

Form TPT-1 Deduction Code Listing for Schedule A

The Deduction Codes listed on page 2 of the *Transaction Privilege, Use, and Severance Tax Return (Form TPT-1)* are paraphrased descriptions for some of the statutory transaction privilege tax and use tax deductions and exemptions provided in Title 42 of the **Arizona Revised Statutes (A.R.S.)**. These deduction codes are for use in *Schedule A* of *Form TPT-1*, which itemizes the deduction amounts that have been taken on the front page of *Form TPT-1*. For additional information on completing *Schedule A*, please see the [Form TPT-1 Instructions](#) on this website.

This Deduction Code reference document is intended to provide the actual statutory text of the deduction or exemption at issue, as well as any administrative guidance provided by rules in the **Arizona Administrative Code (A.A.C.)** or tax rulings or tax procedures issued by the Arizona Department of Revenue. ***The actual text of the statutory deduction or exemption is controlling for amounts taken as deductions on Form TPT-1.***

On the following page is a reproduction of the “DEDUCTION CODE” listing box on Form TPT-1, page 2. You may either click on the CODE description or scroll through the document to locate the CODE.

[Go to the Deduction Codes](#)

The following Deduction Codes have been **removed** from the DEDUCTION CODE listing on page 2 of Form TPT-1 **but are still in use**:

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Form TPT-1 Deduction Code Listing for Schedule A

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DEDUCTION CODES – COMPLETE LISTING

(Format Order same as on Form TPT-1, Page 2)

GENERAL DEDUCTIONS FOR SELLERS

CODE 503 **RESALE: Sales for Resale**

Transaction Privilege Tax:

RETAIL - CLASS 017: Applies to the business of selling merchandise or other tangible personal property under the retail classification: A.R.S. § 42-5061(V)(1) excludes income derived from sales to a retailer for resale in the regular course of business. A.R.S. § 42-5061(A)(23) excludes income derived from sales of tangible personal property “to a person engaged in the business of leasing or renting such property under the personal property rental classification if such property is to be leased or rented by such person.”

UTILITIES - CLASS 004: Applies to businesses that provide natural or artificial gas, water or electricity to consumers: A.R.S. § 42-5063(B)(1) excludes “[s]ales of ancillary services, electric distribution services, electric generation services, electric transmission services and other services related to providing electricity, gas or water to a person who resells the services.” These terms are defined in A.R.S. § 42-5063(D).

TELECOMMUNICATIONS - CLASS 005: Applies to the business of providing intrastate telecommunications services to customers: A.R.S. § 42-5064(B)(1) provides a deduction for income derived from “[s]ales of intrastate telecommunications services to .. [o]ther persons engaged in businesses classified under the telecommunications classification for use in such business.” A.R.S. § 42-5064(E) provides definitions.

JOB PRINTING - CLASS 010: Applies to the business of job printing, engraving, embossing and copying: A.R.S. § 42-5066(B)(1) provides a deduction for income derived from “[s]ales to a person in this state who has a transaction privilege tax license issued in this state, and who ... [r]esells the job printing, engraving, embossing or copying.”

COMMERCIAL LEASE - CLASS 013: Applies to a business that leases or rents the use or occupancy of real property: A.R.S. § 42-5069(C)(3) excludes income derived from “[l]easing real property to a lessee who subleases the property if the lessee is engaged in business classified under the commercial lease classification or the transient lodging classification.”

PERSONAL PROPERTY RENTAL - CLASS 014: Applies to a business that leases or rents tangible personal property for a consideration: Arizona Administrative Code (A.A.C.) rule R15-5-1502(C) states that: “Gross income from the lease of tangible personal property to a lessee who subleases the property is not taxable under the personal property rental classification if the lessee is engaged in the business of leasing the property under the personal property rental classification.”

RESTAURANT - CLASS 011: Applies to a business that operates a restaurant or similar establishment where articles of food or drink are sold for consumption on or off the premises: A.R.S. § 42-5074(B)(1) provides a deduction for “[s]ales to

a person engaged in business classified under the restaurant classification if the items sold are to be resold in the regular course of the business.”

Arizona Use Tax:

Arizona Administrative Code (A.A.C.) rule R15-5-2309 *Exemptions - Purchases for Resale or Lease*, states:

R15-5-2309. Exemptions -- Purchases for Resale or Lease

A. Purchases of tangible personal property from a retailer for resale in the ordinary course of the purchaser’s business are not subject to use tax.

B. Purchases of tangible personal property from a retailer for subsequent leasing or renting in the ordinary course of the purchaser’s business are not subject to use tax.

CODE 551 TAX collected or factored

Applicable to all transaction privilege tax business classifications:

The Arizona transaction privilege tax is imposed on the seller, who may pass this tax expense on to the purchaser. Transaction privilege tax charged by the seller is always included in the “GROSS AMOUNT” (Column D) that is reported on Form TPT-1. A.R.S. § 42-5002 *Exclusions from gross income, receipts or proceeds*, allows for a deduction from the seller’s gross income for the tax charged by the seller, regardless of whether the tax was separately stated on the customer’s bill or invoice, or not separately stated and included in the sales price by the seller. If the seller charges a “flat price” and does not separately charge the transaction privilege tax, the tax may be factored (or mathematically extracted) from the seller’s gross income.

City privilege taxes, county excise taxes, and Native American tribal taxes may also be deducted. A.R.S. § 42-5002 states, in pertinent part, that:

[f]or the purpose of this article the total amount of gross income, gross receipts or gross proceeds of sales shall be deemed to be the amount received, exclusive of ... [t]he taxes imposed by this chapter and chapter 6, article 3 of this title [county excise taxes], sales or transaction privilege taxes imposed by municipalities in this state and sales or transaction privilege taxes imposed in this state by Indian tribes, if the Indian tribal tax is imposed with respect to sales by non-Indian or nonaffiliated Indian vendors to nonmembers of the tribe. A person who imposes an added charge to cover the tax levied by this article or which is identified as being imposed to cover transaction privilege tax shall not remit less than the amount so collected to the department.

Factoring tax:

Arizona Administrative Code (A.A.C.) rules R15-5-2210 Collection of Tax by the Vendor and R15-5-2210.01 Factoring, provide guidance on separately charging the transaction privilege tax versus factoring this tax. These rules are available on the Internet at: http://www.azsos.gov/public_services/Title_15/15-05.htm

Arizona Transaction Privilege Tax Procedure TPP 00-1 *Procedure for Factoring Transaction Privilege Tax and Related Taxes for Retailers and other Non Prime Contractors*, is available on the Department's website at:

<http://www.azdor.gov/ResearchStats/proc/tpp00-1.htm>

TPP 00-2 *Procedure for Factoring Transaction Privilege Tax and Related Taxes for Prime Contractors*, is available at:

<http://www.azdor.gov/ResearchStats/proc/tpp00-2.htm>

Arizona use tax may not be factored.

CODE 999 OTHER STATE deductions
(use when specific deduction is not listed below)

The specific deductions and assigned code numbers contained in this listing, represent the more often used statutory deductions or exemptions contained in the 16 taxable business classifications in the Arizona Revised Statutes. For Arizona transaction privilege tax and Arizona use tax deductions or exemptions that are not described by the other specific codes in this listing, Code 999 is used to deduct the exempt income. Other statutory deductions and exemptions may be found in the following transaction privilege tax business classification statutes and in the use tax exemption statute:

A.R.S. § 42-5061 Retail classification:

<http://www.azleg.state.az.us/FormatDocument.asp?inDoc=/ars/42/05061.htm&Title=42&DocType=ARS>

A.R.S. § 42-5062 Transporting classification:

<http://www.azleg.state.az.us/FormatDocument.asp?inDoc=/ars/42/05062.htm&Title=42&DocType=ARS>

A.R.S. § 42-5063 Utilities classification:

<http://www.azleg.state.az.us/FormatDocument.asp?inDoc=/ars/42/05063.htm&Title=42&DocType=ARS>

A.R.S. § 42-5064 Telecommunications classification:

<http://www.azleg.state.az.us/FormatDocument.asp?inDoc=/ars/42/05064.htm&Title=42&DocType=ARS>

A.R.S. § 42-5065 Publication classification:

<http://www.azleg.state.az.us/FormatDocument.asp?inDoc=/ars/42/05065.htm&Title=42&DocType=ARS>

A.R.S. § 42-5066 Job Printing classification:

<http://www.azleg.state.az.us/FormatDocument.asp?inDoc=/ars/42/05066.htm&Title=42&DocType=ARS>

A.R.S. § 42-5067 Pipeline classification:

<http://www.azleg.state.az.us/FormatDocument.asp?inDoc=/ars/42/05067.htm&Title=42&DocType=ARS>

A.R.S. § 42-5068 Private Car Line classification:

<http://www.azleg.state.az.us/FormatDocument.asp?inDoc=/ars/42/05068.htm&Title=42&DocType=ARS>

A.R.S. § 42-5069 Commercial Lease classification:

<http://www.azleg.state.az.us/FormatDocument.asp?inDoc=/ars/42/05069.htm&Title=42&DocType=ARS>

A.R.S. § 42-5070 Transient Lodging classification:

<http://www.azleg.state.az.us/FormatDocument.asp?inDoc=/ars/42/05070.htm&Title=42&DocType=ARS>

A.R.S. § 42-5071 Personal Property Rental classification:

<http://www.azleg.state.az.us/FormatDocument.asp?inDoc=/ars/42/05071.htm&Title=42&DocType=ARS>

A.R.S. § 42-5072 Mining classification:

<http://www.azleg.state.az.us/FormatDocument.asp?inDoc=/ars/42/05072.htm&Title=42&DocType=ARS>

A.R.S. § 42-5073 Amusement classification:

<http://www.azleg.state.az.us/FormatDocument.asp?inDoc=/ars/42/05073.htm&Title=42&DocType=ARS>

A.R.S. § 42-5074 Restaurant classification:

<http://www.azleg.state.az.us/FormatDocument.asp?inDoc=/ars/42/05074.htm&Title=42&DocType=ARS>

A.R.S. § 42-5075 Prime Contracting classification:

<http://www.azleg.state.az.us/FormatDocument.asp?inDoc=/ars/42/05075.htm&Title=42&DocType=ARS>

A.R.S. § 42-5076 Owner Builder Sales classification:

<http://www.azleg.state.az.us/FormatDocument.asp?inDoc=/ars/42/05076.htm&Title=42&DocType=ARS>

A.R.S. § 42-5159 Use Tax Exemptions:

<http://www.azleg.state.az.us/FormatDocument.asp?inDoc=/ars/42/05159.htm&Title=42&DocType=ARS>

CODE 888 OTHER CITY deductions

(use when specific deduction is not listed below)

The specific deductions contained in this TPT-1 Deduction Code listing are state statutory deductions or exemptions contained in the Arizona Revised Statutes. However, many of the deductions are similar to, or are the same as city privilege tax exemptions that are found in the **Model City Tax Code**. For those "program" cities whose city privilege and use taxes are administered and collected by the Arizona Department of Revenue and are reported on Form TPT-1, the codes contained in this listing may be used if the city privilege tax exemption is the same as the state's exemption. For city privilege tax exemptions that are not described by this listing, **Code 888** is used to deduct the exempt income. The complete general text of the Model City Tax Code in which specific exemptions from city privilege taxes may be found, is available on the internet at:

<http://www.modelcitytaxcode.org/>

DEDUCTIONS FOR SELLERS:

(Purchasers are not allowed to claim TPT deductions.)

CODE 508 AIRCRAFT, navigational and communication instruments sold to commercial airlines or foreign governments

A.R.S. § 42-5061(B)(7) provides a transaction privilege tax deduction under the retail classification (Class 017) for the sale of:

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

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

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

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

A.R.S. § 42-5159(B)(7) provides a similar (but not identical) exemption from Arizona use tax.

CODE 558 BAD DEBT deduction

Arizona Administrative Code (A.A.C.) rule R15-5-2011 addresses a deduction for a bad debt:

R15-5-2011. Bad Debts

A. The deduction of a bad debt shall be allowed from gross receipts if the following conditions apply:

1. The gross receipts from the transaction on which the bad debt deduction is being taken have been reported as taxable;
2. The debt arose from a debtor-creditor relationship based upon a valid and enforceable obligation to pay a fixed or determinable sum of money; and
3. All or part of the debt is worthless.

B. A debt shall be considered worthless if:

1. The surrounding circumstances indicate that the debt is uncollectible; and
2. Legal action to enforce payment has not or, in all probability, would not result in the satisfaction of the debt.

C. The bad debt deduction shall be computed by subtracting the amounts received on the debt from the amount originally reported as taxable. The portion of the amounts received on the debt representing carrying charges, interest, and repossession expenses, which have not been reported as taxable, shall not be allowed as a bad debt deduction.

D. A bad debt deduction shall be taken in the month in which the conditions of subsection (A) apply.

E. A bad debt deduction shall be allowed, pursuant to the provisions in this rule, on conditional or installment sales if:

1. The tax liability is paid on the full sales price of the tangible personal property at the time of the sale; or
2. A contract or other financial obligation is sold to a third party as a sale with recourse and principal payments are made by the vendor to the third party, pursuant to the default of the original payor. Such principal payments may be taken as a bad debt deduction if the tax was paid by the vendor on the original sale of the tangible personal property or on the subsequent sale of the financing contract.
3. For purposes of the bad debt deduction in situations of default on conditional or installment sales, a "sale with recourse" means that a vendor sells a contract or other financial obligation to a third party but retains liability for payment upon default of the original payor.

F. Any recovery of a bad debt subsequent to a bad debt deduction shall be reported as taxable gross receipts when received.

CODE 510 **CHEMICALS: SALES of chemicals used in certain businesses. See A.R.S. § 42-5061(A)(39)**

A.R.S. § 42-5061(A)(39) provides a transaction privilege tax deduction under the retail classification (Class 017) for a retailer's:

Sales of liquid, solid or gaseous chemicals used in manufacturing, processing, fabricating, mining, refining, metallurgical operations, research and development and, beginning on January 1, 1999, printing, if using or consuming the chemicals, alone or as part of an integrated system of chemicals, involves direct contact with the materials from which the product is produced for the purpose of causing or permitting a chemical or physical change to occur in the materials as part of the production process. This paragraph does not include chemicals that are used or consumed in activities such as packaging, storage or transportation but does not affect

any deduction for such chemicals that is otherwise provided by this section. For the purposes of this paragraph, "printing" means a commercial printing operation and includes job printing, engraving, embossing, copying and bookbinding.

A.R.S. § 42-5159(A)(35) provides an identical exemption from the Arizona use tax.

CODE 512 FOOD and beverage sold to a commercial airline

A.R.S. § 42-5061(A)(49) provides a transaction privilege tax deduction under the retail classification (Class 017) for a retailer's sale of:

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

A.R.S. § 42-5074(C) provides a virtually identical transaction privilege tax deduction under the restaurant classification (Class 011).

A.R.S. § 42-5159(A)(43) provides a virtually identical exemption from the Arizona use tax.

CODE 506 FOOD for home consumption sold by a qualified retailer

Qualified retailers are described in A.R.S. § 42-5102 *Tax Exemption for Sales of Food*, which is available on the internet at:

<http://www.azleg.state.az.us/FormatDocument.asp?inDoc=/ars/42/05102.htm&Title=42&DocType=ARS>

Tax exempt food sold by a qualified retailer is addressed in detail in A.A.C. rule R15-5-1860, which is available on the internet at:

http://www.azsos.gov/public_services/Title_15/15-05.htm#Article_18_1

The taxable category of "food for consumption on the premises" is also addressed in this rule.

CODE 513 FOOD purchased with food stamps from a qualified retailer

Qualified retailers are described in A.R.S. § 42-5102 *Tax Exemption for Sales of Food*, which is available on the internet at:

<http://www.azleg.state.az.us/FormatDocument.asp?inDoc=/ars/42/05102.htm&Title=42&DocType=ARS>

A.R.S. § 42-5061(A)(16) provides a transaction privilege tax deduction under the retail classification (Class 017) for:

Items purchased with United States department of agriculture food stamp coupons issued under the food stamp act of 1977 (P.L. 95-113; 91 Stat. 958) or food instruments issued under section 17 of the child nutrition act

(P.L. 95-627; 92 Stat. 3603; P.L. 99-661, section 4302; 42 United States Code section 1786).

A.R.S. § 42-5159(A)(23) provides an identical exemption from the Arizona use tax.

CODE 514 **FOOD items sold to a prison, jail or other institution under control of DOC, DPS, or Sheriff's Office**

A.R.S. § 42-5061(A)(41) provides a transaction privilege tax deduction under the retail classification (Class 017) for:

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

A.R.S. § 42-5074(B)(9) provides an identical transaction privilege tax deduction under the restaurant classification (Class 011).

A.R.S. § 42-5159(A)(36) provides a virtually identical exemption from the Arizona use tax.

CODE 562 **FOOD sales to a school district or charter school by a RESTAURANT**

A.R.S. § 42-5074(B)(11) provides a transaction privilege tax deduction under the restaurant classification (Class 011) for:

Sales of articles of prepared or unprepared food, drink or condiment and accessory tangible personal property to a school district or charter school if the articles and accessory tangible personal property are served to persons for consumption on the premises of a public school in the school district or charter school during school hours.

CODE 515 **FUEL: A retailer's SALES of vehicle fuel and aviation fuel – See A.R.S. § 42-5061(A)(22)**

A.R.S. § 42-5061(A)(22) provides a transaction privilege tax deduction under the retail classification (Class 017) for:

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

[The jet fuel excise tax is reported under Classes 49 and 56. The jet fuel use tax is reported under Class 51.]

A.R.S. § 42-5071(B)(2), in pertinent part, provides a **transaction privilege tax** deduction under the **personal property rental** classification (Class 014) for income derived from:

Motor vehicle fuel and use fuel that are subject to a tax imposed under title 28, chapter 16, article 1, sales of use fuel to a holder of a valid single trip use fuel tax permit issued under section 28-5739 and sales of aviation fuel that are subject to the tax imposed under section 28-8344.

A.R.S. § 42-5159(A)(5) provides a comparable exemption from the **Arizona use tax**.

CODE 509 FUEL: SALES of alternative fuels used to propel a motor vehicle

A.R.S. § 42-5061(A)(36) provides a **transaction privilege tax** deduction under the **retail** classification (Class 017) for "[s]ales of natural gas or liquefied petroleum gas used to propel a motor vehicle." A.R.S. § 42-5159(A)(33) provides an identical exemption from the **Arizona use tax**.

CODE 511 FUEL sources sold to a qualified environmental technology manufacturer, producer or processor

A.R.S. § 42-5061(A)(38) provides a **transaction privilege tax** deduction under the **retail** classification (Class 017) for sales of:

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

A.R.S. § 42-5159(A)(31) provides an identical exemption from the **Arizona use tax**.

CODE 563 FUEL: Liquefied Natural Gas used to fuel Compressor Equipment – USE TAX exemption

A.R.S. § 42-5159(A)(45) provides an **Arizona use tax** exemption for:

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

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

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

CODE 517 **INTERNET ACCESS: SALES of Internet access by a TELECOMMUNICATIONS business**

A.R.S. § 42-5064 Telecommunications classification, states in pertinent part:

The telecommunications classification is comprised of the business of providing intrastate telecommunications services. The telecommunications classification does not include ... [s]ales of internet access services to the person's subscribers and customers.

...

CODE 504 **INTERSTATE COMMERCE: Sales made in interstate commerce**

A.R.S. § 42-5061(A)(24) provides a **transaction privilege tax** deduction under the **retail** classification (**Class 017**) for sales of:

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

A.A.C. rule R15-5-170 addresses a **transaction privilege tax** deduction under the **retail** classification (**Class 017**) for sales of tangible personal property made in interstate (or foreign) commerce:

A.A.C. rule R15-5-170. Interstate and Foreign Transactions

A. Gross receipts from sales of tangible personal property made in interstate or foreign commerce are deductible from the tax base if all of the following apply:

1. The order is received from a location outside of Arizona; and
2. The retailer ships or delivers the tangible personal property to a location outside of Arizona for use outside of Arizona.

B. In meeting the above requirements, if delivery is made by the retailer to a common carrier for transportation to a location outside Arizona, the common carrier is deemed to be the agent of the retailer for purposes of this rule regardless of who is responsible for payment of the freight charges.

C. Suitable records shall be kept to substantiate the deduction for a sale made in interstate commerce. As such, records shall identify the tangible personal property sold and the delivery destination. The following records may be sufficient to substantiate the exemption:

1. Suitable records for substantiating the receipt of an order from out-of-state may include purchase orders, letters, or written memoranda on the receipt of orders placed by telephone.
2. Suitable records for substantiating out-of-state shipments include:
 - a. Internal delivery orders supported by receipts of expenses incurred in delivering the property and signed on the delivery date by the person who delivers the property;
 - b. Common carrier's receipt or bill of lading;
 - c. Parcel post receipt;
 - d. Export declaration;
 - e. Receipt from a licensed broker; or
 - f. Proof of export or import signed by a customs officer.

CODE 561 **JOB PRINTING: Actual Postage or Freight Expenses Invoiced by Printer**

A.R.S. § 42-5066(B)(4) provides a **transaction privilege tax** deduction under the **job printing** classification (Class 010) for income derived from:

Sales of postage and freight except that the amount deducted shall not exceed the actual postage and freight expense that is paid to the United States postal service or a commercial delivery service and that is separately itemized by the taxpayer on the customer's invoice and in the taxpayer's records.

Arizona Administrative Code (A.A.C.) rule R15-5-1102 *Printer's Sale of Printing*, provides clarification about this deduction in subsection (F):

Pursuant to A.R.S. § 42-5066(B)(4), a printer may deduct its gross income or gross proceeds derived from charges from postage and freight if the printer separately states the charges on a customer's invoice and in the printer's records, except that the amount deducted shall not exceed the amount paid by the printer to the United States Postal Service or a commercial delivery service. A printer may not deduct its gross income or gross proceeds derived from charges for delivery of the printing using the printer's own conveyance.

CODE 519 **LIBRARY MATERIALS sold to publicly funded libraries for public use**

A.R.S. § 42-5061(A)(48) provides a **transaction privilege tax** deduction under the **retail** classification (Class 017) for:

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

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

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

A.R.S. § 42-5159(A)(12) provides an identical exemption from the Arizona use tax.

Arizona Transaction Privilege Tax Ruling TPR 03-5 explains this exemption in detail, and is available on the Department's website at:

<http://www.azdor.gov/ResearchStats/rulings/tpr03-5.htm>

CODE 520 LIVESTOCK AND POULTRY: Sales of feed, salts, vitamins, and other additives to business

A.R.S. § 42-5061(A)(43) provides a transaction privilege tax deduction under the retail classification (Class 017) for sales of:

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

A.R.S. § 42-5159(A)(8) provides an identical exemption from the Arizona use tax.

CODE 516 LIVESTOCK AND POULTRY: Sales of growth promotant implants / injectable meds to business

A.R.S. § 42-5061(A)(44) provides a transaction privilege tax deduction under the retail classification (Class 017) for:

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

A.R.S. § 42-5159(A)(7) provides an identical exemption from the Arizona use tax.

CODE 521 LOTTERY TICKETS: A retailer's SALES of lottery tickets

A.R.S. § 42-5061(A)(20) provides a transaction privilege tax deduction under the retail classification (Class 017) for a retailer's sales of lottery tickets as authorized by the Arizona State Lottery Commission.

MACHINERY AND EQUIPMENT (M & E) – SALES OF:

CODE 522 M&E used directly in manufacturing, processing, fabricating, printing, refining, or metallurgical operations

A.R.S. § 42-5061(B)(1) provides a transaction privilege tax deduction under the retail classification (Class 017) for sales of:

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

A.R.S. § 42-5071(B)(2), in pertinent part, provides a **transaction privilege tax** deduction under the **personal property rental** classification (Class 014) for income derived from a lease or rental of equipment that would qualify for the above exemption under the retail classification, if the equipment had been purchased.

A.R.S. § 42-5159(B)(1) provides an exemption from the **Arizona use tax** that is identical to the transaction privilege tax exemption under the retail classification [A.R.S. § 42-5061(B)(1) above].

Arizona Administrative Code (A.A.C.) rule R15-5-120 addresses some of the equipment that qualifies for exemption under A.R.S. § 42-5061(B)(1):

A.A.C. rule R15-5-120. Exempt Sales of Machinery or Equipment

A. Machinery or equipment used in manufacturing or processing includes machinery or equipment that constitutes the entire primary manufacturing or processing operation from the initial stage where actual processing begins through the completion of the finished end product, processing, finishing, or packaging of articles of commerce. Manufacturing is the performance as a business of an integrated series of operations which place tangible personal property in a form, composition, or character different from that in which it was acquired and transforms it into a different product with a distinctive name, character, or use.

B. Gross receipts from the sale of repair or replacement parts for exempt machinery or equipment are not subject to the tax under the retail classification. Repair or replacement parts are defined as those individual component and constituent items which, together, comprise exempt machinery or equipment.

C. In establishing the exempt sale of machinery or equipment, the seller shall keep adequate documentation, pursuant to statutory requirements and as delineated in R15-5-2214, for the statutorily required period of time

A.R.S. § 42-5075(B)(9) provides a **transaction privilege tax** deduction under the **prime contracting** classification (Class 15) for the prime contractor's cost of exempt machinery, equipment, or other tangible personal property that qualifies for the above retail classification exemption under A.R.S. § 42-5061(B), when the purchase of the exempt machinery, equipment, or other tangible personal property is a part of the prime contracting contract. **Arizona Transaction Privilege Tax Ruling TPR 00-2** explains this prime contracting deduction in detail, and is available on the Department's website at:

<http://www.azdor.gov/ResearchStats/rulings/tpr00-2.htm>

CODE 523 M&E used directly in mining operations

A.R.S. § 42-5061(B)(2) provides a **transaction privilege tax** deduction under the **retail classification (Class 017)** for sales of:

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

A.R.S. § 42-5071(B)(2), in pertinent part, provides a **transaction privilege tax** deduction under the **personal property rental classification (Class 014)** for income derived from a lease or rental of equipment that would qualify for the above exemption under the retail classification, if the equipment had been purchased.

A.R.S. § 42-5159(B)(2) provides an exemption from the **Arizona use tax** that is identical to the transaction privilege tax exemption under the retail classification [A.R.S. § 42-5061(B)(2) above].

A.R.S. § 42-5075(B)(9) provides a **transaction privilege tax** deduction under the **prime contracting classification (Class 15)** for the prime contractor's cost of exempt machinery, equipment, or other tangible personal property that qualifies for the above retail classification exemption under A.R.S. § 42-5061(B), when the purchase of the exempt machinery, equipment, or other tangible personal property is a part of the prime contracting contract. Arizona Transaction Privilege Tax Ruling TPR 00-2 explains this prime contracting deduction in detail, and is available on the Department's website at:

<http://www.azdor.gov/ResearchStats/rulings/tpr00-2.htm>

CODE 524 M&E or transmission lines used directly in producing or transmitting electrical power

A.R.S. § 42-5061(B)(4) provides a **transaction privilege tax** deduction under the **retail classification (Class 017)** for sales of:

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

Arizona Administrative Code (A.A.C.) rule R15-5-128 *Electric Power Transmission and Distribution*, provides additional information about the equipment that qualifies for this exemption. This rule is accessible on the internet at:

http://www.azsos.gov/public_services/Title_15/15-05.htm#Article_1

A.R.S. § 42-5071(B)(2), in pertinent part, provides a **transaction privilege tax** deduction under the **personal property rental classification (Class 014)** for income derived from a lease or rental of equipment that would qualify for the above exemption under the retail classification, if the equipment had been purchased.

A.R.S. § 42-5159(B)(4) provides an exemption from the **Arizona use tax** that is identical to the transaction privilege tax exemption under the retail classification [A.R.S. § 42-5061(B)(4)above].

A.R.S. § 42-5075(B)(9) provides a **transaction privilege tax deduction** under the **prime contracting classification (Class 15)** for the prime contractor's cost of exempt machinery, equipment, or other tangible personal property that qualifies for the above retail classification exemption under A.R.S. § 42-5061(B), when the purchase of the exempt machinery, equipment, or other tangible personal property is a part of the prime contracting contract. **Arizona Transaction Privilege Tax Ruling TPR 00-2** explains this prime contracting deduction in detail, and is available on the Department's website at:

<http://www.azdor.gov/ResearchStats/rulings/tpr00-2.htm>

CODE 525 M&E, technology, or related supplies sold to qualified persons (See A.R.S. § 42-5061 exemptions)

A.R.S. § 42-5061(A)(34) provides a **transaction privilege tax deduction** under the **retail classification (Class 017)** for sales of:

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

A.R.S. § 42-5159(A)(34) provides an exemption from the **Arizona use tax** that is identical to the transaction privilege tax exemption under the retail classification [A.R.S. § 42-5061(A)(34)above].

Arizona Transaction Privilege Tax Ruling TPR 93-43 explains this exemption in detail, and is available on the Department's website at:

<http://www.azdor.gov/ResearchStats/rulings/tpr93-43.htm>

CODE 553 M&E used in research and development

A.R.S. § 42-5061(B)(14) provides a **transaction privilege tax deduction** under the **retail classification (Class 017)** for sales of:

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

A.R.S. § 42-5071(B)(2), in pertinent part, provides a **transaction privilege tax** deduction under the **personal property rental** classification (**Class 014**) for income derived from a lease or rental of equipment that would qualify for the above exemption under the retail classification, if the equipment had been purchased.

A.R.S. § 42-5159(B)(14) provides an exemption from the **Arizona use tax** that is identical to the transaction privilege tax exemption under the retail classification [A.R.S. § 42-5061(B)(14)above].

A.R.S. § 42-5075(B)(9) provides a **transaction privilege tax** deduction under the **prime contracting** classification (**Class 15**) for the prime contractor's cost of exempt machinery, equipment, or other tangible personal property that qualifies for the above retail classification exemption under A.R.S. § 42-5061(B), when the purchase of the exempt machinery, equipment, or other tangible personal property is a part of the prime contracting contract. **Arizona Transaction Privilege Tax Ruling TPR 00-2** explains this prime contracting deduction in detail, and is available on the Department's website at:

<http://www.azdor.gov/ResearchStats/rulings/tpr00-2.htm>

CODE 554 M&E, qualifying equipment sold or rented to a "HEALTHY FOREST" certified business

A.R.S. § 42-5061(B)(22) provides a **transaction privilege tax** deduction under the **retail** classification (*Class 017*) for sales of:

Qualifying equipment that is purchased from and after June 30, 2004 through June 30, 2014 by a qualified business under section 41-1516 for harvesting or the initial processing of qualifying forest products removed from qualifying projects as defined in section 41-1516. To qualify for this deduction, the qualified business at the time of purchase must present its certification approved by the department.

A.R.S. § 42-5071(B)(2)(b)(ii), in pertinent part, provides a **transaction privilege tax** deduction under the **personal property rental** classification (**Class 014**) for income derived from a lease or rental of equipment that would qualify for the above exemption under the retail classification if the equipment had been purchased, if the lease is for less than five years.

A.R.S. § 42-5159(B)(22) provides an exemption from the **Arizona use tax** that is virtually identical to the transaction privilege tax exemption under the retail classification [A.R.S. § 42-5061(B)(22)above].

A.R.S. § 42-5075(B)(9) provides a **transaction privilege tax** deduction under the **prime contracting** classification (**Class 15**) for the prime contractor's cost of exempt machinery, equipment, or other tangible personal property that qualifies for the above retail classification exemption under A.R.S. § 42-5061(B), when the purchase of the exempt machinery, equipment, or other tangible personal property is a part of the prime contracting contract. **Arizona Transaction Privilege Tax Ruling TPR 00-2** explains this prime contracting deduction in detail, and is available on the Department's website at:

<http://www.azdor.gov/ResearchStats/rulings/tpr00-2.htm>

CODE 526 MEDICAL EQUIPMENT, including eyeglasses, hearing aids, DME, prosthetic appliances

A.R.S. § 42-5061(A)(9), (10), (11), (12), and (13) respectively provide transaction privilege tax deductions under the retail classification (Class 017) for a retailer's sales of:

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

(A)(10) Insulin, insulin syringes and glucose test strips.

(A)(11) Prescription eyeglasses or contact lenses.

(A)(12) Hearing aids as defined in section 36-1901.

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

A.R.S. § 42-5071(B)(2)(a), in pertinent part, provides transaction privilege tax deductions under the personal property rental classification (Class 014) for income derived from a lease or rental of the items that can be leased, if the items could be purchased exempt from tax under A.R.S. § 42-5061(A)(9), (12), and (13).

A.R.S. § 42-5159(A)(17), (19), (18), and (20) respectively provide exemptions from the Arizona use tax that correspond to the above transaction privilege tax exemptions under the retail classification [A.R.S. § 42-5061(A)].

Arizona Administrative Code (A.A.C.) rule R15-5-156, in pertinent part, addresses the items and equipment that qualifies for exemption under A.R.S. § 42-5061(A)(9), (10), (11), (12), and (13):

A.A.C. rule R15-5-156. Sales of Prescription Drugs and Prosthetic Appliances

A. In this Section:

...

4. "Hearing aid" means any wearable device designed as a remedy or to compensate for defective human hearing, including parts, attachments, accessories, and earmolds.

...

11. "Prescription eyeglasses" includes frames and other component parts of eyeglasses if purchased for use with prescription lenses.

12. "Prosthetic appliance" means an artificial device that fully or partially replaces a part or function of the human body or increases the acuity of a sense organ.

B. Gross receipts from sales of the following kinds of tangible personal property are not subject to tax:

...

3. Insulin, insulin syringes, and glucose strips, whether or not prescribed;

4. Prosthetic appliances, prescribed or recommended by a statutorily-authorized individual;

5. Durable medical equipment, pursuant to A.R.S. § 42-5061(A)(13);

6. Prescription eyeglasses and contact lenses; and

7. Hearing aids. Batteries and cords are subject to tax.

C. Gross receipts from the sale of component and repair parts for any tangible personal property that is exempt under either subsection (B) or (F) are not subject to tax.

D. If a written prescription or recommendation is required to purchase tangible personal property, a vendor of the property shall maintain the prescription or recommendation as part of the vendor's records. The vendor's records for documenting sales shall provide reasonable detail to allow the Department, upon inspection, to identify property as exempt.

E. Gross receipts from the sale to the final consumer of nonprescription products and those medical supplies or appliances not provided for under subsection (B) are subject to tax.

F. Gross receipts from the sale of nonprescription products or other medical supplies or appliances to doctors, dentists, or veterinarians are subject to tax unless the sale qualifies as a sale for resale and the doctor, dentist, or veterinarian is a retailer in the business of reselling the property.

Additionally, **Arizona Transaction Privilege Tax Procedure TPP 93-1** addresses the exemptions for durable medical equipment provided by A.R.S. § 42-5061(A)(13) and A.R.S. § 42-5159(A)(21), and is available on the Department's website at:

<http://www.azdor.gov/ResearchStats/proc/tpp93-1.htm>

CODE 527 MEMBERSHIPS (Class 12 only): Health, fitness or private recreational establishments; Monthly or longer

A.R.S. § 42-5073(B)(1) provides a transaction privilege tax deduction under the amusement classification (Class 012) for membership fees for “health or fitness establishments” or “private recreational establishments,” as these terms are defined within the statute (which is available on the internet at:

<http://www.azleg.state.az.us/FormatDocument.asp?inDoc=/ars/42/05073.htm&Title=42&DocType=ARS>).

The deduction applies to:

The gross proceeds of sales or gross income derived from memberships, including initiation fees, which provide for the right to use a health or fitness establishment or a private recreational establishment, or any portion of an establishment, including tennis and other racquet courts at that establishment, for participatory purposes for twenty-eight days or more and fees charged for use of the health or fitness establishment or private recreational establishment by bona fide accompanied guests of members, except that this paragraph does not include additional fees, other than initiation fees, charged by a health or fitness establishment or a private recreational establishment for purposes other than memberships which provide for the right to use a health or fitness establishment or private recreational establishment, or any portion of an establishment, for participatory purposes for twenty-eight days or more and accompanied guest use fees.

Arizona Administrative Code (A.A.C.) rule R15-5-406 provides additional clarification about health or fitness establishments or private recreational establishments for purposes of this exemption, and is available at:

http://www.azsos.gov/public_services/Title_15/15-05.htm#Article_4

CODE 559 MOTION PICTURE PRODUCTION COMPANY exemptions (deductions)

Arizona Transaction Privilege Tax:

A.R.S. § 42-5061(B)(23) provides a transaction privilege tax deduction under the retail classification (Class 017) for a retailer’s sales of:

Machinery, equipment and other tangible personal property used directly in motion picture production by a motion picture production company. To qualify for this deduction, at the time of purchase, the motion picture production company must present to the retailer its certificate that is issued pursuant to section 42-5009, subsection H and that establishes its qualification for the deduction.

A.R.S. § 42-5071(B)(2)(b) provides a transaction privilege tax deduction under the personal property rental classification (Class 014) for income derived from a lease or rental of tangible personal property that would qualify for the above exemption under the retail classification [A.R.S. § 42-5061(B)(23)] if the tangible personal property had been purchased.

A.R.S. § 42-5066(B)(5) provides a **transaction privilege tax** deduction under the **job printing** classification (Class 010) for a job printing business's:

Sales to a motion picture production company that will use the job printing, engraving, embossing or copying directly in motion picture production. To qualify for this deduction, at the time of sale, the motion picture production company must present the job printer its certificate that is issued pursuant to section 42-5009, subsection H, and that establishes its qualifications for the deduction.

A.R.S. § 42-5070(C)(2) provides a **transaction privilege tax** deduction under the **transient lodging** classification (Class 025) for a transient lodging business's:

Gross proceeds of sales or gross income from leases or rentals of lodging space to a motion picture production company if, at the time of lease or rental, the motion picture production company presents to the business its certificate of qualification that is issued pursuant to section 42-5009, subsection H.

A.R.S. § 42-5074(B)(10) provides a **transaction privilege tax** deduction under the **restaurant** classification (Class 011) for a restaurant business's:

Sales of catered food, drink and condiment to a motion picture production company. To qualify for this deduction, at the time of purchase, the motion picture production company must present to the business its certificate of qualification that is issued pursuant to section 42-5009, subsection H and that establishes its qualification for the deduction.

A.R.S. § 42-5075(B)(20) provides a **transaction privilege tax** deduction under the **prime contracting** classification (Class 015) for:

The gross proceeds of sales or gross income received from a contract for the construction of any building or other structure associated with motion picture production in this state. To qualify for the deduction, at the time the contract is entered into the motion picture production company must present to the prime contractor its certificate that is issued pursuant to section 42-5009, subsection H and that establishes its qualification for the deduction.

Arizona Use Tax:

A.R.S. § 42-5159(B)(23) provides an **Arizona use tax** exemption for:

Machinery, equipment and other tangible personal property used directly in motion picture production by a motion picture production company. To qualify for this exemption, at the time of purchase, the motion picture production company must present to the retailer its certificate that is issued pursuant to section 42-5009, subsection H and that establishes its qualification for the exemption.

Motion Picture Production Company Certificate:

A.R.S. § 42-5009(H) addresses the certificate required for a motion picture production company to qualify for the above transaction privilege tax exemptions and use tax exemption:

From and after December 31, 2005 through December 31, 2010, the department shall prescribe a form for a certificate used to establish entitlement to the deductions described in section 42-5061, subsection B, paragraph 23, section 42-5070, subsection C, paragraph 2, section 42-5074, subsection B, paragraph 10, section 42-5075, subsection B, paragraph 20 and section 42-5159, subsection B, paragraph 23 relating to motion picture production. The certificate is effective for twelve consecutive calendar months from and after the date of issuance and is subject to the following requirements and conditions:

1. A motion picture production company as defined in section 41-1517 may use a certificate issued pursuant to this subsection only with respect to production costs described in section 41-1517, subsection A, paragraph 2 that are subject to taxation under article 2 or 4 of this chapter.
2. The department shall issue the certificate to a motion picture production company on receiving the company's letter of qualification from the department of commerce, except as otherwise provided in this subsection.
3. The department shall not issue a certificate to a motion picture production company that has a delinquent tax balance owing to the department under this title or title 43.
4. If the department determines that a motion picture production company no longer qualifies for a certificate of exemption or has used the certificate of exemption for unauthorized purposes, the department shall revoke the certificate of exemption and the motion picture production company is liable for an amount equal to the transaction privilege and use taxes that would have been due on taxable transactions during the time the company did not qualify for or improperly used the certificate, with interest and penalties as provided by law.
5. The department shall maintain annual data on the total amount of monies exempted through the use of certificates issued pursuant to this subsection and shall provide those data to the department of commerce on request.
6. The department of revenue, with the cooperation of the department of commerce, shall adopt rules and publish and prescribe forms and procedures as necessary to effectuate the purposes of this subsection.
7. If, after audit, the department determines that a motion picture production company failed to meet any of the requirements prescribed by this subsection, any deductions from taxation from the use of the

certificate are subject to recapture and payment by the motion picture production company to the department.

For a great deal of information about the *Motion Picture Production Tax Incentives Program*, please visit the Arizona Department of Commerce' website at: <http://www.azcommerce.com/Film/Incentives/>

MOTOR VEHICLE:

CODE 528 MOTOR VEHICLE and parts sold to a MOTOR CARRIER subject to the Title 28 motor carrier fee, who LEASES the vehicle

A.R.S. § 42-5061(A)(42) provides a transaction privilege tax deduction under the retail classification (Class 017) for sales of:

A motor vehicle and any repair and replacement parts and tangible personal property becoming a part of such motor vehicle sold to a motor carrier who is subject to a fee prescribed in title 28, chapter 16, article 4 [See A.R.S. §§ 28-5851 through 28-5867] and who is engaged in the business of leasing or renting such property.

A.R.S. § 42-5159(A)(37) provides an exemption from the Arizona use tax that is identical to the transaction privilege tax exemption under the retail classification [A.R.S. § 42-5061(A)(42)above].

Title 28 statutes are available on the internet at:
<http://www.azleg.state.az.us/ArizonaRevisedStatutes.asp?Title=28>

Arizona Transaction Privilege Tax Ruling TPR 03-2 references these exemptions, but primarily addresses related issues regarding the lease of vehicles. TPR 03-2 is available on the Department's website at:
<http://www.azdor.gov/ResearchStats/rulings/tpr03-2.htm>

CODE 529 MOTOR VEHICLE sold at auction to a nonresident if the seller delivers or ships out-of-state

A.R.S. § 42-5061(A)(45) provides a transaction privilege tax deduction under the retail classification (Class 017) for:

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

CODE 530 MOTOR VEHICLE sold to a qualifying Native American

A.R.S. § 42-5061(A)(28)(b) provides a transaction privilege tax deduction under the retail classification (Class 017) for "[t]he sale of a motor vehicle to ... an enrolled member of an Indian tribe who resides on the Indian reservation established for that tribe."

CODE 531 **MOTOR VEHICLE sold to a qualifying nonresident**
(See A.R.S. § 42-5061 exemptions)

There are **THREE** transaction privilege tax exemptions under the retail classification that *may* apply to the sale of a motor vehicle to nonresidents from certain states.

1) A.R.S. § 42-5061(A)(28)(a) provides a **transaction privilege tax deduction** under the **retail classification (Class 017)** for income derived from the sale of a motor vehicle to :

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

2) A.R.S. § 42-5061(U) provides a **transaction privilege tax deduction** under the **retail classification (Class 017)** for part or all of the sales proceeds derived from the sale of a motor vehicle to a nonresident from a state that imposes a lower state tax rate than Arizona's 5.6% state tax rate, as long as the nonresident's state provides a credit for state taxes paid in Arizona. A.R.S. § 42-5061(U) stipulates:

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

The section of the Department's website addressing the "Sale of a Motor Vehicle to a Nonresident" (<http://www.azdor.gov/TpT/Motorvehiclesale/mvtaxrate.htm>), provides tax rate schedules and listings of the states whose residents may qualify for the above two exemptions from tax, as well as the states whose residents do not qualify for exemption from Arizona tax. This section also provides worksheets that a motor vehicle seller may use to determine the correct amount of state and county tax that applies to sales to nonresidents from qualifying states.

3) Separate from the above two statutory deductions specifically addressing sales of motor vehicles to nonresidents, A.R.S. § 42-5061(A)(14) provides a **general transaction privilege tax deduction** under the **retail classification (Class 017)** for income derived from:

Sales to nonresidents of this state for use outside this state if the vendor ships or delivers the tangible personal property out of this state.

This general exemption may apply to the sale of a motor vehicle to a nonresident, if the motor vehicle is delivered by the seller to an out-of-state location. Arizona Form 5010 *Sale of Motor Vehicle to Nonresident for use Outside of State* (available on the Department's website at http://www.azdor.gov/ADOR_Forms/60-69/60-5385f.pdf), is used to document the motor vehicle retailer's out-of-state delivery to the nonresident purchaser.

CODE 501 MOTOR VEHICLE: Manufacturer's cash rebate assigned by purchaser to dealer

A.R.S. § 42-5061(M)(1) provides a transaction privilege tax deduction under the retail classification (Class 017) for the amount of a motor vehicle manufacturer's cash rebate that is assigned by the purchaser to the motor vehicle dealer. A.R.S. § 42-5061(M)(1) states that:

In computing the tax base, gross proceeds of sales or gross income does not include ... [a] manufacturer's cash rebate on the sales price of a motor vehicle if the buyer assigns the buyer's right in the rebate to the retailer.

CODE 556 MOTOR VEHICLE LEASE: First month's lease payment transferred to 3rd party leasing company

A.R.S. § 42-5071(B)(5) provides a transaction privilege tax deduction under the personal property rental classification (Class 014) for:

Amounts received by a motor vehicle dealer for the first month of a lease payment if the lease and the lease payment for the first month of the lease are transferred to a third party leasing company.

CODE 534 PERSONAL HYGIENE ITEMS and FOOD, DRINK or CONDIMENTS sold to a transient lodging business

A.R.S. § 42-5061(A)(46) provides a transaction privilege tax deduction under the retail classification (Class 017) for sales of:

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

A.R.S. § 42-5159(A)(13)(k) provides an exemption from the Arizona use tax that is virtually identical to the transaction privilege tax exemption under the retail classification [A.R.S. § 42-5061(A)(46)above].

Arizona Transaction Privilege Tax Ruling TPR 95-18 addresses the issue of "[w]hich items of tangible personal property purchased by a person engaged in business and subject to the transaction privilege tax under the transient lodging

classification, qualify as nontaxable "personal hygiene items"? TPR 95-18 is available on the Department's website at:

<http://www.azdor.gov/ResearchStats/rulings/tpr95-18.htm>

Arizona Transaction Privilege Tax Ruling TPR 02-1 addresses taxability issues associated with *"Complimentary food and drink provided by restaurants or lodging facilities."* TPR 02-1 is available on the Department's website at:

<http://www.azdor.gov/ResearchStats/rulings/tpr02-1.htm>

CODE 535 PIPES OR VALVES, 4" diameter or larger used to transport oil, natural/artificial gas, water, coal slurry

A.R.S. § 42-5061(B)(6) provides a transaction privilege tax deduction under the retail classification (Class 017) for sales of:

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

A.R.S. § 42-5071(B)(2), in pertinent part, provides a transaction privilege tax deduction under the **personal property rental classification (Class 014)** for income derived from a lease or rental of equipment that would qualify for the above exemption under the retail classification, if the equipment had been purchased.

A.R.S. § 42-5159(B)(6) provides an exemption from the **Arizona use tax** that is identical to the transaction privilege tax exemption under the retail classification [A.R.S. § 42-5061(B)(6) above].

Arizona Transaction Privilege Tax Ruling TPR 02-2 addresses issues regarding the four inch pipe exemption; this ruling is available on the Department's website at:

<http://www.azdor.gov/ResearchStats/rulings/tpr02-2.htm>

A.R.S. § 42-5075(B)(9) provides a transaction privilege tax deduction under the **prime contracting classification (Class 15)** for the prime contractor's cost of exempt machinery, equipment, or other tangible personal property that qualifies for the above retail classification exemption under A.R.S. § 42-5061(B), when the purchase of the exempt machinery, equipment, or other tangible personal property is a part of the prime contracting contract. Arizona Transaction Privilege Tax Ruling TPR 00-2 explains this prime contracting deduction in detail, and is available on the Department's website at:

<http://www.azdor.gov/ResearchStats/rulings/tpr00-2.htm>

CODE 536 PRESCRIPTION DRUGS or prescribed medical oxygen including equipment

A.R.S. § 42-5061(A)(8) provides a transaction privilege tax deduction under the retail classification (Class 017) for a retailer's sales of:

Drugs and medical oxygen, including delivery hose, mask or tent, regulator and tank, on the prescription of a member of the medical,

dental or veterinarian profession who is licensed by law to administer such substances.

A.R.S. § 42-5071(B)(2)(a), in pertinent part, provides **transaction privilege tax** deductions under the **personal property rental** classification (Class 014) for income derived from a lease or rental of items that could be leased, if they could be purchased exempt from tax under A.R.S. § 42-5061(A)(8).

A.R.S. § 42-5159(A)(16) provides an exemption from the **Arizona use tax** that is identical to the transaction privilege tax exemption under the retail classification [A.R.S. § 42-5061(A)(8) above].

Arizona Administrative Code (A.A.C.) rule R15-5-156 addresses sales of prescription drugs and other items:

A.A.C. rule R15-5-156. Sales of Prescription Drugs and Prosthetic Appliances

A. In this Section:

1. "Drug" means an article that, according to federal or state law, is:
 - a. Recognized in the official United States Pharmacopeia, official Homeopathic Pharmacopeia of the United States, official National Formulary, or any supplement to these documents; or
 - b. Intended for use in the diagnosis, cure, mitigation, treatment, or prevention of disease in humans or animals; or
 - c. Not food and is intended to affect the structure or any function of the body of humans or animals; or
 - d. Intended for use as a component of any article specified in subsections (a), (b), or (c).
2. "Drug on a prescription" means prescription drug.
3. "Food" means an article used for food or drink for humans or animals, chewing gum, or an article used as a component of such an article.
4. "Hearing aid" means any wearable device designed as a remedy or to compensate for defective human hearing, including parts, attachments, accessories, and earmolds.
5. "Legend drug" means a drug that 21 U.S.C. 353(b)(4)(A) requires to bear the symbol "Rx only" before dispensing.
6. "Nonprescription product" means a drug or other article that can be purchased by the final consumer of the drug or article without a prescription, regardless of whether purchased on the advice or recommendation of a member of the medical, dental, or veterinarian profession. Examples include over-the-counter drugs and those dietary supplements, vitamins, minerals, herbs, and other similar supplements that do not qualify as prescription drugs.

7. "Over-the-counter drug" means a drug that is subject to federal labeling requirements in 21 CFR 201.66.
8. "Prescriber" means a member of the medical, dental, or veterinary profession authorized by federal or state law to prescribe a drug.
9. "Prescription" means an order for a drug issued in any form.
10. "Prescription drug" means a legend drug or a drug that, according to federal or state law, can be dispensed only:
 - a. Upon a written prescription of a prescriber for the drug;
 - b. Upon an oral prescription by the prescriber for the drug that federal or state law requires be reduced promptly to a form of writing by the prescriber and then filed by a pharmacist or the prescriber; or
 - c. By refilling a written or oral prescription if refilling is authorized by the prescriber for the drug either in the original prescription or by oral order that is reduced promptly to writing and then filed by a pharmacist or the prescriber.
11. "Prescription eyeglasses" includes frames and other component parts of eyeglasses if purchased for use with prescription lenses.
12. "Prosthetic appliance" means an artificial device that fully or partially replaces a part or function of the human body or increases the acuity of a sense organ.

B. Gross receipts from sales of the following kinds of tangible personal property are not subject to tax:

1. Prescription drugs, including those used in the course of treating patients;
2. Medical oxygen, pursuant to A.R.S. § 42-5061(A)(8);
3. Insulin, insulin syringes, and glucose strips, whether or not prescribed;
4. Prosthetic appliances, prescribed or recommended by a statutorily-authorized individual;
5. Durable medical equipment, pursuant to A.R.S. § 42-5061(A)(13);
6. Prescription eyeglasses and contact lenses; and
7. Hearing aids. Batteries and cords are subject to tax.

C. Gross receipts from the sale of component and repair parts for any tangible personal property that is exempt under either subsection (B) or (F) are not subject to tax.

D. If a written prescription or recommendation is required to purchase tangible personal property, a vendor of the property shall maintain the prescription

or recommendation as part of the vendor's records. The vendor's records for documenting sales shall provide reasonable detail to allow the Department, upon inspection, to identify property as exempt.

E. Gross receipts from the sale to the final consumer of nonprescription products and those medical supplies or appliances not provided for under subsection (B) are subject to tax.

F. Gross receipts from the sale of nonprescription products or other medical supplies or appliances to doctors, dentists, or veterinarians are subject to tax unless the sale qualifies as a sale for resale and the doctor, dentist, or veterinarian is a retailer in the business of reselling the property.

Additionally, **Arizona Transaction Privilege Tax Ruling TPR 93-47** addresses the issue of exempt sales of drugs and medical oxygen on prescription, which is available on the Department's website at:

<http://www.azdor.gov/ResearchStats/rulings/tpr93-47.htm>

PRIME CONTRACTING:

CODE 502 Prime Contracting: 35% REDUCTION **(= Gross Receipts - Statutory Deductions × 35%)**

A.R.S. § 42-5075(B) has the effect of providing for a 35% deduction from the gross income of a **prime contracting business (Class 15)**. The gross income from such a business includes all income derived from charges for labor and all other income.

A.R.S. § 42-5075(B) provides a listing of amounts that may be deducted from the gross income received by a prime contracting business. After taking any applicable deductions for these amounts, this subsection specifies that the transaction privilege tax base for the **prime contracting** classification is 65% percent of the remaining gross proceeds of sales or gross income derived from the business. Because of the stipulation that the tax base under the prime contracting is 65% of the gross income, this subsection therefore allows for a **35% deduction**. The complete text of this statute is available on the internet at:

<http://www.azleg.state.az.us/FormatDocument.asp?inDoc=/ars/42/05075.htm&Title=42&DocType=ARS>

CODE 518 Prime Contracting: Land deduction (fair market value)

A.R.S. § 42-5075(B)(1) provides a **transaction privilege tax** deduction from the gross income of a prime contracting business under the **prime contracting** classification (**Class 015**) for:

The sales price of land, which shall not exceed the fair market value.

CODE 550 Prime Contracting: Subcontracting Income

Under the prime contracting classification, A.R.S. § 42-5075(D) specifically addresses subcontractors. This subsection states:

Subcontractors or others who perform services in respect to any improvement, building, highway, road, railroad, excavation, manufactured building or other structure, project, development or improvement are not

subject to tax if they can demonstrate that the job was within the control of a prime contractor or contractors or a dealership of manufactured buildings and that the prime contractor or dealership is liable for the tax on the gross income, gross proceeds of sales or gross receipts attributable to the job and from which the subcontractors or others were paid.

Income derived by a contractor that qualifies as exempt subcontracting income pursuant to A.R.S. § 42-5075(D) above, may be taken as a **transaction privilege tax** deduction from the gross income of a prime contracting business under the **prime contracting** classification (Class 015).

Arizona Administrative Code (A.A.C.) rule R15-5-602, in pertinent part, addresses the taxability of subcontractors:

R15-5-602. General

A. The tax under this classification is imposed upon the gross income derived from the contracting activity.

...

C. Effective January 1, 1979, only prime contractors are liable for the tax imposed under this classification. This provision applies only to contracts entered into after December 31, 1978. For purposes of this rule, every person engaging in a contracting activity is considered to be a prime contractor unless it can be demonstrated to the satisfaction of the Department that he is not a prime contractor as determined by the definitions contained herein.

1. Subcontractors are exempt provided that such persons are not acting in the capacity of prime contractors. A subcontractor is considered to be a prime contractor, and therefore liable for the tax, if:

a. Work is performed for and payments are received from an owner-builder.

b. Work is performed for and payments are received from an owner or lessee of real property.

...

E. All persons engaging in the business of contracting are required to obtain a [transaction privilege tax] license and to file reports on a basis to be determined by the Department whether or not any tax is payable

CODE 555 Prime Contracting: Income derived from "HEALTHY FOREST" project by a qualified prime contractor

A.R.S. § 42-5075(B)(19) provides a **transaction privilege tax** deduction from the gross income of a prime contractor under the **prime contracting** classification (Class 015) for:

The gross proceeds of sales or gross income received from a contract for the construction of any building, or other structure, project, development

or improvement owned by a qualified business under section 41-1516 for harvesting or the initial processing of qualifying forest products removed from qualifying projects as defined in section 41-1516 if actual construction begins before January 1, 2010. To qualify for this deduction, the prime contractor must obtain a letter of qualification from the department of commerce before beginning work under the contract.

CODE 557 Prime Contracting: Income derived from DIRECT COSTS of providing ARCHITECTURAL / ENGINEERING services

A.R.S. § 42-5075(J) specifies that a transaction privilege tax deduction under the prime contracting classification (Class 015) may be taken for direct costs of providing architectural and engineering services that are a part of a prime contracting contract. A.R.S. § 42-5075(J) states:

The portion of gross proceeds of sales or gross income attributable to the actual direct costs of providing architectural or engineering services that are incorporated in a contract is not subject to tax under this section. For the purposes of this subsection, "direct costs" means the portion of the actual costs that are directly expended in providing architectural or engineering services.

Arizona Transaction Privilege Tax Ruling TPR 06-2 addresses and provides clarification for the exemption provided by A.R.S. § 42-5075(J). TPR 06-2 is available on the Department's website at:

<http://www.azdor.gov/ResearchStats/rulings/TPR06-2.pdf>

CODE 560 Prime Contracting: Development or Impact Fees Paid to State or Local Government

A.R.S. § 42-5075(B)(21) provides a transaction privilege tax deduction under the prime contracting classification (Class 015) for development or impact fees paid to a state or local government. (This deduction is taken from the gross proceeds of sales or gross income derived from the business, prior to the computation of the 65% tax base.) A.R.S. § 42-5075(B)(21) states that the deduction is for:

Any amount of the gross proceeds of sales or gross income from a contract that constitutes development or impact fees paid to the state or a local government to offset governmental costs of providing public infrastructure, public safety and other public services to a development.

CODE 537 SEEDS and other propagative material sold to COMMERCIAL AGRICULTURE businesses

A.R.S. § 42-5061(A)(33) provides a transaction privilege tax deduction under the retail classification (Class 017) for:

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

A.R.S. § 42-5159(A)(9) provides an exemption from the **Arizona use tax** that is identical to the transaction privilege tax exemption under the retail classification [A.R.S. § 42-5061(A)(33)above].

Arizona Transaction Privilege Tax Ruling TPR 93-12 addresses this specific exemption and is available on the Department's website at:

<http://www.azdor.gov/ResearchStats/rulings/tpr93-12.htm>

CODE 549 SERVICES provided in connection with RETAIL SALES

A.R.S. § 42-5061(A)(2) provides a **transaction privilege tax** deduction under the retail classification (Class 017) for income derived from "[s]ervices rendered in addition to selling tangible personal property at retail."

A.R.S. § 42-5061(G) stipulates recordkeeping requirements regarding retail transactions that include services:

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

Arizona Administrative Code (A.A.C.) rule R15-5-105 *Services in Connection with Retail Sales*, stipulates that "[g]ross receipts from services rendered in addition to selling tangible personal property at retail are subject to tax unless the charge for service is shown separately on the sales invoice and records."

Arizona Transaction Privilege Tax Ruling TPR 93-31 Exemption under the Retail Classification for Services rendered in addition to selling tangible personal property at retail, addresses the exemption provided by A.R.S. § 42-5061(A)(2), and is available on the Department's website at:

<http://www.azdor.gov/ResearchStats/rulings/tpr93-31.htm>

CODE 538 Code 538 SOLAR ENERGY DEVICES sold by a registered solar retailer or prime contractor

A.R.S. § 42-5061(N) provides a **transaction privilege tax** deduction under the retail classification (Class 017) for sales of solar energy devices by a solar energy retailer. A.R.S. § 42-5061(N) states:

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

Under the prime contracting classification, A.R.S. § 42-5075(B)(14) provides a **transaction privilege tax** deduction from the gross income of a **prime contracting** business under the **prime contracting** classification (Class 015) for a contract to provide and install a solar energy device. A.R.S. § 42-5075(B)(14) states:

For taxable periods beginning from and after December 31, 1996 and ending before January 1, 2011, the gross proceeds of sales or gross income derived from a contract to provide and install a solar energy device. The contractor shall register with the department as a solar energy contractor. By registering, the contractor acknowledges that it will make its books and records relating to sales of solar energy devices available to the department for examination.

A.R.S. § 42-5001(15) provides a definition for “solar energy device:”

“Solar energy device” means a system or series of mechanisms designed primarily to provide heating, to provide cooling, to produce electrical power, to produce mechanical power, to provide solar daylighting or to provide any combination of the foregoing by means of collecting and transferring solar generated energy into such uses either by active or passive means, including wind generator systems that produce electricity. Solar energy systems may also have the capability of storing solar energy for future use. Passive systems shall clearly be designed as a solar energy device, such as a trombe wall, and not merely as a part of a normal structure, such as a window.

A.R.S. § 42-5001(14) provides a definition for “solar daylighting,” as referenced in the above definition of a “solar energy device:”

“Solar daylighting” means a device that is specifically designed to capture and redirect the visible portion of the solar beam, while controlling the infrared portion, for use in illuminating interior building spaces in lieu of artificial lighting.

The Department’s **Application for Registration as a Solar Energy Retailer or Solar Energy Contractor** (Arizona Form 6015) is available on the Department’s website at: http://www.azdor.gov/ADOR_Forms/70-79/74-4048_fillable.pdf

CODE 539 TELECOMMUNICATIONS EQUIPMENT: Central office switching, switchboards, private branch exchange, microwave radio, and other equipment sold to telecommunications business

A.R.S. § 42-5061(B)(3) provides a transaction privilege tax deduction under the retail classification (Class 017) for sales of:

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

A.R.S. § 42-5071(B)(2), in pertinent part, provides a transaction privilege tax deduction under the personal property rental classification (Class 014) for income derived from a lease or rental of equipment that would qualify for the above exemption under the retail classification, if the equipment had been purchased.

A.R.S. § 42-5159(B)(3) provides an exemption from the Arizona use tax that is identical to the transaction privilege tax exemption under the retail classification [A.R.S. § 42-5061(B)(4) above].

A.R.S. § 42-5075(B)(9) provides a transaction privilege tax deduction under the prime contracting classification (Class 15) for the prime contractor's cost of exempt machinery, equipment, or other tangible personal property that qualifies for the above retail classification exemption under A.R.S. § 42-5061(B), when the purchase of the exempt machinery, equipment, or other tangible personal property is a part of the prime contracting contract. Arizona Transaction Privilege Tax Ruling TPR 00-2 explains this prime contracting deduction in detail, and is available on the Department's website at:

<http://www.azdor.gov/ResearchStats/rulings/tpr00-2.htm>

CODE 505 **TEXTBOOKS that are required by a state university or community college**

A.R.S. § 42-5061(A)(17) provides a transaction privilege tax deduction under the retail classification (Class 017) for sales of "[t]extbooks by any bookstore that are required by any state university or community college."

A.R.S. § 42-5159(A)(28) provides an exemption from the Arizona use tax that is identical to the transaction privilege tax exemption under the retail classification [A.R.S. § 42-5061(A)(17)above].

TANGIBLE PERSONAL PROPERTY:

CODE 540 **Tangible Personal Property shipped or delivered directly to a destination outside the U.S. for use in that foreign country**

A.R.S. § 42-5061(A)(35) provides a transaction privilege tax deduction under the retail classification (Class 017) for "[s]ales of tangible personal property that is shipped or delivered directly to a destination outside the United States for use in that foreign country."

To qualify for this exemption, the seller must ship or deliver the tangible personal property to a destination in a foreign country.

CODE 541 **Tangible Personal Property sold to a nonresident and shipped or delivered out-of-state by the seller for use outside of Arizona**

A.R.S. § 42-5061(A)(14) provides a transaction privilege tax deduction under the retail classification (Class 017) for "[s]ales [of tangible personal property] to nonresidents of this state for use outside this state if the vendor ships or delivers the tangible personal property out of this state."

Arizona Administrative Code (A.A.C.) rule R15-5-175 *Sales to Nonresidents Temporarily Within this State*, provides additional information about this exemption:

R15-5-175. Sales to Nonresidents Temporarily Within this State

A. For purposes of this rule, “nonresident” means:

1. An individual who is not a resident for Arizona income tax purposes; or
2. An entity which has no business location or business nexus in Arizona.

B. Gross receipts from the sale of tangible personal property to a nonresident of Arizona who is temporarily within this state are exempt from the tax if:

1. The vendor ships or delivers the tangible personal property out of this state by common carrier, United States mail, or the vendor’s own conveyance; and
2. The tangible personal property is not used in Arizona.

C. To substantiate the exemption for a sale to a nonresident temporarily within the state, the vendor shall obtain a completed exemption certificate or a written statement from such a buyer certifying that the buyer is not a resident of Arizona and that the property purchased is for use outside of Arizona.

1. Such a statement or certificate shall be maintained as part of the records of the vendor for the required statutory period.
2. The vendor may use the exemption certificate prescribed by the Department.

D. Suitable records, as delineated in R15-5-170, shall be kept by the vendor to establish out-of-state shipments.

CODE 552 **Tangible Personal Property sold to a taxable PRIME CONTRACTOR or sub to be physically incorporated into a prime contracting project or structure**

A.R.S. § 42-5061(A)(27) provides a transaction privilege tax deduction under the retail classification (Class 017) for sales of:

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

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

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

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

A.R.S. § 42-5159(A)(13)(g) provides an exemption from the **Arizona use tax** that is identical to the transaction privilege tax exemption under the retail classification [A.R.S. § 42-5061(A)(27)above].

CODE 544 **Tangible Personal Property sold or rented to an IRS 501(C)(3) ORGANIZATION that feeds the needy or indigent for free**

A.R.S. § 42-5061(A)(25)(e) provides a transaction privilege tax deduction under the retail classification (Class 017) for sales of:

25. Tangible personal property sold to:

...

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

A.R.S. § 42-5071(B)(2), in pertinent part, provides a transaction privilege tax deduction under the **personal property rental** classification (Class 014) for income derived from a lease or rental of equipment that would qualify for the above exemption under the retail classification if the equipment had been purchased.

A.R.S. § 42-5159(A)(13)(j) provides an exemption from the **Arizona use tax** that is identical to the transaction privilege tax exemption under the retail classification [A.R.S. § 42-5061(A)(25)(e) above].

Arizona Transaction Privilege Tax Ruling TPR 00-4 *Exemption for sales or leases of tangible personal property to nonprofit charitable organizations that regularly serve meals to the needy and indigent on a continuing basis at no cost*, provides clarification about these exemptions. TPR 00-4 is available on the Department's website at: <http://www.azdor.gov/ResearchStats/rulings/tpr00-4.htm>

CODE 545 **Tangible Personal Property sold or rented to a QUALIFYING HEALTH CARE ORGANIZATION to be used for specified purposes**

A.R.S. § 42-5061(A)(25)(b) and (c) provide transaction privilege tax deductions under the retail classification (Class 017) for sales of:

25. Tangible personal property sold to:

...

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

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

...

A.R.S. § 42-5001 *Definitions*, provides a definition for a “qualifying health care organization;” this statute is accessible on the Internet at:

<http://www.azleg.state.az.us/FormatDocument.asp?inDoc=/ars/42/05001.htm&Title=42&DocType=ARS>

A.R.S. § 42-5071(B)(2), in pertinent part, provides a **transaction privilege tax** deduction under the **personal property rental** classification (**Class 014**) for income derived from a lease or rental of equipment that would qualify for the above exemption under the retail classification if the equipment had been purchased.

A.R.S. § 42-5159(A)(13)(d) and (e) provide exemptions from the **Arizona use tax** that are identical to the transaction privilege tax exemptions under the retail classification [A.R.S. § 42-5061(A)(25)(b) and (c) above].

Arizona Administrative Code (A.A.C.) rule R15-5-128 *Exempt Sales to Health Organizations* provides additional information about exemptions applicable to qualifying health care organizations and other entities, and addresses the Department’s letter that is provided to such entities:

R15-5-183. Exempt Sales to Health Organizations

A. Gross receipts from the sale of tangible personal property to qualifying hospitals, qualifying health care organizations, rehabilitation programs for mentally or physically handicapped persons, and qualifying community health centers are exempt from tax if such purchases are exempt from tax pursuant to statutory provisions.

B. The Department may, upon review of the written request and any other information requested by the Department to make a proper determination, provide an Exemption Letter to organization meeting the statutory criteria. The Exemption Letter shall be valid for a period of 12 months from the first day of the month following the issue date of the Exemption Letter unless the organization’s tax exempt status changes prior to the end of the 12-month period, or the organization misrepresented or omitted material information in its exemption request.

C. Qualifying hospitals, qualifying health care organizations, rehabilitation programs for mentally or physically handicapped persons,

and qualifying community health centers shall annually submit to the Department a written request for an Exemption Letter. The request shall be submitted at least 30 days prior to the first day of the exemption period. For purposes of this rule, "exemption period" means the 12-month period beginning on the first day of the month following the issue date of the Exemption Letter or the 12-month period requested by the organization.

1. Qualifying hospitals shall attach to their annual exemption request a copy of their current license issued by the Department of Health Services.
2. Qualifying health care organizations shall attach to their exemption request letter the statutorily required annual financial audit and a copy of their Internal Revenue Code 501(c) recognition unless the Department has previously received a copy of this recognition.
3. Rehabilitation programs for mentally or physically handicapped persons shall attach to their exemption request a copy of their Internal Revenue Code 501(c)(3) recognition unless the Department has previously received a copy of this recognition.
4. Qualifying community health centers shall attach to their exemption request documentation supporting the statutory criteria and a copy of their Internal Revenue Code 501(c)(3) recognition unless the Department has previously received a copy of this recognition.

Arizona Transaction Privilege Tax Procedure TPP 99-5 Procedure for Recognition of Exempt Status of a Qualifying Hospital; a Qualifying Health Care Organization; a Qualifying Community Health Center; or Rehabilitation Programs for Mentally or Physically Handicapped Persons, lists the statutory sites for exemptions for these organizations. TPP 99-5 is available on the Department's website at:

<http://www.azdor.gov/ResearchStats/proc/tpp99-5.htm>

CODE 546 Tangible Personal Property sold or rented to a QUALIFYING HOSPITAL

A.R.S. § 42-5061(A)(25)(a) provides a transaction privilege tax deduction under the retail classification (Class 017) for sales of:

25. Tangible personal property sold to:

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

...

A.R.S. § 42-5001 *Definitions*, provides a definition for a "qualifying hospital;" this statute is accessible on the Internet at:

<http://www.azleg.state.az.us/FormatDocument.asp?inDoc=/ars/42/05001.htm&Title=42&DocType=ARS>

A.R.S. § 42-5071(B)(2), in pertinent part, provides a transaction privilege tax deduction under the **personal property rental** classification (Class 014) for income derived from a lease or rental of equipment that would qualify for the above exemption under the retail classification if the equipment had been purchased.

A.R.S. § 42-5159(A)(13)(a), (b), and (c) provide exemptions from the Arizona use tax that apply to the different types of entities that are included in the definition of a "qualifying hospital," which qualify for the transaction privilege tax exemption under the retail classification [A.R.S. § 42-5061(A)(25)(a) above].

Arizona Administrative Code (A.A.C.) rule R15-5-183 *Exempt Sales to Health Organizations* provides additional information about exemptions applicable to qualifying health care organizations and other entities, and addresses the Department's letter that is provided to such entities. The text of this rule is provided above, but is also available on the Internet at:

http://www.azsos.gov/public_services/Title_15/15-05.htm#Article_1

Arizona Transaction Privilege Tax Procedure TPP 99-5 *Procedure for Recognition of Exempt Status of a Qualifying Hospital; a Qualifying Health Care Organization; a Qualifying Community Health Center; or Rehabilitation Programs for Mentally or Physically Handicapped Persons*, lists the statutory sites for exemptions for these organizations. TPP 99-5 is available on the Department's website at:

<http://www.azdor.gov/ResearchStats/proc/tpp99-5.htm>

CODE 543 U.S. GOVT: RETAIL SALES to a manufacturer, modifier, assembler or repairer if end product sold to U.S. GOVT

A.R.S. § 42-5061(J)(2), in pertinent part, provides a transaction privilege tax deduction under the retail classification (Class 017) for income derived from:

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

While not a directly corresponding exemption to the transaction privilege tax exemption provided by A.R.S. § 42-5061(J)(2), A.R.S. § 42-5159(A)(4) provides an exemption from the Arizona use tax for:

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

CODE 547 U.S. GOVT: RETAIL SALES to U.S. GOVT by a manufacturer, modifier, assembler or repairer (100% deduction)

A.R.S. § 42-5061(J)(1), in pertinent part, provides a transaction privilege tax deduction under the retail classification (Class 017) for income derived from:

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

A.R.S. § 42-5071(B)(2), in pertinent part, provides a transaction privilege tax deduction under the personal property rental classification (Class 014) for income derived from a lease or rental of tangible personal property that would

qualify for the above exemption under the retail classification, if the equipment had been purchased.

Arizona Transaction Privilege Tax Ruling TPR 99-1 *Application of the transaction privilege tax and use tax statutes to transactions with the United States Government*, directly addresses this exemption, and is available on the Department's website at: <http://www.azdor.gov/ResearchStats/rulings/tpr99-1.htm>

CODE 548 U.S. GOVT: Other RETAIL SALES directly to U.S. GOVT (TPT: 50% deduction; USE TAX: 100% deduction)

A.R.S. § 42-5061(K) provides a transaction privilege tax deduction under the retail classification (Class 017) for 50% of the gross income derived from a sale of tangible personal property to the United States Government that does not qualify for the exemptions provided by A.R.S. § 42-5061(J). A.R.S. § 42-5061(K) states:

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

The United States Government and its departments and agencies, are not subject to the Arizona use tax that applies to purchases of tangible personal property from an out-of-state seller that is not liable for transaction privilege tax.

Arizona Transaction Privilege Tax Ruling TPR 99-1 *Application of the transaction privilege tax and use tax statutes to transactions with the United States Government*, directly addresses this exemption, and is available on the Department's website at: <http://www.azdor.gov/ResearchStats/rulings/tpr99-1.htm>

CODE 542 WARRANTIES OR SERVICE CONTRACTS

A.R.S. § 42-5061(A)(3) provides a transaction privilege tax deduction under the retail classification (Class 017) for:

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

Arizona Administrative Code (A.A.C.) rule R15-5-137 *Warranty or Service Contracts*, addresses the exemption for sales of warranty or service contracts associated with the retail sale of tangible personal property:

R15-5-137. Warranty or Service Contracts

A. For purposes of this rule, a "warranty or service provision" means a manufacturer's or vendor's warranty provision which automatically, and for no extra charge, applies to the tangible personal property when purchased.

B. Gross receipts from the sale of warranty or service contracts shall not be taxable if such contracts are sold as a distinct and separate item

and the charge for the warranty or service contract is stated separately on the sales invoice.

C. A warranty or service provision shall not be considered a warranty or service contract under [A.R.S. § 42-5061(A)]. An exclusion from gross receipts shall not be allowed for a warranty or service provision on the sale of tangible personal property when such property cannot be sold without the acceptance of the warranty or service provision.

Arizona Transaction Privilege Tax Ruling TPR 92-5 Warranty or service contracts, implied warranties and the use of tangible personal property in completion of warranty contracts, implied warranties or a "warranty or service provision," provides additional clarification on this topic, and is available on the Department's website at: <http://www.azdor.gov/ResearchStats/rulings/tpr92-5.htm>

[Arizona Transaction Privilege Tax Ruling TPR 93-28 Taxation under the prime contracting classification of maintenance and warranty contracts, addresses taxable prime contracting warranty contracts, as well as nontaxable maintenance contracts, and is available on the Department's website at: <http://www.azdor.gov/ResearchStats/rulings/tpr93-28.htm>]