ABA LEADS EFFORT TO AMEND SALES TAX LAW

The Arizona Builders Alliance is working with the Department of Revenue and industry allies to understand recent changes to the TPT law, disseminate information to the industry and prepare needed amendments to the law. The Arizona construction industry is bracing for sweeping changes to the prime contracting tax law in January of 2015. The State Legislature enacted changes that range from who must have a tax license to a major switch creating a difference between service and prime contracting.

The pending changes include dual tax treatment for contractors purchasing material for new construction versus service and repair work. Under this proposal a contractor purchasing material for service work would pay tax on the material at the point of sale. The same exact material purchased for new construction would be tax exempt until incorporated into a project; where it would be taxed under the prime contracting scheme. This assumes the contractor would know the intended use of material at the time it was purchased!

Other changes include:

* Removing from prime contracting work done under maintenance, repair, replacement and alteration of existing facilities, so called “MRRA” activities.
* MRRA activities must be done under a contract for the “property owner”. It is unclear whether work contracted with a property manager or tenant is covered or whether multi-tiered work of a subcontractor is included.
* Change orders will be treated as separate contracts.
* Contractors who only do MRRA work only will no longer be required to have a TPT license with the Department of Revenue.
* Projects with elements of prime contracting and MRRA will be considered as MRRA projects as long as the prime contracting element remains less than 15% of receipts.

The Arizona Builders Alliance plans to introduce legislation to address several of these areas. One of the proposed changes would address contractors doing both prime contracting and MRRA work. The change would allow those contractors to purchase all material tax exempt and then treat the material to the tax status of the project in which the material is incorporated. The ABA is working with the League of Cities, the Associated General Contractors, the Construction Financial Managers Association and others to develop legislation for next year’s legislative session.