TRANSACTION PRIVILEGE TAX

DESCRIPTION

The transaction privilege tax, commonly known as the sales tax, is levied on sellers or vendors for the privilege of engaging in business within Arizona. There are many different transaction privilege tax classifications, such as retail sales and prime contracting. The tax rate varies by classification, but most categories are taxed at a rate of 5%. Transaction privilege tax revenues are shared with the counties and cities.

TAX YIELD

Fiscal Year	Net Collections
1997-98	$2,863,786,084
1998-99 Est.	$3,119,641,322

DISTRIBUTION OF TRANSACTION PRIVILEGE TAX

Fiscal Year	State General Fund	Counties	Cities
1997-98	$2,214,266,900	$401,648,941	$247,870,243
1998-99 Est.	$2,417,022,363	$434,484,720	$268,134,239

1999 TAX LAWS

Laws 1999, Chapter 87 expanded the transaction privilege and use tax exemptions for machinery and equipment used to meet or exceed the rules and regulations of the United States Nuclear Regulatory Commission. This provision is effective retroactive to May 19, 1977. Refunds are authorized for past taxes paid, but the total amount of refunds is capped at $10,000. The bill also clarified that electricity sold to out-of-state customers is exempt from the sales and use taxes, and provided sales and use tax exemptions for railroad equipment used to transport persons or property. The electricity provision is effective January 1, 1999.

Laws 1999, Chapter 153 revised the definition of expendable materials. Current law specifies that expendable materials used in industry are not deductible from the transaction privilege and use tax base. This act defined expendable materials as those items that are ancillary to the operation or use of tangible personal property that is already deductible under current law. The cost or useful life of the property does not determine whether it can be included under the allowed deductions. The bill is effective retroactive to May 19, 1977, and refunds are authorized for taxes paid since that date. The total amount of refunds is capped at $100,000.

Laws 1999, Chapter 162 made various changes to the statutes governing multipurpose stadium districts. Payments of transaction privilege tax revenues to stadium districts were increased by allowing a diversion of taxes paid by businesses adjacent to a multipurpose facility. It authorized payments to a county stadium district of one-half of all sales tax revenues received 2 months prior from persons doing business at a multipurpose facility site or in the construction of a multipurpose facility. The payments are limited to the net new revenues and are continued for a length of 10 years. The diverted transaction privilege taxes may be used for operation and maintenance expenses, as well as to retire bonds. (Effective July 1, 1998)

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Transaction Privilege Tax

Laws 1999, Chapter 165 repealed or limited the use of tax increment financing to pay for large municipal projects. Retroactive to January 1, 1999, it repeals the ability of cities to use tax increment financing for redevelopment zones. Effective September 1, 1999, it also repeals the ability of counties to use tax increment financing for construction of theme parks. In addition, it conditionally repeals the ability of multipurpose facility districts to levy a transaction privilege tax to finance projects. This conditional repeal is effective November 3, 1999, unless by this date, in at least one district, voters have voted to fund a project.

Laws 1999, Chapter 167 allowed a sales and use tax deduction for machinery or equipment used in connection with natural gas pipelines to meet or exceed federal and state pollution standards. (Effective August 6, 1999)

Laws 1999, Chapter 180 provided an exemption under the retail sales classification of the transaction privilege tax for sales of spirituous, vinous, or malt liquor by licensed liquor wholesalers. Refunds are authorized for taxes paid by liquor wholesalers since December 31, 1990, but only if the taxpayer furnishes evidence that the refund amount will be paid to the person actually bearing the incidence of the tax. (Effective January 1, 1991)

Laws 1999, Chapter 183 returned to qualifying Indian tribes the amount of transaction privilege tax revenue received from all sources located on the Indian reservation in order to provide support for community colleges owned and operated by the tribes on their reservation. The amount of sales tax revenue transferred to a qualifying tribe is limited to a maximum of $1,500,000 in FY 2001 and $1,750,000 each fiscal year thereafter. (Effective July 1, 2000)

Laws 1999, Chapter 225 established the Uniform Transaction Privilege Tax Study Committee to study the impact of eliminating the Model City Tax Code and replacing it with a uniform state and local transaction privilege tax base. The Committee is required to submit its findings by December 15, 1999. (Effective August 6, 1999)

Laws 1999, Chapter 246 extended transaction privilege and use tax exemptions to sales of tangible personal property used in environmental remediation. It also expanded the existing prime contracting tax exemption to contracts for specified activities related to environmental remediation. (Effective January 1, 1997)

Laws 1999, Chapter 264 established the Study Committee on Internet Privacy, Jurisdiction, Regulation, and Taxation to analyze Internet taxation, privacy, and regulation issues. The Committee is required to report its findings by December 1, 1999.
(Effective August 6, 1999)

Laws 1999, Chapter 267 provided sales and use tax exemptions for tangible personal property sold to a nonprofit charitable organization that provides apartment housing to low income persons over the age of 62 in a facility that qualifies for a federal housing subsidy. It also allowed a prime contracting tax deduction for income derived from a contract entered into for the construction of such housing facilities for low income persons. (Effective July 1, 2001)

Laws 1999, Chapter 288 allowed all counties except Maricopa County to establish a capital projects tax to pay for the purchase or construction of buildings, roads, or other facilities. The tax base is the same as the transaction privilege tax base. The tax rate may not, in combination with the county excise tax for roads, exceed 10% of the transaction privilege tax rate. The capital projects tax is not permitted to last for more than 20 years. (Effective August 6, 1999)

Laws 1999, Chapter 290 made a number of procedural and administrative changes relating to the Department of Revenue and the enforcement of tax statutes. It required a person operating a business under two or more names to obtain a transaction privilege license for each name. It also stipulated that if a purchaser provides incomplete or inaccurate information to a seller in order for a transaction to be deducted from the sales tax, that purchaser becomes liable for the tax and any penalties and interest that the seller would have been required to pay if the purchaser had provided accurate information. In addition, it clarified that an organization that qualifies under the Internal Revenue Code as a charitable organization is exempt from the transaction privilege and use taxes. (Effective August 6, 1999)

Laws 1999, Chapter 304 exempted from the transient lodging classification of the transaction privilege tax any activities that are already taxed under a different classification. This bill was needed to prevent double taxation in cases in which businesses engaged in transient lodging charge fees for amusement activities that they provide. Under current law, these fees were subject to both the

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transient lodging and amusement taxes. The bill is intended to rectify this problem. Also, the act granted amusement tax exemptions for the income received from sales to persons or entities engaged in the transient lodging classification under certain circumstances.

Because of a drafting error in the way this bill was written, it would have resulted in far-reaching unintended consequences. Instead of applying to only the transient lodging, transportation, and amusement classifications, it actually applied to all classifications within the transaction privilege tax. To correct this error, the bill was repealed and replaced by Laws 1999, 2nd Special Session, Chapter 2.

Laws 1999, Chapter 322 earmarked $50,000 of retail sales tax collections to the Shooting Range Relocation and Assistance Fund in each fiscal year. (Effective August 6, 1999)

Laws 1999, 2nd Special Session, Chapter 2 fixed a drafting error in Laws 1999, Chapter 304. It corrected the inadvertent granting of a transaction privilege tax exemption to businesses that have proceeds subject to taxation under more than one sales tax classification. Instead, this bill provides exemptions from only the transient lodging, transportation, and amusement tax classifications to businesses that receive proceeds from bundled activities that are subject to taxation from more than one classification. The effect of the bill is to prevent double taxation. (Effective June 30, 1993)

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