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**FOR IMMEDIATE RELEASE**

**League Statement: Tax Simplification Must Not Come at the Expense of  
Arizona Cities and Towns**

**PHOENIX (Feb. 11, 2013)** - The League of Arizona Cities and Towns joins Gov. Brewer in supporting changes to the state TPT (transaction privilege tax) system to make it simpler and more efficient for business taxpayers. The League was an active member of the TPT Simplification Task Force that met for several months last year. We are pleased to support a majority of the recommendations of the task force, but we strongly oppose others including the elimination of the construction sales tax, which we believe would be devastating to cities and towns, as well as to the state.

**Proposal to Eliminate Local Construction Taxes Devastates Local Revenue**

The issue of elimination of construction sales taxes is a major change in policy that goes far beyond simplification. It breaks a decades-old policy of having construction taxes go to communities where growth is occurring and singles out a particular industry for an immediate tax break. Assumed future revenue projections are based on highly questionable data from a study conducted 13 years ago.

The proposal would immediately zero out local construction sales taxes, and base the new retail tax on only the materials used, which represents a major tax reduction. Other manufactured products are taxed on their total sales value, not just the cost of raw materials.

Proponents of the change say there will be increased state shared revenue due to the tax on the retail sale of materials, but they fail to show how much building material is bought in-state and

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where those sales take place. Also, because revenue sharing is distributed on a population basis, it will not necessarily be going to those communities most impacted by construction, particularly since local taxes on construction activity -- approximately \$168 million per year -- are proposed to go to \$0. Nearly all cities and towns in the state are expected to lose substantial amounts of revenue due to this change --for information, you can link to: [TPT Collections on Prime Contracting](#).

It is unwise to make major changes in public policy without current and complete information. We call on Gov. Brewer and the Legislature to make an appropriation to do an up-to-date, professional study that will provide accurate information on the rate of non-compliance, where materials are purchased, how much revenue would be generated by a retail tax on materials, and other important information. We believe solid, scientific data should drive any major policy change of this type.

### **Online Portal Provides Simplification**

Concerns about complying with taxes in different cities and towns will be resolved by the new online portal, created as a result of HB2466 from last year. Under this new system, businesses will be able to file taxes in different jurisdictions by simply entering their amount of total sales in each city or town. The software of the portal takes care of the calculations and distribution.

The project is currently in development and will be fully operational by January 2015. When fully implemented by the Arizona Department of Administration, it can be expanded from the 18 self-collecting cities and towns to include all municipalities in the state. This technological innovation makes compliance easier for businesses and eliminates the need to have all tax administration go through the Arizona Department of Revenue.

### **Cities Support Changes Necessary to Collect Internet Sales Taxes**

Arizona cities and towns strongly agree that we should be prepared to collect taxes on online sales once federal authorizing legislation is passed. But, this issue should not be blended with other

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proposals that have nothing to do with online sales. We are in a position to comply with federal authorizing legislation that will make complying with online taxes easy for businesses and consumers, and make the entire tax system fairer for existing brick-and-mortar retail centers.

#### **Proposed Audit Changes Reduce Tax Compliance**

Cities and towns audit businesses located in their own communities to assure a level playing field for all business owners. We believe it is unwise to eliminate that local audit function by having the state the sole auditor. As a matter of course, 28 of the municipalities currently served by the Arizona Department of Revenue have chosen to engage in supplemental auditing, demonstrating a legitimate need for local auditors. The League believes eliminating these local auditing programs will reduce compliance efforts, opening the door to errors in reporting and application of the tax code with some failing to pay entirely, giving those businesses an unfair advantage over other businesses that are lawfully paying their taxes.

A process already exists to perform a single audit through a process known as MJAC (Multi-Jurisdictional Audit Coordinator). There is no need to dismantle a system that works now for both the state and local communities.

The League and all its members are prepared to work with Gov. Brewer, Representative Lesko, legislative leaders and the business community to develop legislation that will accomplish the goal of tax simplification without doing harm to state and local revenues.

#### **About the League:**

The League of Arizona Cities and Towns is a voluntary association of all the 91 incorporated cities and towns in the state of Arizona. It provides policy and legislative advocacy, information and inquiry services, along with publications and educational programs to strengthen the quality and efficiency of municipal government. It was founded in 1937 to serve the interests of cities and towns and to preserve the principles of home rule and local determination. For more information, visit [www.azleague.org](http://www.azleague.org).

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