

## Arizona's New Sales Tax Reporting Requirements

by James G. Busby Jr.



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In this edition of SALT From My Saddle, Busby explains that although Arizona's simplified sales tax reporting processes were to be implemented by January 1, 2015, they have not taken effect, and the state now requires location-based reports on new tax forms and some businesses to report electronically.

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Arizona, along with Alabama, Colorado, and Louisiana, is one of four states that allows municipalities to administer their own sales taxes.

### Sales Tax Simplification Promised and Delayed

To simplify the sales tax reporting process, the Arizona Legislature passed a bill in 2012 that required the Department of Revenue to implement a central online portal by January 1, 2015, that would permit taxpayers who are required to pay municipal sales taxes that are not collected by the department the option of reporting and paying the taxes using the portal.<sup>1</sup> In 2013 the Legislature passed a more comprehensive sales tax reform bill.<sup>2</sup>

The portal and Arizona's other sales tax reforms were to take effect January 1, 2015. Some of the changes did go into effect on that date, such as Arizona's cumbersome new rules

governing the taxation of construction contractors<sup>3</sup> and the rule that prevents municipalities from initiating a sales or use tax audit unless the company is engaged in business in only one municipality or the municipality is authorized by the department to conduct the audit.<sup>4</sup>

However, the most important simplifications — those that would have required the department to issue all municipal sales tax licenses, process all municipal sales tax returns, and receive all municipal sales tax payments — did not go into effect on January 1, 2015, as planned because the department's computer system was not ready to accommodate the changes. Rather, those important reforms were delayed — first until January 1, 2016,<sup>5</sup> and then indefinitely<sup>6</sup> — although the department now believes its computer system will be ready to accommodate those changes beginning this fall.

### New Tax Forms and Location-Based Reporting Now Required

On June 29 the department announced that Form TPT-1, the state's long-standing sales, use, and severance tax return, will not be accepted for reporting periods beginning on or after June 1, 2016.

Businesses that only have one location in Arizona and only report to one taxing jurisdiction in Arizona may use Form TPT-EZ. The department refers to that as a simplified form. While it is simplified compared with the new Form TPT-2, it is comparable to the department's old form, Form TPT-1.

Businesses with more than one location in Arizona or that report to more than one Arizona taxing jurisdiction must use Form TPT-2. Taxpayers now must report their gross receipts and deductions separately for each business location in Arizona and for each reporting jurisdiction. Thus, for example, a business that operates two separate retail stores in Arizona is now required to report the gross

<sup>3</sup>See Busby, "Taxing Contractors Under Arizona's Sales Tax Reform Laws," *State Tax Notes*, June 1, 2015, p. 673.

<sup>4</sup>Laws 2013, Ch. 255, section 18.

<sup>5</sup>Busby, "Some Arizona Sales Tax Reforms Postponed Until January 1, 2016," *AZ CPA Magazine*, Dec. 2014, at 9.

<sup>6</sup>See Busby, "Arizona Postpones Key Sales Tax Reforms — Again!" *State Tax Notes*, Jan. 18, 2016, p. 207.

<sup>1</sup>Laws 2012, Ch. 332.

<sup>2</sup>See Laws 2013, Ch. 255, and James G. Busby Jr., "How Arizona Sales Tax Reform Will Affect All Businesses Subject to Arizona Sales Tax," *AZ CPA Magazine*, Sept. 2014, at 9.

income and deductions for each store separately, even if the stores are located in the same municipality.

### Electronic Reporting Now Required by Some

The department encourages all businesses to file their sales tax returns electronically at [www.aztaxes.gov](http://www.aztaxes.gov). As of July 1, 2016, businesses with two or more locations in Arizona are required to file Form TPT-2 electronically.

### For Now, Non-Program Cities Still Collect Their Own Taxes

Although the instructions for Form TPT-EZ and Form TPT-2 indicate that all city taxes should be reported on those forms, a June 29, 2016, email from the department clarified that it will not begin collecting taxes for the state's 14 non-program cities until sometime this fall.

Accordingly, for now, taxpayers must continue reporting taxes directly to Arizona's non-program cities using the separate forms required by each city. Arizona's non-program cities are Apache Junction, Avondale, Chandler, Douglas, Flagstaff, Glendale, Mesa, Nogales, Peoria, Phoenix, Prescott, Scottsdale, Tempe, and Tucson.

### Practice Tip

To help taxpayers and tax professionals familiarize themselves with Arizona's new reporting requirements, the department set up a page on its website with links to tax reporting guides, forms, tax rates, deduction codes, information concerning location-based reporting, and more.<sup>7</sup> The department also published instructional videos on its YouTube channel. ■

<sup>7</sup> Available at <http://bit.ly/2911kXz>.

## IN THE WORKS

A look ahead to planned commentary and analysis.

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Martin Eisenstein and Michael Carey discuss the difficulty facing IT service and cloud service providers when attempting to determine the source of various cloud services for sales tax purposes.

### Will Multistate Tax Compact cases come back to haunt states? (*State Tax Notes*)

Diann Smith, Kendall Houghton, and Joe Crosby discuss the Multistate Tax Compact litigation that is ongoing in states such as Michigan, offering their views on the legal implications, the arguments that courts have favored, and the potential ramifications regarding the viability of other state compacts.

### New partnership audit rules — What we know so far (and what still needs to be clarified) (*Tax Notes*)

Carol Kulish Harvey, Harve Lewis, Deborah Fields, and Deanna Harris discuss the new rules on partnership audits and the areas in which additional guidance would be useful.

### Muhammad Ali in the time of the 'maxi tax' (*Tax Notes*)

Richard Skillman looks back on his time as a tax attorney for Muhammad Ali, comparing how Ali accepted his tax bills with current perceptions of the income tax system.

### Taxing income earned outside all jurisdictions (*Tax Notes International*)

Shu Chin Ng proposes the creation of a world taxing authority to tax the income from international areas such as the high seas and outer space.