



**ARIZONA SUPREME COURT
ORAL ARGUMENT CASE SUMMARY**



**9W HALO OPCO, LP, dba ANGELICA TEXTILE SERVICES, LP v.
ARIZONA DEPARTMENT OF REVENUE AND CITY OF PHOENIX
CV-24-0288-PR**

PARTIES:

Petitioner: 9W Halo OPCO, LP, dba Angelica Textile Services, LP

Respondents: Arizona Department of Revenue
City of Phoenix

Brief of Amicus Curiae: League of Arizona Cities and Towns (in support of Department of Revenue and City of Phoenix)

FACTS:

Angelica Textile Services (“Angelica”) is a commercial health care textile company that sanitizes new and used health care textiles before renting them out to consumers including hospitals and health care facilities. Angelica’s sanitization process involves sorting; prewashing; four wash cycles using specialized and certified chemicals for removing microbes and spores; rinsing and finishing cycles; specialized drying; inspection; and folding.

In 2018, Angelica sought a refund from the Department of Revenue and the City of Phoenix for use taxes that it had paid under A.R.S. § 42-5159(B)(1). Angelica sought to claim the Machinery & Equipment (M & E) use tax exemption for its purchase of the specialized machinery and equipment used in its textile processing operation.

The Department of Revenue denied the refund, ruling that Angelica did not qualify as a processing operation under A.R.S. § 42-5159(B)(1), which provides an exemption for “machinery, or equipment, used directly in manufacturing, processing, fabricating, job printing, refining or metallurgical operations.” (Emphasis supplied.) The term “processing” as used in the exemption is defined as “those operations commonly understood within their ordinary meaning”

Angelica appealed the denial of a refund to the Arizona Tax Court. The Department of Revenue and the City of Phoenix, appearing as appellees, argued that Angelica was not a “processing” operation because it was a laundry and linen rental operation, and laundry businesses do not meet Arizona’s definition of “processing.” The Tax Court agreed, and granted summary judgment against Angelica. Angelica appealed to the Arizona Court of Appeals, which agreed with the Tax Court that Angelica was not a processing operation as that term was commonly understood within its ordinary meaning. Angelica filed a Petition for Review to the Arizona Supreme Court, which granted review to consider the two issues listed below..

ISSUES:

- (1) A.R.S. § 42-5159(B)(1) exempts machinery and equipment (M & E) used directly in the “operation” of “processing.” This Court held in *Ariz. Dep’t of Revenue v. Capitol Castings, Inc.*, 207 Ariz. 445 (2004) that, in construing the terms of the M & E exemption, courts must “apply flexible and commonly used definitions ... within the relevant industry.” 207 Ariz. at 451 ¶ 24. Did the Court of Appeals err by relying on what an “ordinary man” would have understood “processing” to mean in 1989, without regard to the industry definition, and by invoking the “legislative acquiescence” doctrine based on decisions that did not come from a “court of last resort”?
- (2) "The Court of Appeals held that Angelica was not engaged in the “operation” of “processing” because it rents the medical textiles it processes instead of selling them. Did the Court of Appeals err by looking to the taxpayer’s downstream transactions rather than its “operation” using the exempt equipment?"

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