ARIZONA STATE LEGISLATURE

AD HOC JOINT COMMITTEE ON THE TAX TREATMENT OF DIGITAL GOODS AND SERVICES

Minutes of the Meeting
December 14, 2017
10:00 a.m., Senate Hearing Room 109

Members Present:

Senator David C. Farnsworth, Co-Chair	Representative Michelle B. Ugenti-Rita, Co-Chair
Senator Karen Fann	Representative Jeff Weninger
Tom Belshe	Bill Molina
Patrick Derdenger	Grant Nülle
Kevin McCarthy	

Members Excused:

Senator Sean Bowie	Representative Mark A. Cardenas

Staff:

Fareed Bailey, Senate Research Analyst
Michael Madden, House Research Analyst

Co-Chair Farnsworth called the meeting to order at 10:03 a.m. and attendance was taken.

APPROVAL OF MINUTES

> **Senator Farnsworth stated that if there are no corrections, then without objection, the Ad Hoc Joint Committee on the Tax Treatment of Digital Goods and Services minutes for the following dates are approved as distributed electronically: July 31, 2017, September 19, 2017, October 17, 2017 and November 15, 2017.**

Senator Farnsworth announced that this will be the last meeting of the Ad Hoc Joint Committee on the Tax Treatment of Digital Goods and Services and gave opening remarks (Attachment A).

DISCUSSION AND RECOMMENDATIONS

Representative Ugenti-Rita offered comments and read the proposed recommendations for the consideration of the Committee.

> **The Ad Hoc Joint Committee on the Tax Treatment of Digital Goods and Services recognizes that businesses, taxpayers, the Department**

of Revenue (DOR), and local taxing authorities need statutory direction regarding what constitutes a taxable event for digital goods and services. To ensure that Arizona's economy maintains a competitive tax environment, the Committee recommends that the Legislature consider legislation intended to provide such clarity in the 2018 session. The Committee recommends that any such legislation should:

1) create and/or update relevant statutory definitions to include "prewritten software," "digital goods" and any related terms;

2) determine which digital goods and services (perpetual and non-perpetual right of use) are exempt from tax consideration;

3) determine which digital goods and services (perpetual and non-perpetual right of use) are taxable and which DOR classification they are taxable under (excluding the rental classification);

4) provide uniformity in state and local tax treatment of digital goods and services; and

5) clarify the sourcing and nexus for the new statutory definitions.

It is the belief of the Committee that legislation drafted based on these recommendations will:

1) increase taxpayer compliance and reduce the administrative burden of DOR;

2) encourage and promote the investment of high technology and high value-added service sectors in line with the Governor's 21st Century Economic priority; and

3) protect Arizona businesses from being competitively disadvantaged against out-of-state providers.

The Committee shared their comments and concerns for the topic mentioned above.

Senator Farnsworth asked if there was any further discussion on the proposed recommendations. No further discussion took place.

Senator Farnsworth moved that the Ad Hoc Joint Committee on the Tax Treatment of Digital Goods and Services recommend that the Legislature consider legislation intended to provide statutory clarity in the 2018 session regarding what constitutes a taxable event for digital goods and services and that any such legislation include the following five components:

1) create and/or update relevant statutory definitions to include "prewritten software," "digital goods" and any related terms;

2) determine which digital goods and services (perpetual and non-perpetual right of use) are exempt from tax consideration;

3) determine which digital goods and services (perpetual and non-perpetual right of use) are taxable and which DOR classification they are taxable under (excluding the rental classification);

4) provide uniformity in state and local tax treatment of digital goods and services; and

5) clarify the sourcing and nexus for the new statutory definitions.

The motion CARRIED by voice vote.

PUBLIC TESTIMONY

Senator Farnsworth called for public testimony. However, no one came forward.

Senator Farnsworth offered comments and announced that a future stakeholders meeting would take place in January 2018.

There being no further business, the meeting was adjourned at 10:19 a.m.

Respectfully submitted,

Imee L. Andrew
Committee Secretary

(Audio recordings and attachments are on file in the Secretary of the Senate's Office/Resource Center, Room 115. Audio archives are available at http://www.azleg.gov)