TPT Simplification Task Force: Final Recommendations

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Arizona Commerce Authority
TPT Simplification Task Force

• On May 11, 2012 Governor Brewer issued Executive Order 2012-01 which established the TPT Simplification Task Force.

• Task Force charged with identifying reforms that will:
  ➢ Simplify Arizona’s TPT
  ➢ Reduce taxpayer frustration
  ➢ Improve compliance

• Nine voting members representing municipalities, businesses and the state.

• Three non-voting advisory members representing the Legislature and the Arizona Department of Revenue.
• 17 meetings between July 23 and December 13:

- Full Task Force
  - 5 Meetings

- Standardization Working Group
  - Pat Irvine
  - 4 Meetings

- Online Retail Working Group
  - Dennis Hoffman
  - 4 Meetings

- Contracting Working Group
  - Craig McPike
  - 4 Meetings
Features of our TPT system

- Nationally, 7,000 taxing jurisdictions impose sales and use taxes -- administered by the state – except in Alabama, Colorado, Louisiana and Arizona
- 16 business classifications
- 18 “non-program cities”
- Multiple licensing contacts
- Multiple tax returns
- Multiple state and local tax bases
- Multiple audits
- Varying state and city audit interpretations

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• Tax on “prime contracting” activities, not on materials at point of sale.

• Instead, TPT is imposed on 65% of the contract, assuming 35% for labor.

• Controversy, litigation, legislation, frustration far disproportionate to the revenues generated.

• Excessive complexity increases the amount of taxpayer noncompliance, estimated to be over 30%.

• Reform complicated by revenue sharing formulas.
Recommendations: Standardization

• Work aggressively to standardize the tax base, definitions & interpretations of taxable transactions.

• Scrutinize any future proposed changes to the tax base by either the state or a municipality.

• State law should provide for statewide TPT administration.
• State, cities and towns should standardize TPT licensing.

• Expand the online portal required by HB 2466 to have all licenses be issued and all TPT tax returns filed through the portal.

• Allow only a single audit, in accordance with existing statutory schedules, including a multi-jurisdictional audit if applicable.
Recommendations: Remote sales

• Monitor and provide feedback to Arizona’s congressional delegation regarding federal online retail and remote sales legislation.

• Ensure Arizona is well-positioned to benefit from the taxation of online retail and remote sales by passing legislation clarifying that taxable transactions are sourced at the destination for both state and local taxes.

• Continue economic analysis of the impact of taxation on online retail and remote sales.
Recommendation: Contracting

• The current tax structure for contracting activity is not desirable for many reasons, both practical and from a policy perspective; therefore state and local governments should act aggressively to transition from the current practice to a tax on materials at the point of sale.