

Business Tax Basics Handout

Presented by the Arizona Department of Revenue
2022



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Contact Us

Outreach Education Unit EducationUnit@azdor.gov

Please visit our website at azdor.gov for detailed Arizona tax information and resources. Taxpayers unable to find answers to questions may contact the Arizona Department of Revenue representatives using the information available at www.azdor.gov/contact-us.

AZ Taxes Browser Compatibility

For optimal performance, Google Chrome is recommended.

News and Updates

To ensure you stay up to date on the latest news and updates, subscribe to receive texts or emails on AZDOR.gov.

Live Chat

The Arizona Department of Revenue (ADOR) is an available option when seeking information about state taxes. ADOR's live chat feature is available on both the AZDOR.gov and AZTaxes.gov website; Monday through Friday, 7 a.m. - 6 p.m. The pop-up application provides customers with answers to general questions and offers navigational guidance.

TPT Online Quick Reference

For tips and resources to assist with filing and paying TPT online, visit <https://azdor.gov/transaction-privilege-tax/quick-reference> to access the Quick Reference page.

Remote Seller/Marketplace Facilitators

On May 31, 2019, Arizona Governor Doug Ducey signed House Bill (H.B.) 2757 into law. This legislation required remote sellers and marketplace facilitators that do not have a physical presence in Arizona and meet certain economic thresholds to begin filing and paying transaction privilege tax (TPT) in Arizona starting October 1, 2019.

The E-Commerce Compliance and Outreach (ECCO) team was created to assist remote sellers and marketplace facilitators with licensing and filing requirements associated with the implementation of these laws.

The ECCO team also assists Arizona-based businesses that may be subject to other states' remote seller and marketplace facilitator laws.

Frequently asked questions, requirements and resource links are available on the Out-of-State Sellers resource page at <https://azdor.gov/transaction-privilege-tax/retail-sales-subject-tpt/out-state-sellers>.

Remote sellers, marketplace facilitators and Arizona-based businesses with questions can contact the ECCO team by phone at 833-293-7253 (833-AZeSale) or by email at azesale@azdor.gov.

TPT Features

Transaction privilege tax is a tax on the privilege of engaging in certain taxable activities within our state. In Arizona, the seller/vendor owes transaction privilege tax (TPT) to the taxing jurisdictions. State, counties, and many municipalities impose TPT on these various taxable activities.

Businesses engaged in taxable activities are responsible for paying the taxes owed based on the gross receipts.

Some taxable activities are:

Retail – A retail activity is the sale of tangible personal property to the end consumer. Sales for resale are not subject to tax (See section Exemption Certificates.) Businesses engaged in activities that fall under other classifications may also be taxable under the retail classification. For example, a restaurant that sells T-shirts, bumper stickers, cups or other tangible personal property items is also engaged in a retail business.

Contracting - A prime contractor is subject to prime contracting transaction privilege tax on income derived from modification projects, regardless of whether the contractor furnishes only labor or both labor and materials in the performance of modification work. A contractor who only engages in maintenance, repair, replacement or qualified alteration projects is not taxable as a prime contractor. The tax base for the prime contracting classification is 65 percent of the gross proceeds of sales or gross income derived from the job (Visit azdor.gov for Construction Contractor Tax Factor Table.)

Commercial Lease – Tax is imposed on the business of leasing the use or occupancy of real property. For example, a restaurant that rents out meeting rooms, banquet halls or event space may have tax due on the gross receipts under this classification. Commercial leases are not subject to state transaction privilege tax but may be subject to county and municipal privilege tax.

Personal Property Rentals – The renting of tangible personal property to others is subject to transaction privilege tax under the personal property rental classification. Businesses that rent machines or equipment or other tangible personal property, such as a smoothie machine, chocolate fountain, tables, chairs or other items, are subject to tax on the gross receipts of those rentals.

Amusement – If the business charges admission or user fees for exhibition, amusement or entertainment, the gross receipts from those activities may be taxable. Examples of amusement activities would be video games, jukeboxes, pinball machines, pool and billiard tables or admission charges for entertainment or sporting events.

A full list of taxable activities may be found on azdor.gov on the tax rate table.

Use Tax

Use tax is imposed upon the purchase of tangible personal property, which is used, stored, or consumed in Arizona when the sale was not subject to the TPT. Arizona purchasers are also liable for use tax if they purchase goods using a resale certificate, and the goods are subsequently used, stored or consumed in Arizona contrary to the purpose stated on the certificate.

With the remote seller and marketplace facilitator laws put into place beginning October 1, 2019, use tax has become less relevant. However, an Arizona purchaser is liable for use tax on goods purchased from an out-of-state vendor when that vendor did not collect the tax. For this case, it is extremely important to review the invoice once the purchase is received. If there is no line that indicates a tax was charged for the order, you can reach out to the vendor to ask if they are registered with ADOR for TPT collection purposes - if the vendor is, then you do not have to remit anything. If the vendor is not and none of the economic or physical nexus rules apply, then the business would remit the use tax for the purchase.

Licensing

Businesses engaging in taxable activities must apply for a transaction privilege tax license. The license application is a “Joint Tax Application” used by both the Department of Revenue and the Department of Economic Security and is available on the department’s website, in ADOR offices, or online at AZTaxes.gov.

AZTaxes.gov Online Registration

Registering on AZTaxes.gov is a three-step process: Enroll to file and pay online, set up your e-signature pin and link your accounts. New User Registration tutorials are available in the Media Center on AZTaxes.gov and AZDOR.gov.

Business Account Updates

The Business Account Update (Form 10193) allows for updates to business information, including canceling a license, changing a mailing address, and adding or deleting location information.

Power of Attorney Form

A power of attorney can be used to authorize ADOR to release confidential information to your appointee. There are a variety of Form 285s available, choose the one that best suits your needs.

Renewals

Licenses are valid for one calendar year (Jan.-Dec.), due annually on January 1. Any locations that are no longer active should be deleted before January 1. Your city may impose additional requirements beyond the transaction privilege tax license. Check with the city in which your business is located for more information.

Filing Frequency

If your total estimated annual combined Arizona, county and municipal transaction privilege tax liability is less than \$2,000, you may file and pay annually; if your annual transaction privilege tax liability is between \$2,000 and \$8,000, you may file and pay quarterly. Otherwise, your transaction privilege taxes are due monthly.

Filing frequencies can be changed by submitting a Business Account Update form.

Electronic Filing & Payment Thresholds

Any TPT taxpayer with an annual liability of \$500 or more must file electronically beginning with the January 2021 filing period.

Location-Based Reporting

A location code identifies the physical or brick and mortar location of your business and is listed on your license. The location code, not to be confused with a city or region code, is a three-digit number printed on the TPT license for each physical location of a business. A location code is not used to report state and county activity.

A region/city code identifies the city, town, municipality or district in which taxable activity is conducted.

Transaction privilege tax for all local jurisdictions is reported at the location of the activity. A business with one physical location may use Form TPT-EZ, using the proper location code and respective region code on the same single reporting form.

Businesses having multiple physical locations are required to file transaction privilege tax returns online at AZTaxes.gov using the location codes and respective region codes assigned by the Department of Revenue. Each physical location should be reported on the same single reporting form using the appropriate location code.

For mobile businesses and other businesses without physical locations, doing business in multiple regions/jurisdictions need to file all activity under one location code as assigned by the Department of Revenue. Each separate local jurisdiction where they do business has to be listed using the proper region codes on the same single reporting form.

Tax Rates

The tax rate is the percentage at which your entity is taxed. Your total tax rate is the combination of state, county, and city rates. These rates can be found in the current *Arizona State, County, and City Transaction Privilege and Other Tax Rate Tables*, available on AZDOR.gov. Rates may vary based on the business classification and location.

To access a previous month's tax rate table, click the "Tax Rate Table Archive" link.

Table 1 displays the combined state and county tax rates.

Table 2 contains a list of all city privilege tax rates and city region codes. The city business code will be the same as the state business code if the tax base for the city is the same as the state. The city business code may vary from the state business code if the city tax base is different from the state. The table shows the city/town, region code, business codes, tax rates, and county for each city. Businesses operating in a business code with a specific additional tax displayed will have to report gross receipts under both the applicable business codes and the additional tax business codes for the city.

For current tax rates, visit AZTaxes.gov “AZ Tax Rate Look Up” tool under the Resources section.

For an additional resource that will provide information on any city or town rate change, visit the Model City Tax Code.

Exemption Certificates

Exemption certificates are used to document and establish entitlement to state and city tax deductions or exemptions. It is to be filled out completely by the purchaser and furnished to the vendor at the time of the sale. The vendor shall retain this certificate for single transactions or for the specified period, as indicated. Incomplete certificates are not considered to be accepted in good faith and may be disregarded by the department. Only one category of exemption may be claimed on a certificate.

Form 5000 – Transaction Privilege Tax Exemption Certificate

Form 5000A – Arizona Resale Certificate

For additional guidance, you may access the Exemption Certificates Procedure at: <https://azdor.gov/legal/procedures/tpp-17-1>.

To access the “License Verification” tool, visit AZTaxes.gov.

Multistate Tax Commission Exemption Form - This certificate may be used only when making purchases of tangible personal property for resale in the ordinary course of business and not for any other statutory deduction or exemption. It is valid as a resale certificate only if it contains the purchaser's name, address, signature, and Arizona transaction privilege tax (or other state sales tax) license number, as required by Arizona Revised Statutes § 42-5022.

Deduction Codes

Some types of transactions are not subject to transaction privilege tax and may be deducted from the tax base. These deductions are established in [Arizona Revised Statutes](#) and [Model City Tax Code](#). To claim a deduction for exempted transactions, the deduction must be listed on the Schedule A of the TPT return. Only deductions listed using the correct deduction codes will be allowed.

Each business class has a specific list of allowed deductions. Lists of deduction codes are available on the Arizona Department of Revenue's website. Only use deduction codes permitted for your business classification(s).

Added Tax versus Tax Factoring

R15-5-2210 Collection of Tax by the Vendor

A. The vendor may pass on the economic burden of the transaction privilege tax, either as an unspecified portion of the overall selling price or as a separate and distinct item of charge.

1. If a vendor elects to pass on the economic burden of the tax as a separate and distinct item of charge, the vendor's tax base shall not include any collected state, county, city, or town taxes.
2. If the vendor does not pass on the tax as a separate and distinct item of charge, the vendor may factor out the tax. See R15-5-2210.01.
3. The amount of tax on a transaction shall be the same whether the tax is stated as a separate and distinct item of charge or the tax is calculated using the factoring method.
4. Calculation of the amount of tax using the separate and distinct item of charge method shall be as follows:

Price of tangible personal property: \$100

Multiply the price by the applicable tax rate

\$100 times 5% equals the tax as calculated: \$5

Total cost to the consumer: \$105

B. All taxes collected shall be remitted to the department and applicable taxing jurisdictions. If a vendor has collected tax in excess of the tax liability for the reporting period, the excess tax shall also be remitted.

Tax Factoring Tables may be found at <https://azdor.gov/transaction-privilege-tax/tax-factoring>.

Best Reporting Practices

Multi-Location and Multi-Business Taxpayers

Arizona Administrative Code (A.A.C.) R15-5-2004:

A. A taxpayer with multiple licenses for different businesses shall maintain separate records for each licensed business.

B. A tax is levied upon the privilege of engaging in specified businesses within Arizona. Business codes for reporting gross receipts subject to tax have been determined by the department based on statutory provisions. Each business activity is independent of the others, even when transacted under a single license. A person who engages in more than one type of business under each license shall maintain books and records, so the gross proceeds of sales or gross income of each taxable business activity is shown separately.

C. Failure to maintain appropriate books and records shall result in the imposition of the tax at the highest rate on the gross proceeds or gross income applicable to the business activity.

Return and Payment Due Dates

Returns are due by the 20th of the month following the reporting period. They are considered delinquent if not received by the last business day of the month. The return must be filed even when no sales have been made. Additionally, online payments should be paid the day before the last business day of the month to be considered timely.

Accounting Credit

The accounting credit is a credit given to timely filers. Timely electronic filers receive an increased accounting credit of 1.2 percent for up to \$12,000 for the year. Timely paper filers receive an accounting credit of 1 percent up to \$10,000 for the year. Not all business activity codes are entitled to the credit. Accounting credits can only be claimed at the state level.

Form TPT –EZ

Form TPT-EZ is used by businesses with only one physical location. Additionally, the business may only report in six or fewer state/county or city jurisdictions and utilize five or fewer state/county or city deduction codes.

There are different sections for reporting the combined state/county and city transaction details. The form also has separate Schedule A sections for itemizing the combined state/county and city deductions.

To navigate to the self-calculating Form TPT-EZ to minimize human error: <https://azdor.gov/forms/tpt-forms/tpt-ez-transaction-privilege-use-and-severance-tax-return>.

Form TPT –2

Form TPT-2 is used by businesses that have more than one physical location or report activity under multiple business codes and jurisdictions that require more entries than the limited entries allowed for the TPT-EZ.

There are separate sections for reporting the combined state/county and city transaction details. The form also has separate Schedule A sections for itemizing the combined state/county and city deductions.

Businesses with more than one physical location or with a combined state, county and municipal privilege tax annual liability of \$500 or more are required to file transaction privilege tax returns electronically.

Example

For the reporting period, “Business A” in Tucson (Pima County) had a total of \$38,953.47 in gross receipts. During the reporting period, Business A had \$3,000.00 of product sales to another retailer that would resell the products and furnished a completed 5000A exemption certificate to Business A. Business A separately stated tax on invoices to customers. The total of the tax collected in the gross receipts is \$2,877.60.

Two deductions will be available to Business A – Sales for Resale and Tax Factored or Collected.

Because the tax was separately stated on customers’ invoices, the amount of total tax due should equal the amount that was already collected.

Calculations:

Retail (Business Code 017)

Total gross receipts	= \$38,953.47
Total tax stated on receipts	= \$2,877.60
Total sales for resale	= \$3,000.00
State/Country Rate	= 6.1%
Tucson City Tax Rate	= 2.6%
Combined Tax Rate	= 8.7%

Deduction Code Information:

PMA (region code) **017** (business code)

551 (deduction code) “Tax Factored or Collected” = \$2,877.60

503 (deduction code) “Sales for Resale” = \$3,000.00

These deduction codes would be shown on the State/County and the City Schedule A.

TRANSACTION PRIVILEGE, USE, AND SEVERANCE TAX RETURN - (TPT-EZ)

Arizona Department of Revenue
 PO Box 29010 - Phoenix, AZ 85038-9010
 For assistance out of state or in the Phoenix area: (602) 255-3381 or
 Statewide, toll free area codes 520 and 928: (800) 352-4090

Form TPT-EZ is for filing periods beginning on or after June 1, 2016.

TPT-EZ return is due the 20th day of the month following the month in which the transactions were conducted

TAXPAYER IDENTIFICATION NUMBER	<input checked="" type="checkbox"/> SSN	<input type="checkbox"/> EIN
#####		
LICENSE NUMBER		
2#####		
PERIOD BEGINNING	PERIOD ENDING	
0 9 1 0 1 2 0 1 9	0 9 1 3 0 2 0 1 9	
REVENUE USE ONLY. DO NOT MARK IN THIS AREA		
POSTMARK DATE	RECEIVED DATE	

<input type="checkbox"/> AMENDED RETURN <input type="checkbox"/> FINAL RETURN <input type="checkbox"/> CHECK HERE AND SIGN BELOW IF YOU HAVE NO GROSS RECEIPTS TO REPORT	
BUSINESS NAME	
C/O	
MAILING ADDRESS	
1 Main St	
CITY	STATE ZIP CODE
TUCSON	AZ 85701
<input type="checkbox"/> ADDRESS CHANGED (MAILING ADDRESS ONLY)	BUSINESS PHONE NUMBER (520) 000-0000

AA NET AZ/COUNTY TAX (PAGE 2, LINE 7, COLUMN (M))	AA	2,017.63
A1 STATE EXCESS TAX COLLECTED	A1	
A2 EXCESS TAX ACCOUNTING CREDIT	A2	
A3 SUBTOTAL (LINE AA + A1 - A2 = NET/AZ COUNTY TAX)	A3	2,017.63
BB NET CITY TAX (PAGE 2, LINE 14, COLUMN (M))	BB	859.97
B1 CITY EXCESS TAX COLLECTED	B1	
B2 SUBTOTAL (LINE BB + B1 = NET CITY TAX)	B2	859.97
CC NET TAX DUE ON THIS RETURN (LINE A3 + LINE B2 = LINE CC)	CC	2,877.60
DD TPT ESTIMATED PAYMENTS TO BE USED ON THIS RETURN (JUNE RETURN ONLY, DUE IN JULY)	DD	
EE TAX DUE NET OF TPT ESTIMATED PAYMENTS (LINE CC - LINE DD = LINE EE)	EE	2,877.60
FF TOTAL AMOUNT REMITTED WITH THIS RETURN	FF	\$

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

The taxpayer designates the individual listed below as the person to contact to schedule an audit of this return and authorizes the disclosure of confidential information to this individual.

TAXPAYER PRINTED NAME	PAID PREPARER'S PRINTED NAME (OTHER THAN TAXPAYER)	PAID PREPARER'S TIN
TAXPAYER SIGNATURE	DATE	
TAXPAYER PHONE NO.	TITLE	PAID PREPARER'S SIGNATURE (OTHER THAN TAXPAYER)
		PAID PREPARER'S PHONE

ADOR 1/203 (7/16)

PLEASE MAKE CHECK PAYABLE TO: ARIZONA DEPARTMENT OF REVENUE

Disclaimer: The following material has been prepared by the Arizona Department of Revenue for informational and training purposes only. It does not constitute tax advice or reflect a position or policy of the Arizona Department of Revenue. The information contained in this presentation is current as of the date noted in the materials. Arizona statutes, case law or administrative rules, as well as later rulings or notices issued by the department, may change or negate any or all of the information contained in these materials. In the event of inconsistency or omission, the language of the relevant Arizona statute, administrative rule or any formal written communication by the Arizona Department of Revenue will prevail.

TRANSACTION PRIVILEGE, USE, AND SEVERANCE TAX RETURN - (TPT-EZ)

STATE (AZ) /COUNTY TRANSACTION DETAIL (See Table 1 on the Tax Rate Table, www.azdor.gov)

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)
REG. CODE	NAME OF REGION	BUS. CODE	DESC. OF BUS. ACTIVITY	GROSS RECEIPTS	DEDUCTIONS FROM SCHEDULE A	(F) - (G) = (H) NET TAXABLE	AZ / COUNTY TAX RATE	(H) X (I) = (J) TOTAL TAX	ACCT'G CREDIT RATE	(H) X (K) = (L) ACCOUNTING CREDIT	(J) - (L) = (M) AZ/COUNTY TAX DUE	
1	PMA	Pima	017 Retail	38,953.47	5,877.60	33,075.87	.061	2,017.63			2,017.63	
7	AZ/COUNTY SUBTOTAL (AMOUNT IN COLUMN M, MUST EQUAL PAGE 1, LINE AA).....											
				38,953.47	5,877.60	33,075.87		2,017.63			2,017.63	

CITY TRANSACTION DETAIL (See Table 2 on the Tax Rate Table, www.azdor.gov)

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)
LOC. CODE	CITY CODE	NAME OF CITY	BUS. CODE	DESC. OF BUS. ACTIVITY	GROSS RECEIPTS	DEDUCTIONS FROM SCHEDULE A	(F) - (G) = (H) NET TAXABLE	CITY TAX RATE	(H) X (I) = (J) TOTAL TAX	(J) - (L) = (M) CITY TAX DUE		
8	001	Tucson	017	Retail	38,953.47	5,877.60	33,075.87	.026	859.97	859.97		
14	CITY SUBTOTAL (AMOUNT IN COLUMN M, MUST EQUAL PAGE 1, LINE BB).....											
					38,953.47	5,877.60	33,075.87		859.97	859.97		

NOTE: The deduction amounts that have been listed on the lines in column G must be itemized by category for each region code and business code reported. The total of the amounts listed in Schedule A must equal the total of the Deduction Amounts listed in column G.

SCHEDULE A - DEDUCTION DETAIL INFORMATION

STATE (AZ) /COUNTY DEDUCTIONS DETAIL

(A)	(B)	(C)	(D)	(E)	(F)
REGION CODE	BUS. CODE	DEDUCTION CODE	DEDUCTION AMOUNT	DESCRIPTION OF DEDUCTION CODE	
1	PMA	017	551	2,877.60	Tax Factored or Collected
2	PMA	017	503	3,000.00	Sale for Resale
6	AZ/COUNTY TOTAL DEDUCTIONS \$ 5,877.60				
TOTAL MUST EQUAL TOTAL ON PAGE 2, LINE 7, COLUMN G					

SCHEDULE A - DEDUCTION DETAIL INFORMATION

CITY DEDUCTIONS DETAIL

(A)	(B)	(C)	(D)	(E)	(F)
LOC. CODE	CITY CODE	BUS. CODE	DEDUCTION CODE	DEDUCTION AMOUNT	DESCRIPTION OF DEDUCTION CODE
8	001	TU	017	551	2,877.60 Tax Factored or Collected
9	001	TU	017	503	3,000.00 Sale for Resale
13	CITY TOTAL DEDUCTIONS \$ 5,877.60				
TOTAL MUST EQUAL TOTAL ON PAGE 2, LINE 14, COLUMN G					

Reference Materials:

<https://azdor.gov/taxpayer-education/resources>: **Subscribe for News and Updates.**

<https://azdor.gov/transaction-privilege-tax/retail-sales-subject-tpt/out-state-sellers>: **Remote Seller/Marketplace Facilitators.**

www.AZTaxes.gov: Electronically **file and pay** transaction privilege tax (TPT), use tax, and withholding tax for businesses operating in the state of Arizona. Registering on AZTaxes.gov is a 3-step process.

<https://azdor.gov/transaction-privilege-tax/tpt-license/updating-tpt-account>: For instructions on **Updating a TPT account.**

www.AZTaxes.gov/Home/Address: **AZ Tax Rate Look-Up Resource** that can be used to find the transaction privilege tax rates for any location within the state of Arizona.

<https://azdor.gov/media-center>: **Video Tutorials.**

<https://azdor.gov/transaction-privilege-tax/quick-reference>: To access the **TPT Online Quick Reference.**

www.azdor.gov/taxpayer-education: To access **online tutorials, other workshops or to request a speaker**

Publications: azdor.gov/reports-statistics-and-legal-research/publications

<u>Publication Number</u>	<u>Title</u>
001	Taxpayer Bill of Rights
602	Retail Classification (under review)
603	Contracting
605	Restaurant & Bars
604	Amusements
606	Personal Property Rentals
608	Commercial Lease
610	Use Tax

Legal Research: Topics including Decisions, Rulings, Procedures and Private Taxpayer Rulings: www.azdor.gov/LegalResearch

Decisions: Decisions come from the Arizona Department of Revenue Hearing Office and the Director's Office.

Letter Rulings: A private taxpayer ruling or a taxpayer information ruling is the department's interpretation of the law or rules as they apply to the taxpayer making and the facts contained in, the request.

Procedures: The purpose of a tax procedure is to provide procedural guidance to the general public. It is a written statement issued by the department to assist in implementing tax laws, administrative rules, and tax rulings issued by delineating procedures to be followed for compliance with the law.

Rulings: The purpose of a tax ruling is to provide the public with a written statement of the department's position interpreting the Arizona tax law and applying to a specific set of facts or a particular tax situation. It is a position statement, which provides interpretation, details or supplementary information regarding the application of the law.

Arizona Revised Statutes: Title 42 references Taxation. www.azleg.gov/arstitle

Arizona Administrative Code: Title 15 references the Department of Revenue