



The taxpayer's watchdog for 80 years

ARIZONA TAX RESEARCH ASSOCIATION

ATRA SUPPORTS SB1121

Model City Tax Code Transparency

Background

Arizona businesses are burdened with one of the most complicated sales tax systems in the country. Much of that burden is grounded in Arizona's independent municipal sales tax structure that allows cities to levy taxes on a different tax base from the state and counties.

In an attempt to address the chaos associated with various city tax structures, Arizona cities created the Model City Tax Code (MCTC) in 1987, and in 1988, Arizona policymakers created the Municipal Tax Code Commission (MTCC) to oversee amendments to the MCTC. In 1999, lawmakers prohibited cities and towns from adopting tax ordinances that were not included in the MCTC. Following confusion regarding the responsibility and location of the official version of the MCTC, Arizona lawmakers passed legislation in 2011 requiring the Arizona Department of Revenue (DOR) to maintain the official version of the code.

Prior to January 2019, the MTCC had not met for four years. However, following the *Wayfair* court ruling in June 2018 that eliminated the physical presence test, the cities quickly proposed to amend the MCTC to apply an economic nexus standard to impose sales tax on remote sellers. Regrettably, taxpayers had only one month to consider this 80-page amendment. At the same time, the Legislature was considering legislation to address *Wayfair*. Consequently, taxpayers had little time to consider and react to the MCTC proposed amendment, while simultaneously deliberating on the *Wayfair* legislation at the Capitol. And under the current MTCC process, taxpayers are only provided one opportunity to formally address the MTCC regarding proposed amendments and that is on the day the Commission is scheduled to adopt the amendments. The cities urgency to rush a lengthy and complicated amendment through the MTCC magnified the flaws inherent in the current MCTC amendment and hearing process.

Basis for ATRA's Support

SB1121 seeks to simplify, streamline and create transparency for the process to amend the MCTC. SB1121 will accomplish the following:

- ❖ Meetings are called by the chairman of the MTCC in response to any proposed amendment instead of the second Friday of every other month.
- ❖ Clarifies that DOR and any taxpayer may propose an amendment to the MCTC, in addition to a city or town.

- ❖ Requires proposed amendments to be submitted to DOR at least 60 days prior to adoption by the MTCC.
- ❖ Requires DOR to post the proposed amendment, meeting notice, and agenda to its website at least 30 days prior to the MTCC holding an informational hearing.
- ❖ At the informational hearing, DOR staff is required to provide the legal analysis to the MTCC.
- ❖ Following an informational hearing, any changes to the proposed amendment must be posted to the DOR website within five days following the hearing.
- ❖ At least 60 days after receiving a proposed amendment, the MTCC is required to hold a hearing to consider adoption of any amendment.

ATRA ASKS LAWMAKERS TO VOTE YES ON SB1121!