

CITY COUNCIL WORKSHOP

Update on Tax Simplification

March 17, 2015

Where We Are Now

- Governor Approved Delay of Implementation
 - New Go Live of January 2016
- Single Audit processes began January 2015
- Issues due to Construction Contracting have been addressed

Where We Are Now (cont'd)

- Audit
 - Manuals Completed
 - Auditor Training Completed
 - Initial Field Audit Requests are being processed
- Taxpayer Communication and Education
- DOR making changes to AZTAXES
- DOR making major changes to their Taxpayer Accounting System (TAS)

Contracting Clarification

Contracting

- New bills passed
 - SB1446 and HB2590 (same text)
- Changes the law on Contracting taxation that became effective retroactively to January 1, 2015
- Signed by Governor Ducey
- Supported by the Contracting Industry, ADOR and the League of Arizona Cities and Towns

Contracting Clarification

Contracting - MRRA

- MRRA – This is an exclusion from the Contracting classification. The tax for these jobs is based on materials purchase price only.
- MRRA is an acronym that helps to identify activities that are taxed on materials only:
- **M** - Maintenance – Jobs to keep things in working order
- **R** - Repair – Repairs to an existing part or unit
- **R** - Replacement – of the same component or system
- **A** - Alteration – changes to existing structures

Contracting Clarification

Contractor Types and Licensing

- Contractors that never do MRRA work – examples: Prime Contracting, new construction, home builders, commercial builders, public road builders
 - This group should KEEP their TPT License
- Contractors that only do MRRA work – examples: handymen, smaller maintenance, repair and replacement businesses like plumbers, HVAC, etc.
 - This group can CANCEL their license, but they can also keep it if they are uncertain that all of their jobs will always qualify
- Contractors that do both MRRA and Prime Contracting work – examples: many remodelers, most subcontractors
 - This group should KEEP their TPT License

Contracting Clarification

Alterations: Residential

To qualify as a Residential Alteration that is taxed based on materials:

- The value of the original contract must be no more than 25% of the current Full Cash Value per the County Assessor website.
- If the Full Cash Value changes between the bid and the contract, the higher value is used.

Contracting Clarification

Alterations: Non-Residential

To qualify as a Non-Residential Alteration that is taxed based on materials ALL THREE criteria must be met:

1. The original contract price is $< \$750,000$ AND,
2. Scope of the job ALTERS $< 40\%$ of the existing square footage, AND,
3. Scope of the job ADDS $< 10\%$ of the original square footage as new square footage to the building.

Roads and other heavy construction jobs that are subject to a public procurement process are always taxed as Contracting.

Contracting Clarification

Retroactivity and Hold Harmless

- This bill is retroactive to January 1, 2015
- All contracts/bids created by the last day of the month 60 days after enactment will be honored as written:
 1. If contract was based on Prime Contracting – honored as Prime Contracting
 2. If contract was reasonably believed to be MRRA – honored as MRRA

Contracting Clarification

Existing Materials Inventory

To recover the tax due for all inventory that was purchased tax exempt by an unlicensed MRRA contractor:

- First \$10,000 in inventory is exempted from Use tax
- Remaining inventory is subject to tax and can be paid in any one of three ways:
 1. As Use Tax in one lump sum, based on the business location;
 2. As Use Tax above, but spread over 12 months;
 3. As the materials are used up, based on the Retail tax rate applied to purchase price, where the job is being done.

Where We're Going

- ADOA Project Manager and Project Plan
 - Timelines, Milestones
- Transition Plan
- Communications Plan
- Technology Plan
- Testing Plan
- Reporting Plan
- IGA
 - Tentative July 1, 2015 date

Questions?