

Fiscal Note

BILL # HB 2118

TITLE: TPT; sourcing; business location; receipt

SPONSOR: Carter N.

STATUS: As Introduced

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Description

This bill would amend statutes to provide additional guidance as to the sourcing of tangible personal property transactions. Sourcing is the correct assignment of an Arizona location (especially the county or municipality) to a transaction subject to state or local government Transaction Privilege Tax (TPT). These changes clarify what constitutes a business location and that the location of servers used to transmit information necessary for a transaction should not be used to determine sourcing.

Estimated Impact

We do not anticipate that the bill will have a General Fund impact. While the bill provides for additional statutory guidance on the sourcing of TPT transactions, it is not expected to impact overall state TPT collections. However, the bill may impact the amount of local government TPT collected by an individual jurisdiction (such as a city or county) if the bill ultimately changes how transactions are sourced by taxpayers within the state. The magnitude of any sourcing changes within the state cannot be determined in advance. We have asked the Department of Revenue if they expect any significant changes in sourcing or collections due to the clarifying language in the bill but have not yet received a response from them.

Analysis

A seller of a taxable product or service subject to TPT is responsible for remitting the state TPT and local government TPT to DOR. Because DOR centrally collects all TPT revenue (including local government TPT), the location data collected by DOR facilitates DOR remitting local government TPT it has collected to the appropriate jurisdiction. Under current law, a transaction is sourced to a seller's business location if the seller receives the order at their Arizona location. Otherwise, the transaction is sourced to the purchaser's location. However, exact compliance with this current requirement is unclear – in the context of e-commerce orders for example, it appears that TPT transactions from some Arizona-based corporations are being sourced to the purchaser's location rather than to the company's Arizona business location.

This bill would add clarifying language for sourcing determinations: 1) for the purpose of TPT sourcing, defines *business location* as a physical space that a person can occupy, such an office or a room in a house, and in which business is carried on; 2) servers used to transmit the information necessary to accept an order does not determine where an order is received; 3) order is received when all information to complete the order is received by or on behalf of the seller at a business seller's location. In addition, the bill clarifies that a lessor's business location for the purposes of sourcing gross receipts from leasing or renting tangible personal property would be sourced based on the business location address on the lessor's TPT license.

To the extent these statutory changes lead to changes in sourcing for transactions, this would impact the amount of TPT collected by specific jurisdictions.

1/31/25

