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UPDATE ON TRANSACTION PRIVILEGE TAX SIMPLIFICATION

Staff Contact and Presenter: Vicki Rios, Director, Budget and Finance

Staff Presenter: Tom Duensing, Assistant City Manager

Purpose and Policy Guidance

The purpose of this item is to provide the Council with an update on tax simplification efforts which are the result of state legislation passed in 2013.

Background

Chapter 255, Laws of Arizona 2013 (commonly referred to by its original bill number, HB2111), made changes to the administration process for Transaction Privilege Taxes and modified certain categories of business activity including Prime Contracting.

The law calls for the Arizona Department of Revenue ("ADOR") to become the single point of administration for licensing, filing and payment of all State, county and municipal transaction privilege taxes. The law also requires ADOR to establish and administer a single online portal so that taxpayers can pay all State, county or municipal transaction privilege taxes online. Implementation of these provisions was originally scheduled to take place on January 1, 2015. The implementation of the new law was delayed several times; however, the ADOR is ready to take over administration on January 1, 2017.

Analysis

The Arizona cities and towns affected by this legislation, including staff from Glendale, and the League of Arizona Cities and Towns (League) are working cooperatively with the ADOR to ensure the smooth transition of tax administration. Staff anticipates that businesses in Glendale will continue to collect and remit the required

transaction privilege taxes; however, payments will begin flowing through the state to the city. This may cause delays in cash receipts at the beginning of the transition period in January of 2017. Staff is also working on developing and implementing processes, procedures, and business intelligence technology solutions to monitor the tax and payment data the city will receive from ADOR and proactively address any revenue or cash flow variances.

Previous Related Council Action

On May 24, 2016, Council adopted Ordinances 2009 and 2991 amending the city's TPT and business license codes and setting new fees for each license type.

On March 17, 2015, staff provided an update on TPT Simplification.

On June 24, 2014, the Council approved an expenditure of \$16,120 to the League of Arizona Cities and Towns to provide funding for professional IT consulting assistance to the ADOR to facilitate the implementation of the legislation.

At the May 6, 2014 Council Workshop, staff provided a brief overview on HB2111.

Community Benefit/Public Involvement

The community benefits from tax simplification by establishing single point of administration and collection so that taxpayers can pay all State, county or municipal transaction privilege taxes. Updates on the status of the implementation will assist the public in understanding the transition plans.

Budget and Financial Impacts

After the transition to ADOR administration, businesses will continue to collect TPT from their customers in the same manner. Starting in 2017, businesses will begin reporting and remitting their sales taxes to the ADOR. The ADOR will process the tax returns and payments and send the city the amounts paid and reported by Glendale taxpayers. Initially, this may result in some delays in the city receiving its funds. Staff will monitor the payment and return information closely to ensure the city's revenues are not adversely impacted over time.