

Fiscal Note

BILL # SB 1556

TITLE: TPT; administration; remote sellers

SPONSOR: Bennett

STATUS: As Introduced

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Description

Under current law, a remote seller with more than \$100,000 of gross proceeds derived from sales to customers in Arizona in a calendar year is required to collect and remit sales tax from those transactions to the Department of Revenue (DOR). If this payment threshold was not met in the prior calendar year, but is met partway through the current calendar year, the remote seller is required to start collecting and remitting sales tax to the state on the first day of the month that starts at least 30 days after the threshold was met.

Beginning in calendar year 2025, SB 1556 would change the payment threshold for remote sellers from \$100,000 in gross proceeds to \$100,000 in taxable sales. (Taxable sales is essentially the difference between the gross proceeds (or gross income) from sales and various sales tax deductions allowed by statute.) Moreover, even if a remote seller meets the payment threshold partway through the calendar year, under the bill they would not be required to start remitting sales tax to the state until January 1 of the following calendar year.

Beginning in calendar year 2025, SB 1556 would allow remote sellers to elect to pay a single municipal tax rate, rather than the retail sales tax rate imposed by each individual city or town. The single tax rate would equal the average rate of all municipal taxes levied in the state during the preceding fiscal year.

Apart from the provisions outlined above, SB 1556 would also make numerous changes related to the administration of sales tax payments from remote sellers.

Estimated Impact

We estimate that the bill would reduce General Fund revenue. The taxable proceeds threshold is more difficult for remote sellers to meet than the gross proceeds level, thereby resulting in less Transaction Privilege Tax (TPT) remittance. Delaying the beginning of remittance to the following January would also reduce remittances. We cannot determine the magnitude of the General Fund revenue loss without more information from DOR. The agency has not yet responded to our request for information on the bill's fiscal impact.

If a remote seller no longer has to collect and remit TPT as a result of the reduced requirements described above, the responsibility for the remittance of sales tax to DOR would be shifted to Arizona consumers in the form of use tax payments. However, since use tax compliance among consumers has historically been low, such shift in tax liability would likely be insufficient to offset the reduced TPT payments from remote sellers.

While the option for remote sellers to pay an average single municipal tax rate (rather than the individual rates imposed by each municipality) would have some local government impact, as discussed below, it would not have any impact on the General Fund.

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Analysis

In FY 2023, a total of \$451.2 million was deposited into the General Fund from sales tax collections remitted from remote sellers and marketplace facilitators. At current time, our office does not have access to the detailed licensing and payment data that is necessary to estimate the potential General Fund revenue loss associated with the modified requirements for remote sellers under the bill.

Local Government Impact

Currently, the municipal retail tax rate varies from a low of 1.5% to a high of 5.0%, with an (unweighted) average municipal rate of 2.76%. This suggests that cities with a tax rate lower than 2.76% could incur a revenue loss under the bill. Conversely, cities with a rate higher than 2.76% could benefit from the bill. For the same reasons as outlined above, we cannot determine the impact of SB 1556 on individual municipalities.

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