



Summary of Chapter 62 Tax Code Changes to bring forward for consideration by Ordinance to the Mayor and City Council meeting on the February 12, 2015

Chapter 62 Tax Code Public Posting Dated December 2, 2014

BACKGROUND

During the most recent legislative session, several bills were signed by the Governor that required conforming changes to the Model City Tax Code (“MCTC”). Specifically, changes mandated by HB2111 and HB2389 were made to the Arizona Revised Statutes regarding tax licensing for both the Department of Revenue and cities and towns, with an effective date beginning with the 2015 calendar licensing year. The changes were adopted to simplify the numerous individual variations in tax licensing codes and administrative policies among the various cities and towns, and were intended to create uniform tax licensing rules and improve taxpayer understanding and compliance. Highlights of the changes include:

- Eliminates all Application Fees and Temporary Licenses;
- Requires a single license fee for most classifications, with fees available for Residential and Commercial Real Property Rentals needed to maintain existing commitments;
- Creates a new Model Option #16 to accommodate “per unit” licensing models;
- Clarifies licensing of real property rentals, chiefly for those that use property managers;
- Creates uniform penalties and allows for standardized waiver procedures.

The adoption of the Model Option #16 referenced above was created to convert a previously approved “green page” (a city specific option) provided in the MCTC to a model option (an option available to all cities) available only to those cities, including the City of Chandler, who previously relied on the “per unit” licensing model. Therefore, adoption of the Model Option #16 will allow Chandler to continue its licensing procedures as related to residential rentals and will not result in any changes to existing policy.

Moreover, included herein are numerous changes to the MCTC, as approved by the Municipal Tax Code Commission from the years 2012 through 2014. The MCTC is a state-wide, uniform set of privilege (sales) tax laws that every city or town that desires to impose a

privilege tax must adopt as defined in A.R.S. § 42-6051. The City of Chandler has previously adopted the MCTC and when the Municipal Tax Code Commission approves amendments to the MCTC, every city or town that has adopted the MCTC is required to adopt the amendments as per A.R.S. § 42-6053. Therefore, the proposed changes to the Chandler Tax Code (“CTC”) included below are necessary for purposes of conformity with the MCTC.

Finally, included are a number of technical formatting changes in order to correspond with the MCTC (such as changing lowercase lettering to capitalized lettering, numbers to bracketed numbers, etc.).

Included below is a brief summary of proposed changes:

SECTION I. CTC Sections 62-100, is amended as follows: the change to the definition of “Business” with an effective date of January 1, 2007; the change to “Prosthetic” with an effective date of October 1, 2007.

- Excludes from the definition of “Business” in CTC Section 62-100, the transfer of electricity from a solar generating system to an electric utility distribution system. This change was made to conform to Arizona State Statute.
- Expands the definition of “Prosthetic” in CTC Section 62-100, to include orthodontic devices dispensed to a patient by a licensed dental professional. This change was made retroactively to conform to Arizona State Statute.

SECTION II. CTC Section 62-120 and Regulation 62-120.1. are repealed in their entirety with an effective date of July 1, 2013:

- Repeals CTC Section 62-120, the definitions relating to food for home consumption. These definitions have been incorporated into the new CTC Section 62-462. Retail Sales: Food for Home Consumption.

SECTION III. CTC Sections 62-200 is amended as follows with an effective date of July 1, 2013.

- Provides conformity with state statute in the determination of gross income, as defined in CTC Section 62-200, by restricting the taxable value of the sale of nuclear fuel to the value of the purchase price of uranium oxide used in producing the fuel and allowing for the imposition of the tax one time, regardless of the number of transactions that may occur with the fuel.

Fiscal Impact: Chandler does not have a nuclear fuel facility, so there is currently no impact.

SECTION IV. Article III, Sections 62-300, 62-310, 62-320, 62-330, 62-350, 62-360, and 62-370 are amended. Article III, Sections 62-305 and 62-315 are repealed. Article III,

Sections 62-340, 62-362, 62-364, 62-366, 62-372 and 62-380 are created. All Sections are amended, repealed or created as follows, with an effective date of January 1, 2015.

- Various changes to Tax Licensing requirements as mandated by HB2111. Eliminates all Application Fees and Temporary Licenses; Requires a single license fee for most classifications, with fees available for Residential and Commercial Real Property Rentals needed to maintain existing licensing policy; Clarifies licensing real property rentals, chiefly for those that use property managers; Creates uniform penalties and allows for standardized waiver procedures.
- These changes are also to create uniformity by aligning the licensing requirements for all jurisdictions.

Fiscal Impact: Approximately \$65,000 due to the loss in application fees. Additionally, there will be a reduction in license revenues related to the single license fee for businesses with multiple locations.

SECTION V. The CTC Section 62-425 is amended with an effective date of September 21, 2006.

- Provides conformity with state statute with regard to job printing in CTC 62-425, by allowing a deduction for certain postage and freight expenses associated with the sales of job printing materials as long as the expenses have been separately stated from the sale of the materials.

Fiscal Impact: Minimal impact to Chandler tax revenues. Because the State has not considered charges for postage as taxable, most effected taxpayers have not reported City tax on the activity.

SECTION VI. CTC Section 62-445 Subsections (s) and (t) are amended with an effective date of July 1, 2013.

- Replaces the existing related-party commercial lease exemption with an expanded exemption in CTC 62-445. This change was made to conform to Arizona State Statute.

Fiscal Impact: Minimal impact as it relates to a small subset of taxpayers.

SECTION VII. CTC Section 62-450(c) is amended with an effective date of September 1, 2004.

- Provides conformity with state statute by adding an exemption in CTC 62-450 regarding the lease or rental of certified ignition interlock devices.

Fiscal Impact: Minimal to no impact to Chandler tax revenues as most effected taxpayers have not reported tax on the category in the past.

SECTION VIII. CTC Section 62-460(c) is amended with an effective date of October 1, 2007.

- Excludes the sales of cash equivalents from the measure of the Retail Privilege Tax as taxable income in CTC 62-460, and defines the term “Cash Equivalents.”

Fiscal Impact: Minimal impact to Chandler tax revenues as most effected taxpayers have not considered the sales of gift and prepaid calling cards as taxable in the past.

SECTION IX. CTC Section 62-462, is amended with an effective date of July 1, 2013.

- Relocates the imposition of the privilege tax on food for home consumption to a new privilege tax classification, CTC 62-462, which is separate from the Retail Sales privilege tax classification. This change was made to conform to the MCTC and further consistency between all jurisdictions.

Fiscal Impact: No impact as the change simply moves this activity (which was previously included as part of the Retail Classification) into its own separate classification.

SECTION X. CTC Section 62-465, is amended as follows. All changes are effective July 1, 2013, except new subsection (mm), which is effective January 1, 2007.

Makes a number of changes to the Retail Classification to provide conformity with State statute and includes the following:

- Expands the definition of educational entities that are eligible for food sales’ exemption to include private, parochial, and charter schools pursuant to A.R.S. § 15-802, to match the wording in A.R.S. § 42-5102(C)(1).
- Adds exemptions for sales of renewable energy credits.
- Adds exemptions for sales of magazines or periodicals published by this State which are used to encourage Arizona tourism.
- Adds exemptions for sales of paper machine clothing used or consumed in paper manufacturing.
- Adds exemptions for sales of overhead materials used in contracts between the US government and the manufacturer and sales to a qualified environmental technology manufacturer.
- Adds an exemption for sales of food to a restaurant used for free employee meals. This exemption matches the State statutory language of A.R.S. § 42-5061.A.18.

Fiscal Impact: Minimal impact to Chandler tax revenues.

SECTION XI. CTC Section 62-480 is amended with an effective date of January 1, 2007.

- Adds definitions and exemptions for renewable energy credits.
- Excludes from the utility classification, the transfer of electricity from a solar generating system to an electric utility distribution system. This change was made to conform to Arizona State Statute.

Fiscal Impact: Minimal impact to Chandler tax revenues.

SECTION XII. CTC Section 62-485 is amended with an effective date of July 1, 2013.

- Creates a separate taxable classification on the activity of providing wastewater removal services to City residents or non-residents who receive these services. The tax rate on the wastewater removal services classification is set at a rate of 0%, in keeping with Chandler's historic consideration of this activity as non-taxable.

Fiscal Impact: No impact to Chandler tax revenues.

SECTION XIII. CTC Section 62-660 is amended with an effective date of January 1, 2007, except new subsection (mm), which is effective January 1, 2007, and new subsection (ss), which is effective August 1, 2014.

Makes a number of changes to the Use Tax classification to provide conformity with State statute and includes the following:

- Expands the definition of educational entities that are eligible for food sales' exemption to include private, parochial, and charter schools pursuant to A.R.S. § 15-802, to match the wording in A.R.S. § 42-5102(C)(1).
- Adds exemptions for renewable energy credits.
- Adds exemptions for magazines or periodicals published by this state which are used to encourage Arizona tourism.
- Adds exemptions for paper machine clothing used or consumed in paper manufacturing.
- Adds exemptions for overhead materials used in contracts between the US government and the manufacturer and sales to a qualified environmental technology manufacturer.

- Adds an exemption for food used by a restaurant to provide free employee meals. This exemption matches the State statutory language of A.R.S. § 42-5061.A.18.

Fiscal Impact: Minimal impact to Chandler tax revenues.

SECTION XIV. CTC Regulation 62-120.1 is repealed, with an effective date of July 1, 2013.

- Removes an option that was not previously adopted by the City related to Food for Home Consumption. No impact to Chandler.

SECTION XV. CTC Regulation 62-270.1 is amended with an effective date of July 1, 2013.

- Revises the CTC Regulation 62-270.1 to include wastewater removal services as a taxable activity for municipalities that choose a tax rate other than 0%.

SECTION XVI. CTC Chapter 62, Regulations 300.1, 300.2, 310.1, 310.2, 310.3, 350.1, 350.2, 350.3, 360.1, and 360.2 are repealed in their entirety with an effective date of January 1, 2015.

- Deletion of numerous Regulations to incorporate the language directly in the Section of the Code. This change was made to conform to Arizona State Statute and the MCTC.
- Removes the option to prorate annual license fees. This change was made to conform to the requirements of HB2111.

Fiscal Impact: Approximately \$80,000 increase in license revenues. Chandler's current license fee of \$50.00 will now apply to all licensees regardless of their application date.

SECTION XVII. CTC Regulation 62-460.1 is amended with an effective date of July 1, 2013.

- Amends the CTC Regulation 62-460.1 that distinguishes retail sales and the transfer of tangible personal property to include food for home consumption and wastewater removal services

SECTION XVIII. Adoption of Model Option #16 of the Model City Tax Code ("MCTC"). The effective date of this adoption shall be January 1, 2015.

- Allows the City to continue licensing residential rentals on a "per unit" basis. Adoption of the Option is a conforming change, as the previous authority was based

on a “green page” provision in the MCTC which was converted to a model option in accordance with State legislation. Chandler previously relied on the “green page” option,

Fiscal Impact: Adoption will result in no change to the current policy of licensing residential rentals; therefore, there will be no change in license fees or revenues.