ARIZONA TRANSACTION PRIVILEGE TAX AND USE TAX
DEFINITION – TRANSACTION PRIVILEGE TAX

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

- Retail Sale – Sale to end user
- End user – Each state defines it differently
  - Special case – in AZ, a MRRA contractor is an end user
- Tangible – can be touched, felt, tasted
  - Special case – in AZ, downloadable software is tangible personal property
- Personal Property
  - Property that is not land or a building or anything attached to land and a building
  - Special case – counters in a bank
THE “GENERAL” RULES

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

- **Sales to a non-profit organization**
  - Generally not exempt

- **Sales by a non-profit organization**
  - Generally exempt

- **Goods**
  - Generally taxable unless specifically exempt

- **Services**
  - Generally exempt unless specifically taxable
  - Examples of taxable services include: transportation, utilities, telecommunications, 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 Tucson tax from its customers, but:

- Tucson – 2-4% when UA is buyer
  - UA pays 2% to vendors – retail, restaurants, communications, job printing, publication, rent of personal property and amusements
  - UA pays 4% to vendors – public utilities
<table>
<thead>
<tr>
<th>Description</th>
<th>Tax % (when selling)</th>
<th>Tax % (when buying)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AZ State</td>
<td>5.60%</td>
<td>5.60%</td>
</tr>
<tr>
<td>Pima County*</td>
<td>0.50%</td>
<td>0.50%</td>
</tr>
<tr>
<td>Tucson City</td>
<td>0%</td>
<td>2-4%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>6.10%</td>
<td>8.10%-10.10%</td>
</tr>
</tbody>
</table>

*This may change when selling/buying from different counties*
DEFINITION – USE TAX

• Self-assessed tax on the use, storage, or consumption of tangible personal property
  • Sales tax was not levied by the vendor
  • 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?

So, how do you know if it’s sales tax or use tax?

• 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
WHAT IS NEXUS?

Nexus means connection, or linkage.

**nexus**
- noun, plural nexi, nexes

1. a means of connection; tie; link.
2. a connected series or group.
3. the core or center, as of a matter or situation.
4. Cell Biology. a specialized area of the cell membrane involved in intercellular communication and adhesion.

- Factors that can create nexus:
  - Renting or owning property
  - Business presence in the state
    - Trade shows (except Nevada/Florida)
  - Presence of agents/contractors/employees

- Consequence of having nexus
  - Register as a retailer in that state
  - Collect taxes
  - File returns
  - Remit payment to the state
NON-TAXABLE TRANSACTIONS

• Professional/personal services, unless:
  • They are specifically taxable, such as:
    • Transportation, utilities, telecommunications, and photographer’s services

• 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

• Warranty services/service contracts
  • Be careful, if related to software, it MAY be taxable

• Conference registration fees
MORE NON-TAXABLE TRANSACTIONS

- Professional membership dues
- Textbooks/required course materials
- Printed and other media materials (available to the public) by UA Libraries
- Unprepared food for home (human) consumption
- Medically prescribed drugs, equipment or devices
- Purchase for resale
- Others as set forth in statutes such as ARS 42-5061 or ARS 42-5159
  - [http://www.azleg.gov/ArizonaRevisedStatutes.asp?Title=42](http://www.azleg.gov/ArizonaRevisedStatutes.asp?Title=42)
MACHINERY & EQUIPMENT USED FOR RESEARCH

• Machinery or equipment used for research – 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 and 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
  - Computer software development
  - 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 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 services

- *Purchase (by a 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
    - The price is stated separately

- Software agreement including updates, upgrades, modification or revisions to a standard software:
  - Taxable
CLAIMING THE TAX EXEMPTION FROM A VENDOR

- Vendors must document tax exempt transactions:
  - Tax exemption certificate (Arizona Form 5000) is required and provides:
    - 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 for a PCard purchase:
  - Provided to the vendor (prior to transaction) by the department
  - Signed by the departmental individual who authorizes the purchase
  - Certificate is located on E-Forms and on the Financial Services Office Tax Services webpage:
    - [http://www.fso.arizona.edu/tax-services/az-sales-use](http://www.fso.arizona.edu/tax-services/az-sales-use)
Arizona Department of Revenue
Transaction Privilege Tax Exemption Certificate

This exemption Certificate is prescribed by the Department of Revenue pursuant to ARS § 42-5009. The purpose of the certificate is to document tax-exempt transactions with qualified purchasers. It is to be filled out completely by the purchaser and furnished to the vendor. The vendor shall retain this Certificate for single transactions or for specified periods as indicated below. Incomplete Certificates are not considered to be accepted in good faith. Only one form of exemption can be claimed on a certificate.

Purchaser’s Name and Address
University of Arizona
Procurement & Contracting Services
USA Bldg. 300A Tucson, AZ 85721

Vendor’s Name

Check Applicable Box:
☐ Single Transaction Certificate
☐ Period From: __________ Through: __________

(You must choose specific data for which certificate will be valid)

Choose one transaction type per Certificate

Transactions with a Business
(Please check appropriate item from numbers 1 - 10)
Arizona Transaction Privilege Tax License Number 20221243
SNV / EIN 74-2652589
Other Tax License Number
Tax number for another tax agency
If no license number, provide reason:

Precise Nature of Purchaser’s Business
Public Research University

Transactions with Native Americans & Native American Businesses
(Please check item numbers 24 or 25a)
Tribal Business License # _____
OR
Tribal I.D.
Name of Tribe

Transactions with nonresidents
(Please check appropriate item from numbers 25 - 26)
State of residence
Driver’s License
Driver’s License
State
SSN/ID
30 day Drive out permit #

Reason for Exemption - check as applicable
☐ 1. Tangible personal property to be resold in the ordinary course of business.
☐ 2. Tangible personal property to be leased or rented in the ordinary course of business.
☐ 3. Tangible personal property to be incorporated into a taxable contracting project.
☐ 4. Food, drinks, or condiments purchased by a restaurant business.
☐ 5. Motor vehicle fuel and use fuel subject to tax under ARS §28-5606 or 5708.
☐ 6. Use fuel to a holder of a valid single trip use fuel tax permit issued under ARS § 28-5719.
☐ 7. Aviation fuel subject to the tax imposed under ARS § 28-8344.
☐ 8. Pipes or valves four inches in diameter or greater to be used for transportation of oil, natural gas, artificial gas, water or coal slurry.
☐ 9. Neat animals, horses, asses, sheep, rams, swine or goats used as breeding or production stock (including ownership shares in such animals).
☐ 10. Aircraft, navigational and communication instruments and related accessories sold or leased to:
☐ Airlines holding a federal certificate of public convenience and necessity; or
☐ Airlines holding a foreign air carrier permit for air transportation;
☐ Any foreign government or nonresidents of Arizona who will not use such property in Arizona other than in removing such property from this state.
☐ 11. Railroad rolling stock, traffic lights and signaling equipment used directly to transport persons or property for hire.
☐ 12. Buses or urban mass transit vehicles used directly to transport persons or property for hire or pursuant to a government mass transit program.
☐ 13. Central office switching equipment, switchboards, private branch exchange equipment, microwave radio equipment and carrier.
☐ Equipment including optical fiber, coaxial cable and other transmission media which are components of carrier systems sold or leased to persons engaged in the telecommunications business.
☐ 14. New machinery and equipment, used for commercial production of agricultural, horticultural, viticultural and floricultural crops and products in this state, consisting of tractors, tractor-drawn implements, self-powered implements, drip irrigation lines, and machinery and equipment necessary for extracting milk and for cooling milk and livestock.
☐ 15. Machinery equipment or transmission lines used directly in producing or transmitting electrical power, but not including distribution.

(Over)
TAX EXEMPTION CERTIFICATE

Exemptions based on the purchaser being a government entity, public school, or a

- Food, drink or condiments for consumptions within the premises of any prison, jail or other
  corrections, the department of public safety, the department of juvenile corrections or a
  correctional facility

- Tangible personal property sold or leased directly to the United States Government or its
  departments or agencies by a manufacturer, modifier, assembler or repairer

- 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, which is not deducted
  under number 21 above. This exemption does not apply to leases.

- Tangible personal property sold or leased directly to a qualifying nonprofit hospital, health
  care organization, community health center, or rehabilitation program for mentally or
  physically handicapped persons (an exemption letter for these entities must accompany this form).

Transactions with Native Americans & Native American Businesses

- Sale or lease of tangible personal property including Motor Vehicles to affiliated Native Americans
  if the solicitation for the sale, signing of the contract, delivery of the goods and payment for the
  goods all occur on the reservation.

- Sale of a Motor Vehicle to an enrolled member of a tribe who resides on the reservation established
  for that tribe.

Transactions with nonresidents

- Sales of tangible personal property to nonresidents of Arizona who are temporarily within Arizona,
  for their use outside of Arizona, when the vendor ships the property out of Arizona by common
  carrier or United States mail or delivers such property out of Arizona via the vendor’s own
  conveyance.

  NOTE: The vendor shall retain adequate documentation substantiating the shipment of the
  property out of Arizona.

- Sale of a motor vehicle (must be self-propelled) to a nonresident of Arizona whose state of
  residence does not allow a use tax exemption for transaction privilege taxes paid to Arizona and
  who has secured a special 30-day nonresident registration for the vehicle (please see Arizona Form
  5010).

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

Certification

A vendor that has reason to believe that the 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 criminal penalties of a felony pursuant to ARS § 42-1127.B.2.

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 ____________________________
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 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, 3870, 5520, 5540, 5560, 5810, 5830, 5850, 7810, 7820, 7830, and 9175
• We work together to properly collect and remit TPT
  • Department’s responsibilities:
    • Identify taxable sales for Arizona customers
    • 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
COMMON ISSUE: PUBLICATION

• Publication (e.g. newspapers, magazines, journals) published in AZ
  • Publisher is liable for sales tax even if the customer subscribes from out-of-state, except for:
    • Tourist magazines that promote tourism and travel in Arizona
GENERAL ERROR CORRECTION – FOR USE TAX

Step 1 – Review transactions where use tax was wrongly charged

- UAccess Analytics > General Financial Management > Transactions > Include relevant account/org information > Doc Type (PCDO)
- Change the report format – Detailed by Fund Group by Account and Object code
- Export data to excel where it can be sorted to see if use tax was charged and whether it needs correction
- If use tax has been wrongly charged, see step 2
GENERAL ERROR CORRECTION – FOR USE TAX

- Step 2 – GEC
  - Main menu>Transactions>General Error Correction
  - Click on GEC
Step 2 continued...

- Description – “Reversal of use tax”
- Explanation – Brief explanation why
- All entries would be in the “From” section – Reducing expense and liability from the account
- Chart – “UA”
- Reducing expenses
  - 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
  - Line Description – “Reversal of use tax”
  - Amount – Use tax charged
  - Click Add
• Step 2 continued...
  • Reducing liability
    • Account # - 2892000
    • Object code – 9190
    • Reference Origin Code – “01”
    • Reference Number – Original doc # where the expense was charged
    • Line Description – “Reversal of use tax”
    • Amount – Use tax charged
    • Click Add
  • Notes and Attachments - Include detailed explanation why the transaction is not taxable
    • Optional if details are included in “Explanation” box
  • Submit
• Please note – Use tax can be reversed only for prior periods in the current fiscal year
EXAMPLE OF A COMPLETED GEC

[Image of a completed General Error Correction (GEC) form with details filled in, including accounting lines and error certification.]
IN REVIEW: THE “GENERAL” RULES

Let’s Recap

- Purchase and sale of tangible property is generally taxable, unless specifically exempt.
- Purchase and sale of services is generally exempt, unless specifically taxed.
- If taxable goods are purchased from an out of state vendor without Arizona nexus, self-assess use tax.
- If an item does not fit into “machinery or equipment used in research” or “chemical used in research,” it generally DOES NOT qualify for tax exemption.
UNIVERSITY AS A SELLER

Is the buyer in state?

Yes

Is the transaction taxable?

No

Collect sales tax

Yes

Collect sales tax

Are the goods being transferred in AZ?

No

Do you have nexus in the other state?

Yes

Register in that state, collect taxes and remit to that state

No

Do not collect sales tax

Yes

Collect sales tax

No

Collect exemption certificate from the buyer

Yes

Collect sales tax

Collect sales 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/az-sales-use/faq
  FSO-Financial Management: 520-621-3220 or 520-621-3473
QUESTIONS?