

BUSINESS BASICS

A GUIDE TO TAXES FOR ARIZONA BUSINESSES

This publication is designed to help Arizona businesses comply with the state's basic tax and licensing requirements. In case of inconsistency or omission in this publication, the language of the Arizona Revised Statutes and the Arizona Administrative Code will prevail. In addition to describing the types of licenses and taxes that are applicable in Arizona, a few other agencies that impose taxes and require licensing are identified. This publication is part of a series of publications that discuss in detail transaction privilege and other tax issues administered by the state. For questions, please see the websites and telephone numbers listed on the last pages.

E-Business Services are now available at the Arizona Department of Revenue (DOR). To better serve you, DOR now offers businesses the opportunity to complete the Joint Tax Application online at www.AZTaxes.gov. Once the license registration is completed, and the business is registered to use the site, businesses may file and pay their transaction privilege, use and withholding taxes online.

The Arizona Department of Commerce Small Business Services has an online "Step-by-Step Checklist to Start, Operate, and Grow a Business in Arizona" which provides quick answers to commonly asked questions about business licensing, registration, assistance and resources to accelerate your business success. A customized step-by-step checklist is created within minutes – based on your business needs – which includes city, state and/or county contact information and links to download forms.

Bingo Tax Licenses are required of, and tax is imposed on, bingo operators within the state. For information, contact the Department of Revenue, Bingo Section.

City Privilege Tax is generally imposed throughout the state. The Department of Revenue collects the tax for most cities; therefore, no additional license application is necessary. Businesses pay the license fee for cities in which they do business in addition to the applicable state license fees. **Please note** that some of the cities license and collect their tax independently. Please see the *Arizona State, County, and City Transaction Privilege and Other Tax Rate Tables* for the tax rates. This form also lists the cities that license and collect their tax independently. There are some differences between the state and local authorities in the taxability of transactions. For questions regarding taxability and licensing, contact the agency responsible for collecting the tax. Fees for city licenses vary.

Corporate Annual Report filing and registration with the Corporation Commission are required for all profit and non-profit corporations. Contact the Corporation Commission for details.

Corporate Income Tax for a taxable year is 6.968% of taxable income or \$50, whichever is greater.

- ◆ **Estimated tax payments** are required if the taxpayer's Arizona income tax liability for the taxable year is \$1,000 or more.
- ◆ **Electronic Funds Transfer (EFT)** is the required method of payment for corporate estimated tax payments if the taxpayer's Arizona income tax liability for the preceding taxable year was \$20,000 or more. Requirements for completion of the department's authorization agreement and for voluntary participation in the EFT program are the same as for transaction privilege tax listed in this publication.
- ◆ **Tax return due date.** A corporate income tax return must be filed with the Department of Revenue. The return is due by the 15th day of the fourth month following the close of the taxable year for regular ("C") corporations. For "S" corporations, taxes imposed are due on the 15th day of the third month following the close of the taxable year.

- ◆ **Delinquent tax returns and payments, except estimated tax payments**, are subject to the same penalties and interest as for transaction privilege tax listed in this publication. Late or underpaid estimated tax payments are subject to underpayment penalty and interest. The underpayment penalty is equal to the interest that would accrue on the amount not paid for the period of underpayment, not to exceed 10 percent of the amount not paid.

Individual Income Taxes

Sole proprietors report business income on the Arizona individual income tax return. The starting point for an individual is the individual's federal adjusted gross income. The individual must complete his or her federal return before beginning the Arizona return. Individuals whose Arizona gross income exceeds \$75,000 may be required to make estimated income tax payments.

License and Registration may be obtained by using the *Arizona Joint Tax Application* (Form JT-1) to apply for Transaction Privilege Tax, Use Tax, and Employer Withholding and Unemployment Insurance. The application is called "joint" because it is used by both the Departments of Revenue and Economic Security. It allows you to apply for any of the listed licenses and registrations on a single application. The application is available at our website. To apply for other types of licenses that are issued by state agencies, contact those agencies directly. Remember that many cities require businesses to obtain annual permits in order to conduct business within the city limits. Some people who are required to obtain a permit may not be required to obtain a license for transaction privilege tax.

Luxury Tax – Liquor requires wholesalers, microbreweries, and domestic farm wineries to file a return each month and remit luxury tax on spirituous, vinous, and malt liquors. Forms may be obtained from the Department of Revenue, Comptroller's Office. Restaurants, bars, and any other businesses planning to sell alcoholic beverages (retail and wholesale) must be licensed by the Arizona Liquor License and Control Department.

Luxury Tax – Tobacco applies to businesses wholesaling cigarettes, cigars, or other tobacco products. Anyone who manufactures, produces, ships, transports or imports into this state or in any manner acquires or possesses cigarettes without stamps or other tobacco products upon which taxes have not been paid, for the purpose of making the first sale, must be licensed. The license fee is \$25 and is renewed annually.

Partnerships doing business in Arizona must file Arizona Form 165 to determine what partnership income is subject to Arizona income tax. Each partner is subject to Arizona income tax on his or her pro rata share of partnership income.

Personal Property Tax is reported to your local county assessor's office. Businesses must list all personal property (other than motor vehicles) used in the business. Please contact your county assessor for more information.

Taxpayer Bonding may be required in some cases. For details, please see the *Taxpayer Bonds* publication, available at our website.

- ◆ **Delinquent taxpayers** may be required to post bonds to protect the state against failure to pay transaction privilege tax or withholding based on the current or previous tax liability.
- ◆ **Contractors** must be bonded prior to issuance of the transaction privilege tax license unless previously licensed or employing in this state with a good record of tax filing and payment, or if there is no potential tax liability on the proposed project. The type of contracting activities performed determines the amount of bond required. In addition, out-of-state and new contractors must submit bonds for each construction project valued at more than \$50,000 prior to the issuance of building permits. Contractors may qualify

BUSINESS BASICS

A GUIDE TO TAXES FOR ARIZONA BUSINESSES

for exemption from the bonding requirements. Please see the bonding publication for details regarding exemptions. Due to the bonding requirements noted above, license applications for contractors can not be completed online at www.AZTaxes.gov, once the license and bonding requirements have been met, contractors can then register to use www.AZTaxes.gov to file and pay their taxes.

Transaction Privilege Tax (TPT) is imposed on the seller for doing business in the state, although the tax may be passed on to the customer. Various business activities are subject to transaction privilege tax and must be licensed. Those activities include retail sales, restaurants/bars, hotel/motel (transient lodging), commercial leasing, amusements, personal property rentals, contracting, owner/builders, severance (metal mining), transportation, nonmetal mining, printing, publishing, utilities, communications, air/railroad, and private cars/pipelines. A transaction privilege tax license must be issued for each location at which business is conducted. Businesses with multiple locations or business lines can opt to license and report for each location separately or have a consolidated license (and report aggregate sales). Use the *Arizona Joint Tax Application* to apply for your transaction privilege tax license. The cost for each license/location is \$40.

Tax rates vary by city and county. Please see the *Arizona State, County, and City Transaction Privilege and Other Tax Rate Tables* for details.

Reporting sales. When filling out the tax return (TPT-1), the gross income from the business must be reported. Tax exempt sales, such as subcontracting business and sales for resale (wholesale), may be deducted.

Use tax must be reported and paid on merchandise purchased as an exempt sale for resale that is subsequently used by the business and on purchases from an out-of-state vendor for use in Arizona. The use tax is reported on the TPT-1 under business class code 030 for items removed from inventory and under business class code 029 for purchases from out-of-state vendors. Transaction privilege tax and use tax are complementary taxes; only one of these taxes can be applied to a given transaction.

When reporting transaction privilege tax, remember to file all tax returns whether or not you have any sales.

Changes that affect the transaction privilege tax license

- ◆ **Changes in ownership** require a new license because licenses are not transferable. Use the *Arizona Joint Tax Application* to apply for a new license if your business changes from a sole proprietorship to a partnership or corporation, or undergoes a similar change in organization. Also, if the business is a partnership and partners are added or removed, a new license is required.
- ◆ **Changes in location or business location** do not require a new transaction privilege license number. When locations are added or there are changes in the business name (or DBA) the license number does not change; however, a new license is printed showing the updated information. License fees are required whenever these changes are made and the business receives a new print of the license.
- ◆ **Other business changes** that should be reported to the Department of Revenue include changes in the mailing address or location of audit records, requests to suspend licenses when the business plans to temporarily cease operations, and requests to change filing frequency. These changes do not require a license fee.

Due Dates. All businesses are required to report on a monthly basis, unless specifically authorized to report less frequently by the

Department of Revenue. Businesses with an annual tax liability between \$500 and \$1,250 may be permitted to report on a quarterly basis; those with an annual tax liability of \$500 or less may be permitted to report annually. If the tax liability subsequently increases beyond the criteria mentioned above after a business has been authorized to report less frequently, the business must begin reporting and paying the tax at the appropriate frequency; otherwise, penalties and interest will accrue for late reporting and payment. New business licenses may qualify for monthly or quarterly filing based on the anticipated annual income for your first twelve months of business. The due date for the TPT-1 return is the 20th of the month following the month of the TPT activity. However, the mailed return will be considered timely if it is postmarked on or before the 25th of the month or received by the department on or before the next to last business day of the month. Returns and payments from businesses required to pay via electronic funds transfer (EFT) or who use AZTaxes.gov to file and pay their transaction privilege tax must also be received by the second to the last business day to be timely.

Estimated transaction privilege taxes must be paid each June by all businesses with an annual tax liability of \$100,000 or more.

Electronic Funds Transfer (EFT). Transaction privilege tax and use tax taxpayers with a prior calendar year liability of \$1,000,000 or more are required to remit payments via EFT. Before payments are made via EFT, the *Authorization Agreement for Electronic Funds Transfer* (ADOR 11-5568) must be completed and submitted to the department's EFT Unit. The department will send a confirmation of the taxpayer's enrollment in the EFT program along with further payment instructions. Taxpayers not meeting the mandatory level of participation are allowed to enroll in the program.

Penalties are 1/2% per month or part of a month for late payment and 4 1/2% per month or part of a month for late filing, up to a combined maximum of 25%. Interest accrues on delinquent payments at the same rate as charged by the IRS and, by law, cannot be waived.

Transaction Privilege Tax Special Situations

NOTE: Without proper documentation for tax-exempt sales claimed as deductions, the seller may be responsible for the tax.

- ◆ **Sales for resale** (wholesale) are exempt. The burden of proving that a sale was for resale is on the seller. However, if the seller has a valid *Transaction Privilege Tax Exemption Certificate* (Form 5000) or an *Arizona Resale Certificate* (Form 5000A) on file that was completed by the purchaser, the burden of proof shall shift to the purchaser. Please contact the Department of Revenue to obtain copies of the form, or visit the forms link at our website.
- ◆ **Subcontracting** income is not subject to transaction privilege tax if the subcontractor can demonstrate that the job was within the control of a prime contractor and that the prime contractor is liable for the tax on the job. If the subcontractor is given a *Transaction Privilege Tax Prime Contractor's Certificate* (Form 5005) that has been completed by the prime contractor, the subcontractor is relieved of the burden of proof. Please visit the forms link at our website to obtain copies of the certificates.
- ◆ **Retail sales of tangible personal property to nonresidents** temporarily within Arizona, for use outside of Arizona, are exempt from transaction privilege tax if the seller ships or delivers the tangible personal property out of Arizona. *For sales other than motor vehicles or boats*, to substantiate the deduction the seller shall obtain a completed *Transaction Privilege Tax Exemption Certificate* (Form 5000) or a written statement from such a buyer certifying that the buyer is not a resident of Arizona and the property purchased is for use outside Arizona. The seller shall also maintain records to substantiate the sale was made to a

BUSINESS BASICS

A GUIDE TO TAXES FOR ARIZONA BUSINESSES

nonresident and the out-of-state shipment. *For sales of motor vehicles, please see Arizona Transaction Privilege Tax Procedure TPP 08-1, and the accompanying certificates (Forms 5010, 5011, 5012 and 5013).* Please visit the department's website to obtain copies of the certificates.

- ◆ **Sales to non-profit organizations** are generally subject to the tax. For additional information, please see the *Non-Profit Organizations* publication, which is available at our website.
- ◆ **Solar energy device deductions** are available only to retailers, lessors and contractors registered with the Department of Revenue who sell, lease or install qualified solar energy devices that have been certified by the Department of Commerce. The retailers, lessors and contractors may register to sell these items by completing the Solar Energy Device Registration form (Form 6015).

Unclaimed Property consists of items such as payroll/vendor checks, bank deposits, and insurance proceeds that have remained unclaimed for a specified period of time. The abandonment periods range from one to fifteen years depending on the type of property. Businesses holding these items are required to file an unclaimed property report annually and remit the funds to the Department of Revenue.

Unemployment Insurance requires employers to register with the Department of Economic Security. Employers use the Arizona Joint Tax Application (Form JT-1) to register for both withholding and unemployment insurance. For unemployment tax rates and other information, please contact the Department of Economic Security.

Use Tax is the companion tax to the transaction privilege tax. Businesses (or individuals) making out-of-state purchases for their own use – not for resale – on which no tax is paid, are required to pay the use tax. Therefore, businesses planning to use, store, or consume goods brought into Arizona on a regular basis must register for use tax using the *Arizona Joint Tax Application* (Form JT-1). Out-of-state vendors conducting business in the state or making direct sales into Arizona are also required to be registered and to collect and report the tax. Payment and reporting requirements are the same as for transaction privilege tax. The *Arizona State, County, and City Transaction Privilege and Other Tax Rate Tables* identify the use tax rates for the state and cities.

Waste Tire Fee is paid on the retail sales of motor vehicle tires, including tires for automobiles, motorcycles, trucks, semi-trailers, or other vehicles operated on the road. Fees are reported on the *Motor Vehicle Waste Tire Fee* (Form TR-1) and paid to the Department of Revenue on a quarterly basis, due the 20th of the month following the end of each quarter. The waste tire fee must be listed separately on any invoice. The fee is charged at a rate of 2% of the retail sales price, up to a maximum of \$2 per tire. On the sales of new vehicles (where the price of the tire is not listed separately on the bill), the fee is \$1 per tire. A credit of 10 cents per tire is allowed to be kept by the seller.

Withholding of Arizona income tax is required for businesses or individuals who hire employees. There are a few exceptions to this requirement. Businesses considering the use of "contract" workers are cautioned to consult with their tax professional for advice. Use the *Arizona Joint Tax Application* (Form JT-1) to register your Employer Identification Number for withholding and to begin your unemployment insurance registration (there are no registration fees).

- ◆ **Withholding percentages** after June 30, 2010, are based on gross taxable wages. "Gross taxable wages" is the amount that meets the federal definition of "wages" contained in Internal Revenue Code § 3401. Generally, gross taxable wages are reported in box 1 of the employee's federal Form W-2 at the end of

the calendar year. The minimum withholding percentage is 1.3% of gross taxable wages for employees whose annual compensation is less than \$15,000. The minimum withholding percentage is 1.8% of gross taxable wages for employees whose annual compensation is \$15,000 or more. Additional withholding percentages of 2.7%, 3.6%, 4.2% and 5.1% are available to any employee. In addition to electing a withholding percentage, employees may now also designate an additional amount to be withheld from each paycheck. Employees elect the applicable percentage of Arizona withholding on Form A-4, *Employees Withholding Allowance Certificate*, available at our website.

- ◆ **Due dates** for the quarterly returns (Form A1-QRT) are April 30, July 31, October 31, and January 31 for the preceding calendar quarter. Payments are due at the same time as the quarterly return if the average amount of Arizona income taxes withheld in the preceding four calendar quarters does not exceed \$1,500. If the average amount of Arizona income taxes withheld in the preceding four calendar quarters exceeds \$1,500, the withholding payments are due at the same time as the employer's federal withholding deposits. The employer must determine its Arizona withholding payment schedule for each calendar quarter by calculating the average amount of Arizona income taxes withheld in the four preceding calendar quarters. Employers are granted an automatic 10-day extension to file the quarterly reconciliation if their payments for the quarter were made timely.

Annual withholding may be allowed if the amount collected and payable by the employer in each of the preceding calendar quarters did not exceed an average of \$200.

- ◆ **Electronic Funds Transfer (EFT)** is the required method of payment for withholding if the employer's average quarterly withholding liability for the preceding calendar year was \$20,000 or more. Requirements for completion of the department's authorization agreement and for voluntary participation in the EFT program are the same as for transaction privilege tax listed in this publication.
- ◆ **The annual reconciliation** (Form A-1R) is due February 28 of the year following the calendar year for which Arizona withholding payments were made. The completed form is submitted with the state copy of Forms W-2.
- ◆ **Penalties** for late filing and late payment are the same as for transaction privilege tax listed in this publication.

Your Federal TIN (taxpayer identification number)

Your Federal TIN (taxpayer identification number) is either your social security number, your employer identification number (EIN), or your individual tax identification number (ITIN), and must be included on every tax return, payment, application, or other document submitted to the Department of Revenue.

EIN is required for:

- ◆ Anyone paying wages to one or more employees.
- ◆ Anyone required to withhold federal taxes on income, other than wages, paid to a nonresident alien (individual, corporation, partnership, etc.).
- ◆ Trusts except IRA trust
- ◆ Estates
- ◆ Partnerships
- ◆ REMICs (real estate mortgage investment conduits)
- ◆ Corporations
- ◆ Nonprofit organizations (churches, clubs, etc.)
- ◆ Farmers' cooperatives
- ◆ Plan administrators

BUSINESS BASICS

A GUIDE TO TAXES FOR ARIZONA BUSINESSES

The IRS allows businesses to obtain an EIN online that may be used immediately. For more information, go to www.irs.gov/businesses/small/index.html and click on the "Employer ID Numbers (EINs)" link. You may also obtain an EIN from 7:00 am—10:00 pm local time Monday through Friday at (800) 829-4933, or fax at (215) 516-3990. Failure to supply a federal TIN on tax returns or payments will result in a \$5 penalty for each submission.

Arizona Department of Revenue

www.azdor.gov

Business registration and filing: www.AZTaxes.gov
1600 W Monroe - Phoenix 85007
275 E Germann Rd., Bldg. 2, Ste 180 - Gilbert 85297
400 W Congress – Tucson 85701

License & Registration Section (L&R)

For information regarding licensing or registering your business (including changes to transaction privilege and withholding licenses), luxury tax stamps and forms:

Phoenix 602-542-4565
Toll free from area codes 520 and 928 1-800-634-6494

Taxpayer Information & Assistance (TIA)

For assistance with refunds, billings, or filing of returns:
** Individual & Corporate Income Tax **

Phoenix 602-255-3381
Toll free from area codes 520 and 928 1-800-352-4090

** Transaction Privilege & Withholding Tax **

Phoenix 602-255-2060
Toll free from area codes 520 and 928 1-800-843-7196

Unclaimed Property 602-364-0380



Internal Revenue Service

www.irs.gov

4041 N Central
Phoenix AZ 85012
1-800-829-1040



Arizona Department of Commerce

www.azcommerce.com

Small Business Services

www.azcommerce.com/smallbiz

Online Step-by-Step Checklist to Start, Operate, and Grow a Business in Arizona.

Executive Tower, Suite 600
1700 W Washington
Phoenix AZ 85007
602-771-1196
1-800-542-5684



Corporation Commission

www.azcc.gov

For information on corporate filings, records, annual reports/revocations.
1200 W Washington
Phoenix AZ 85007
602-542-3026



Arizona Department of Economic Security Unemployment Insurance

www.azdes.gov/esa/

For businesses and others who hire employees.
PO Box 6028
Phoenix AZ 85005
602-248-9396



Industrial Commission of Arizona

Worker's Compensation

www.ica.state.az.us

You may be required to provide insurance coverage to protect your workers in case of industrial injury.

800 W Washington
Phoenix AZ 85007
Phoenix 602-542-4411
Tucson 520-628-5188



Arizona Department of Liquor Licenses & Control

www.azliquor.gov

For businesses planning to sell alcoholic beverages.

800 W Washington, 5th floor
Phoenix AZ 85007
Phoenix 602-542-5141
Tucson 520-628-6595



Registrar of Contractors

www.azroc.gov

Contractors doing business in Arizona may be required to be licensed with the Registrar of Contractors.

800 W Washington, 6th floor
Phoenix AZ 85007
Phoenix 602-542-1525
Toll free from 520 & 928 area codes 1-888-271-9286



Secretary of State

www.azsos.gov

For businesses who wish to register their business name (optional).

State Capitol, West Wing
1700 W Washington
Phoenix AZ 85007
602-542-4285



Arizona Department of Weights & Measures

www.azdwm.gov

For businesses using weighing & measuring devices, including all instruments and devices used for weighing, measuring, metering, or counting and any associated appliances or accessories.

4425 West Olive, Suite 134
Glendale Arizona 85302
602-255-5211
1-800-277-6675

This publication is available in an alternative format upon request.