

This Week in State Tax (TWIST)

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Arizona: Appeals Court Holds Laundering Services Are Not Processing

The Arizona Court of Appeals held that a taxpayer's laundry business did not qualify as a processing operation for a use tax exemption related to its machinery and equipment. The taxpayer provided industrial laundry services to healthcare clients, sanitizing over 600,000 pounds of textiles weekly. The taxpayer's sanitizing process involved sorting, prewashing, four wash cycles using certified chemicals to remove microbes and spores, specialized drying methods, inspection, and folding. Additionally, the taxpayer's business was regulated by several federal agencies, and it was required to maintain certifications that mandated strict adherence to guidelines in the sanitizing process.

The central issue was whether the taxpayer's business met the definition of a processing operation to qualify for the use tax exemption on machinery or equipment used directly in processing. The taxpayer argued its operations transformed contaminated, unmarketable healthcare textiles into clean, disinfected, and marketable textiles, thereby constituting a processing operation. The taxpayer referenced previous cases in which "processing" was defined as a series of actions converting tangible personal property into a marketable form. The Arizona Department of Revenue, however, relied on dictionary definitions accepted in prior precedents which referred to processing as subjecting material to manufacturing or preparation for market.

In its analysis, the appellate court examined the ordinary meaning of "processing" and determined that it did not encompass the taxpayer's activities. The court noted that the taxpayer's business involved sanitizing textiles that were later returned to the taxpayer for repeated processing rather than introducing new products to the market. In some cases, the textiles were owned by the taxpayer and rented to customers, with the laundering and sanitizing occurring after each use. This restoration of original articles to a usable form did not align with the concept of processing as intended by the tax exemption. Therefore, the court concluded that the taxpayer was not entitled to the exemption under Arizona law. For more information on [9W Halo OpcO, LP v. Ariz. Dept. of Rev.](#), contact [Eric Gee](#).

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