



# HOUSE OF REPRESENTATIVES

HB 2324

~~municipal tax code, leases~~

NOW: commercial lease exemption

Sponsor: Representative Farnsworth

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DP Committee on Ways and Means

DP Caucus and COW

X As Transmitted to the Governor

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## OVERVIEW

HB 2324 provides a municipal transaction privilege tax (TPT) exemption for the leasing of real property between affiliated companies, businesses, persons, or reciprocal insurers.

## HISTORY

TPT is Arizona's version of a sales tax. Under this tax, the seller is responsible for remitting to the state the entire amount of tax due, based on the gross proceeds or gross income of the business. While the tax is commonly passed on to the consumer at the point of sale, it is ultimately the seller's responsibility to remit the tax.

Arizona Revised Statutes § 42-6004 exempts certain activities from municipal TPT, sales, use, or other similar taxes. Gross proceeds of sales or gross income derived from a commercial lease between two corporations of which at least 80% of the voting shares of each corporation are owned by the same shareholders are currently exempt from taxes under this section.

## PROVISIONS

- Excludes from the commercial lease classification under state TPT the leasing of real property between affiliated companies, businesses, persons, or reciprocal insurers.
- Expands the current municipal tax exemption for leases between affiliated corporations to mirror the broadened state-level exemption.
- Specifies that *affiliated companies, businesses, persons, or reciprocal insurers* means the lessor holds a controlling interest in the lessee, the lessee holds a controlling interest in the lessor, an affiliated entity holds a controlling interest in both the lessor and the lessee, or an unrelated person holds a controlling interest in both the lessor and lessee.
- Defines *controlling interest* as direct or indirect ownership of at least 80% of the voting shares of a corporation or of the interests in a company, business, or person other than a corporation.
- Maintains the following statutory definition of *reciprocal insurer*:
  - An unincorporated aggregation of subscribers operating individually and collectively through an attorney-in-fact to provide reciprocal insurance among themselves.