# TPT Simplification Task Force: Final Recommendations

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## TPT Simplification Task Force

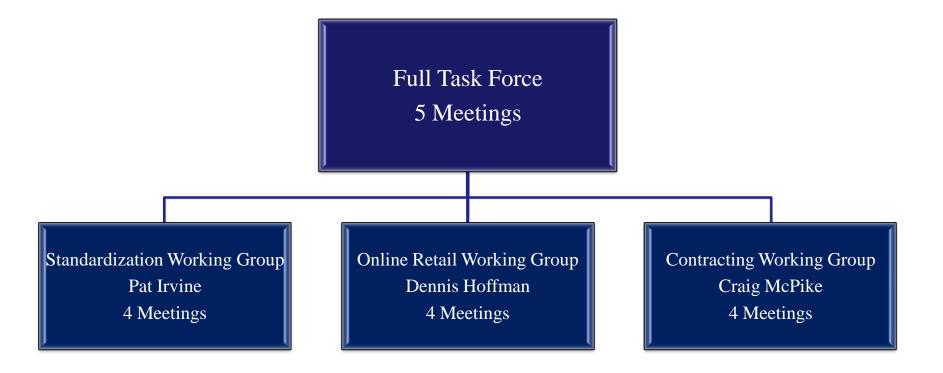


- > On May 11, 2012 Governor Brewer issued Executive Order 2012-01 which established the TPT Simplification Task Force.
- > Task Force charged with identifying reforms that will:
  - Simplify Arizona's TPT
  - Reduce taxpayer frustration
  - Improve compliance
- ➤ Nine voting members representing municipalities, businesses and the state.
- > Three non-voting advisory members representing the Legislature and the Arizona Department of Revenue.
- http://www.azgovernor.gov/tpt/

### Task Force Structure & Process



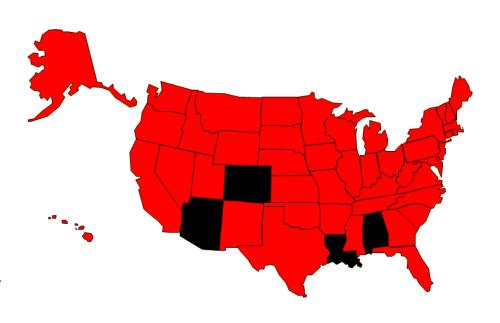
• 17 meetings between July 23 and December 13:



#### TPT Administration



- ➤ Nationally, 7,000 taxing jurisdictions impose sales and use taxes
- ➤ All are administered by the state . . .
- ... except in Alabama,Colorado, Louisiana andArizona



## Features of our TPT system



- > 16 state business classifications
  - Retail (51%)
  - Restaurants & bars (11%)
  - Prime Contracting (10%)
  - **Utilities** (10%)
  - Other (18%)
- > Each has its own deductions and exemptions

#### Administration



- > State administers TPT in 73 of our 91 cities and all 15 counties
- > 18 "non-program cities" run their own program

**Apache Junction** Peoria

Avondale Phoenix

**Bullhead City** Prescott

**Chandler** Scottsdale

**Douglas** Sedona

Flagstaff Somerton

**Glendale** Tempe

Mesa Tucson

Nogales Willcox

## The result of multiple systems



- > Multiple licensing contacts
- > Multiple tax returns
- > Multiple state and local tax bases
- Multiple audits
- > Multiple and varying state and city audit interpretations

## Responses to multiplicity



- **➤ Model City Tax Code (MCTC)**
- **➤ Municipal Tax Code Commission (MTCC)**
- **➤ Unified Audit Committee**
- > Multi-jurisdictional audits
- > HB 2466: online portal

# Service industry case study: Benjamin Franklin Plumbing



- > 15 cities, 2 counties
- > Special skills, frontline employees, working directly with consumers
- > "The punctual plumber", but time is money
- > Complicated forms, websites, accounting software workarounds, categories, training
- > Same zip code, different city
- > Multiple and varying state and city audit interpretations

# What service industry folks are saying:



I have spent a lot of time trying to figure out all I can for each city, but I just can't so I report all my work to one city only. I'm too small to do anything more.

When I call in for help, I get different answers to the same question, what am I supposed to do?

I don't have the money to hire someone to do this and report it, I keep trying to learn it each month, but I just don't have the time, I'm trying to keep my business open. If they made it easier for me to understand and do, I know I could do it.

My average ticket is \$75.00, I don't have extra help to learn it all and get it to work with QuickBooks. I don't have the money to pay for all the work it takes to report every month to every city.

When I asked if pre sold agreements are taxable, I got different answers. When I asked if a dispatch or service call fees are taxable, I got different answers.

When I asked a city if a job was taxable I was told no, when I asked the state the same question, they said yes, I don't know how to meet both their requirements on the same task, without doing wrong with the other.

There are too many forms to fill out to be licensed in all the cities, I don't have time to do them all with everything else I have to do to keep the business running, I am the bookkeeper, the marketing person and the call taker, etc.

I laugh every time I get a small accounting credit for doing all this work. We spend hundreds of dollars a month to collect and report TPT sales tax, with no help or incentive back to our business. But we will get a penalty if we can't figure out what they say we have to do. The way it is now, it's a no win for anyone.

# Case study: Circle K (operates in 18 states)

- > Florida (similar to most states):
  - Single contact point and administration
  - Single tax base
  - Single audit
- > Louisiana:
  - Multiple contact points and administration (online portal)
  - Multiple audits
  - Single tax base
- > Arizona:
  - Multiple contact points
  - Multiple audits
  - Multiple state and local tax bases

# Case study: Circle K in Arizona



- > Approx. 620 locations
- > 17 points of administration
  - State
  - Non-program cities (includes RDS return)
  - Software (Vertex Returns) not supported everywhere
  - 50 returns each month most are mailed
- > Tax base differences
  - Food for home consumption
  - Prepared food/restaurant classification
  - Commercial rentals
  - Spec. Builder

# Case study: Circle K in Florida



- > Approx. 490 locations
- > 1 taxing jurisdiction
  - State
  - Software (Vertex Returns)
  - 1 returns each month filed online
- > 1 tax base

## Taxes on Contracting Activity



- State 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.
- Cities use speculative builder, not prime contracting.
- 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.

# Reform complicated by revenue sharing formulas



- > Retail, restaurants & bars: 60% to GF
  - 40% to distribution base pool
- > Prime contracting, utilities: 80% to GF
  - 20% to distribution base pool
- Distribution base pool:
  - 34.49% to state general fund
  - 38.08% to counties (based on population, secondary NAV, and point of sale)
  - 2.43% additional to counties (based on population and point of sale)
  - 25% to cities and towns (based on population)

# 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.

### Recommendations: Standardization

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- > 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.

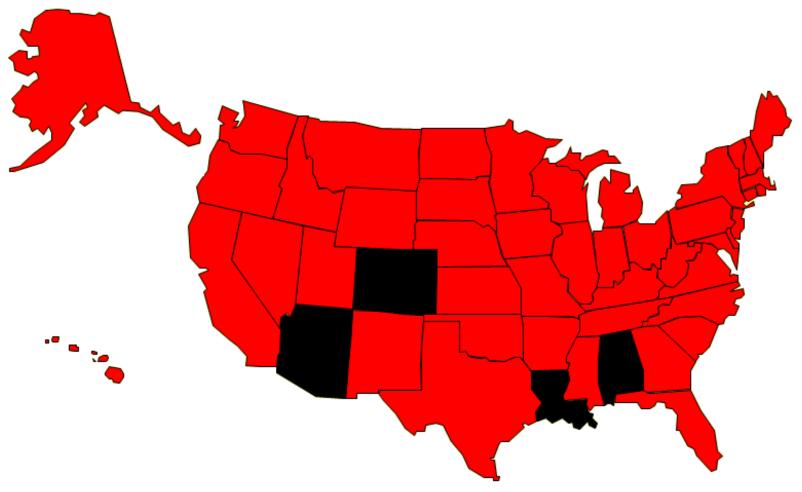
### Recommendation: Contracting



➤ 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.

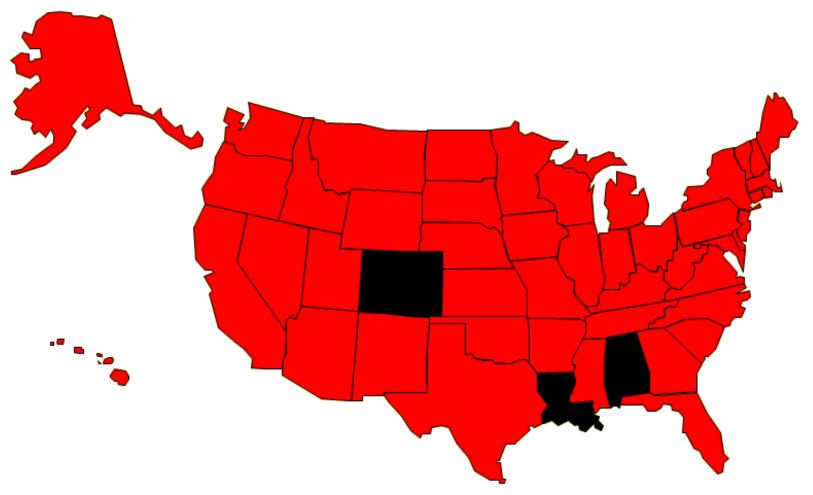
#### So where are we now?





### Our future?





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Office of Governor Janice K. Brewer