

AZ State Sales and Use Tax Facts

July 2010

- When making taxable sales in Tucson, UA departments generally should charge Arizona Transaction Privilege Tax (referred to hereafter as "sales tax") at 7.1% for most of the sales. If the UA department's business location is in a different county, the tax rate may be slightly different.
- The University **does not** charge city sales tax when making taxable sales.
- The Financial Services Office prepares a monthly sales tax report and takes care of paying all tax that has been collected in association with taxable sales.
- When making purchases, the University pays combined state and county sales tax at 7.1% on most of the purchases. If the UA department's business location is not in Pima County, the tax rate may be slightly different. If vendors have a city business license and charge city sales tax, the University pays this tax as well (currently 2% in Tucson for most of the transactions. 4% for utilities and telecommunications).
- Arizona statutes exempt certain purchases from sales tax.
- When making purchases from out-of-state vendors, the University self-assesses Use Tax at 6.6%.
- Arizona statutes exempt certain purchases from Use Tax.
- Errors in the payment of sales tax should be handled directly with vendors.
- Use tax errors are corrected internally – contact your fund accountant.
- Refer to [FRS Policy 8.11](#) for more detailed information about departmental responsibilities, taxable sales, object codes and other related topics.

What is Transaction Privilege Tax?

Short answer: Transaction Privilege Tax is often referred to as Sales Tax.

More detail: Businesses having a presence in or a connection of some kind with the State of Arizona must obtain an Arizona business license and, when making taxable sales, are required to collect and remit applicable Transaction Privilege Tax (TPT) to the Arizona Department of Revenue. Although commonly referred to as "sales tax," TPT is differentiated from sales tax in that it is a tax imposed on the seller rather than on the purchaser. Transaction privilege tax is an excise tax imposed on vendors for the privilege of doing business in Arizona. It is ultimately the vendor, not the customer, who is liable to the Arizona Department of Revenue for tax associated with taxable sales made in Arizona. Although not required to do so, vendors generally choose to pass the tax on to the customer, so we generally tend to think of TPT as a sales tax.

Is the University of Arizona exempt from paying sales tax on its purchases?

Short answer: No.

More detail: The University of Arizona is not a tax-exempt entity for this purpose, so it generally pays sales tax on its purchases. Arizona statutes exempt certain purchases from sales

tax and the University tries to take these exemptions when available. Determination of exemption is made on a purchase-by-purchase basis, and if the University determines that a purchase can be exempt from tax, an exemption certificate is provided to the vendor. The University does not, therefore, provide a certificate indicating that all of its purchases from a given vendor would be tax exempt.

What purchases are subject to sales tax?

Short answer: All purchases are subject to sales tax unless a specific exemption exists.

More detail: Arizona statutes state that there is a presumption that, "all gross proceeds of sales and gross income derived from a business activity classified under a taxable business classification comprise the tax base from the business until the contrary is established." In other words, all sales are considered taxable until the seller of goods or services provides proof that the sale should be nontaxable or tax exempt. Sellers overcome this presumption by requiring that customers believing their purchases to be exempt from tax provide [Arizona Form 5000, an exemption certificate](#) .

Common Sales Tax Exemptions on Purchases of:

- Professional or personal services (if not as part of the purchase of tangible personal property)
- Tangible personal property purchased for resale
- Warranty or service contracts (if not required as part of the purchase of tangible personal property, and listed separately in the invoice)
- Prescription drugs, certain medical equipment, prostheses, insulin, prescription eyeglasses, and hearing aids
- Printed and other media materials purchased by publicly-funded libraries in Arizona, and made available to the public (materials not available to public are not exempt; equipment is not exempt either)
- Internet access and cable services
- Custom computer software (pre-written software and pre-written software update are taxable)
- Conference fees
- Professional membership dues
- Machinery and equipment used in research and development
- Chemicals used in research and development
- Food for (human) home consumption
- Freight or shipping if separately stated on the invoice
- Others as set forth in [ARS §42-5061](#).

What is use tax?

Use tax is a tax on the use, storage, or consumption of tangible personal property. Out-of-state

vendors do not generally charge sales tax, so the University is required to figure out what the sales tax would have been on the purchase and send that amount to the Arizona Department of Revenue. The purpose of a use tax is to prevent the avoidance of sales tax made possible by purchasing tangible property from out-of-state vendors. Such purchasing habits put in-state vendors at a disadvantage and leads to loss of revenue for the state. Arizona's use tax was enacted in 1955 to "protect sellers in the state of Arizona from inequities that would result without a use tax."

How does use tax differ from sales tax?

Use tax is similar to sales tax, in that it is a tax collected in relation to sales made to Arizona customers. However, it is differentiated from sales tax in that for sales tax, the primary consideration is whether or not the sale occurred in the state, while for use tax it is whether the property purchased out-of-state is brought into the state for use, storage or consumption.

Who bears the liability for use tax?

In general, the purchaser, rather than the out-of-state vendor, is liable to the Arizona Department of Revenue for use tax. Vendors who do not have physical presence in Arizona but who nonetheless have sufficient contact with the state are required to register with the Arizona Department of Revenue and collect use tax from its Arizona customers. In this case, the vendor will have a license to collect use tax.

How often does the University of Arizona pay use tax?

The University remits use tax to the Arizona Department of Revenue on a monthly basis.

Are some purchases exempt from use tax?

As with sales tax, there are exemptions from use tax. Some of the exemptions commonly used by UA departments include:

- Tangible personal property purchased for resale
- Tangible personal property on which sales tax has already been paid
- Tangible personal property, the sale or use of which has already been subject to an equal or greater excise tax under the laws of some other state
- Internet access and cable services
- Custom computer software (pre-written software and pre-written software update are taxable)
- Conference fees
- Professional membership dues
- Medically prescribed drugs, equipment (such as wheelchairs) or devices (such as hearing aids)
- Food for (human) home consumption
- Printed and other media materials purchased by publicly-funded libraries in Arizona, and made available to the public (Materials not available to public are not exempt. Equipment is not exempt either)
- Machinery or equipment used in research and development.
- Chemicals used in research and development
- Others as set forth in [ARS §42-5159](#).

Because the presumption is that property brought into the State of Arizona is subject to use tax, departments making purchases they deem to be nontaxable or tax exempt should be careful to retain documentation supporting their position.

Use tax was charged incorrectly to my account. How can I correct this error?

The procedure for correcting use tax errors depends on how the tax was paid or should have been paid at the time of purchase. Errors in use tax can arise in relation to a

- P-card purchase,
- Purchase order, or
- Prepaid purchase order.

P-card Purchase

If use tax was paid in error on a P-card purchase, the department should prepare a Request for Accounting Assistance form (RFAA), crediting the appropriate account and object code for the amount of tax that needs to be reversed off the account. The debit side should be left blank; Financial Management will fill in the account and object code after a review of the RFAA. An Explanation of the item purchased and why they are tax exempt should be provided on the RFAA. The RFAA should be routed to FSO RFAA Inbox.

If use tax should have been paid on a P-card purchase but was not paid, contact your fund accountant at FSO- Financial Management.

NOTE: Most use tax errors related to P-card transactions result from incorrect reconciliation or failure to use a purchase invoice when reconciling transactions. [The Purchasing Card Policies Manual](#) on the P-card website is an excellent resource.

Purchase Order

If use tax was charged inappropriately on a purchase order, Accounts Payable should be contacted directly. A/P will enter a notepad item on the purchase order so necessary corrections will not be duplicated. A/P will send a memo to Financial Management along with appropriate backup and FM will create a journal entry to correct the error.

The same procedure is followed if use tax was not paid on a purchase but should have been remitted.

Prepaid Purchase Order

If use tax was charged inappropriately on a prepaid purchase order, or if a refund was received and use tax should be reversed, Purchasing should be contacted directly. Purchasing will send a memo to Financial Management and FM will then generate a journal entry to correct the error. The department need not provide backup; Purchasing and FM take care of providing backup and generating a journal entry.

Please note that the above information refers to use tax corrections but not sales tax corrections. **Sales tax errors should be discussed with the vendor.**

Occasionally, both sales and use tax are paid on a purchase. When sales and use tax have both been paid, the use tax should be reversed. Follow the guidelines outlined above to correct

the error making sure that the amount being reversed is the use tax amount, not the sales tax amount.

Equipment Used in Research and Development

The statute (ARS §42-5159(B)(14)) defines research and development as, "basic and applied research in the sciences and engineering, and designing, developing or testing prototypes, processes or new products." Not all departments can qualify for this sales tax exemption. The statute allows the exemption for purchases of machinery and equipment used in research, "in the sciences and engineering," but expressly excludes the exemption for, "research in social sciences or psychology, computer software research that is not included in the definition of research and development, or other nontechnological activities or technical services." Further, purchases of computers rarely qualify for sales tax exemption under this statute. Office equipment, furniture and supplies used up in the process of research are taxable.

The following statement can be used to certify that an item being purchased is tax exempt under the research and development exemption, when a DPR is initiated. Please be aware that if the exemption is claimed and the Arizona Department of Revenue finds that the exemption was taken in error, the purchasing department will be responsible for any and all sales or use tax that should have been paid along with any penalties or interest assessed.

Sales Tax Exemption Statement

This purchase will be used for research and development purposes as that term is defined by ARS 42-5061(B)(14). The exemption from sales tax pursuant to ARS 42-5061(B)(14) is authorized by (Name of person authorizing exemption) of (Name of department authorizing exemption).

Use Tax Exemption Statement

This purchase will be used for research and development purposes as that term is defined by ARS 42-5159(B)(14). The exemption from sales tax pursuant to ARS 42-5159(B)(14) is authorized by (Name of person authorizing exemption) of (Name of department authorizing exemption).

Chemicals Used in Research and Development

Arizona Revised Statutes provide sales & use tax exemption on chemicals that are used in research and development, as defined in ARS 42-5061 (A) (39) and ARS 42-5159 (A) (35):

“Sales of liquid, solid or gaseous chemicals used in ... **research and development** ..., if using or consuming the chemicals, alone or as part of an integrated system of chemicals, involves direct contact with the materials from which the product is produced for the purpose of causing or permitting a chemical or physical change to occur in the materials as part of the production

process. This paragraph does not include chemicals that are used or consumed in activities such as packaging, storage or transportation ...”

I. Explanation of the Statutes:

- (1) For Arizona sales & use tax exemption purpose, “research and development” does 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 nontechnological activities or technical services. Chemicals used in such activities do not qualify as chemicals used in “research and development”;
- (2) The chemicals must be used in the way described in ARS 42-5061 (A) (39) and ARS 42-5159 (A) (35) in order to qualify for chemicals used in research and development;
- (3) The chemicals that are used or consumed in activities such as packaging, storage or transportation do not qualify as “chemicals used in research and development”.

AZ Statutes do not define “chemical”. Therefore, it will be up to the researcher to determine whether an item to be purchased is a chemical, and determine whether the chemical is used in “research and development” as defined in the above.

II. Apply the tax exemption

The tax exemption on the chemicals is determined by how the chemicals are used, as described in the above, not how the chemicals are purchased. Therefore, if the items are qualified chemicals used in research and development, tax exemption applies on all types of purchases, such as purchase via DPR, P-Card, and AZ BuyWays.

(1) For purchase orders placed via DPR

The following statement must be made either on the notepad (screen 22n) or on the line screen (29L):

THIS PURCHASE WILL BE USED FOR RESEARCH AND DEVELOPMENT PURPOSES AS THAT TERM IS DEFINED BY ARS 42-5159(A)(35) AND ARS 42-5061(A)(39). THE EXEMPTION FROM SALES TAX PURSUANT TO ARS 42-5061(A)(39) AND FROM ASSESSMENT OF USE TAX UNDER ARS 42-5159(A) (35) IS AUTHORIZED BY (add researchers name here).

(2) For purchases via P-Card (if the purchase is allowed on P-Card)

The departments should provide a Tax Exemption Certificate (AZ Form 5000) to the vendor directly in order to avoid tax charges. The Certificate is available on eForms:

<http://uabis.arizona.edu/eforms/Launcher.asp?FormID=172>

Check box 19 on page two of the Certificate, and then check the inserted box under box 19: “ARS 42-5061(A)(39) & 42-5159(A) (35): Chemicals Used in Research and Development”.

The purchaser (the researcher) at the department must sign the Certification Box at the bottom of the second page of the Certificate to authorize the tax exemption.

(3) For purchases via Arizona BuyWays

For questions on how to claim the tax exemption on such purchases, please contact PACS – Arizona BuyWays Customer Services at 626-8979.