



A Dash of SALT

Some Arizona Sales Tax Reforms Postponed Until Jan. 1, 2016

Because some of the effective dates recently changed, this month's state and local tax (SALT) column outlines when particular Arizona transaction privilege ("sales") tax reforms will go into effect. Most importantly, the Arizona Department of Revenue ("ADOR") recently announced that "non-program" cities and towns that currently collect their own sales and use taxes will continue to do so until January 1, 2016.

Changes Postponed Until Jan. 1, 2016

- ADOR will begin collecting sales and use taxes for the non-program cities and towns that currently collect their own taxes, and will require taxpayers with multiple locations to report their gross receipts, deductions, and taxes by location.
- ADOR will issue and renew all municipal sales tax licenses in effect for January, 2016 using a new electronic license renewal program.

Changes Effective Jan. 1, 2015

- Bullhead City, Somerton, and Willcox will become program cities, so ADOR will begin collecting and administering sales taxes for them.
- By January 1, 2015, taxpayers must renew municipal sales and use tax licenses that were issued by ADOR, and taxpayers also licensed with non-program cities may have to separately renew their sales and use tax licenses with those cities for 2015.
- Taxpayers conducting business in two or more locations, or under two or more business names, must begin filing their sales and use tax returns electronically.
- When filing sales and use tax returns, taxpayers must use standardized codes to report the nature of their busi-

ness and to claim deductions. There will no longer be codes for "miscellaneous" deductions.

- Taxpayers whose estimated annual sales and use tax liability is less than \$2,000 may receive permission to report and pay sales taxes on an annual basis. Those whose estimated liability is between \$2,000 and \$8,000 may receive permission to report and pay on a quarterly basis.
- Sales and use tax returns must be received by ADOR on or before the business day preceding the last business day of the month or, if filing electronically, on the last business day of the month. But, it will no longer be sufficient for a return to be postmarked by the twenty-fifth day of the month.
- Arizona municipalities may only conduct sales and use tax audits for companies that are only engaged in business in that municipality, or when ADOR authorizes the municipality to conduct the audit.
- All sales and use tax audits must be conducted in accordance with procedures outlined in ADOR's online audit manual by auditors trained in such procedures, and all assessments for all jurisdictions must be issued in a single notice to the taxpayer from ADOR.
- All appeals of municipal sales tax audits initiated after the first of the year



must be directed to ADOR, and will be administered by ADOR.

- Refund claims for all municipal sales and use taxes related to tax periods from and after January, 2015 will be administered by ADOR.
- Construction contractors who only enter into contracts with owners of real property to maintain, repair, replace, or alter their property will be subject to retail sales or use tax when purchasing the building materials used in such contracts, but will not be subject to Arizona's separate prime contracting tax.

Contractors who only perform such services will no longer be required to have a sales tax license. When a prime contractor hires such a contractor who is not licensed to collect and remit prime contracting tax to work on a project that is subject to Arizona's prime contracting tax, the prime contractor must obtain a project-specific exemption certificate, Arizona Form 5009L, to enable the unlicensed contractor to purchase building materials tax free for that particular project.

- Construction contractors who have building materials in inventory on January 1, 2015 that were purchased tax free but will be used on jobs that will not be subject to prime contracting tax are expected to take an inventory of such materials at the beginning of the

year and pay tax on 1/12 of them each month during 2015 at the retail sales tax rate in effect at their principal place of business in Arizona.

- Construction contractors who enter into contracts with owners of real property to maintain, repair, replace, or alter their property *and* engage in other construction activities will have to separately account for: (1) taxable construction materials used on nontaxable jobs, and (2) nontaxable materials used on taxable jobs.

(See “How Arizona Sales Tax Reform Will Affect Contractors” in the July/August 2014 issue of *AZ CPA* for more details regarding the impact of Arizona sales tax reform on construction contractors.)

Practice Tip! —To help educate the public, ADOR created a special page on their website dedicated to sales tax reform: <https://www.azdor.gov/TPTSimplification.aspx>. Taxpayers and tax professionals with additional questions may call ADOR’s “TPT Simplification Hotline” at (602) 542-5027. **AZ CPA**

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Want more information on this topic? Attend the ASCPA seminar: How Arizona TPT (Sales) Tax Reform Will Affect Contractors on Dec. 11. Go to www.ascpa.com for more information.