

# UTILITIES & TELECOMMUNICATIONS

To better serve you, the Arizona Department of Revenue offers online assistance and filing of your business taxes. To file your taxes online or to register to use the website, go to [www.aztaxes.gov](http://www.aztaxes.gov).

Arizona's transaction privilege tax differs from the sales tax imposed by most states. Transaction privilege tax is a tax imposed on the privilege of conducting business in the State of Arizona. This tax is levied on the vendor, not the purchaser. That is, the tax is imposed on the vendor, not its customers, and although the vendor may elect to pass the burden of the tax onto the customer, the vendor is ultimately liable for the tax. Arizona transaction privilege tax is imposed under various separate business classifications including for example the utilities classification and telecommunications classification.

Arizona Revised Statutes (A.R.S.) § 42-5063 imposes transaction privilege tax under the utilities classification. A.R.S. § 42-5064 imposes transaction privilege tax under the telecommunications classification. For complete details, refer to these statutes and Title 15, Chapter 5 of the Arizona Administrative Code. (Links to access these laws are available on the department's website). In case of inconsistency, error or omission in this publication, the language of the Arizona Revised Statutes and the Arizona Administrative Code will prevail.

## Who Must Pay

### Utilities Classification

Under the utilities classification, Arizona's transaction privilege tax is imposed on the business of producing and furnishing, or merely furnishing to consumers, natural or artificial gas and water. Transaction privilege tax under the utilities classification is also imposed on the business of providing various electric services to retail electric customers.

The utilities classification provides for various exclusions and deductions including but not limited to the following:

- Sales of certain electric, gas and water utility services to a person for resale.
- Sales of natural gas or liquefied petroleum gas for motor vehicles.
- Sales of certain fuels as defined in A.R.S. § 1-215 to a used oil fuel burner who has a Department of Environmental Quality permit.
- Sales of electricity to out-of-state consumers if the electricity is delivered outside Arizona. For more details on out-of-state sales, see Title 15, Chapter 5, Article 21 of the Arizona Administrative Code.
- Sales of bottled gases and bottled water. See Title 15, Chapter 5, Article 21 of the Arizona Administrative Code.

If you distribute or sell potable water primarily through a pipeline, you may be required to pay a separate, additional tax as a municipal water delivery system. The statutes governing municipal water delivery systems are found at A.R.S., Title 42, Chapter 5, Article 7.

### Telecommunications Classification

If you are in the business of providing intrastate telecommunications services, you are subject to transaction privilege tax under the telecommunications classification. The telecommunications classification provides for various exclusions and deductions including but not limited to the following:

- Intrastate telecommunications services by a cable television system that meets certain Arizona statutory requirements.
- Intrastate telecommunications services by a microwave television transmission system that transmits programming to multiple subscribers if operated according to Federal regulations.
- Internet access services.

## What is Taxable

The tax base for both the utilities and telecommunications classifications is the gross proceeds of sales or gross income derived from the business. The utilities tax base also includes the gross proceeds from sales of electricity, gas and water produced outside Arizona that is delivered to a point within Arizona. For telecommunications, the tax base includes any income from tolls, subscriptions or services on the subscriber's behalf, or the publication of a directory of the names of subscribers. See Arizona Transaction Privilege Tax Ruling TPR 04-1 regarding the taxation of mobile telecommunications services. For information about coin-operated telephones, see Arizona Transaction Privilege Tax Ruling TPR 94-1. For information about sending and receiving fax messages, see Arizona Transaction Privilege Tax Ruling TPR 99-6.

## What is the Tax Rate on Utilities and Telecommunications and How Do I Pay?

The current combined state and county tax rates can be found in the Arizona State, County and City Transaction Privilege and Other Tax Rate Tables found at the Department's website. Income from the business of furnishing utilities is reported under Business Class Code 004. Income from telecommunications businesses is reported under Business Class Code 005. Many Arizona cities and towns impose their own "privilege" taxes. "Program cities" have the State of Arizona collect their taxes using a state form, the Transaction Privilege, Use and Severance Tax Return (Arizona Form TPT-1). Most of the larger cities license and collect privilege tax independently of the state. These cities are referred to as "non-program" cities. If you are unsure whether your city collects its own tax or if the state collects for it, check Table II and Table III in the Arizona State, County and City Transaction Privilege and Other Tax Rate Tables.

**NOTE:** For ease of reporting, state and county rates are combined. Program city privilege tax is reported separately on Form TPT-1. See Form TPT-1 instructions for details.

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Transaction privilege tax on utilities is paid based on the county where the electricity, gas, and water are delivered. For businesses that operate a municipal water delivery system (primarily a pipeline) which distributes or sells potable water, there is an additional tax levied at the rate of 0.65% of one cent for each 1,000 gallons of water delivered. For example, the tax on 100,000 gallons of water is 65 cents. The tax on municipal water delivery is reported on Form TPT-1 under Business Class Code 041. For additional information about municipal water delivery systems, see Transaction Privilege Tax Ruling TPR 93-20.

## Telecommunications Classification

From and after June 30, 2007, to finance 911 emergency telephone services, an additional excise tax of 20 cents per month is due from each provider for each activated wire and wireless service account. Additionally, for the purpose of financing telecommunication devices for deaf, severely hearing impaired and severely speech impaired people, a 1.1% excise tax is imposed on the provider's gross proceeds of sales or gross income derived from the business of providing exchange access services. For details about emergency telephone services and devices for hearing and speech impaired people, see A.R.S. Title 42, Chapter 5, Article 6.

## Factoring Transaction Privilege Tax

When a business "factors" transaction privilege tax, it means the tax is included in the total price rather than shown as a separate charge. If you choose to factor the tax, the tax must be calculated using a factoring formula. There are many different factoring formulas depending on city taxes, county taxes or differences in allowable city tax deductions. See Arizona Transaction Privilege Tax Procedure TPP 00-1 for information about factoring.

## Deductions from the Tax Base

### Utilities Classification Deductions (A.R.S. § 42-5063)

1. Any revenue received by a municipally owned utility from fees charged to persons constructing residential, commercial or industrial developments. And any revenue received by a municipally owned utility from fees charged to persons connecting residential, commercial or industrial developments to a municipal utility system. However, all the above fees must be separated and used only for capital expansion, system enlargement or debt service of the utility system.
2. Any revenue received by a utility system in the form of reimbursement or contribution compensation for property and equipment installed to provide utility access to, on or across a utility consumer's land. This deduction only applies if the property and equipment becomes the property of the utility. The deduction may not exceed the value of the property and equipment. For detailed information on this deduction, see Arizona Transaction Privilege Tax Ruling TPR 92-6.

3. Gross income from sales to qualifying hospitals. The definition of "qualifying hospital" is found at A.R.S. § 42-5001.
4. Gross income from sales to qualifying health care organizations if the electricity, gas, or water is used only to provide health and medical related educational and charitable services. The definition of "qualifying health care organization" is found at A.R.S. § 42-5001.
5. The portion of gross income from sales to certain environmental technology manufacturers, producers or processors as they are defined in Arizona Revised Statutes. The utility product (electricity, gas or water) must be used directly in environmental technology manufacturing, producing or processing. For example, you may deduct the portion of the gross proceeds derived from sales of electricity used directly by a company to manufacture recycled paper. This deduction is limited to the first fifteen years the equipment is in service.

### Telecommunications Classification Deductions (A.R.S. § 42-5064)

1. Gross income from sales of intrastate telecommunications services to other telecommunications businesses for use in that business.
2. Income from sales of intrastate telecommunications services to a direct broadcast satellite television or data transmission service, as provided by A.R.S. § 42-5064.
3. Income from sales of direct broadcast satellite television services, as provided by A.R.S. § 42-5064.
4. Income from end user common line charges and carrier access charges, as provided by A.R.S. § 42-5064.
5. Gross income from sales of telecommunications services purchased with a prepaid calling card or a prepaid authorization number for telecommunications services that is taxable under the retail sales classification, A.R.S. § 42-5061.

### For Additional Information, call:

Phoenix ..... (602) 255-2060  
Toll free from area codes 520 & 928 ..... (800) 843-7196

### For Hearing Impaired - TDD only:

Phoenix ..... (602) 542-4021  
Toll free from area codes 520 & 928 ..... (800) 397-0256

### Or Write to:

Arizona Department of Revenue  
Taxpayer Information & Assistance  
PO Box 29086  
Phoenix AZ 85038-9086

### For Related Tax Information:

Internet Address ..... [www.ador.gov](http://www.ador.gov)  
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