

Arizona Finally Implements Sales Tax Simplification

by James G. Busby Jr.

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In this article, Busby highlights key Arizona sales tax reforms that are now in effect, noting that although most reforms were intended to simplify sales tax reporting for taxpayers, penalties apply to taxpayers who are required to use the DOR's online reporting and payment system but fail to do so.

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In 2013 the Arizona Legislature passed a transaction privilege (sales) tax reform bill. Arizona is one of just four states that allow municipalities to administer their own sales taxes, and one of lawmakers' primary objectives was to simplify the state's sales tax system by requiring the Department of Revenue to issue all municipal sales tax licenses, to process all municipal sales and use tax returns, and to receive all municipal sales and use tax payments.¹

Simplification Was Delayed by 2 Years

Arizona's sales tax reforms were to take effect on January 1, 2015, and some changes were effective on that date, such as the cumbersome new rules governing the taxation of construction contractors² and the rule that prevents municipalities from initiating a new sales or use tax audit on a company unless the company is engaged in business in only one municipality or the DOR authorizes the municipality to conduct the audit.³

¹Laws 2013, Ch. 255, section 27.

²James G. Busby Jr., "Taxing Contractors Under Arizona's Sales Tax Reform Laws," *State Tax Notes*, June 1, 2015, p. 673.

³A.R.S. section 42-6002(C)(4) and (5).

The primary DOR simplifications, however, did not go into effect on that date. Rather, late in 2014 the DOR announced that those key reforms were being delayed until January 1, 2016, because of the "complexity and scale of programming" required. Then about a year later, the department updated its website to indicate that those key reforms would not go into effect beginning January 1, 2016, because its computer system was still not ready.⁴

Key Reforms Are Now in Effect

Beginning with January 2017 sales tax returns due in February 2017, the DOR will process all municipal sales and use tax returns and receive all municipal sales and use tax payments on combined returns that allow taxpayers to report all Arizona state, county, and municipal sales and use tax liability on the same return.⁵

Also, the department now issues sales tax licenses for the state and all municipalities that impose sales taxes. Last year, it initiated the sales tax license renewal process for all municipalities. Arizona state and local sales tax licenses now must be renewed by January 1 each year.⁶

DOR Pushing Taxpayers Toward Online Transactions

The DOR encourages all businesses to renew their sales tax licenses, file, and pay their sales and use taxes online using its online system.⁷ Businesses that have more than one location are now required to renew their licenses and file their sales and use tax returns online.⁸ Similarly, the department expects businesses that reported \$1 million or more in sales taxes in the previous year to pay their sales and use taxes via electronic funds transfer.⁹ Penalties apply to taxpayers that are required to pay their taxes via electronic funds transfer but fail to do so.¹⁰

⁴Busby, "Arizona Postpones Key Sales Tax Reforms — Again!" *State Tax Notes*, Jan. 18, 2016, p. 207.

⁵[https://www.azdor.gov/TransactionPrivilegeTax\(TPT\).aspx](https://www.azdor.gov/TransactionPrivilegeTax(TPT).aspx).

⁶See the DOR's 2017 TPT Renewal Fact Sheet.

⁷*Id.*

⁸See the department's 2017 TPT Renewal Fact Sheet and A.R.S. section 42-5014(J).

⁹See the DOR's Publication 650 regarding EFT.

¹⁰A.R.S. section 42-1125(O).

During the 2017 legislative session, the DOR is expected to push for legislation that would require virtually all taxpayers to file and pay their state sales and use taxes online.

Practice Tip

Tax professionals who work for or consult with businesses subject to Arizona sales and use taxes should make sure their companies and clients realize that the DOR now issues and renews all municipal sales tax licenses, processes all municipal sales tax returns, and receives all municipal sales tax payments — and make sure that they conduct those transactions online, if required to do so. ■

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