



Legislation Text

File #: 15-071, **Version:** 1

UPDATE ON TAX SIMPLIFICATION

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Purpose and Recommended Action

The purpose of this item is to provide 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, but it has been delayed until January 1, 2016.

The law allows the ADOR, subject to statutory guidelines, to disclose confidential information related to transaction privilege taxes collected by the department from any jurisdiction to any county, city or town tax official if it relates to a taxpayer who is subject to an ADOR audit. The law stipulates that taxpayers are subject to a single audit, eliminating possible subsequent or joint audits by cities and towns. The law also stipulates a variety of requirements for the audit most of which generally require ADOR’s active involvement.

In addition, effective January 1, 2015, HB2111 also exempts from the “prime” construction contracting classification certain service contractors and design phase and professional services. Furthermore, the law modifies provisions regarding sourcing of certain transactions involving tangible personal property by providing that the sale of a motor vehicle to a nonresident delivered and intended for use outside of Arizona is exempt from state and municipal transaction privilege taxes, and removing an exemption for personal tangible property shipped or delivered directly to a location outside of the United States that is to be used in that location.

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 and minimize any associated delays. 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 2016. 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. League staff are monitoring the implementation closely and will provide a status update and share information regarding any additional legislation affecting TPT simplification.

Previous Related Council Action

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.