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 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

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# SALES TAX RATES - SUMMARY

<table>
<thead>
<tr>
<th>Description</th>
<th>Tax % (when selling)</th>
<th>Tax % (when buying)</th>
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</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><strong>6.10%</strong></td>
<td><strong>8.10%-10.10%</strong></td>
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*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.

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

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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 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 are 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 Form 5000**

**Transaction Privilege Tax Exemption Certificate**

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:

<table>
<thead>
<tr>
<th>Name</th>
<th>University of Arizona, Procurement &amp; Contracting Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Address</td>
<td>USA Bldg. 300A</td>
</tr>
<tr>
<td>City</td>
<td>Tucson</td>
</tr>
<tr>
<td>State</td>
<td>AZ</td>
</tr>
<tr>
<td>ZIP Code</td>
<td>85721</td>
</tr>
</tbody>
</table>

**Check Applicable Box:**

- [ ] Single transaction certificate
- [ ] Period From _________ Through _________

**Vendor’s Name**

### C. Choose one transaction type per Certificate:

- [ ] Transactions with a Business
- [ ] Arizona Transaction Privilege Tax (TPT) License Number 20211243
- [ ] Tribal Business License Number OR Tribal Number
- [ ] EIN/FEIN 74-286989
- [ ] Other Tax License Number
- [ ] If no license, provide reason:
- [ ] Transaction with a Native American Business (See reason #12.)
- [ ] Transaction with a U.S. Government entity (See reasons #9 and #10.)
- [ ] Transaction with a Foreign Diplomat (See reason #13.)

### 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.

- [ ] Tangible personal property to be leased or rented in the ordinary course of the purchaser’s licensed business.
- [ ] Tangible personal property to be incorporated into a taxable contracting project, or a maintenance, repair, replacement or alteration project.
- [ ] Food, drinks, or condiments purchased by a restaurant business.
- [ ] Pipelines or vessels four inches in diameter or greater to be used for transportation of oil, natural gas, artificial gas, water or raw sewer.
- [ ] Aircraft, navigational and communication instruments and related accessories used or leased for:
  - Airlines/airways to carry 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.
- [ ] Machinery or equipment used directly in the following business activities:
  - Manufacturing, processing or fabricating;
  - Job printing;
  - Refining or metallurgical operations.
  - Extraction of ore or minerals from the earth for commercial purposes.
  - Extraction of, or drilling for, oil or gas from the earth for commercial purposes.
- [ ] Other income producing capital assets. (Cities only)
- [ ] Food, drinks 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.
- [ ] Tangible personal property sold or leased directly to the United States Government or its departments or agencies by a manufacturer, modifier, assembler or retailer. (Retail, personal property rental and leasing classifications only.)
- [ ] 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.)

**Financial Services Office**

**Continued on page 2**
TAX EXEMPTION CERTIFICATE

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
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
UNIVERSITY AS A SELLER

• 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

![General Error Correction Form](image-url)
GENERAL ERROR CORRECTION – FOR USE TAX

• 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
GENERAL ERROR CORRECTION – FOR USE TAX

• 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

## General Error Correction

**Description:** Reversal Use Tax on Transaction #27 6

**Explanation:** Reconciler forgot to check Tax Exempt Indicator box on transaction for airfare

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<tr>
<th>From</th>
<th>Chart</th>
<th>Account Number</th>
<th>Sub-Account</th>
<th>Object</th>
<th>Sub-Object</th>
<th>Project</th>
<th>Org Ref Id</th>
<th>Amount</th>
<th>Actions</th>
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<td>27 6</td>
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</tbody>
</table>

**Total:** 38.86

## Capital Edit

**Error Certification**

Describe in detail the expenditures that are being transferred:

- How did this expenditure benefit the project?
- Why is the error correction late?

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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 BUYER

Is the vendor in state?
- Yes
  - Is the transaction taxable?
    - Yes
      - Did the vendor collect sales tax?
        - Yes
          - No obligation on buyer
        - No
          - Self-assess use tax
    - No
      - Provide form 5000 to the vendor

No
- No
  - No obligation on buyer

Is the transaction taxable?
- Yes
  - No obligation on buyer
- No
  - No obligation on buyer
UNIVERSITY AS A SELLER

- Is the buyer in state?
  - Yes: Is the transaction taxable?
    - Yes: Collect sales tax
    - 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
- No: Are the goods being transferred in AZ?
  - Yes: Is the transaction taxable?
    - Yes: Collect sales tax
    - No: Do not collect sales tax
  - No: Collect exemption certificate from the buyer
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: taxpservices@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