



A Dash of SALT

Transaction Privilege Tax Boot Camp

This is the first in a series of articles on state and local tax (SALT) issues for AZ CPA magazine. Because most CPAs do not focus their practices on SALT issues, but every CPA should be familiar with some of these issues, the purpose of this column is to help educate CPAs. Column topics will range from Arizona's transaction privilege ("sales") and use taxes to individual and corporate income taxes, from real and personal property taxes to severance tax, from nexus to escheat — and everything in between. Readers are encouraged to contact the author directly to recommend topics for future columns.

Because Arizona transaction privilege tax (TPT) accounts for over half of the state's general fund revenue, but most people don't understand how many different types of businesses are subject to TPT, this article identifies the types of businesses that are subject to TPT.

Rather than impose a true sales tax, which some states impose directly on the consumer and merely require the vendor to collect, Arizona's TPT applies to the privilege of engaging in sixteen different types of business activities. So, unlike many true sales taxes, TPT is imposed on the vendor— not on the consumer. But, of course, vendors may pass the cost of TPT along to their customers.

In particular, TPT applies to persons or companies engaged in the business of:

(1) Selling tangible personal property at retail – the "Retail Classification" – which is comparable to the sales taxes imposed by other states and accounts for about 51.10% of state TPT collections;

(2) Operating restaurants, bars, catering services, etc. – the "Restaurant Classification" – which accounts for about 10.60% of state TPT collections;

(3) Constructing, or coordinating the construction of, buildings, roads, etc. –

the "Prime Contracting Classification" – which accounts for about 10.12% of state TPT collections;

(4) Providing utility services, involving electricity, gas, or water – the "Utility Classification" – which accounts for about 10.05% of state TPT collections;

(5) Leasing or renting personal property – the "Personal Property Rental Classification" – which accounts for about 3.46% of state TPT collections;

(6) Providing intrastate telecommunications services – the "Telecommunications Classification" – which accounts for about 3.38% of state TPT collections;

(7) Operating hotels, motels, resorts, etc. for occupancy by persons for less than 30 consecutive days – the "Transient Lodging Classification" – which accounts for about 2.29% of state TPT collections;

(8) Operating or conducting businesses that charge admission or user fees for exhibition, amusement or entertainment, like movie theatres, concerts, carnivals, races, bowling alleys, dance halls, skating rinks, tennis courts, video games, etc. – the "Amusement Classification" – which accounts for about 1.10% of state TPT collections;

(9) Engraving, embossing, or copying – the "Job Printing Classification"



– which accounts for about 0.27% of state TPT collections;

(10) Mining, quarrying, or producing oil, natural gas, limestone, sand, gravel, or other nonmetalliferous mineral products (miners of metalliferous products, like copper, are subject to severance tax rather than TPT) – the "Mining Classification" – which accounts for about 0.11% of state TPT collections;

(11) Publishing newspapers, magazines, or other periodicals in Arizona – the "Publication Classification" – which accounts for about 0.10% of state TPT collections;

(12) Transporting persons, freight, or property by motor vehicle, railroad, or aircraft from one point to another point in Arizona – the "Transporting Classification" – which accounts for about 0.06% of state TPT collections;

(13) Operating pipelines for transporting oil or gas from one point to another point in Arizona – the "Pipeline Classification" – which accounts for less than 0.01% of state TPT collections;

(14) Operating private rail cars from one point to another point in Arizona – the "Private Car Line Classification" – which accounts for less than 0.01% of state TPT collections;

(15) Leasing real property – the "Com-

mercial Lease Classification – which accounts for less than 0.01% of state TPT collections because the state tax rate for this classification is zero (but, some counties and most cities impose tax on real property rental proceeds);

(16) Selling improved real property under certain circumstances that no longer apply at the state level – the “Owner Builder Sales Classification” – which accounts for less than 0.01% of state TPT collections. (Pursuant to H.B. 2111 [Laws 2013, Chapter 255], the Owner Builder Sales Classification will be officially eliminated effective January 1, 2015. But, Arizona cities continue to impose privilege taxes on owner builders and speculative builders.)

Although some businesses qualify to remit TPT on a quarterly or an annual basis, most businesses that are subject to TPT must file a TPT return and remit TPT to the Arizona Department of Revenue each month. ADOR collects TPT for the state, for all 15 counties, and for most Arizona cities that impose privilege taxes. However, because Arizona is one of just three states that allow cities to collect their own taxes, some businesses are required to file separate privilege tax returns and remit taxes to one or more Arizona cities.

*P.S. Because some of us might otherwise lose sleep over this tonight, the foregoing percentages do not total 100% because ADOR’s data lumps use tax collections, at 5.63%, and severance tax collections, at 1.72%, in with TPT collections. **AZ CPA***

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