ACTION ALERT

Municipalities Face Serious Threats to Sales Tax Revenue and Authority

Recently the Governor's TPT Simplification Task Force approved its final report to the Governor. Cities and towns are in agreement with the vast majority of the recommendations included in the report; however, there are three recommendations that the League finds alarming due to their negative impacts on city and town budgets and their ability to efficiently administer and collect sales tax. The three recommendations are:

1. **Require state administration of sales tax for all municipalities.**
2. **Require the Department of Revenue (DOR) to conduct all sales tax audits.**
3. **Eliminate the construction sales tax to be replaced by a retail sales tax at the point-of-sale of construction materials.**

Although these were just recommendations from the taskforce, and were acknowledged to not be consensus issues, business groups have already begun to make inroads at the Capitol in an attempt to turn these issues into state law. It is critical that cities and towns communicate with their legislators immediately about the negative effects of these recommendations. Please contact your legislators and use the following information to structure your arguments.

State Administration

- The Department of Revenue does not have the resources necessary to absorb the responsibilities of the cities that currently collect their own sales taxes. It would take a significant budget increase to DOR in order to ensure proper administration; funds that could be used for other budget priorities the state is facing. This is an issue that equally harms program and non-program cities; if DOR is tasked with administering the entire state, all participants will receive subpar services. (If you are a DOR program city or town, you may want to include your own anecdotal experiences in dealing with DOR.)
- State administration is not the best solution to the perceived problem. Last year, Rep. Rick Gray was instrumental in passing legislation establishing an online portal for the remittance of sales taxes and licensing. Proper utilization of this portal will solve the very issues that the proponents would like to see addressed, with none of the costs or negative consequences associated with DOR administration.

DOR Audits

- Efficient and timely auditing is a win-win for those involved. It protects those law-abiding businesses that all already paying their taxes, allows cities and towns to educate small business owners in order to help them comply with the law and it ensures that municipalities receive the revenue they need to provide services to those same taxpayers.
- The Department of Revenue does not have the resources necessary to properly administer a program of this magnitude. Budget cuts have decimated the auditing capacity of DOR.
- There is already a system in place to allow for a single audit of businesses. The Multi-Jurisdictional Audit Coordinator (MJAC) program allows a business to choose that just one audit to be done on behalf of all applicable jurisdictions.
- DOR is focused on large, statewide taxpayers; they do not focus on small, local businesses. Moving to statewide auditing will make it difficult for cities and towns to have their individualized needs met. (If you are a city or town that uses private auditors, you may want to highlight the fact that this change will eliminate private jobs in rural areas and create more state jobs at the Capitol.)

Retail Sales on Construction Materials

- Shifts money away from the impacts of growth. Moving to such a system means that unless your city or town has regional retail centers that sell construction materials (this is not Home Depot or Lowe's), the sales tax collected from those construction projects will go outside your community to areas that have such centers, including retails centers out of state. Your city will not be able to utilize this revenue to offset the increased demands on city services that relate to the construction.
- Bad economic policy. This is a classic example of picking winners and losers. This is not tax simplification; this is a tax reduction. The construction industry is seeking preferential treatment; giving it favor among all other business types.
- Narrows the tax base. Rather than broadening the tax base which could produce lower rates, this is another special interest tax break that reduces total revenue to the state as well as local governments.
- Significant tax policy shift. This change represents a new way of dealing with manufacturers that has not been given serious discussion and analysis. Construction is not a service industry, it's a manufacturing industry. At the end of the day, you are buying a finished product manufactured on-site. If the state wishes to revisit how manufacturing is viewed and treated, it shouldn't be done in haste in a piecemeal fashion.
- Lack of information. We are expected to accept these changes with little or highly questionable data. Based on available data there is no way to estimate the impact to local sales tax revenue. The state estimates that there will be no impact to the state budget. We believe this is based on faulty assumptions. Any errors in those assumptions may result in significant budget losses at the state level, losses that the state can't afford to risk.
- Attack on rural and small town Arizona. This change will lead to huge budget losses and will send that revenue to urban Arizona or out of state. If you represent a small or rural municipality, you need to make your legislators understand very clearly that support for this change means that they are not concerned with the issues facing the constituents in their own district.