

ARIZONA TRANSACTION PRIVILEGE AND USE TAX



DEFINITION – TRANSACTION PRIVILEGE TAX (TPT)

Commonly referred to as “sales tax,” TPT is tax on the retail sale of tangible personal property AND services.

- Retail Sale – sale to end user
- End user – each state defines it differently
 - Special case - in AZ, a MRRRA contractor is an end user
- Tangible – in AZ, something that can be perceived by the senses (touch, taste, sight, sound, or smell)
 - Special case – in AZ, software is tangible personal property regardless of delivery method
- Personal Property – not land or building or attached to land or building
 - Special case – in AZ, counters in a bank, although attached, are considered personal property
- Services – intangible, cannot be stored or transported, come into existence at time of purchase



THE “GENERAL” RULES

The University of Arizona is not a non-profit organization and is not exempt from sales and use tax!!!



- Sales to a non-profit organization
 - Generally taxable
- Sales by a non-profit organization
 - Generally exempt
- Goods
 - Generally taxable unless specifically exempt
- Services
 - Generally taxable unless specifically exempt such as:
 - Professional and personal service occupations
 - Transfers of TPP are inconsequential elements
 - i.e.: CPAs, lawyers
 - Services in addition to selling TPP at retail
 - i.e.: delivery of TPP
- Examples of taxable services include: transportation, utilities, telecommunications, a photographer’s services, and amusements



SALES TAX RATES

For transactions involving retail, restaurants, utilities, communications, job printing, publication, rent of personal property, amusements, etc...

- AZ State – 5.6%
- Pima County – 0.5%
- Tucson – 0% when UA is seller
 - UA is exempt from collecting city tax from its customers, but:
- Tucson – 2.6-4.5% when UA is buyer
 - UA pays 2.6% to vendors – retail, restaurants, communications, job printing, publication, rent of personal property and amusements
 - UA pays 2.6-4.5% to vendors – public utilities



SALES TAX RATES - SUMMARY

Description	Tax % (when selling)	Tax % (when buying)
AZ State	5.60%	5.60%
Pima County*	0.50%	0.50%
Tucson City*	0%	2.6-4.5%
Total	6.10%	8.70%-10.60%

*These rates vary when buying or selling from or to different counties or cities/towns

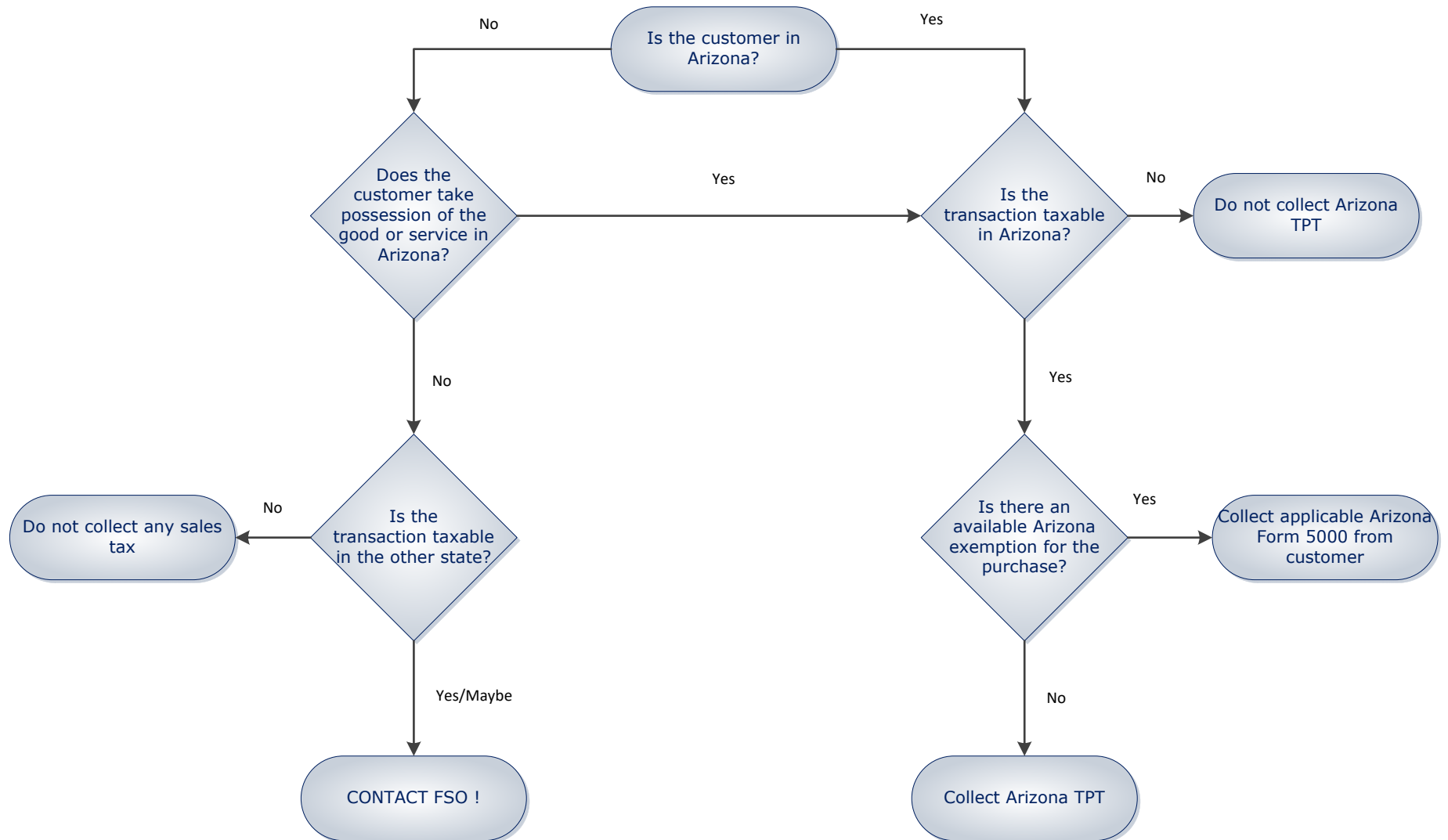


UNIVERSITY AS A SELLER

- We work together to properly collect and remit TPT
 - Department's responsibilities:
 - Identify taxable sales for Arizona customers
 - Collect and file customer's tax exemption certificates
 - Collect the correct tax
 - Use proper object codes (refer to Financial Services Manual 8.11)
 - Taxable vs. non-taxable
 - Deposit revenue and tax in University accounts
 - Maintain detailed records of sales activities
 - FSO's responsibilities:
 - Prepare TPT return
 - Remit tax receipts to the State of Arizona
 - Provide guidance to Departments



UNIVERSITY AS A SELLER



DEFINITION – USE TAX

Do I Owe Use Tax?



- Self-assessed tax on the use, storage, or consumption of tangible personal property where:
 - Sales tax was not levied by the vendor, and
 - The purchase is otherwise taxable in Arizona
 - Example:
 - Purchase from an out of state vendor who does not have an Arizona TPT license



USE TAX RATE



- AZ State – 5.60%
- Counties generally do not impose use tax
- The University of Arizona is not subject to city tax



SALES OR USE TAX?

How do you know if it's sales tax or use tax, and, does it make a difference?

- Sales and use tax are complementary
- Pay only sales tax or use tax
- Vendors charge sales tax
- Use tax is self-assessed



USE TAX OR NO USE TAX?

- Research supplies shipped to AZ from FL, vendor did not charge sales tax - USE TAX
- Cab fare in MA, not sure if sales tax was charged - NO USE TAX
- Software accessed on a CA vendor's website, vendor did not charge sales tax - USE TAX
- Restaurant in AZ, vendor did not charge sales tax - NO USE TAX



WHAT IS SALES TAX NEXUS?

Nexus means connection, or linkage.

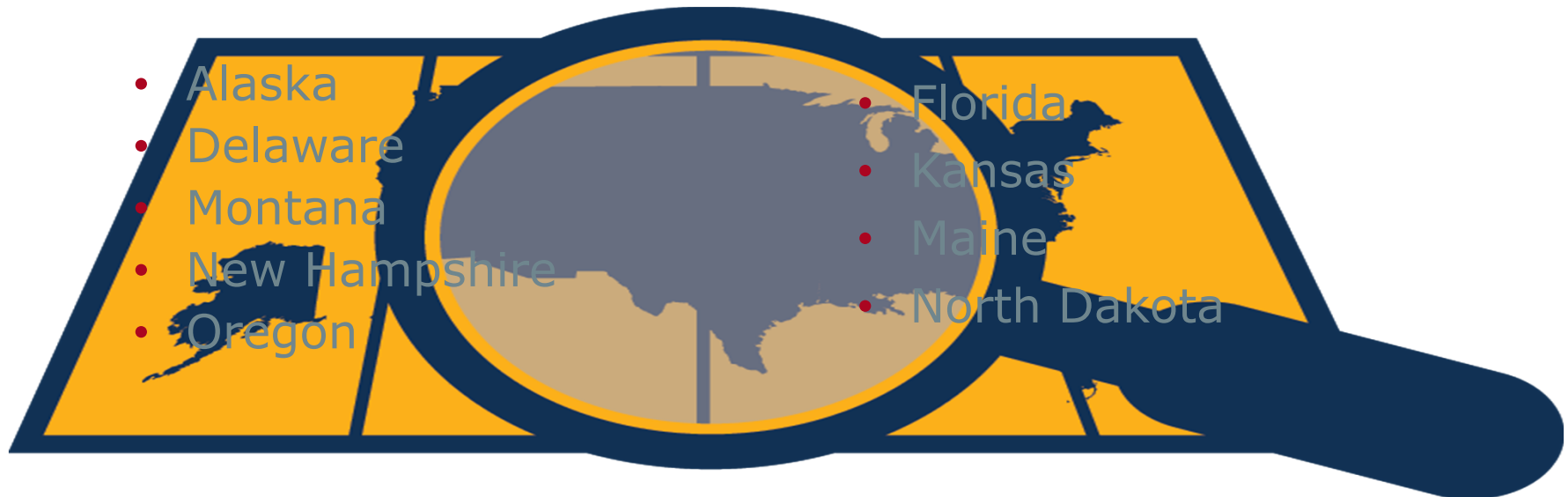


- Factors that can create nexus:
 - Renting or owning property
 - Business presence in the state
 - Trade shows (except Nevada/Florida)
 - Presence of agents/contractors/employees
 - # of transactions/ \$ sales thresholds
- Consequence of having nexus
 - Register as a retailer in that state
 - Collect taxes (University wide)
 - File returns (Minimum 1 year)
 - Remit payment to the state
- Departmental responsibility
 - Talk with FSO before you plan to:
 - Travel out of state to make sales
 - Have a distributor or warehouse in another state



TRAVEL OUT OF STATE

- States with no sales tax:
- States with available travel exemptions:



- Requirements to use a travel exemption:
 - Pre-payment by UA directly
 - Certificates and instructions under FSM Policy 14.72



NON-TAXABLE SERVICES

- Professional/personal services where sales of TPP is an inconsequential element
 - Remember, many services are specifically taxable, such as:
 - Transportation, utilities, telecommunications, and photographer's services
- Services rendered in addition to selling TPP at retail
 - i.e.: Repair/maintenance and installation services, unless:
 - Taxable if not separately disclosed on invoice
 - Taxable if installation is to be attached to real property
- Shipping services/freight charges, unless:
 - Taxable if handling is included (Use object code 3880 for Shipping & Handling)
- Warranty services/service contracts
 - Be careful, if related to software or other tangible personal property, it MAY be taxable



NON-TAXABLE TANGIBLE PERSONAL PROPERTY



- Textbooks/required course materials purchased/sold by UA Bookstores
- Printed and other media materials made available to the public by UA Libraries
- Unprepared food for home (human) consumption
- Medically prescribed drugs, equipment or devices
- Purchases for resale where tax will be collected at sale to end user (Use Arizona Form 5000A)



MORE NON-TAXABLE TRANSACTIONS

- Conference registration fees
- Professional membership dues
- Machinery and equipment used for research and development
- Chemicals used for research and development
- Others as set forth in statutes such as ARS 42-5061 or ARS 42-5159



<http://www.azleg.gov/arsDetail/?title=42>



ARIZONA'S RESEARCH & DEVELOPMENT DEFINITION

- What it is:

Research and development means basic and applied research in the sciences and engineering, and designing, developing or testing prototypes, processes or new products, including research and development of computer software that is embedded in or an integral part of the prototype or new product or that is required for machinery or equipment otherwise exempt under this section to function effectively.

- What it isn't:

Research and development do not include manufacturing quality control, routine consumer product testing, market research, sales promotion, sales service, research in social sciences or psychology, computer software research that is not included in the definition of research and development, or other non-technological activities or technical services.



MACHINERY & EQUIPMENT USED FOR RESEARCH

- Machinery or equipment used for research as defined is tax exempt
 - Must be 100% research use
 - Dollar amount is not a factor
- Machinery or equipment does not include:
 - Expendable materials and supplies
 - Office equipment, furniture or supplies
 - Hand tools
 - Janitorial equipment
 - Licensed motor vehicles
 - Shops, buildings, depots
- A repair or replacement part of tax-exempt research equipment is also exempt
- Leases and rentals of tax-exempt research equipment are exempt



MACHINERY & EQUIPMENT USED FOR RESEARCH

- Research does not include:
 - Social sciences
 - Psychology
 - Routine consumer product testing
 - Non-technological activities or technical services



- PCs, laptops and portable devices are almost never tax exempt
- Computers used in research of computer software – Not tax exempt
- Use exemption ARS 42-5061(B)(14) to claim exemption from sales tax
- Use exemption ARS 42-5159(B)(14) to claim exemption from use tax



CHEMICALS USED FOR RESEARCH



- Chemicals used directly in research as defined are tax exempt
- Exempt chemicals cannot be used or consumed in:
 - Packaging
 - Storage
 - Transportation
- Researcher who orders the item must determine whether it is "chemical"
- Use exemption ARS 42-5061(A)(38) to claim exemption from sales tax
- Use exemption ARS 42-5159(A)(35) to claim exemption from use tax



COMPUTER HARDWARE & SOFTWARE

- Purchase of hardware and standard, pre-written or “canned” software:
 - Almost never* exempt – Purchase of tangible, regardless of delivery



- *Purchase of customized software:
 - Designed exclusively to the specifications of a UA unique application
 - Modification of standard software at installation does not make it custom
 - Not taxable – Purchase of professional/personal services
- *Purchase (by a State community college or university) of remote software applications that either:
 - Are designed to assess or test student learning, or
 - Promote curriculum design and enhancement
 - Not taxable – ARS 42-5061(53) and ARS 42-5159(50)



HARDWARE & SOFTWARE SERVICES

- Computer services such as analysis, design, repair, and support engineering:
 - Not taxable
- Maintenance and warranty agreement for hardware and software:
 - Generally not taxable if:
 - Sold as a separate item, and
 - Does not include TPP, and
 - The price is stated separately
- Software agreement including updates, upgrades, modification or revisions to a standard software:
 - Taxable as purchase of TPP



CLAIMING TAX EXEMPTION FROM A VENDOR



- Vendors must document tax exempt transactions:
 - Tax exemption certificates (Arizona Form 5000 and Arizona Form 5000A) are required and provide:
 - University's Federal Tax ID (74-2652689),
 - AZ TPT License Number (20221243),
 - Reason for exemption, and
 - The signature of the individual authorizing the purchase
- Arizona Form 5000 (and 5000A for resale purchases) for a PCard purchase:
 - Provided to the vendor (prior to transaction) by the department
 - Signed by the departmental individual who authorizes the purchase
 - Certificates and instructions are located the Financial Services Office Tax Services webpage:
 - <http://www.fso.arizona.edu/tax-services/az-sales-use>





Arizona Form 5000

Transaction Privilege Tax Exemption Certificate

- Do not use Form 5000 to claim sale for resale. Use Form 5000A.
- Do not use Form 5000 if you are a non-TPT licensed contractor. Use Form 5000M.

This Certificate is prescribed by the Department of Revenue pursuant to A.R.S. § 42-5009. The purpose of the Certificate is to document and establish a basis for 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 below. Incomplete Certificates are not considered to be accepted in good faith. Only one category of exemption may be claimed on a Certificate.



A. Purchaser's Name and Address:			B. Check Applicable Box:		
Name			<input type="checkbox"/> Single Transaction Certificate		
Address			<input type="checkbox"/> Period From _____ Through _____		
City	State	ZIP Code	<i>(You must choose specific dates for which the certificate will be valid. You are encouraged not to exceed a 12 month period. However, a certificate will be considered to be accepted in good faith for a period not to exceed 48 months if the vendor has documentation the TPT license is valid for each calendar year covered in the certificate.)</i>		
Vendor's Name					

C. Choose one transaction type per Certificate:	
<input type="checkbox"/> Transactions with a Business	<input type="checkbox"/> Transactions with Native Americans & Native American Businesses (See reason #12.)
Arizona Transaction Privilege Tax (TPT) License Number	Tribal Business License Number OR Tribal Number
SSN / EIN	Name of Tribe
Other Tax License Number	<input type="checkbox"/> Transactions with a U.S. Government entity (See reasons #9 and #10.)
If no license, provide reason:	<input type="checkbox"/> Transaction with a Foreign Diplomat (See reason #13.)
Precise Nature of Purchaser's Business	

D. Reason for Exemption:
Check the box indicating one of the more common exemptions provided below, or use Box 14 or 15 to cite the appropriate authority for another exemption (deduction). Refer to www.azdor.gov/Forms/TransactionPrivilegeTax.aspx for a complete list of state and city exemptions (deductions) and the business classes (codes) under which the deductions apply.
<input type="checkbox"/> 1. Tangible personal property to be leased or rented in the ordinary course of the purchaser's licensed business.
<input type="checkbox"/> 2. Tangible personal property to be incorporated into a taxable contracting project, or a maintenance, repair, replacement or alteration project.
<input type="checkbox"/> 3. Food, drink, or condiments purchased by a restaurant business.
<input type="checkbox"/> 4. Pipes or valves four inches in diameter or greater to be used for transportation of oil, natural gas, artificial gas, water or coal slurry.
<input type="checkbox"/> 5. Railroad rolling stock, rails, ties, and signal control equipment.
<input type="checkbox"/> 6. Machinery or equipment used directly in the following business activities:
<input type="checkbox"/> Manufacturing, processing or fabricating. <input type="checkbox"/> Job printing. <input type="checkbox"/> Refining or metallurgical operations.
<input type="checkbox"/> Extraction of ores or minerals from the earth for commercial purposes. <input type="checkbox"/> Extraction of, or drilling for, oil or gas from the earth for commercial purposes.
<input type="checkbox"/> 7. Other income producing capital assets. (Cities only.)
<input type="checkbox"/> 8. Food, drink or condiments for consumption within the premises of any prison, jail or other institution under the jurisdiction of the state department of corrections, the department of public safety, the department of juvenile corrections or a county sheriff. Food, drink, condiments or accessories purchased by a school district for consumption at a public school within the district during school hours.
<input type="checkbox"/> 9. Tangible personal property sold or leased directly to the United States Government or its departments or agencies by a manufacturer, modifier, assembler or repairer. (Retail, personal property rental and mining classifications only.)
<input type="checkbox"/> 10. Fifty percent of the gross proceeds or gross income from the sale of tangible personal property directly to the United States Government or its departments or agencies. (Retail classification only.)



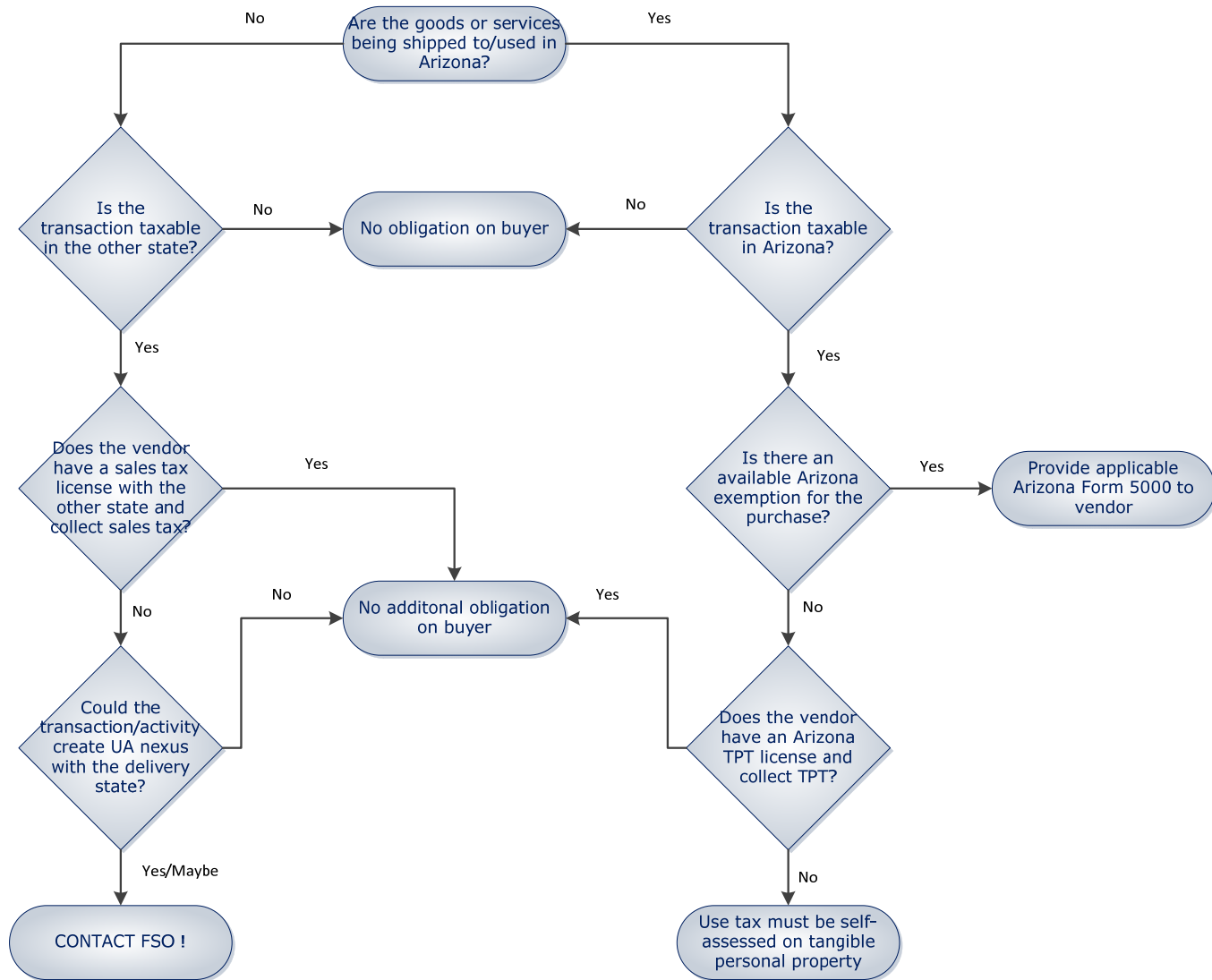
Your Name (as shown on page 1)	Arizona Transaction Privilege Tax License Number
<input type="checkbox"/> 11. Electricity, natural gas or liquefied petroleum gas sold to a qualified manufacturing or smelting business. A manufacturing or smelting business that claims this exemption authorizes the release by the vendor of the information required to be provided to the Department of Revenue pursuant to A.R.S. §42-5063(C)(6). (Utilities classification only.)	
<input type="checkbox"/> 12. Sale or lease of tangible personal property to affiliated Native Americans if the solicitation for sale, signing of the contract, delivery of the goods and payment for the goods all occur on the reservation. NOTE: The vendor shall retain adequate documentation to substantiate the transaction.	
<input type="checkbox"/> 13. Foreign diplomat. NOTE: Limited to authorization on the U.S. Department of State Diplomatic Tax Exemption Card. The vendor shall retain a copy of the U.S. Department of State Diplomatic Tax Exemption Card and any other documentation issued by the U.S. Department of State. Motor vehicle purchases or leases must be pre-authorized by the Office of Foreign Missions ("OFM"). See "Vehicle Tax Exemption" at www.state.gov/ofm/tax/	
<input type="checkbox"/> 14. *Other Deduction: Cite the Arizona Revised Statutes authority for the deduction. A.R.S. § _____ Description: _____	
<input type="checkbox"/> 15. *Other Cities Deduction: Cite the Model City Tax Code authority for the deduction. M.C.T.C § _____ Description: _____	
*Refer to www.azdor.gov/TransactionPrivilegeTax(TPT)/RatesandDeductionCodes.aspx for a complete list of state and city exemptions (deductions) and the business classes (codes) under which the deductions apply.	

E. Describe the tangible personal property or service purchased or leased and its use below. (Use additional pages if needed.)

F. Certification
A vendor that has reason to believe that this Certificate is not accurate or complete will not be relieved of the burden of proving entitlement to the exemption. A vendor that accepts a Certificate in good faith will be relieved of the burden of proof and the purchaser may be required to establish the accuracy of the claimed exemption. If the purchaser cannot establish the accuracy and completeness of the information provided in the Certificate, the purchaser is liable for an amount equal to the transaction privilege tax, penalty and interest which the vendor would have been required to pay if the vendor had not accepted the Certificate. Misuse of this Certificate will subject the purchaser to payment of the A.R.S. § 42-5009 amount equal to any tax, penalty or interest. Willful misuse of this Certificate will subject the purchaser to criminal penalties of a felony pursuant to A.R.S. § 42-1127(B).
I, (print full name) _____, hereby certify that these transactions are exempt from Arizona transaction privilege tax and that the information on this Certificate is true, accurate and complete. Further, if purchasing or leasing as an agent or officer, I certify that I am authorized to execute this Certificate on behalf of the purchaser named above.
SIGNATURE OF PURCHASER _____ DATE _____ TITLE _____

[Print Form](#) [Reset Form](#)

UNIVERSITY AS A BUYER



PCARD USE TAX EXEMPTION

- PCard reconcilers avoid erroneous assessment of use tax by:
 - Entering the sales tax amount in the “Enter Sales Tax” field when sales tax is charged by the vendor, or
 - Checking the “Tax Exempt Indicator” box in UAccess Financials when the transaction is sales or use tax exempt, or
 - Checking the “Tax Exempt Indicator” box in UAccess Financials when sales tax is charged but amount cannot be identified
 - Taxes are always included in the total price for the following:
 - Airline tickets
 - Telecommunication charges (Verizon/ AT&T / Sprint, etc.)
- Use tax is not automatically assessed on the following object codes:
 - 3820 (Postage & Mailing), 3870 (Express Shipping), 5520 (Conference Registration Fees), 5535 (Purchasing Card Fees), 5540 (Dues), 5560 (Freight In/Out – noncapital), 5810 (Resale), 5830 (Resale), 7810 (Library Acquisitions – Books), 7820 (Library Acquisitions – Periodicals), and 7830 (Library Acquisitions – Other)



USE TAX GENERAL ERROR CORRECTION

- Step 1 – Review transactions for use tax or lack thereof
 - UAccess Financials> Accounting> General Ledger Entry
 - Enter Fiscal Year, Chart Code (UA), Account Number, Fiscal Period, and Doc Type (PCDO)
 - Object Code, Document Number and other fields can narrow the search
 - Sort by Document Number to see if use tax was charged or not and whether it needs correction
 - The report can be exported for additional review
 - If use tax was requires correction, see Step 2



GENERAL ERROR CORRECTION – FOR USE TAX

- Step 2 – GEC
 - UAccess Financials > Accounting > Activities > General Error Correction

The screenshot displays the 'General Error Correction' form within the UAccess Financials system. The interface includes a top navigation bar with 'UAccess | Financials' and user information. The main form area is divided into several sections: 'DOCUMENT OVERVIEW' with fields for 'Description', 'Organization Document Number', and 'Explanation'; 'GL ENTRY IMPORTING' with 'Fiscal Year' (set to 2018) and 'Document Number' fields; 'ACCOUNTING LINES' with sub-sections for 'REVERSING' and 'CORRECTING'; and 'NOTES AND ATTACHMENTS (0)' with a 'Note Text' field and an 'Attachment' section. The bottom of the form features 'Submit', 'Save', 'Close', and 'Cancel' buttons.



GENERAL ERROR CORRECTION – FOR USE TAX

- Step 2 continued...
 - DOCUMENT OVERVIEW
 - Description – “Reversal of use tax”
 - Explanation – Brief explanation why
 - Org. Doc. # - Original doc #s
 - GL ENTRY IMPORTING
 - Select accounting lines
 - Be sure to select both sides
 - The use tax expense, and the
 - Associated 9190-Miscellaneous Payables liability
 - ACCOUNTING LINES
 - All entries will be in the “REVERSING” section – Reducing expense and liability from the account



GENERAL ERROR CORRECTION – FOR USE TAX

- Step 2 continued...
 - The new feature prefills:
 - Account # - Account # in which the expense was charged
 - Object code – Object code in which the expense was charged
 - Reference Origin Code – “01”
 - Reference Number – Original doc # where the expense was charged
 - Amount – Use tax charged
 - NOTES AND ATTACHMENTS
 - Include detailed explanation why the transaction is not taxable
 - Optional if sufficient details are included in “Explanation” box
- Please note – Use tax can be reversed with a GEC only for prior periods in the current fiscal year. A DI is required to assess use tax or make a correction to a prior fiscal year.



IN REVIEW: THE "GENERAL" RULES

Let's
Recap



- Purchases and sales of tangible personal property and services are generally taxable, unless specifically exempt
- Many services are specifically exempt
- If taxable goods are purchased from an out of state vendor without Arizona nexus, self-assess use tax
- At the UA, if an item does not fit into "machinery or equipment used in research" or "chemical used in research," it generally DOES NOT qualify for an exemption from tax



RESOURCES AND CONTACT INFORMATION

- Tax Services Arizona Sales and Use Tax page:
<http://www.fso.arizona.edu/tax-services/az-sales-use>
- For assistance to determine the taxability of a purchase/sale:
taxservices@fso.arizona.edu
FSO-Tax Compliance: 520-621-1957
- For assistance to record the purchase, sales and related tax, or correction of use tax:
<http://www.fso.arizona.edu/tax-services/faq>
FSO-Financial Management: 520-621-3220 or 520-621-3473

