

Arizona's New Electronic Filing and Payment Requirements

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Reprinted from *State Tax Notes*, June 26, 2017, p. 1285

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In this edition of *SALT From My Saddle*, Busby outlines Arizona's new electronic filing and payment requirements under the recently enacted H.B. 2280 and DOR's amendment to A.A.C. R15-10-302(D).

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At the Department of Revenue's request, Arizona Gov. Doug Ducey (R) recently signed H.B. 2280, which phases in electronic filing and payment requirements for almost all Arizona taxpayers between now and 2021.¹

The DOR pursued this legislation to improve efficiencies and increase fraud prevention capabilities.² According to the department, 80 percent of Arizona individual income tax returns are filed electronically, but only 31 percent of Arizona sales tax returns are filed electronically.³

¹Laws 2017, Ch. 60.

²See DOR's March 29, 2017, press release.

³*Id.*

The Bill's Broad Reach and Phased Approach

H.B. 2280 applies to taxpayers required to file tax returns and make payments regarding state and local sales and use taxes; jet fuel excise and use taxes; severance taxes; the telecommunications service excise tax; the municipal water delivery system tax; the prepaid wireless telecommunications E911 excise tax; the government property lease excise tax; and to orders for the tax stamps required to lawfully sell tobacco products.⁴

Taxpayers who conduct business in two or more locations or under two or more business names in the state have been required to file their returns electronically since January 1, 2017,⁵ and the DOR also now expects businesses that paid \$1 million or more in sales taxes in the previous year to pay their sales taxes via electronic funds transfer (EFT).⁶

These taxpayers will be required to file and pay electronically if they had an actual tax liability in the previous calendar year, or reasonably anticipate a tax liability in the current year, of at least the amounts set forth below — regardless of the number of locations they have in the state:

- \$20,000 beginning July 1, 2017;⁷
- \$10,000 beginning January 1, 2019;

⁴Contrary to the dates and dollar thresholds outlined below, all returns, reports, and payments of any amount regarding tobacco stamps must have been submitted electronically since July 1, 2015. Beginning on the effective date of this bill, August 9, 2017, all tobacco tax license applications and requests for refunds or rebates of taxes paid on tobacco products must be submitted electronically.

⁵See DOR's 2017 TPT Renewal Fact Sheet and Ariz. Rev. Stat. section 42-5014(J).

⁶See DOR Publication 650.

⁷Although H.B. 2280 provides that the effective date for these taxpayers at this level of tax liability is January 1, 2018, on May 2, 2017 the Governor's Regulatory Review Council approved DOR's proposed amendment to A.A.C. R15-10-302(D), which accelerates the effective date to July 1, 2017.

- \$5,000 beginning January 1, 2020; and
- \$500 beginning January 1, 2021.⁸

The Effect on Income Tax Returns

The DOR is prohibited from requiring individual income tax payers to pay electronically,⁹ but the new law will affect corporate income tax, partnership, and fiduciary returns. The DOR can require corporate income tax payments to be made electronically under the schedule outlined earlier.¹⁰ But because the department has not implemented an electronic filing system for corporate income tax, partnership, and fiduciary returns, those returns do not have to be filed electronically until 2021, or when the electronic filing system is implemented, whichever comes later.¹¹

Caution to Tax Return Preparers

H.B. 2280 requires individual income tax return preparers who handle more than 10 original income tax returns that are timely filed for tax year 2018 or later to electronically file all individual income tax returns for that tax year and all subsequent years, unless taxpayers elect to file a paper return. The bill also prohibits individual income tax return preparers from charging the taxpayer a separate fee to file a return using the department's electronic filing program.¹²

Bingo Licensees and Luxury Taxes on Alcohol

The bill also applies to all required reports and returns filed by bingo licensees¹³ and by wholesalers of cider, malt,¹⁴ spirituous, or vinous¹⁵ liquors for resale within the state; and by farm wineries, microbreweries, and craft distillers¹⁶ selling liquor at retail or to a retail licensee within

the state. However, because no electronic filing system for these taxpayers is in place yet, these reports and returns do not have to be filed electronically until 2020, or when the DOR implements the electronic filing system, whichever comes later.

Annual Waivers Available

Taxpayers who do not have a computer or internet access, or who satisfy other circumstances that the DOR director deems worthy, may file an application on or before December 31 of each year to obtain an annual waiver of the electronic payment¹⁷ and filing¹⁸ requirements. In circumstances beyond the taxpayer's control, including situations in which the taxpayer was instructed by the department or the IRS to file paper returns, waivers are not required.¹⁹

Sticks and Carrots to Encourage Compliance

All Arizona taxpayers who are required to make a payment electronically but fail to do so may be subject to a 5 percent penalty.²⁰

On the other hand, as an incentive to encourage electronic filing by businesses subject to Arizona's sales and severance taxes — regardless of whether they are required to file electronically yet — the state increased the credit available to those taxpayers for their accounting and reporting expenses. For taxpayers who file electronically, the credit increases from 1 percent of tax due not to exceed \$10,000 in any calendar year to 1.2 percent of tax due not to exceed \$12,000 in any calendar year. This change is effective August 9, 2017. ■

⁸Laws 2017, Ch. 60, sections 6 and 15.

⁹Laws 2017, Ch. 60, section 6.

¹⁰Laws 2017, Ch. 60, section 6.

¹¹Laws 2017, Ch. 60, section 18.

¹²Laws 2017, Ch. 60, section 18.

¹³Laws 2017, Ch. 60, section 1.

¹⁴Laws 2017, Ch. 60, section 10.

¹⁵Laws 2017, Ch. 60, section 11.

¹⁶Laws 2017, Ch. 60, section 12.

¹⁷Laws 2017, Ch. 60, section 6.

¹⁸Laws 2017, Ch. 60, sections 15 and 18.

¹⁹*Id.*

²⁰Ariz. Rev. Stat. section 42-1125(0).