of an environmental technology manufacturer,
29 producer or processor who does not manufacture paper, the time period shall
30 begin with the date the first manufacturing, processing or production
31 equipment is placed in service.
- 32 F. The following shall be deducted in computing the purchase price of
33 electricity by a retail electric customer from a utility business:
- 34 1. Fees charged by a municipally owned utility to persons constructing
35 residential, commercial or industrial developments or connecting residential,
36 commercial or industrial developments to a municipal utility system or
37 systems if the fees are segregated and used only for capital expansion,
38 system enlargement or debt service of the utility system or systems.
- 39 2. Reimbursement or contribution compensation to any person or persons
40 owning a utility system for property and equipment installed to provide
41 utility access to, on or across the land of an actual utility consumer if the
42 property and equipment become the property of the utility. This deduction
43 shall not exceed the value of such property and equipment.
- 44 G. For the purposes of subsection B of this section:
- 45 1. "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 attached
5 as a component part of an aircraft that is owned or operated by a
6 certificated or licensed carrier of persons or property.

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

14 Sec. 6. Section 42-6004, Arizona Revised Statutes, is amended to read:
15 42-6004. Exemption from municipal tax

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

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

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

27 3. Sales of warranty or service contracts.

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

31 5. Interest on finance contracts.

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

33 7. The gross proceeds of sales or gross income received from a
34 contract from constructing any lake facility development in a commercial
35 enhancement reuse district established pursuant to section 9-499.08.

36 8. Sales of food or other items purchased with United States
37 department of agriculture food stamp coupons issued under the food stamp act
38 of 1977 (P.L. 95-113; 91 Stat. 958) or food instruments issued under section
39 17 of the child nutrition act (P.L. 95-627; 92 Stat. 3603; P.L. 99-661,
40 section 4302; 42 United States Code section 1786) but may impose such a tax
41 on other sales of food. If a city, town or special taxing district exempts
42 sales of food from its tax or imposes a different transaction privilege rate
43 on the gross proceeds of sales or gross income from sales of food and nonfood
44 items, it shall use the definition of food prescribed by rule adopted by the
45 department pursuant to section 42-5106.

1 9. Sales of motor vehicles that use alternative fuel as defined in
2 section 1-215, THROUGH DECEMBER 31, 2001. FROM AND AFTER DECEMBER 31, 2001,
3 A CITY, TOWN OR SPECIAL TAXING DISTRICT MAY LEVY A TAX ON THOSE SALES.

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

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

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

14 B. A city, town or other taxing jurisdiction shall not levy a
15 transaction privilege, sales, use, franchise or other similar tax or fee,
16 however denominated, on:—

17 ~~1.~~ natural gas or liquefied petroleum gas used to propel a motor
18 vehicle.

19 ~~2. Any business activity conducted at or tangible personal property~~
20 ~~purchased, leased or rented by any qualified theme park, themed amusement~~
21 ~~park or other nonathletic entertainment facility that is subject to taxation~~
22 ~~under article 4 of this chapter.~~

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

27 1. A motor carrier's use on the public highways in this state if the
28 motor carrier is subject to a fee prescribed in title 28, chapter 16, article
29 4.

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

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

37 4. Incarcerating or detaining in a privately operated prison, jail or
38 detention facility prisoners who are under the jurisdiction of the United
39 States, this state or any other state or a political subdivision of this
40 state or of any other state.

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

43 6. Except as provided in section 42-6104, a contract from constructing
44 any lake facility development in a commercial enhancement reuse district
45 established pursuant to section 9-499.08.

1 D. A city, town or other taxing jurisdiction shall not levy a
2 transaction privilege, sales, use, franchise or other similar tax or fee,
3 however denominated, in excess of one-tenth of one per cent of the value of
4 the entire product mined, smelted, extracted, refined, produced or prepared
5 for sale, profit or commercial use, on persons engaged in the business of
6 mineral processing, except to the extent that the tax is computed on the
7 gross proceeds or gross income from sales at retail.

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

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

13 2. The waste tire disposal fee imposed pursuant to section 44-1302.
14 Sec. 7. Section 43-1086, Arizona Revised Statutes, is amended to read:
15 43-1086. Credit for alternative fuel vehicles; definitions

16 A. Except as provided in subsection K of this section, for taxable
17 years prescribed in subsection J of this section, a credit against taxes
18 imposed by this title is allowed to each taxpayer who applies for a grant
19 pursuant to section 41-1516 unless the vehicle is a neighborhood electric
20 vehicle and who does any of the following:

21 1. Purchases or leases, for a period of at least one year, one or more
22 new original equipment manufactured alternative fuel vehicles for use in this
23 state.

24 2. Incurs expenses during the taxable year for converting one or more
25 conventionally fueled vehicles for use in this state to operate on an
26 alternative fuel.

27 3. On or before June 30, 2000, purchases or leases, for a period of at
28 least one year, one or more used alternative fuel vehicles for use in this
29 state, except that a tax credit is not allowed pursuant to this section for
30 the purchase or lease of a used neighborhood electric vehicle that is
31 purchased or leased on or after January 1, 2000.

32 B. The amount of the credit is equal to the following:

33 1. For a new low emission vehicle twelve thousand pounds or less gross
34 vehicle weight, thirty per cent of the cost or five thousand dollars,
35 whichever is more.

36 2. For a used low emission vehicle twelve thousand pounds or less
37 gross vehicle weight, fifteen per cent of the cost or two thousand five
38 hundred dollars, whichever is more.

39 3. For a new ultralow or inherently low emission vehicle, forty per
40 cent of the cost or seven thousand five hundred dollars, whichever is more.

41 4. For a used ultralow or inherently low emission vehicle, twenty per
42 cent of the cost or three thousand seven hundred fifty dollars, whichever is
43 more.

44 5. For a new zero or super ultralow emission vehicle, fifty per cent
45 of the cost or ten thousand dollars, whichever is more.

- 1 6. For a used zero emission vehicle:
- 2 (a) That is purchased, twenty-five per cent of the cost or five
- 3 thousand dollars, whichever is more.
- 4 (b) That is leased, twenty-five per cent of the cost or two thousand
- 5 five hundred dollars, whichever is more.
- 6 7. For a new low emission vehicle over twelve thousand pounds gross
- 7 vehicle weight, thirty per cent of the cost or thirty thousand dollars,
- 8 whichever is more.
- 9 8. For a used low emission vehicle over twelve thousand pounds gross
- 10 vehicle weight, fifteen per cent of the cost or fifteen thousand dollars,
- 11 whichever is more.
- 12 9. For conversion of a vehicle over twelve thousand pounds gross
- 13 vehicle weight, the greatest of the following:
- 14 (a) Thirty per cent of the actual price of the vehicle plus the cost
- 15 of conversion.
- 16 (b) Thirty per cent of the original manufacturer's base retail price
- 17 of the vehicle.
- 18 (c) Thirty thousand dollars.
- 19 10. For purchase of a converted vehicle over twelve thousand pounds
- 20 gross vehicle weight, fifteen per cent of the cost or fifteen thousand
- 21 dollars, whichever is more.
- 22 11. For conversion of any other vehicle the greatest of the following:
- 23 (a) Thirty per cent of the actual purchase price of the vehicle plus
- 24 the cost of conversion.
- 25 (b) Thirty per cent of the original manufacturer's base retail price
- 26 of the vehicle.
- 27 (c) Five thousand dollars.
- 28 (d) The amount of the tax credit prescribed in paragraph 3 or 4 of
- 29 this subsection if the taxpayer can demonstrate that the converted vehicle
- 30 qualifies as an ultralow or inherently low emission vehicle.
- 31 (e) The amount of the tax credit prescribed in paragraph 5 or
- 32 paragraph 6, subdivision (a) of this subsection if the taxpayer can
- 33 demonstrate that the converted vehicle qualifies as a zero or super ultralow
- 34 emission vehicle.
- 35 12. For purchase of any other converted vehicle, fifteen per cent of
- 36 the cost or two thousand five hundred dollars, whichever is more.
- 37 13. Notwithstanding any other paragraph of this subsection, for a new
- 38 neighborhood electric vehicle that is purchased on or after July 1, 2000,
- 39 fifty per cent of the cost of the vehicle or one thousand dollars, whichever
- 40 is more. In order to qualify for a tax credit pursuant to this paragraph, a
- 41 taxpayer shall certify on forms provided by the department that the vehicle
- 42 has not been, and will not be, used on a golf course, except for use as a
- 43 maintenance vehicle for a golf course. If a tax credit is taken for a
- 44 vehicle pursuant to this paragraph and the vehicle is used on a golf course
- 45 other than as a maintenance vehicle, the tax credit is subject to recapture

1 by the department, and the taxpayer is subject to a civil penalty of one
2 thousand dollars. Civil penalties collected pursuant to this paragraph shall
3 be deposited in the Arizona clean air fund established by section 41-1516.

4 C. Except as provided in subsection K of this section, a tax credit is
5 allowed pursuant to subsection B, paragraphs 1 through 8 and 13 of this
6 section only if the vehicle is certified to meet the United States
7 environmental protection agency emission standards for the particular type of
8 vehicle for which the credit is claimed as prescribed by 40 Code of Federal
9 Regulations section 88.104-94 or 88.105-94.

10 D. In order to qualify for a tax credit pursuant to subsection B,
11 paragraph 9 or 10 of this section, a motor home as defined in section 28-4301
12 that is converted to use liquefied petroleum gas shall have a fuel tank for
13 onboard storage of liquefied petroleum gas that holds at least thirty
14 gallons.

15 E. If the allowable tax credit exceeds the taxes due under this title
16 on the claimant's income, or if there are no taxes due under this title, the
17 following apply:

18 1. If the vehicle is not a neighborhood electric vehicle, the taxpayer
19 may elect either of the following:

20 (a) To be paid the amount of the claim not used to offset taxes under
21 this title in the same manner as a refund granted under section 42-1118,
22 PAYABLE, AT THE TAXPAYER'S OPTION, EITHER AS A SINGLE LUMP SUM PAYMENT, OR IN
23 THREE EQUAL ANNUAL PAYMENTS PLUS FIVE PER CENT SIMPLE INTEREST ON THE UNPAID
24 BALANCE. Refunds, INCLUDING ANNUAL INSTALLMENT AND INTEREST PAYMENTS, made
25 pursuant to this subdivision are subject to setoff pursuant to section 42-
26 1122.

27 (b) To use the amount as a credit to offset taxes under this title
28 over ten consecutive taxable years in compliance with any statute of
29 limitations provided in this title or title 42.

30 2. If the vehicle is a neighborhood electric vehicle, the amount of
31 the credit not used to offset taxes under this title may be carried forward
32 to the next five consecutive taxable years as a credit against subsequent
33 years' income tax liability.

34 F. Except as provided in subsection K of this section, if a person
35 purchases an alternative fuel vehicle and then leases the vehicle to another
36 person, the lessor is not entitled to take a tax credit pursuant to this
37 section for the purchase of the vehicle but may claim a share of the tax
38 credit for the lease of the vehicle as provided in the lease agreement,
39 except that the total amount claimed by the lessor and lessee shall not be
40 more than the credit allowed pursuant to this section and a person who
41 purchases an alternative fuel vehicle and then leases the vehicle to a
42 governmental entity is entitled to take a tax credit pursuant to this section
43 for the purchase of the vehicle.

1 G. Except as provided in subsection K of this section, notwithstanding
2 subsection B of this section and if the vehicle is not a neighborhood
3 electric vehicle:

4 1. If a person receives a grant pursuant to section 41-1516 for the
5 purchase of an alternative fuel vehicle or the conversion of a conventionally
6 fueled vehicle to operate on alternative fuel on or before June 30, 2003, the
7 tax credit pursuant to this section shall only be for the incremental cost of
8 the purchase or conversion.

9 2. If the person applies for a grant pursuant to section 41-1516 on or
10 before June 30, 2003 and submits to the department of revenue an affidavit
11 issued by the department of commerce stating that monies are not available in
12 the Arizona clean air fund for grants, that the person would qualify for a
13 grant if monies were available in the fund and that the person is eligible
14 for a tax credit pursuant to this section or section 43-1174, the person is
15 eligible for a tax credit in the amount prescribed in this section plus the
16 incremental cost of the purchase or conversion.

17 3. If a person receives a grant pursuant to section 41-1516 for the
18 purchase of an alternative fuel vehicle or for the conversion of a
19 conventionally fueled vehicle to operate on alternative fuel on or after July
20 1, 2003 through December 31, 2009, the person is not eligible for a tax
21 credit pursuant to this section.

22 H. A husband and wife who file separate returns for a taxable year in
23 which they could have filed a joint return may each claim only one-half of
24 the tax credit that would have been allowed for a joint return.

25 I. Co-owners of a business, including partners in a partnership and
26 shareholders of an S corporation as defined in section 1361 of the internal
27 revenue code, may each claim only the pro rata share of the credit allowed
28 under this section based on the ownership interest. The total of the credits
29 allowed all such owners may not exceed the amount that would have been
30 allowed for a sole owner of the business.

31 J. Except as provided in subsection K of this section, tax credits are
32 allowed pursuant to this section through the taxable year ending on or before
33 December 31, 2009, except that tax credits are not allowed for purchases or
34 conversions that occur in a calendar year after the month in which the motor
35 vehicle division reports to the department that the number of new alternative
36 fuel vehicles, excluding neighborhood electric vehicles, vehicles registered
37 pursuant to section 28-2511 and commercial vehicles, newly registered in this
38 state in the current calendar year exceeds one per cent of the total number
39 of motor vehicles registered in this state in the previous calendar year. If
40 tax credits are not allowed in a calendar year based on a motor vehicle
41 division report pursuant to this subsection, the restriction only applies to
42 the remainder of that calendar year. On or before the fifteenth day of each
43 calendar month the motor vehicle division shall submit a report to the
44 department of revenue and the department of commerce energy office that
45 contains the number of new alternative fuel vehicles, excluding neighborhood

1 electric vehicles, vehicles registered pursuant to section 28-2511 and
2 commercial vehicles, newly registered in this state in the current calendar
3 year at the end of the previous month and whether that number exceeds one per
4 cent of the total number of motor vehicles registered in this state in the
5 previous calendar year. The motor vehicle division shall provide a copy of
6 this report to each motor vehicle dealer association in this state. The
7 motor vehicle division shall base the numbers of new alternative fuel
8 vehicles in these reports on manufacturers' certificates of origin.

9 K. The credit provided by this section is not allowed for any of the
10 following:

11 1. The purchase or lease of an alternative fuel vehicle that is made
12 pursuant to a contract or purchase order entered into ~~during the period~~
13 ~~beginning~~ on OR AFTER October 20, 2000 ~~through October 19, 2001~~.

14 2. The purchase or lease of an alternative fuel vehicle that is made
15 ~~during the period beginning~~ on OR AFTER October 20, 2000 ~~through October 19,~~
16 ~~2001~~ if the purchase or lease is not made pursuant to a contract or purchase
17 order entered into by the taxpayer before October 20, 2000.

18 3. Any expense incurred for conversion of a conventionally fueled
19 vehicle to operate on alternative fuel that is made pursuant to a contract or
20 purchase order entered into ~~during the period beginning~~ on OR AFTER October
21 20, 2000 ~~through October 19, 2001~~.

22 4. Any expense incurred for conversion of a conventionally fueled
23 vehicle to operate on alternative fuel ~~during the period beginning~~ on OR
24 AFTER October 20, 2000 ~~through October 19, 2001~~ if the expense is not
25 incurred pursuant to a contract or purchase order entered into by the
26 taxpayer before October 20, 2000.

27 L. For purposes of this section:

28 1. "Alternative fuel" has the same meaning prescribed in section
29 1-215.

30 2. "Alternative fuel vehicle":

31 (a) Means a self-propelled vehicle that is registered and titled in
32 this state for operation on the highways and that is primarily propelled by
33 an alternative fuel.

34 (b) Includes neighborhood electric vehicles, bi-fuel vehicles and
35 dedicated vehicles.

36 (c) Does not include such vehicles as a golf cart as defined in
37 section 28-101 unless the golf cart qualifies as a neighborhood electric
38 vehicle, a motorcycle, a motor driven cycle, a moped or an implement of
39 husbandry as defined in section 28-101, a motorized wheelchair as defined in
40 section 28-601, an electric bicycle or a vehicle, such as a forklift, that is
41 not designed primarily for operation on highways.

42 (d) If the vehicle is powered by electricity, may include an onboard
43 auxiliary motor that is designed and used to recharge batteries.

1 3. "Bi-fuel vehicle" means a vehicle that is capable of operating on
2 both gasoline or an alternative fuel but does not include a vehicle that is
3 capable of operating on a mixture of two or more fuel types.

4 4. "Dedicated vehicle" means a vehicle that is capable of operating
5 only on a single alternative fuel.

6 5. "Incremental cost" means the amount by which the cost of an
7 alternative fuel vehicle exceeds the cost of the same model of conventionally
8 fueled vehicle that is similarly equipped and for a zero emission vehicle is
9 assumed to be ten thousand dollars or twenty-five per cent of the cost,
10 whichever is more.

11 6. "Neighborhood electric vehicle" means a motor vehicle that has
12 alternative fuel vehicle special plates or an alternative fuel vehicle
13 sticker issued pursuant to section 28-2416 and that meets the standards
14 prescribed in 49 Code of Federal Regulations section 571.500, except that, if
15 a vehicle is designed to be operated at speeds of twenty miles per hour or
16 less, the vehicle is not required to have a seventeen digit vehicle
17 identification number.

18 Sec. 8. Section 43-1086.01, Arizona Revised Statutes, is amended to
19 read:

20 43-1086.01. Credit for vehicle refueling apparatus and
21 infrastructure; definition

22 A. Except as provided in subsection F of this section, for taxable
23 years beginning after December 31, 1998, a credit against taxes imposed
24 pursuant to this title is allowed to each taxpayer who purchases a vehicle
25 refueling apparatus, including storage tanks, for installation on one or more
26 properties located in this state for the taxpayer's use. The amount of the
27 tax credit for each vehicle refueling apparatus is the cost of the vehicle
28 refueling apparatus.

29 B. Except as provided in subsection F of this section, for taxable
30 years beginning after December 31, 1998, a credit against taxes imposed
31 pursuant to this title is allowed to each taxpayer who installs any
32 infrastructure necessary for operation of a vehicle refueling apparatus
33 purchased for installation on the taxpayer's property located in this state
34 as provided in subsection A of this section, including gas or electric
35 infrastructure from the closest main or transformer but not more than one
36 hundred feet. The amount of the tax credit for installation of
37 infrastructure is the cost of the installation of the infrastructure.

38 C. If the allowable tax credit exceeds the taxes due under this title
39 on the claimant's income, or if there are no taxes due under this title, the
40 taxpayer may elect either of the following:

41 1. To be paid the amount of the claim not used to offset taxes under
42 this title in the same manner as a refund granted under section 42-1118,
43 **PAYABLE, AT THE TAXPAYER'S OPTION, EITHER AS A SINGLE LUMP SUM PAYMENT, OR IN**
44 **THREE EQUAL ANNUAL PAYMENTS PLUS FIVE PER CENT SIMPLE INTEREST ON THE UNPAID**

1 BALANCE. Refunds, INCLUDING ANNUAL INSTALLMENT AND INTEREST PAYMENTS, made
2 pursuant to this paragraph are subject to setoff pursuant to section 42-1122.

3 2. To use the amount as a credit to offset taxes under this title over
4 ten consecutive taxable years in compliance with any statute of limitations
5 provided in this title or title 42.

6 D. A husband and wife who file separate returns for a taxable year in
7 which they could have filed a joint return may each claim only one-half of
8 the tax credit that would have been allowed for a joint return.

9 E. Co-owners of a business, including partners in a partnership and
10 shareholders of an S corporation, as defined in section 1361 of the internal
11 revenue code, may each claim only the pro rata share of the credit allowed
12 under this section based on the ownership interest. The total of the credits
13 allowed all such owners may not exceed the amount that would have been
14 allowed for a sole owner of the business.

15 F. The credit provided by this section is not allowed for any of the
16 following:

17 1. The purchase of a vehicle refueling apparatus, including storage
18 tanks, that is made pursuant to a contract or purchase order entered into
19 ~~during the period beginning~~ on OR AFTER October 20, 2000 ~~through October 19,~~
20 ~~2001.~~

21 2. The purchase of a vehicle refueling apparatus, including storage
22 tanks, that is made ~~during the period beginning~~ on OR AFTER October 20, 2000
23 ~~through October 19, 2001~~ if the purchase is not made pursuant to a contract
24 or purchase order entered into by the taxpayer before October 20, 2000.

25 3. Any installation of ~~infrastructure~~ INFRASTRUCTURE necessary for the
26 operation of a vehicle refueling apparatus that is made pursuant to a
27 contract or purchase order entered into ~~during the period beginning~~ on OR
28 AFTER October 20, 2000 ~~through October 19, 2001.~~

29 4. Any installation of ~~infrastructure~~ INFRASTRUCTURE necessary for the
30 operation of a vehicle refueling apparatus that is made ~~during the period~~
31 ~~beginning~~ on OR AFTER October 20, 2000 ~~through October 19, 2001~~ if the
32 installation is not made pursuant to a contract or purchase order entered
33 into by the taxpayer before October 20, 2000.

34 G. No later than November 13, 2000, each person who sells or installs
35 vehicle refueling apparatuses, including storage tanks, shall provide
36 information to the department of commerce, in a form determined by the
37 department of commerce in consultation with the department of revenue, that
38 is necessary to administer this program and to determine the full extent to
39 which taxpayers are potentially eligible for tax credits pursuant to this
40 section. The information shall include all purchases and installations
41 described in subsection F of this section on or after January 1, 2000 through
42 October 19, 2000 but shall not include any cancellations that occur before
43 November 13, 2000. The department of commerce shall send a notice to each
44 person known to the department to be required to provide information pursuant
45 to this subsection. The department of commerce and the department of revenue

1 shall keep confidential any social security numbers, other assigned taxpayer
2 identification numbers or telephone numbers provided in the information
3 required pursuant to this section. For the purposes of this subsection, the
4 department of commerce is exempt from the rule making requirements of title
5 41, chapter 6.

6 H. For the purposes of this section, "vehicle refueling apparatus"
7 means any of the following:

8 1. A maximum ten to fifteen standard cubic feet per minute natural gas
9 compression appliance used for slow fill, on-site refueling.

10 2. Equipment necessary to provide an electric charge for an electric
11 vehicle, excluding wall sockets and extension cords.

12 3. Tanks used to store liquefied petroleum gas.

13 Sec. 9. Section 43-1086.02, Arizona Revised Statutes, is amended to
14 read:

15 43-1086.02. Credit for alternative fuel delivery systems;
16 definitions

17 A. Except as provided in subsection I of this section, for taxable
18 years beginning after December 31, 1997, a credit against taxes imposed by
19 this title is allowed to each taxpayer who incurs construction costs or
20 operating costs during the taxable year for constructing or operating an
21 alternative fuel delivery system in this state that is capable of dispensing
22 an alternative fuel to an alternative fuel vehicle.

23 B. The amount of the credit is equal to the following:

24 1. For an alternative fuel delivery system that is accessible to the
25 general public or for an alternative fuel delivery system that is dispensing
26 a renewable fuel, one hundred per cent of the costs incurred up to a maximum
27 of four hundred thousand dollars. A taxpayer may take a credit pursuant to
28 this paragraph for each variation of alternative fuel type dispensed through
29 the alternative fuel delivery system.

30 2. For an alternative fuel delivery system that does not satisfy
31 paragraph 1 of this subsection, fifty per cent of the costs incurred up to a
32 maximum of two hundred thousand dollars. A taxpayer may take a credit
33 pursuant to this paragraph for each variation of alternative fuel type
34 dispensed through the alternative fuel delivery system.

35 C. If the allowable tax credit exceeds the taxes due under this title
36 on the claimant's income, or if there are no taxes due under this title, the
37 taxpayer may elect either of the following:

38 1. To be paid the amount of the claim not used to offset taxes under
39 this title, in the same manner as a refund granted under section 42-1118,
40 **PAYABLE, AT THE TAXPAYER'S OPTION, EITHER AS A SINGLE LUMP SUM PAYMENT, OR IN**
41 **THREE EQUAL ANNUAL PAYMENTS PLUS FIVE PER CENT SIMPLE INTEREST ON THE UNPAID**
42 **BALANCE.** Refunds, **INCLUDING ANNUAL INSTALLMENT AND INTEREST PAYMENTS,** made
43 pursuant to this paragraph are subject to setoff pursuant to section 42-1122.

1 2. To use the amount as a credit to offset taxes under this title over
2 ten consecutive taxable years in compliance with any statute of limitations
3 provided in this title or title 42.

4 D. If a tax credit is allowed pursuant to this section for an
5 alternative fuel delivery system located at a fueling station, the price of
6 the alternative fuel sold from the alternative fuel delivery system shall be
7 included on the standardized sign that contains the price of other fuels sold
8 at the fueling station. The department of commerce energy office shall
9 design these signs, including the alternative fuel logo for these signs.
10 Notwithstanding any other law and because the legislature finds it a matter
11 of statewide concern, these signs shall be uniform throughout the state and
12 local ordinances, rules or laws are preempted for design, placement, size,
13 type and height.

14 E. A husband and wife who file separate returns for a taxable year in
15 which they could have filed a joint return may each claim only one-half of
16 the tax credit that would have been allowed for a joint return.

17 F. If the taxpayer enters into a lease agreement for the alternative
18 fuel delivery system, the lessor may claim a share of the tax credit allowed
19 under this section as provided in the lease agreement, except that the total
20 amount claimed by the lessor and lessee shall not be more than the tax credit
21 allowed under this section.

22 G. Co-owners of a business, including partners in a partnership and
23 shareholders of an S corporation as defined in section 1361 of the internal
24 revenue code, may each claim only the pro rata share of the credit allowed
25 under this section based on the ownership interest. The total of the credits
26 allowed all such owners may not exceed the amount that would have been
27 allowed for a sole owner of the business.

28 H. A person who receives a grant pursuant to section 41-1516 is not
29 eligible to claim a credit pursuant to this section for the amount of the
30 grant. Except as provided in subsection I of this section, if the cost of
31 the alternative fuel delivery system exceeds the amount of the grant, a
32 person may claim a credit for the amount in excess of the amount of the grant
33 not to exceed the limits imposed by this section.

34 I. The credit provided by this section is not allowed for either:

35 1. Construction costs or operating costs of an alternative fuel
36 delivery system that are made pursuant to a contract entered into ~~during the~~
37 ~~period beginning~~ on OR AFTER October 20, 2000 ~~through October 19, 2001~~.

38 2. Construction costs or operating costs of an alternative fuel
39 delivery system that are incurred ~~during the period beginning~~ on OR AFTER
40 October 20, 2000 ~~through October 19, 2001~~ if the costs are not incurred
41 pursuant to a contract entered into by the taxpayer before October 20, 2000.

42 J. No later than November 13, 2000, each person who provides
43 construction or operating services to alternative fuel delivery systems shall
44 provide information to the department of commerce, in a form determined by
45 the department of commerce in consultation with the department of revenue,

1 that is necessary to administer this program and to determine the full extent
2 to which taxpayers are potentially eligible for tax credits pursuant to this
3 section. The information shall include all costs described in subsection I
4 of this section on or after January 1, 2000 through October 19, 2000 but
5 shall not include any cancellations that occur before November 13, 2000. The
6 department of commerce shall send a notice to each person known to the
7 department to be required to provide information pursuant to this subsection.
8 The department of commerce and the department of revenue shall keep
9 confidential any social security numbers, other assigned taxpayer
10 identification numbers or telephone numbers provided in the information
11 required pursuant to this section. For the purposes of this subsection, the
12 department of commerce is exempt from the rule making requirements of title
13 41, chapter 6.

14 K. For the purposes of this section:

15 1. "Alternative fuel" has the same meaning prescribed in section
16 1-215.

17 2. "Alternative fuel delivery system" has the same meaning prescribed
18 in section 41-1516.

19 3. "Alternative fuel vehicle" has the same meaning prescribed in
20 section 43-1086.

21 4. "Construction costs" means those costs associated with the
22 construction of an alternative fuel delivery system.

23 5. "Operating costs" means those costs directly associated with the
24 dispensing of alternative fuel through an alternative fuel delivery system
25 plus a reasonable charge for overhead functions. Operating costs do not
26 include any expenses directly or indirectly associated with the dispensing of
27 gasoline or diesel fuel or the sale of items at retail not connected with the
28 dispensing of alternative fuels.

29 6. "Renewable fuel" means electricity or solar energy.

30 Sec. 10. Section 43-1174, Arizona Revised Statutes, is amended to
31 read:

32 43-1174. Credit for alternative fuel vehicles; definitions

33 A. Except as provided in subsection J of this section, for taxable
34 years prescribed in subsection I of this section, a credit against taxes
35 imposed by this title is allowed to each taxpayer who applies for a grant
36 pursuant to section 41-1516 unless the vehicle is a neighborhood electric
37 vehicle and who does any of the following:

38 1. Purchases or leases, for a period of at least one year, one or more
39 new original equipment manufactured alternative fuel vehicles for use in this
40 state.

41 2. Incurs expenses during the taxable year for converting one or more
42 conventionally fueled vehicles for use in this state to operate on an
43 alternative fuel.

44 3. On or before June 30, 2000, purchases or leases, for a period of at
45 least one year, one or more used alternative fuel vehicles for use in this

- 1 state, except that a tax credit is not allowed pursuant to this section for
2 the purchase or lease of a used neighborhood electric vehicle that is
3 purchased or leased on or after January 1, 2000.
- 4 B. The amount of the credit is equal to the following:
- 5 1. For a new low emission vehicle twelve thousand pounds or less gross
6 vehicle weight, thirty per cent of the cost or five thousand dollars,
7 whichever is more.
- 8 2. For a used low emission vehicle twelve thousand pounds or less
9 gross vehicle weight, fifteen per cent of the cost or two thousand five
10 hundred dollars, whichever is more.
- 11 3. For a new ultralow or inherently low emission vehicle, forty per
12 cent of the cost or seven thousand five hundred dollars, whichever is more.
- 13 4. For a used ultralow or inherently low emission vehicle, twenty per
14 cent of the cost or three thousand seven hundred fifty dollars, whichever is
15 more.
- 16 5. For a new zero or super ultralow emission vehicle, fifty per cent
17 of the cost or ten thousand dollars, whichever is more.
- 18 6. For a used zero emission vehicle:
- 19 (a) That is purchased, twenty-five per cent of the cost or five
20 thousand dollars, whichever is more.
- 21 (b) That is leased, twenty-five per cent of the cost or two thousand
22 five hundred dollars, whichever is more.
- 23 7. For a new low emission vehicle over twelve thousand pounds gross
24 vehicle weight, thirty per cent of the cost or thirty thousand dollars,
25 whichever is more.
- 26 8. For a used low emission vehicle over twelve thousand pounds gross
27 vehicle weight, fifteen per cent of the cost or fifteen thousand dollars,
28 whichever is more.
- 29 9. For conversion of a vehicle over twelve thousand pounds gross
30 vehicle weight, the greatest of the following:
- 31 (a) Thirty per cent of the actual price of the vehicle plus the cost
32 of conversion.
- 33 (b) Thirty per cent of the original manufacturer's base retail price
34 of the vehicle.
- 35 (c) Thirty thousand dollars.
- 36 10. For purchase of a converted vehicle over twelve thousand pounds
37 gross vehicle weight, fifteen per cent of the cost or fifteen thousand
38 dollars, whichever is more.
- 39 11. For conversion of any other vehicle the greatest of the following:
- 40 (a) Thirty per cent of the actual purchase price of the vehicle plus
41 the cost of conversion.
- 42 (b) Thirty per cent of the original manufacturer's base retail price
43 of the vehicle.
- 44 (c) Five thousand dollars.

1 (d) The amount of the tax credit prescribed in paragraph 3 or 4 of
2 this subsection if the taxpayer can demonstrate that the converted vehicle
3 qualifies as an ultralow or inherently low emission vehicle.

4 (e) The amount of the tax credit prescribed in paragraph 5 or
5 paragraph 6, subdivision (a) of this subsection if the taxpayer can
6 demonstrate that the converted vehicle qualifies as a zero or super ultralow
7 emission vehicle.

8 12. For purchase of any other converted vehicle, fifteen per cent of
9 the cost or two thousand five hundred dollars, whichever is more.

10 13. Notwithstanding any other paragraph of this subsection, for a new
11 neighborhood electric vehicle that is purchased on or after July 1, 2000,
12 fifty per cent of the cost of the vehicle or one thousand dollars, whichever
13 is more. In order to qualify for a tax credit pursuant to this paragraph, a
14 taxpayer shall certify on forms provided by the department that the vehicle
15 has not been, and will not be, used on a golf course, except for use as a
16 maintenance vehicle for a golf course. If a tax credit is taken for a
17 vehicle pursuant to this paragraph and the vehicle is used on a golf course
18 other than as a maintenance vehicle, the tax credit is subject to recapture
19 by the department, and the taxpayer is subject to a civil penalty of one
20 thousand dollars. Civil penalties collected pursuant to this paragraph shall
21 be deposited in the Arizona clean air fund established by section 41-1516.

22 C. Except as provided in subsection J of this section, a tax credit is
23 allowed pursuant to subsection B, paragraphs 1 through 8 and 13 of this
24 section only if the vehicle is certified to meet the United States
25 environmental protection agency emission standards for the particular type of
26 vehicle for which the credit is claimed as prescribed by 40 Code of Federal
27 Regulations section 88.104-94 or 88.105-94.

28 D. In order to qualify for a tax credit pursuant to subsection B,
29 paragraph 9 or 10 of this section, a motor home as defined in section 28-4301
30 that is converted to use liquefied petroleum gas shall have a fuel tank for
31 onboard storage of liquefied petroleum gas that holds at least thirty
32 gallons.

33 E. If the allowable tax credit exceeds the taxes due under this title
34 on the claimant's income, or if there are no taxes due under this title, the
35 following apply:

36 1. If the vehicle is not a neighborhood electric vehicle, the taxpayer
37 may elect either of the following:

38 (a) To be paid the amount of the claim not used to offset taxes under
39 this title, in the same manner as a refund granted under section 42-1118,
40 PAYABLE, AT THE TAXPAYER'S OPTION, EITHER AS A SINGLE LUMP SUM PAYMENT, OR IN
41 THREE EQUAL ANNUAL PAYMENTS PLUS FIVE PER CENT SIMPLE INTEREST ON THE UNPAID
42 BALANCE. Refunds, INCLUDING ANNUAL INSTALLMENT AND INTEREST PAYMENTS, made
43 pursuant to this subdivision are subject to setoff pursuant to section 42-
44 1122.

1 (b) To use the amount as a credit to offset taxes under this title
2 over ten consecutive taxable years in compliance with any statute of
3 limitations provided in this title or title 42.

4 2. If the vehicle is a neighborhood electric vehicle, the amount of
5 the credit not used to offset taxes under this title may be carried forward
6 to the next five consecutive taxable years as a credit against subsequent
7 years' income tax liability.

8 F. Except as provided in subsection J of this section, if a person
9 purchases an alternative fuel vehicle and then leases the vehicle to another
10 person, the lessor is not entitled to take a tax credit pursuant to this
11 section for the purchase of the vehicle but may claim a share of the tax
12 credit for the lease of the vehicle as provided in the lease agreement,
13 except that the total amount claimed by the lessor and lessee shall not be
14 more than the credit allowed pursuant to this section and a person who
15 purchases an alternative fuel vehicle and then leases the vehicle to a
16 governmental entity is entitled to take a tax credit pursuant to this section
17 for the purchase of the vehicle.

18 G. Except as provided in subsection J of this section, notwithstanding
19 subsection B of this section and if the vehicle is not a neighborhood
20 electric vehicle:

21 1. If a person receives a grant pursuant to section 41-1516 for the
22 purchase of an alternative fuel vehicle or the conversion of a conventionally
23 fueled vehicle to operate on alternative fuel on or before June 30, 2003, the
24 tax credit pursuant to this section shall only be for the incremental cost of
25 the purchase or conversion.

26 2. If the person applies for a grant pursuant to section 41-1516 on or
27 before June 30, 2003 and submits to the department of revenue an affidavit
28 issued by the department of commerce stating that monies are not available in
29 the Arizona clean air fund for grants, that the person would qualify for a
30 grant if monies were available in the fund and that the person is eligible
31 for a tax credit pursuant to this section or section 43-1086, the person is
32 eligible for a tax credit in the amount prescribed in this section plus the
33 incremental cost of the purchase or conversion.

34 3. If a person receives a grant pursuant to section 41-1516 for the
35 purchase of an alternative fuel vehicle or for the conversion of a
36 conventionally fueled vehicle to operate on alternative fuel on or after July
37 1, 2003 through December 31, 2009, the person is not eligible for a tax
38 credit pursuant to this section.

39 H. Co-owners of a business, including corporate partners in a
40 partnership, may each claim only the pro rata share of the credit allowed
41 under this section based on the ownership interest. The total of the credits
42 allowed all such owners may not exceed the amount that would have been
43 allowed for a sole owner of the business.

44 I. Except as provided in subsection J of this section, tax credits are
45 allowed pursuant to this section through the taxable year ending on or before

1 December 31, 2009, except that tax credits are not allowed for purchases or
2 conversions that occur in a calendar year after the month in which the motor
3 vehicle division reports to the department as provided in section 43-1086
4 that the number of new alternative fuel vehicles, excluding neighborhood
5 electric vehicles, vehicles registered pursuant to section 28-2511 and
6 commercial vehicles, newly registered in this state in the current calendar
7 year exceeds one per cent of the total number of motor vehicles registered in
8 this state in the previous calendar year. If tax credits are not allowed in
9 a calendar year based on a motor vehicle division report pursuant to section
10 43-1086, the restriction only applies to the remainder of that calendar year.

11 J. The credit provided by this section is not allowed for any of the
12 following:

13 1. The purchase or lease of an alternative fuel vehicle that is made
14 pursuant to a contract or purchase order entered into ~~during the period~~
15 ~~beginning~~ on OR AFTER October 20, 2000 ~~through October 19, 2001~~.

16 2. The purchase or lease of an alternative fuel vehicle that is made
17 ~~during the period beginning~~ on OR AFTER October 20, 2000 ~~through October 19,~~
18 ~~2001~~, if the purchase or lease is not made pursuant to a contract or purchase
19 order entered into by the taxpayer before October 20, 2000.

20 3. Any expense incurred for conversion of a conventionally fueled
21 vehicle to operate on alternative fuel that is made pursuant to a contract or
22 purchase order entered into ~~during the period beginning~~ on OR AFTER October
23 20, 2000 ~~through October 19, 2001~~.

24 4. Any expense incurred for conversion of a conventionally fueled
25 vehicle to operate on alternative fuel ~~during the period beginning~~ on OR
26 AFTER October 20, 2000 ~~through October 19, 2001~~, if the expense is not
27 incurred pursuant to a contract or purchase order entered into by the
28 taxpayer before October 20, 2000.

29 K. For purposes of this section:

30 1. "Alternative fuel" has the same meaning prescribed in section
31 1-215.

32 2. "Alternative fuel vehicle", "incremental cost" and "neighborhood
33 electric vehicle" have the same meaning prescribed in section 43-1086.

34 Sec. 11. Section 43-1174.01, Arizona Revised Statutes, is amended to
35 read:

36 43-1174.01. Credit for vehicle refueling apparatus and
37 infrastructure; definition

38 A. Except as provided in subsection E of this section, for taxable
39 years beginning after December 31, 1998, a credit against taxes imposed
40 pursuant to this title is allowed to each taxpayer who purchases a vehicle
41 refueling apparatus, including storage tanks, for installation on one or more
42 properties located in this state for the taxpayer's use. The amount of the
43 tax credit for each vehicle refueling apparatus is the cost of the vehicle
44 refueling apparatus.

1 B. Except as provided in subsection E of this section, for taxable
2 years beginning after December 31, 1998, a credit against taxes imposed
3 pursuant to this title is allowed to each taxpayer who installs any
4 infrastructure necessary for operation of a vehicle refueling apparatus
5 purchased for installation on the taxpayer's property located in this state
6 as provided in subsection A of this section, including gas or electric
7 infrastructure from the closest main or transformer but not more than one
8 hundred feet. The amount of the tax credit for installation of
9 infrastructure is the cost of the installation of the infrastructure.

10 C. If the allowable tax credit exceeds the taxes due under this title
11 on the claimant's income, or if there are no taxes due under this title, the
12 taxpayer may elect either of the following:

13 1. To be paid the amount of the claim not used to offset taxes under
14 this title in the same manner as a refund granted under section 42-1118,
15 ~~PAYABLE, AT THE TAXPAYER'S OPTION, EITHER AS A SINGLE LUMP SUM PAYMENT, OR IN~~
16 ~~THREE EQUAL ANNUAL PAYMENTS PLUS FIVE PER CENT SIMPLE INTEREST ON THE UNPAID~~
17 ~~BALANCE.~~ Refunds, ~~INCLUDING ANNUAL INSTALLMENT AND INTEREST PAYMENTS,~~ made
18 pursuant to this paragraph are subject to setoff pursuant to section 42-1122.

19 2. To use the amount as a credit to offset taxes under this title over
20 ten consecutive taxable years in compliance with any statute of limitations
21 provided in this title or title 42.

22 D. Co-owners of a business, including corporate partners in a
23 partnership, may each claim only the pro rata share of the credit allowed
24 under this section based on the ownership interest. The total of the credits
25 allowed all such owners may not exceed the amount that would have been
26 allowed for a sole owner of the business.

27 E. The credit provided by this section is not allowed for any of the
28 following:

29 1. The purchase of a vehicle refueling apparatus, including storage
30 tanks, that is made pursuant to a contract or purchase order entered into
31 ~~during the period beginning~~ on ~~OR AFTER~~ October 20, 2000 through October 19,
32 2001.

33 2. The purchase of a vehicle refueling apparatus, including storage
34 tanks, that is made ~~during the period beginning~~ on ~~OR AFTER~~ October 20, 2000
35 ~~through October 19, 2001~~ if the purchase is not made pursuant to a contract
36 or purchase order entered into by the taxpayer before October 20, 2000.

37 3. Any installation of ~~infrastructure~~ INFRASTRUCTURE necessary for the
38 operation of a vehicle refueling apparatus that is made pursuant to a
39 contract or purchase order entered into ~~during the period beginning~~ on ~~OR~~
40 ~~AFTER~~ October 20, 2000 ~~through October 19, 2001~~.

41 4. Any installation of ~~infrastructure~~ INFRASTRUCTURE necessary for the
42 operation of a vehicle refueling apparatus that is made ~~during the period~~
43 ~~beginning~~ on ~~OR AFTER~~ October 20, 2000 ~~through October 19, 2001~~ if the
44 installation is not made pursuant to a contract or purchase order entered
45 into by the taxpayer before October 20, 2000.

1 F. No later than November 13, 2000, each person who sells or installs
2 vehicle refueling apparatuses, including storage tanks, shall provide
3 information to the department of commerce, in a form determined by the
4 department of commerce in consultation with the department of revenue, that
5 is necessary to administer this program and to determine the full extent to
6 which taxpayers are potentially eligible for tax credits pursuant to this
7 section. The information shall include all purchases and installations
8 described in subsection E of this section on or after January 1, 2000 through
9 October 19, 2000 but shall not include any cancellations that occur before
10 November 13, 2000. The department of commerce shall send a notice to each
11 person known to the department to be required to provide information pursuant
12 to this subsection. The department of commerce and the department of revenue
13 shall keep confidential any social security numbers, other assigned taxpayer
14 identification numbers or telephone numbers provided in the information
15 required pursuant to this section. For the purposes of this subsection, the
16 department of commerce is exempt from the rule making requirements of title
17 41, chapter 6.

18 G. For the purposes of this section, "vehicle refueling apparatus"
19 means any of the following:

20 1. A maximum ten to fifteen standard cubic feet per minute natural gas
21 compression appliance used for slow fill, on-site refueling.

22 2. Equipment necessary to provide an electric charge for an electric
23 vehicle, excluding wall sockets and extension cords.

24 3. Tanks used to store liquefied petroleum gas.

25 Sec. 12. Section 43-1174.02, Arizona Revised Statutes, is amended to
26 read:

27 43-1174.02. Credit for alternative fuel delivery systems;
28 definitions

29 A. Except as provided in subsection H of this section, for taxable
30 years beginning after December 31, 1997, a credit against taxes imposed by
31 this title is allowed to each taxpayer who incurs construction costs or
32 operating costs during the taxable year for constructing or operating an
33 alternative fuel delivery system in this state that is capable of dispensing
34 an alternative fuel to an alternative fuel vehicle.

35 B. The amount of the credit is equal to the following:

36 1. For an alternative fuel delivery system that is accessible to the
37 general public or for an alternative fuel delivery system that is dispensing
38 a renewable fuel, one hundred per cent of the costs incurred up to a maximum
39 of four hundred thousand dollars. A taxpayer may take a credit pursuant to
40 this paragraph for each variation of alternative fuel type dispensed through
41 the alternative fuel delivery system.

42 2. For an alternative fuel delivery system that does not satisfy
43 paragraph 1 of this subsection, fifty per cent of the costs incurred up to a
44 maximum of two hundred thousand dollars. A taxpayer may take a credit

1 pursuant to this paragraph for each variation of alternative fuel type
2 dispensed through the alternative fuel delivery system.

3 C. If the allowable tax credit exceeds the taxes due under this title
4 on the claimant's income, or if there are no taxes due under this title, the
5 taxpayer may elect either of the following:

6 1. To be paid the amount of the claim not used to offset taxes under
7 this title, in the same manner as a refund granted under section 42-1118,
8 PAYABLE, AT THE TAXPAYER'S OPTION, EITHER AS A SINGLE LUMP SUM PAYMENT, OR IN
9 THREE EQUAL ANNUAL PAYMENTS PLUS FIVE PER CENT SIMPLE INTEREST ON THE UNPAID
10 BALANCE. Refunds, INCLUDING ANNUAL INSTALLMENT AND INTEREST PAYMENTS, made
11 pursuant to this paragraph are subject to setoff pursuant to section 42-1122.

12 2. To use the amount as a credit to offset taxes under this title over
13 ten consecutive taxable years in compliance with any statute of limitations
14 provided in this title or title 42.

15 D. If a tax credit is allowed pursuant to this section for an
16 alternative fuel delivery system located at a fueling station, the price of
17 the alternative fuel sold from the alternative fuel delivery system shall be
18 included on the standardized sign that contains the price of other fuels sold
19 at the fueling station. The department of commerce energy office shall
20 design these signs, including the alternative fuel logo for these signs.
21 Notwithstanding any other law and because the legislature finds it a matter
22 of statewide concern, these signs shall be uniform throughout the state and
23 local ordinances, rules or laws are preempted for design, placement, size,
24 type and height.

25 E. If the taxpayer enters into a lease agreement for the alternative
26 fuel delivery system, the lessor may claim a share of the tax credit allowed
27 under this section as provided in the lease agreement, except that the total
28 amount claimed by the lessor and lessee shall not be more than the credit
29 allowed under this section.

30 F. Co-owners of a business, including corporate partners in a
31 partnership, may each claim only the pro rata share of the credit allowed
32 under this section based on the ownership interest. The total of the credits
33 allowed all such owners may not exceed the amount that would have been
34 allowed for a sole owner of the business.

35 G. A person who receives a grant pursuant to section 41-1516 is not
36 eligible to claim a credit pursuant to this section for the amount of the
37 grant. Except as provided in subsection H of this section, if the cost of
38 the alternative fuel delivery system exceeds the amount of the grant, a
39 person may claim a credit for the amount in excess of the amount of the grant
40 not to exceed the limits imposed by this section.

41 H. The credit provided by this section is not allowed for either:

42 1. Construction costs or operating costs of an alternative fuel
43 delivery system that are made pursuant to a contract entered into ~~during the~~
44 ~~period beginning~~ on OR AFTER October 20, 2000 ~~through October 19, 2001~~.

1 2. Construction costs or operating costs of an alternative fuel
2 delivery system that are incurred ~~during the period beginning~~ on OR AFTER
3 October 20, 2000 ~~through October 19, 2001~~ if the costs are not incurred
4 pursuant to a contract entered into by the taxpayer before October 20, 2000.

5 I. No later than November 13, 2000, each person who provides
6 construction or operating services to alternative fuel delivery systems shall
7 provide information to the department of commerce, in a form determined by
8 the department of commerce in consultation with the department of revenue,
9 that is necessary to administer this program and to determine the full extent
10 to which taxpayers are potentially eligible for tax credits pursuant to this
11 section. The information shall include all costs described in subsection H
12 of this section on or after January 1, 2000 through October 19, 2000 but
13 shall not include any cancellations that occur before November 13, 2000. The
14 department of commerce shall send a notice to each person known to the
15 department required to provide information pursuant to this subsection. The
16 department of commerce and the department of revenue shall keep confidential
17 any social security numbers, other assigned taxpayer identification numbers
18 or telephone numbers provided in the information required pursuant to this
19 section. For the purposes of this subsection, the department of commerce is
20 exempt from the rule making requirements of title 41, chapter 6.

21 J. For the purposes of this section:

22 1. "Alternative fuel" has the same meaning prescribed in section
23 1-215.

24 2. "Alternative fuel delivery system" has the same meaning prescribed
25 in section 41-1516.

26 3. "Alternative fuel vehicle" has the same meaning prescribed in
27 section 43-1086.

28 4. "Construction costs" means those costs associated with the
29 construction of an alternative fuel delivery system.

30 5. "Operating costs" means those costs directly associated with the
31 dispensing of alternative fuel through an alternative fuel delivery system
32 plus a reasonable charge for overhead functions. Operating costs do not
33 include any expenses directly or indirectly associated with the dispensing of
34 gasoline or diesel fuel or the sale of items at retail not connected with the
35 dispensing of alternative fuels.

36 6. "Renewable fuel" means electricity or solar energy.

37 Sec. 13. Repeal; delayed repeal

38 A. Sections 9-500.19, 11-269.05, 28-737, 28-4414 and 30-814, Arizona
39 Revised Statutes, are repealed from and after December 31, 2000.

40 B. Sections 43-1086, 43-1086.01, 43-1086.02, 43-1174, 43-1174.01 and
41 43-1174.02, Arizona Revised Statutes, are repealed from and after December
42 31, 2004.

43 Sec. 14. Report on cost of alternative fuel vehicle incentives;
44 transfer from budget stabilization fund

1 A. On or before June 15, 2001 through 2005, the department of revenue
2 shall report to the governor, the state treasurer, the president of the
3 senate, the speaker of the house of representatives, the governor's office of
4 strategic planning and budgeting and the joint legislative budget committee
5 the following amounts:

6 1. The aggregate dollar amount of the alternative fuel related credits
7 claimed under sections 43-1086, 43-1086.01, 43-1086.02, 43-1174, 43-1174.01
8 and 43-1174.02, Arizona Revised Statutes, for payment during that fiscal
9 year.

10 2. The actual amount paid to date in that fiscal year.

11 3. The projected amount remaining to be paid in that fiscal year.

12 4. The projected amounts to be paid in following fiscal years through
13 2004-2005.

14 B. On or before June 25, 2001 through 2005, the staff director of the
15 joint legislative budget committee and the governor's office of strategic
16 planning and budgeting shall jointly notify the governor, the president of
17 the senate and the speaker of the house of representatives of the cost to the
18 state general fund in the current fiscal year of the alternative fuel related
19 credits claimed under sections 43-1086, 43-1086.01, 43-1086.02, 43-1174,
20 43-1174.01 and 43-1174.02, Arizona Revised Statutes.

21 C. Notwithstanding section 35-144, Arizona Revised Statutes, if the
22 amount reported under subsection B of this section exceeds \$_____,
23 then on June 30 of the current fiscal year and on notice from the governor,
24 the state treasurer shall transfer the sum of \$_____ to the
25 alternative fuel incentives expense trust fund, established by section 16 of
26 this act, from the budget stabilization fund established by section 35-144,
27 Arizona Revised Statutes.

28 Sec. 15. Limit on increase in expenditure of state revenues
29 through fiscal year 2004-2005; appropriation freeze
30 for fiscal years 2001-2002 and 2002-2003

31 A. Until fiscal year 2004-2005, and notwithstanding any other law, all
32 state budget units and other government entities receiving state revenues
33 shall not increase the expenditure of budgeted monies for any nonemergency
34 program, including personnel, operating expenses and other budget items, in
35 excess of the amount appropriated for fiscal year 2000-2001 adjusted
36 according to the annual percentage change in the GDP price deflator, as
37 defined in section 41-563, Arizona Revised Statutes, and any annual increase
38 in the population of this state according to population estimates developed
39 by the department of economic security.

40 B. The legislature shall freeze the nonemergency appropriations for
41 state entities in the fiscal year 2001-2002 and 2002-2003 biennial budget
42 cycle at the fiscal year 2000-2001 expenditure levels adjusted by the annual
43 percentage change in the GDP price deflator, as defined in section 41-563,
44 Arizona Revised Statutes, and any annual increase in the population of this
45 state according to population estimates developed by the department of

1 economic security. If state general fund revenues in fiscal year 2001-2002
2 or 2002-2003 exceed the amount authorized by this subsection for
3 appropriation, the legislature shall transfer up to \$_____ to the
4 alternative fuel incentives expense trust fund, established by section 16 of
5 this act. If state general fund revenues in fiscal year 2001-2002 or
6 2002-2003 exceed the amount authorized by this subsection for appropriation
7 plus the amount transferred to the alternative fuel incentives expense trust
8 fund, the legislature may appropriate or rebate the excess amount according
9 to current budget priorities.

10 C. The joint legislative budget committee shall review all emergency
11 expenditures required by law that exceed the expenditure level authorized.

12 Sec. 16. Alternative fuel incentives expense trust fund

13 A. The alternative fuel incentives expense trust fund is established
14 consisting of:

15 1. All state revenues received for fiscal year 1999-2000 that exceed
16 the expenditures authorized for fiscal year 1999-2000. That amount is
17 transferred from the state general fund to the alternative fuel incentives
18 expense trust fund on the effective date of this act.

19 2. All state revenues received for fiscal years 2000-2001, 2001-2002
20 and 2002-2003 that are in excess of the expenditures authorized for fiscal
21 year 2000-2001.

22 B. The state treasurer shall administer the fund. The state treasurer
23 shall invest and divest monies in the fund as provided by section 35-313,
24 Arizona Revised Statutes, and monies earned from investment shall be credited
25 to the fund.

26 C. Monies in the fund shall be used exclusively to pay persons who
27 qualify for a tax credit pursuant to section 43-1086, 43-1086.01, 43-1086.02,
28 43-1174, 43-1174.01 or 43-1174.02, Arizona Revised Statutes, and who apply to
29 the department of commerce for payment on or before December 31, 2002.

30 Sec. 17. Delayed repeal; reversion

31 Section 16 of this act, relating to the alternative fuel incentives
32 expense trust fund, is repealed on April 1, 2003. On that date the state
33 treasurer shall transfer all monies remaining unexpended in the alternative
34 fuel incentives expense trust fund to the budget stabilization fund
35 established by section 35-144, Arizona Revised Statutes.

36 Sec. 18. Requirements for enactment; two-thirds vote

37 Pursuant to article IX, section 22, Constitution of Arizona, this act
38 is effective only on the affirmative vote of at least two-thirds of the
39 members of each house of the legislature and is effective immediately on the
40 signature of the governor or, if the governor vetoes this act, on the
41 subsequent affirmative vote of at least three-fourths of the members of each
42 house of the legislature.