



City Council Report

Date: December 1, 2014
To: City Council
Through: Alex Deshuk, Manager of Technology and Innovation
From: Edward Quedens, MPA, C.P.M., CPPO, Business Services Director
Mickey Tait, Tax Administrator
Subject: Amendments to the Mesa Tax Code and changes to Tax Licensing Fees and Charges – Uniform Municipal Tax Licensing “Citywide”

Strategic Initiatives



Purpose and Recommendation

The purpose of this report is to recommend Council adoption of an ordinance amending the Mesa Tax Code (MTC). This ordinance would result in the adoption of changes made to the Model City Tax Code (MCTC) by the Municipal Tax Code Commission for the purpose of uniform tax licensing by all Arizona municipalities effective January 1, 2015. All cities in the State are adopting these changes.

This item was approved by the Audit Finance and Enterprise Committee on October 30, 2014 to move forward for Council consideration.

1. TPT Simplification: Uniform Tax Licensing changes (Ordinance Section 1):

Background

HB2389 (2014) made several statutory changes as a clean-up amendment to HB2111 (2013). One area with significant impact on the MCTC is a variety of changes made to A.R.S. § 42-5005 regarding tax licensing for both the Department of Revenue and the cities and towns effective beginning with the 2015 calendar licensing year.

The revision approved by the Municipal Tax Code Commission brings the Model City Tax Code in conformity with the new statute, while simultaneously simplifying an issue that has concerned the business community – namely, the numerous individual variations in cities and towns tax licensing code and administrative policies. This change is intended to create uniform tax licensing rules that can be applied equally for all municipalities in anticipation of tax administration by the Arizona Department of Revenue in 2016 and to

improve taxpayer understanding and compliance. This language is a combination of new statutory requirements and changes to previous licensing schemes that have been agreed upon by the UAC and city and town finance directors. This revision will repeal and replace all of Article III and absorb all Regulations into the Article as distinct Sections.

The significant aspects affecting the Mesa Tax Code tax licensing provisions include the following:

A. Annual Tax License Renewal Fee:

This change codifies the legislative action of HB2389 limiting the imposition of the transaction privilege and use tax annual license renewal fee, pursuant to A.R.S. § 42-5005, to one fee per business per municipal jurisdiction if that business files on a consolidated tax return for all business locations. As a result, the current \$20.00 annual license fee imposed for each business location will be reduced to a \$20.00 annual license fee for each business owner regardless of the number of business locations located within the City.

B. Tax License Application Fee:

The \$30.00 tax application fee, currently in MTC Section 5-10-300(A), is eliminated and converted to the standard \$20.00 tax license. This change places all licensing fees and annual license renewal fees together in the same MTC Section 5-10-320.

C. Temporary/Transient Tax License:

This change removes the \$30.00 temporary license provision, currently in MTC Section 5-10-315. This change converts all tax licenses to the standard transaction privilege and use tax license and corresponding license fee of \$20.00 in MTC Section 5-10-320.

D. Mesa Convention Center Tax License:

This change removes the special \$5.00 Mesa Convention Center tax license provision, currently in MTC Section 5-10-300. This change will eliminate Mesa's special licensing provision that is a "green page" item in the Model City Tax Code. This change converts all tax licenses to the standard transaction privilege and use tax license and corresponding license fee of \$20.00 in MTC Section 5-10-320 in preparation of the administration of the City tax license by the Arizona Department of Revenue.

E. License fee provisions for residential and commercial rental properties:

In an effort to create a uniform tax license code for all municipalities and to provide for other municipal commitments to this business industry, separate license fees for residential and commercial rental activities are provided for in MTC 5-10-320(b) and 5-10-320(c). Currently Mesa charges the standard \$20.00 tax license fee for those in the business of the rental of residential or commercial properties; therefore this

ordinance will consistently apply the same transaction privilege and use tax license fee of \$20.00 for all taxable business activities.

F. Clarify the licensing requirements for property owners in the business of the rental of real properties:

This change clarifies that each property is a separate business location and requires the tax license for each property to be in the name of the property owner, regardless of the owner engaging a property manager.

G. Removal of authorization by other City Departments for the issuance of a tax license:

This change removes the required authorization, currently in MTC Section 5-10-305(D), by other City non-tax Departments as it relates to the issuance of the transaction privilege and use tax license. This change is required in preparation of the administration of the City tax license by the Arizona Department of Revenue.

H. Uniform licensing penalty with standardized penalty waiver provisions:

This change will not affect the current City license penalties imposed on tax licenses not obtained before the start of business in the City, however it does change the method for calculating those penalties. In the current model, the failure of a business to obtain a transaction privilege and use tax license in a timely manner results in the annual license fee of 150% of the license fee charge, without the option of waiving the increased license fee. This change keeps the annual license fee at \$20.00 and imposes a penalty of 50% of the license fee, with the same waiver provisions as the waiver of tax in MTC Section 5-10-540.

2. Repeal of the Licensing Regulations (Ordinance Section 2):

Repeal of all Regulations relating to tax licensing and recordkeeping and incorporating pertinent regulations into the body of Article III Sections as follows:

MTC Regulation:	New MTC Section:
Regulation. 5-10-300.1: Who must apply for a license	Section 5-10-300(b): Licensing Requirements
Regulation 5-10-300.2: (Reserved)	N/A
Regulation 5-10-310.1: (Reserved)	N/A
Regulation 5-10-310.2: (Reserved)	N/A

Regulation 5-10-310.3: (Reserved)	N/A
Regulation 5-10-350.1: Recordkeeping; Income	Section 5-10-362: Recordkeeping; Income
Regulation 5-10-350.2: Recordkeeping; Expenditures	Section 5-10-364: Recordkeeping; Expenditures
Regulation 5-10-350.3: Recordkeeping; out-of-City and out-of-State Sales	Section 5-10-366: Recordkeeping; out-of-City and out-of-State Sales
Regulation 5-10-360.1: Proof of Exemption; Sale For Resale; Sale, Rental, Lease or License of Rental Equipment	Section 5-10-372: Proof of Exemption; Sale For Resale; Sale, Rental, Lease or License of Rental Equipment
Regulation 5-10-360.2: Proof Of Exemption; Exemption Certificate	Repealed; Duplicated in Section 5-10-372. HB2389 requires use of the Arizona Department of Revenue Exemption Certificate pursuant to A.R.S. § 42-6002.A (Title 42, Chapter 5, Article 1, A.R.S. § 42-5009)

Fiscal Impact

The combined fiscal impact for all changes adopted by the Municipal Tax Code Commission or limited by the Arizona State Legislature will result in an overall reduction to City tax licensing revenues of approximately \$58,775.00.

The recommended changes to the schedule of fees and charges are summarized in the attached Fee Recommendation Schedule.

Alternatives

The Municipal Tax Code Commission has approved all of the above amendments as shown in the attached Ordinance. A.R.S. § 42-6053.D requires that all Arizona cities and towns must adopt changes approved by the Commission. Alternative fees can be considered by Council in the proposed Schedule of Fees and Charges.