

# City Tax Code Changes

Public Hearing  
May 6, 2025





# City Tax Code Updates



## Overview of Changes

- Incorporate the local Transaction Privilege Tax (TPT) rate changes approved by Flagstaff voters
- Increase the Use Tax rate to align with the local TPT rate
- Update City Tax Code to conform with the Model City Tax Code (MCTC) – required by law



# City Tax Code Updates

## Voter-Approved TPT Rate Changes

- November 23, 2020 General/Special Election
  - Voters approve to extend the 1% local tax rate used for general funding purposes to June 30, 2043
    - (Revenues from other local tax rates are dedicated for specific purposes)
- November 22, 2024 General/Special Election
  - Voters approved to extend the additional 2% local tax rate on the Hotel and Restaurant industries (also known as the bed, board, and beverage or BBB tax), which is used for funding beautification, arts, sciences, parks and recreation, and tourism to June 30, 2043
  - Voters approved to increase the local tax rate 0.5% for funding public transit and to extend the Transit tax to June 30, 2040



# City Tax Code Updates



## Rate Changes

- Effective July 1, 2025, the City TPT rate will be 2.486%
  - BBB categories are 4.2486%
- The City has aligned the Use Tax rate with the TPT rate
  - Use Tax is a tax on purchase of item outside the City but used in the City, paid if tax for purchase outside the City was less
  - Current Use Tax rate is 2.281%
  - Staff is proposing to increase Use Tax rate to 2.486%
    - Provides a level playing field for local retailers, an increase in revenues



# City Tax Code Updates



## Model City Tax Code Changes

- Numerous changes have already been implemented by Arizona Department of Revenue (ADOR), call ADOR with questions
- Many clarifications
  - E.g. sales to Native Americans are exempt from local tax only if solicitation, delivery, and payment all occur on reservation
- Changes to the local TPT on construction contracting, speculative builders, per state laws



# City Tax Code Updates

## Model City Tax Code Changes

- Many new TPT exemptions and tax deductions
  - To benefit specific industries (e.g. computer data centers, livestock and poultry, agriculture, forestry wood products, coal, natural gas vehicles, pro-baseball and golf, rental of real property, recycling of landfill waste, construction)
  - To assist education (e.g. software sold to test student learning)
  - To help the needy, indigent, or persons with disabilities (e.g. sales to qualifying health care organizations, nonprofits that provide apartment housing for low-income elderly)



# City Tax Code Updates

## Model City Tax Code Changes

- Prohibits higher TPT rate junk food (City does not tax food)
- Adds new Use Tax exemptions to match new TPT exemptions
- Adds Use Tax exemptions specific to Use Tax
  - E.g. single trip use fuel tax permit, purchase of personal property less than \$200 outside the U.S. for personal use



# City Tax Code Updates

## Model City Tax Code Changes

- Filing requirements
  - MCTC allows for annual filing if tax liability is less than \$2,000, quarterly if liability is between \$2,000-8,000, otherwise monthly
- Taxpayer bill of rights (Ariz. Rev. Statutes Section 42-2051 et seq.)
  - Whole litany of rights, dating back to 1986, applies to all interactions with ADOR
  - Taxpayer assistance office
  - ADOR shall abate taxes and penalties if failure to pay taxes is due to reasonable cause, not willful neglect (this is not new)



# City Tax Code Updates



**QUESTIONS/COMMENTS**