



This Week in State Tax (TWIST)

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Arizona: Laundry Business Not Entitled to Processing Exemption

The Arizona Tax Court recently held that a laundry business was not entitled to state and city sales tax exemptions for purchases of equipment and chemicals used to transform unusable, soiled linens into clean, disinfected linens suitable for use in healthcare facilities. Under Arizona law, a Transaction Privilege Tax (sales tax) exemption applies to purchases of “machinery, or equipment, used directly in manufacturing, processing, fabricating, job printing, refining or metallurgical operations.” The issue before the court was whether the taxpayer’s laundry business was a “processing” operation entitled to the exemption. The term “processing,” is defined to include operations commonly understood to be within the ordinary meaning of the term. The Department of Revenue asserted that the taxpayer did not qualify for the exemption because it was not preparing raw materials for conversion into marketable form, as the Department asserted was necessary to qualify for the exemption. The tax court did not find the issue of whether the taxpayer prepared raw materials to be determinative. Rather, the court concluded that although the taxpayer’s business included some processing of the linens as they were cleaned and disinfected, it was required to look to the taxpayer’s business as a whole to determine whether it was commonly understood to be a processing operation. In the court’s view, a linen rental business that used equipment to clean and disinfect linens for healthcare facilities was not commonly understood to be a processing operation, but a laundry. In reaching this conclusion, the court cited to an earlier case addressing whether a pizzeria was entitled to the processing exemption for equipment used to prepare dough and make pizza. The appeals court in that instance similarly found that as a matter of law, a restaurant that uses machinery or equipment to make pizza dough from scratch is not commonly understood to be a processing operation. In a bit of rhetorical flourish, the tax court ended by citing an earlier state supreme court decision indicating that when the legislature creates a tax exemption, “it does so notoriously enough to attract investors, not surreptitiously enough to evade detection.” Although the fact that laundries had not attempted to avail themselves of the processing exemption for over 30 years was not dispositive, in the court’s view, it did buttress the Department’s argument. Please contact [Stacey Matthew](#) with questions on *9W Halo Opco LP v. Dep’t of Rev.*



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