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MEMORANDUM

Management Services Memo No. 14-056

DATE: MARCH 20, 2014

TO: MAYOR AND COUNCIL

THRU: RICH DLUGAS, CITY MANAGER RD
NACHIE MARQUEZ, ASSISTANT CITY MANAGER ^{NM}

FROM: DAWN LANG, MANAGEMENT SERVICES DIRECTOR ^{DL}

SUBJECT: MARCH 24, 2014 BRIEFING ON HB 2111 UPDATE: STATE ADMINISTRATION OF TRANSACTION PRIVILEGE SALES TAX

Attached is a copy of the presentation for the briefing on the progress of the upcoming transition of the State administration of Transaction Privilege Sales Tax. The briefing is scheduled to begin at 6:00 p.m. in the Council Conference Room.

If you have any questions regarding the presentation, please feel free to contact me at X2255 or Matt Dunbar at X2257.

Attachment

c: Marsha Reed, Assistant City Manager
Matthew Dunbar, Revenue and Tax Manager



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HB 2111 UPDATE
STATE ADMINISTRATION OF
TRANSACTION PRMILEGE SALES TAX

MARCH 24, 2014
COUNCIL CONFERENCE ROOM
6:00 PM

**Mayor
and
Council
Briefing**

AGENDA



- **HB 2111 Overview of Legislative Changes**
 - **Audit**
 - **Prime Contracting**
 - **Privilege Tax Administration**
 - **HB 2389 Recently Proposed Changes**
 - **Areas of Concern**
 - **Potential Solutions**
- Changes
To Be Accomplished
Progress to Date

HB 2111: OVERVIEW OF LEGISLATIVE CHANGES



OVERVIEW

WHO IS EFFECTED BY HB 2111?



Effects All Cities in Arizona

But More Direct Impact on 18

Self Collecting / Non-Program Cities

■ **Non-Program Cities Include:**

- **Chandler, Phoenix, Tempe, Mesa, Scottsdale, Glendale, Peoria, Tucson, Flagstaff, Sedona, Prescott, Apache Junction, Avondale, Bullhead City, Nogales, Wilcox, Summerton, and Douglas**

■ **Arizona Department of Revenue (ADOR) Currently Collects 23% of Cities Transaction Privilege Taxes (TPT) Statewide**

■ **HB 2111 Requires the Additional 77% of Non-Program Cities TPT to be Collected by ADOR Beginning 1/1/15**

OVERVIEW

IMPLEMENTATION EFFORTS



- **Groups Formed to Help Transition and Safeguard the City's Interests**
 - **Intergovs Group**
 - **Finance Directors Group**
 - **Working Committees (Cities & ADOR Representatives)**
 - **Audit**
 - **Contracting**
 - **Inter-Governmental Agreement (IGA)**
 - **Processing/Online reporting**
 - **Collections**



OVERVIEW

3 MAIN AREAS AFFECTED



■ Audits

- ADOR Issues Audit Assessments, Requires Use of ADOR Audit Manual and Training by ADOR

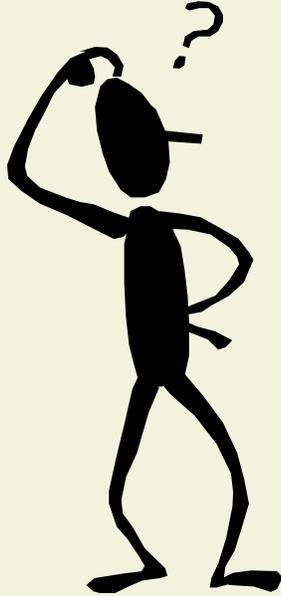
■ Prime Contracting

- Differentiates Repair/Replacement (Exempt) and Contracting Materials (Taxable)

■ Privilege Tax Administration

- ADOR to Process, Collect and License All Taxpayers

WHAT DOES THIS MEAN FOR CHANDLER?



OVERVIEW

CHANDLER AUDITORS MUST.....



- **Receive Training from ADOR**
- **Use ADOR Audit Manual and Procedures**
- **Perform Audits of Chandler Only Businesses**
- **Obtain ADOR Approval to Perform an Audit of a Business With Multiple Locations**
- **Receive Taxpayer Information From ADOR Under an IGA**

OVERVIEW AUDITS



TO BE ACCOMPLISHED	PROGRESS
Create Audit Manual & Quality Control Checklists	Started; Final Review Needed
Audit Assessment Software Test	To Be Performed 6/14
Auditor Training	To Begin 9/14
Create Audit Letters & Notifications	Started; Initial Review Needed
Create A.R.S. Reference Audit Manual	Started; Initial Review Needed
Create Processes/Procedures for Single Audit Committee for Audit Selection	To Be Completed 10/14
Create Desk Review Manual	To Be Completed 10/14
Include Audit Agreements in New State IGA	To Be Started 5/14
Taxpayer Education Needed at State & City Level	To Be Started 10/14



OVERVIEW

CHANDLER CONTRACTORS....



- **Doing Trade/Repair/Replacement (Electricians, Plumbers, Handymen, HVAC)**
 - **No Longer Taxable on Gross Receipts if Not Doing “New” Construction**
 - **Taxed on Materials Used in Project**
 - **Pay Tax at Local Retail Rate Based on Where Materials are Purchased**

- **Issued Project Based Exemption Certificates for Materials Purchased for “New” Construction**
 - **Makes Treatment Same for Traditional Construction**

OVERVIEW PRIME CONTRACTING



TO BE ACCOMPLISHED	PROGRESS
Create AZ TPT Ruling to Provide Guidance on How Different Transactions Will be Handled for Construction Type Activities	Started; Initial Review Needed
Create New Project Based Exemption Certificates	Started; Initial Review Needed
Create Procedures to Allow Contractors to Receive Exemption Certificates	Started; Initial Review Needed
Draft Model City Tax Code Language to Reflect Changes	Municipal Tax Code Commission (MTCC) to Take Action
Taxpayer Education Needed at State & City Level	To Be Started 10/14

OVERVIEW

PRIVILEGE TAX ADMINISTRATION....



- ADOR will Receive, Process & Collect TPT Applications, Returns, & Payments



- ADOR will Provide an Online Reporting & Payment System for Taxpayers



OVERVIEW

PRIVILEGE TAX ADMINISTRATION



TO BE ACCOMPLISHED	PROGRESS
ADOR to Create Comprehensive Project Plan to Determine if Project is “On Track” for Completion	Received 3/20/14; Not Yet Reviewed
Create IGA to Delineate What Data & Format of Data ADOR will Provide Cities for Different Needs	To Be Started 5/14
Program/Test ADOR Tax System Changes, to Verify Cities Taxpayer Information is Accurate and Properly Configured	Started; Just Hired Project Mgr & 15 Programmers. Asking for Another 15 From Cities Thru Dec
Program/Test Online Filing System	Not Yet Started
Create Renewal Process and Develop/Test Uploading of Current City Taxpayers	Began Matching State vs. City Licensed Taxpayers
Create Collections & License Inspectors Policy/Procedures & Related IGA Language	Started; Only 3 ADOR Inspectors. Need Cities Assistance
Taxpayer Education Needed at State & City Level	To Be Started 10/14



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RECENTLY PROPOSED CHANGES



HB 2389 CLEAN-UP PROVISIONS



■ Privilege Tax Administration

- Resolves Confidentiality Issues to Facilitate Sharing of Information
- Requires Annual License Renewal at State and City Level
- ADOR to Complete Annual License Renewals Beginning October 2014
- Requires City TPT License Fee no More Than \$50, and License Penalty no More Than \$25
- Requires all Businesses Report City TPT Based on Location Instead of Lump Sum
- Changes Filing Frequency Thresholds so More Taxpayers Meet the Quarterly or Annual Reporting Requirements
- Requires Any Business With 2 or More Locations to File Online
- State will Collect Residential Rental TPT

■ Prime Contracting

- Added Specifics on Contractors Exemption Certificate
- Added Definitions for What's Considered Non-Taxable Construction



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AREAS OF CONCERN



AREAS OF CONCERN PRE-IMPLEMENTATION



- License Renewals to be Completed by ADOR October 2014, but Process Yet to be Determined
- Project Plan Received March 20, 2014; Under Review
- IGA Agreement To Be Started May 2014
- City Software Needs Yet to be Determined
 - ADOR Data & Reporting Formats to be Delivered June 5, 2014

HB 2111 Effective July 2013; to Begin January 1, 2015

AREAS OF CONCERN POST-IMPLEMENTATION

■ TPT Revenue Loss & Reduced Cash Flow

- Increased Non-Payment (Collections)
- Increased Non-Compliance
- Confusion in Construction Contracting



■ Availability of Detailed Taxpayer Data For...

- Economic Development Analysis
- Legislative Impacts
- Industry Impacts



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POTENTIAL SOLUTIONS



POTENTIAL SOLUTIONS PRE-IMPLEMENTATION



- **Stay Engaged with ADOR Through Workgroups & Committees to Achieve Ultimate Goal of Tax Simplification**
- **Provide Timely Analysis/Data Required for Project**
- **Be Realistic in Communication of Cities Needs**
- **Monitor Project Checkpoints & Remaining Timeframe**
- **Implement Chandler Business License to Ensure Compliance with City Code**
- **Develop Internal Reporting Processes Using ADOR Data**

POTENTIAL SOLUTIONS POST-IMPLEMENTATION



- **Trust But Verify**
 - Enhance Reports to Monitor TPT Revenue
 - Monitor Taxpayer Compliance
 - Provide TPT License Inspection Assistance to ADOR

- **Continue to Collect Account Balances Prior to 1/1/15**

- **Increase TPT Audit Presence**

- **Monitor Business License Compliance**

QUESTIONS OR COMMENTS?



CLOSING REMARKS