



## Arizona Transaction Privilege Tax Ruling

*In this month's state and local tax (SALT) column, Busby summarizes a recent transaction privilege (sales) tax ruling in which the Arizona Department of Revenue (ADOR) agreed to abate penalties assessed because property management companies failed to timely report or pay sales taxes for rental properties they manage.*

On April 15, 2019, the ADOR's Interim Director Carlton Woodruff, issued the first sales tax ruling bearing his name — Arizona Transaction Privilege Tax Ruling TPR 19-1.

### Background and The ADOR's Investigation

Beginning in January of 2018, property management companies were supposed to begin utilizing an electronic system the ADOR developed to report and remit sales taxes due for the owners of rental properties they manage. The system requires management companies to file consolidated electronic returns that identify the locations of each owner's rental properties as well as the gross income and deductions for each property.

Many property management companies did not timely report and remit the sales taxes due for the properties they manage using the ADOR's electronic system. Accordingly, the ADOR assessed many property owners with penalties and interest for failure to timely report and remit sales taxes.

Because the problem was so widespread, and because the ADOR received so many complaints about its new electronic filing system and the penalties and interest it assessed, the ADOR initiated an investigation to examine the underlying causes for the problems property managers experienced and whether there was reasonable cause to abate the penalties.

### The ADOR's Findings

On March 1, 2019, the ADOR hosted an open forum to determine the extent of and reasons for the concerns with its new electronic filing system for property management companies. During the forum, the ADOR learned that, despite "extensive efforts made by taxpayers and property managers to transition to the Department's electronic filing process ... many were unable to successfully submit returns and payments on behalf of property owners by the statutory deadline."

At the forum, the ADOR also learned more about the technical difficulties property managers experienced with the ADOR's new electronic system that resulted in their "failure or inability to timely file or pay applicable taxes and renewal fees," including complications involved with the process of "merging pre-existing city licensing information with new Department licensing information," which resulted in some payments being misapplied.



**by James G. Busby, Jr., CPA**

**James G. Busby, Jr., CPA**, is a state and local tax attorney 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. If you have any questions, please contact the author. He can be reached at (602) 322-4146 or [JBusby@CavanaghLaw.com](mailto:JBusby@CavanaghLaw.com).



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### The ADOR's Ruling

After the forum, and upon consultation with city officials, the ADOR determined that the complications property management companies experienced with its electronic filing system constituted reasonable cause for their failure to timely file and/or pay applicable taxes. Accordingly, in TPR 19-1, the Department announced that it is planning to issue a notice with additional information for property managers affected by this ruling "to facilitate the application for abatement of penalties assessed." ■



## Behind the Scenes at the Arizona Ballet

Sept. 18

11:30 a.m. – 1:30 p.m.

Join your fellow CPAs as we go Behind the Scenes at the Arizona Ballet! Take a look behind the curtain at the ballet and hear an interesting presentation from a few members of their team, including the Executive Director Samantha Turner. We will have an opportunity to peek in on a rehearsal as we tour their facility. This is an exciting and rare opportunity to visit and learn more about the inner workings of the Arizona Ballet. Lunch will be provided.

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