

Arizona State and Local Sales Taxes

Arizona House Ways and Means Committee



Kevin McCarthy

Arizona Tax Research Association



Total State and Local Taxes in Arizona FY 2010

Sales	\$7,364,083,841
Property	\$7,043,999,906
Income	\$2,836,408,014
Subtotal	\$17,244,491,761
Other Taxes	\$1,885,432,227
Total	\$19,129,923,988

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Arizona's Tax System & The Three-Legged Stool

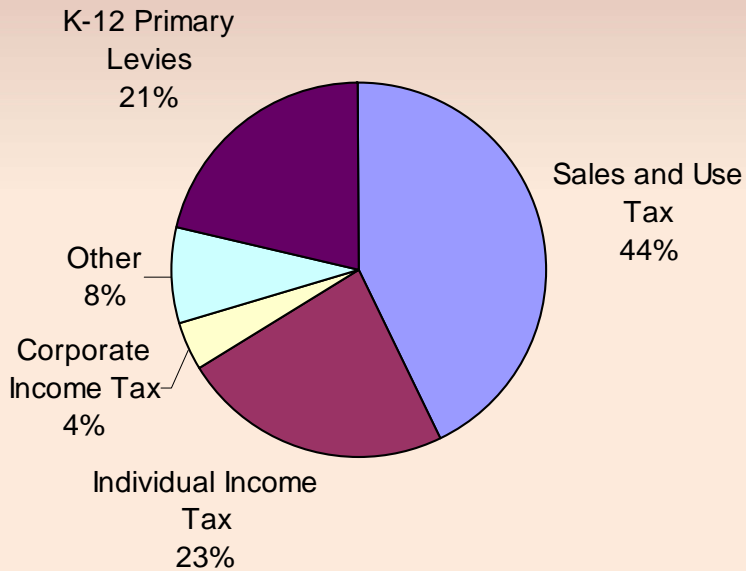
- The three legs of Arizona's tax stool also saw minimal change between 1980 and 2000:

	1980	2000	2010
Sales	38%	38%	38%
Property	32%	28%	36%
Income	17%	21%	14%

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FY 2011 General Fund Revenue (Includes K-12 Primary Levies)



Source	Revenue (Millions)
Sales and Use Tax	4,519.7
Individual Income Tax	2,470.9
Corporate Income Tax	446.3
Other	871.1
K-12 Primary Levies	2,263.0
TOTAL REVENUE	10,571.0

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National Rankings

Total State & Local General Sales Taxes

General Sales Tax Collections - State and Local				
FY2007				
Per Capita			Per \$1,000 of Income	
State	Amount	Rank	Amount	Rank
ARIZONA	1,440.83	5	46.95	6
U.S. Average	1,007.09		\$ 27.86	

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Arizona's TPT is complex

- Arizona's TPT is widely recognized as one of the most complicated and administratively burdensome sales taxes in the United States
- Arizona's independent municipal sales tax structure dramatically increases compliance costs for both the taxpayer and government.

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Sales Tax (Transaction Privilege Tax)

- Tax on the privilege of doing business in Arizona
- Measured by gross receipts, gross income, or gross proceeds of sales
- Tax not on activities themselves but on the act of engaging in business
- Presumed that all gross proceeds comprise the tax base until the contrary is established

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Taxable Business Classifications (State)

- Retail
- Transporting
- Utilities
- Telecommunications
- Publication
- Job Printing
- Pipeline
- Private Car
- Transient Lodging
- Personal Prop Rental
- Mining
- Amusement
- Restaurant
- Prime Contracting
- Owner Builder Sales
- Commercial Lease

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Use Tax

- Imposed on the storage, use or consumption of tangible personal property purchased from a retailer or utility business
- Complement to retail and utility classifications
- Measured by purchase price

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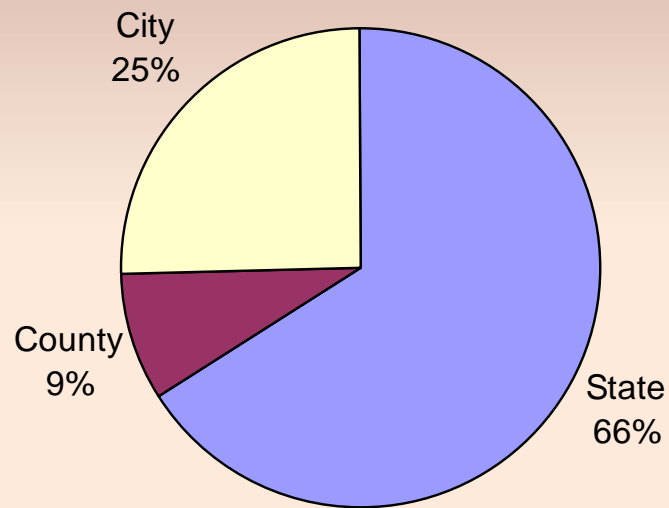
Model City Tax Code

- Arizona is one of a few states in the country that allows for an independent, municipal sales tax system
- The tax **base** at the city level does not mirror the state base
- Examples: Advertising, Speculative Builders, Rental Occupancy, Food, Commercial Leases
- Interpretation of exemptions a major issue
- Independent municipal system has created significant administrative and compliance issues for taxpayers in Arizona

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FY 2010 State and Local Sales Tax



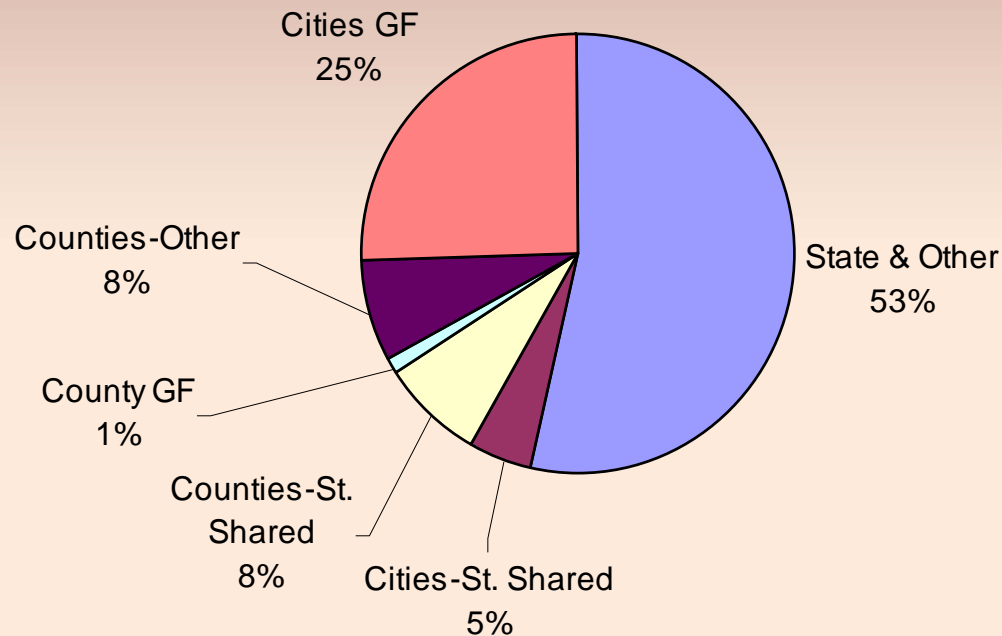
State Collections	\$4,858,187,467
County Collections	\$628,514,114
City Collections	\$1,877,382,261
Total Collections	\$7,364,083,842

Source: Arizona Department of Revenue & Arizona Tax Research Association

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FY 2010 State and Local Sales Tax Distributions



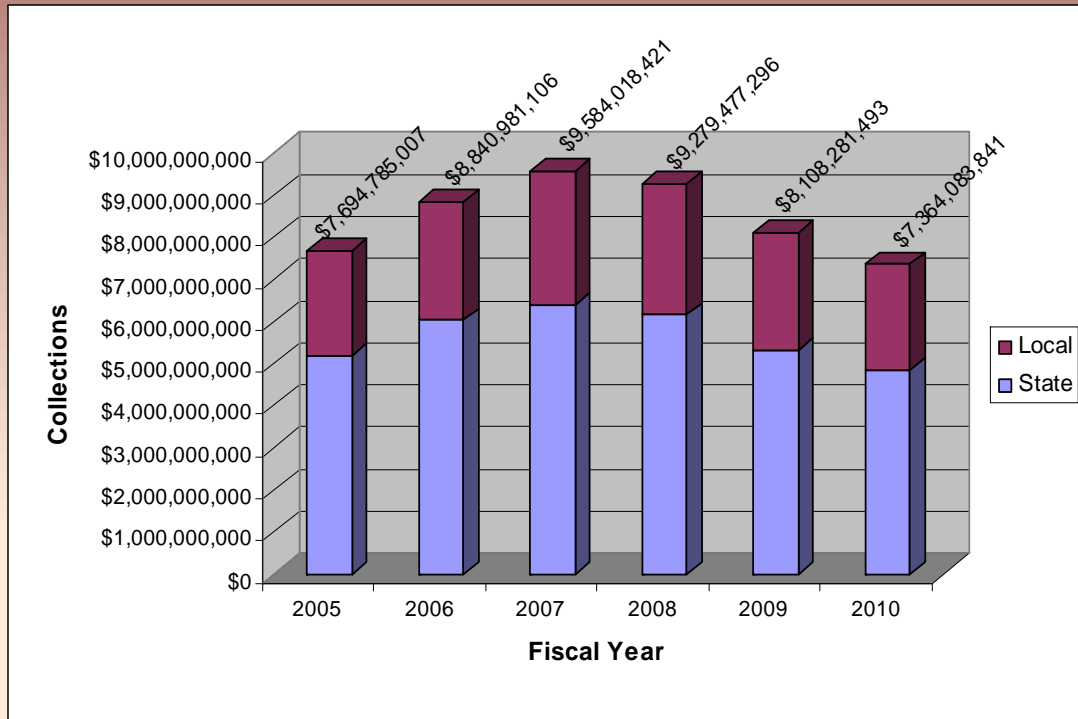
State	
State & Other	\$3,922,710,528
Cities-St. Shared	\$356,997,763
Counties-St. Shared	\$578,479,176
State Total	\$4,858,187,467
Counties	
County General Fund	\$73,184,403
Counties-Other	\$555,329,711
County Total	\$628,514,114
Cities Total	\$1,877,382,261
TOTAL	\$7,364,083,842

Source: Arizona Department of Revenue & Arizona Tax Research Association

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Sales Taxes



Fiscal Year	State	Local	Total
2010	\$4,858,187,466	\$2,505,896,375	\$7,364,083,841
2009	\$5,332,018,695	\$2,776,262,798	\$8,108,281,493
2008	\$6,154,253,758	\$3,125,223,538	\$9,279,477,296
2007	\$6,386,638,633	\$3,197,379,788	\$9,584,018,421
2006	\$6,033,153,861	\$2,807,827,245	\$8,840,981,106
2005	\$5,184,904,828	\$2,509,880,179	\$7,694,785,007

Source: Arizona Department of Revenue

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Average Sales Tax Rates

1980 - Retail

- State Rate = 4%
- Avg. City Rate = 1.2%
- **Total Avg. Rate = 5.2%**

1990 - Retail

- State Rate = 5%
- Avg. City Rate = 1.6%
- Avg. County Rate = 0.5%
- **Total Avg. Rate = 7.1%**

2010 - Retail

- State Rate = 6.6%
- Avg. City Rate = 2.4%
- Avg. County Rate = 0.7%
- **Total Avg. Rate = 9.7%**

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Major Issues

- On-going challenge to create greater uniformity in state and city sales tax bases
- Continued movement of cities out of the state collection system creating higher compliance costs
- The League of Cities and Towns encouraging cities to leave state system and contract out collection and audit function to Revenue Discovery Systems (RDS)
- Approaching upward limit on rates?

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