



**ARIZONA STATE SENATE**  
*Fifty-Fifth Legislature, Second Regular Session*

FACT SHEET FOR S.B. 1599

TPT; use tax; exemption; hydrogen

Purpose

Exempts, from use tax and the transaction privilege tax (TPT) imposed on the retail classification, the sale or storage, use or consumption of hydrogen used to propel a motor vehicle and hydrogen sold to a qualified environmental technology manufacturer producer or processor, subject to statutory requirements. Requires the gross proceeds of sales and gross income derived from the sales of certain machinery and equipment used to transport hydrogen or employed in connection with hydrogen pipelines to be deducted from the tax base for the retail classification of TPT.

Background

The gross proceeds of sales or gross income derived from sales of certain tangible personal property is exempt from the retail classification of TPT and the storage, use or consumption of the tangible personal property is exempt from use tax, including: 1) the sale of natural gas used to propel a motor vehicle; and 2) coal, petroleum, coke, natural gas, virgin fuel oil and electricity sold to a qualified environmental technology manufacturer, producer or processor and directly used or consumed in generating or providing on-site power or energy for outlined purposes.

The gross proceeds of sales or gross income derived from sales of certain tangible personal property must be deducted from the retail classification of TPT and the storage, use or consumption of the tangible personal property is exempt from use tax, including: 1) pipes or valves four inches in diameter or larger used to transport oil, natural gas, artificial gas, water or coal slurry; and 2) machinery and equipment that is employed in connection with mining, natural gas pipelines, producing or transmitting electricity or research and development and that is used directly to meet or exceed outlined federal and state rules and (A.R.S §§ [42-5061](#) and [42-5159](#)).

Use tax does not apply to the purchase price of electricity, natural gas or liquefied petroleum gas by: 1) a qualified manufacturing or smelting business, including gas transportation services; or 2) a business that operates a certified international operations center in Arizona. *Gas transportation services* is the service of transporting natural gas to a natural gas customer or to a natural gas distribution facility if the natural gas was purchased from a supplier other than the utility ([A.R.S. § 42-5159](#)).

The Joint Legislative Budget Committee fiscal note estimates that S.B. 1599 would not result in a revenue loss to the state General Fund but if the hydrogen industry in Arizona is developed, the state General Fund would forego future tax collections ([JLBC fiscal note](#)).

Provisions

1. Exempts, from the TPT imposed on the retail classification:
  - a) sales of hydrogen used to propel a motor vehicle; and
  - b) hydrogen sold to a qualified environmental technology manufacturer producer or processor that is directly used or consumed in generating or providing on-site power or energy solely for environmental technology manufacturing, producing or processing or environmental protection.
2. Requires, to be deducted from the tax base for the retail classification of TPT, the gross proceeds of sales and gross income derived from sales of:
  - a) pipes or valve four inches in diameter or larger used to transport hydrogen; and
  - b) machinery or equipment employed in connection with hydrogen pipelines that is used directly to meet or exceed outlined federal and state rules and regulations.
3. Exempts, from use tax, the storage, use or consumption of:
  - a) hydrogen used to propel a motor vehicle;
  - b) hydrogen purchased by a qualified environmental technology manufacturer producer or processor that is directly used or consumed in generating or providing on-site power or energy solely for environmental technology manufacturing, producing or processing or environmental protection;
  - c) pipes or valve four inches in diameter or larger used to transport hydrogen; and
  - d) machinery or equipment employed in connection with hydrogen pipelines that is used directly to meet or exceed outlined federal and state rules and regulations.
4. Exempts, from use tax, gas diverted from a pipeline by a person engaged in the business of:
  - a) operating a hydrogen pipeline, and used or consumed for the sole purpose of fueling compressor equipment that pressurizes the pipeline; and
  - b) converting hydrogen into liquefied hydrogen, and used or consumed for the sole purpose of fueling compressor equipment used in the conversion process.
5. Expands the definition of *gas transportation services* to include the transportation of hydrogen to a hydrogen customer or to a hydrogen distribution facility if the hydrogen was purchased from a supplier other than a utility.
6. Classifies, as not a sale of hydrogen to the operator of a pipeline, gas diverted from a pipeline by a person engaged in the business of:
  - a) operating a hydrogen pipeline for the sole purpose of fueling compressor equipment to pressurize the pipeline; or
  - b) converting hydrogen into liquefied hydrogen for the sole purpose of fueling compressor equipment used in the conversion process.
7. Excludes, from the application of use tax, the purchase price of hydrogen by a qualified manufacturing or smelting business.
8. Applies the modified exemption and deduction to taxable periods beginning on or after the first day of the month following the general effective date.

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9. Makes technical and conforming changes.

10. Contains a technical conditional enactment.

11. Becomes effective on the general effective date or later, subject to the provisions of the conditional enactment.

Prepared by Senate Research

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