



## Update on Arizona's Electronic Filing and Payment Requirements

*In this month's state and local tax (SALT) column, Busby provides an update on Arizona's electronic filing and electronic payment requirements.*

In 2017, at the Department of Revenue's request, Arizona Gov. Doug Ducey (R) signed H.B. 2280, which phased in electronic filing and payment requirements for almost all Arizona taxpayers between that time and 2021.

The department pursued this legislation in order to improve efficiencies and increase fraud prevention capabilities. According to the department, in 2017, 80 percent of Arizona individual income tax returns were filed electronically, but only 31 percent of Arizona sales tax returns were filed electronically. As of 2019, 83 percent of Arizona individual income tax returns were filed electronically, and 77 percent of Arizona sales tax returns are filed electronically.

### 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; telecommunications service excise tax; the municipal water delivery system tax; the prepaid wireless telecommunications E911 excise tax; and government property lease excise tax.

The bill also applies to orders for the tax stamps required to lawfully sell tobacco products. But, contrary to the dates and dollar thresholds outlined below, all returns, reports, and payments of any amount related to tobacco stamps must have been submitted electronically since July 1, 2015, and, 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 were required to be submitted electronically.

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.

The following 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:

- \$5,000 beginning January 1, 2020; and
- \$500 beginning January 1, 2021.

### The Effect on Income Tax Returns

The department is prohibited from requiring individual income taxpayers to pay electronically, but the law does affect corporate income tax, partnership and fiduciary returns. In fact, the department just announced that it finally is prepared to begin



**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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accepting corporate and partnership returns electronically for tax year 2019. Electronic filing for corporations and partnerships is optional for tax year 2019 and will be mandatory for tax year 2020.

## Caution to Tax Return Preparers

H.B. 2280 required individual income tax preparers who prepare 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.

## Annual Waivers Available

Taxpayers who do not have a computer or internet access, or who satisfy other circumstances that the department director deems worthy, may file an application on or before December 31 of each year to obtain an annual waiver of the electronic payment and filing 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.

## 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 five percent penalty with a \$25 minimum that applies even for filings where no tax is due.

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 one 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. ●

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