



A Dash of SALT

How Arizona Sales Tax Reform Will Affect All Businesses Subject to Arizona Sales Tax

In 2013, Arizona Governor Jan Brewer successfully pushed for transaction privilege (“sales”) tax reform and, ever since then, the Arizona Department of Revenue (ADOR) has been frantically preparing to implement all of the changes.

Last month’s state and local tax (SALT) column focused on how Arizona’s sales tax reform efforts will affect construction contractors. This month’s column focuses on how Arizona’s sales tax reform efforts will affect both contractors and other types of businesses that are subject to sales tax in Arizona, like retailers, restaurants, hotels, leasing companies, printers, utility companies, telecommunications companies, mines and others.

Why Sales Tax Reform Was Necessary in Arizona

ADOR currently collects TPT for the state, for all 15 counties, and for most Arizona municipalities that impose privilege taxes. However, until the first of the year, Arizona is one of just four states that also allow municipalities to collect their own taxes. As a result, some businesses are required to obtain separate municipal sales tax licenses, file separate municipal sales tax returns, and separately remit taxes to one or more Arizona municipalities in addition to filing a return with and paying taxes to ADOR; and such businesses are subject to audits by those municipalities as well as to audits by ADOR.

The Objective for Arizona’s Sales Tax Reform Efforts

Governor Brewer proposed sales tax reform in an effort to simplify the state’s sales tax system and, by doing so, to promote voluntary compliance.

Accordingly, effective Jan. 1, 2015, Arizona’s sales tax system will be simplified in the following ways:

ADOR Will Issue Sales Tax Licenses and Collect Sales Taxes for the State, Counties, and All Municipalities in Arizona

- Rather than allow some municipalities to require businesses to obtain separate municipal sales tax licenses, going forward, ADOR will issue all sales tax licenses from a centralized, online portal. However, due to a compromise with the municipalities who were accustomed to receiving annual licensing fees, ADOR will now require all businesses to renew their sales tax licenses on an annual basis.

- ADOR will use the online portal they are setting up to collect all city, county, and municipal sales, use, severance, rental occupancy and jet fuel excise taxes. Thus, businesses will no longer be required to submit separate tax returns to municipalities that, until Dec. 31, 2014, are allowed to collect their own taxes.

ADOR Will Conduct Most Sales Tax Audits and Handle Most Sales Tax Appeals for the State, Counties, and Municipalities in Arizona

After the first of the year, municipal tax departments will only be able to conduct sales tax audits for companies that are only engaged in business in that municipality, or when ADOR authorizes the municipality to conduct the audit.



Likewise, no matter who conducts the audit, beginning Jan.1 all audits must be conducted in accordance with procedures outlined in an audit manual that ADOR is developing by auditors who are trained in such procedures, and all assessments for all jurisdictions must be issued in a single notice to the taxpayer from ADOR.

And, all appeals of assessments issued after the first of the year must be directed to ADOR and will be administered by ADOR.

Practice Tip! — CPAs who work with or for any business that is subject to sales, use, severance, rental occupancy or jet fuel excise tax should make sure that the business is aware of these changes that go into effect on Jan. 1, 2015. **AZ CPA**

James G. Busby, Jr., is a state and local tax attorney and CPA at The Cavanagh Law Firm. Busby previously worked in the SALT departments at Arthur Andersen and Deloitte & Touche. Before entering private practice, Busby was in charge of all transaction privilege (sales) tax audits at the Arizona Department of Revenue. A Dash of SALT™ is provided for informational purposes only and does not constitute legal counseling. Contact the author at (602) 322-4146 or jbusby@cavanaghlaw.com.