


## COMPTROLLER POLICY MANUAL

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	Section: 100 General
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	Responsible office: Comptroller
	Origination date: 01/01/2000
<b>Subject: Sales &amp; Use Tax on Purchases</b>	Effective date: 01/01/2000
	Revision date: 03/23/2017

### PURPOSE

To provide information on Sales and Use Taxes on purchases. Since ARS is the creator of the laws, it is not NAU policy, and may be subject to change. The information contained herein is to be used as general principles only and specific circumstances may vary. The Department of Revenue offers free tax advice and assistance by telephone.

### SOURCE

Arizona Revised Statutes § 42-5001 through § 42-5354

University policy

### CMP 120: Sales & Use Tax on Purchases

#### Introduction

Northern Arizona University has a decentralized environment in which purchasing transactions are initiated, transacted, and recorded at the departmental level. Specifics on the tasks required by those with roles in the purchasing process, including Department Leadership and Purchasing Card Liaison, are outlined in Purchasing Policy. Authority to approve purchasing expenditures is administered at the local level. These policies are intended to provide guidance on the administration of these tasks. Specific items in the policy are set forth to meet systemic and administrative deadlines.


The NAU Sales and Use Tax policy is the guideline for all necessary and required purchases to conduct the business of the University. This policy addresses issues related to all University purchasing expenses. The NAU Sales and Use Tax policy is implemented to ensure compliance with State of Arizona Revised Statutes and Arizona Administrative code.

Noncompliance with NAU Sales and Use Tax policy or the improper claiming of expenses may result in disciplinary action.

#### Definitions

**Transaction Privilege Tax (TPT)** - It is the tax imposed on vendors for the privilege of doing business in Arizona.

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**Use Tax** - It is the tax imposed on the use, storage or consumption of tangible personal property in Arizona. Purchasers are liable for the Use Tax on goods purchased from an out-of-state vendor that did not collect Use Tax. If Sales Tax has been paid on the purchase, then it is exempt from Use Tax. The rate is generally 5.6%.

**Tangible Personal Property** - Tangible Personal Property (TPP) means personal property which may be seen, weighed, measured, felt or touched or is in any other manner perceptible to the senses.

**Research and Development** means basic and applied research in the sciences and engineering, and designing, developing or testing prototypes, processes or new products, including research and development of computer software that is embedded in or an integral part of the prototype or new product or that is required for exempt machinery or equipment. Research and Development does not include manufacturing quality control, routine consumer product testing, market research, sales promotion, sales service, research in social sciences or psychology, computer software that is not included in the definition of research and development, or other non-technological activities or technical services.

**Department Leadership** – Dean, Director, Chair, Provost, supervisor, or other appropriate NAU employee.

**P-Card** - A credit card program designed to reduce the use of petty cash funds, reduce the number of requests for travel advances, improve the small dollar traditional purchasing process, and eliminate the need to use personal funds.

**Responsibilities**


The Vendor has the responsibility to:

1. Collect both state and local Sales Tax for the county and city where the merchandise is purchased.
2. Out-of-state suppliers who do a considerable amount of business in Arizona are required to obtain a state Sales Tax license. If an out-of-state supplier has an Arizona Sales Tax license number, Arizona state Sales Tax applies to that purchase.

The Department Leadership has the responsibility to:

1. Ensure compliance with University and departmental purchasing policy and procedures.
2. Report concerns to the Comptroller’s Office.
3. Approve the expenditure of funds for purchases prior to the beginning of the transaction.
4. Assign a Purchasing Card Liaison to understand the purchasing policy and procedures, communicate these to the purchasers, and ensure compliance by the purchaser.

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5. Deny reimbursement of specific expenditures that do not comply with policy or are not supported with proper documentation.
6. Take appropriate disciplinary action for intentional violations of the Sales/Use Tax and Purchasing policies.
7. Oversee other aspects of purchasing, as required.

The Purchasing Card Liaison has the responsibility to:

1. Verify that their Cardholders have recorded applicable Use Tax when they complete the Procurement Card Transactions in PeopleSoft Financials.

The Purchaser has the responsibility to:

1. Determine which tax, Sales (TPT) or Use Tax, is applicable when purchasing goods.
  - a. When the purchaser transacts business with an out-of-state supplier, they shall ask the supplier if they collect Sales Tax. If the supplier responds, “yes, we do collect Sales Tax”, the purchaser shall be responsible for requesting from the supplier an itemized receipt/invoice that includes and substantiates the itemized tax.
  - b. If the supplier responds “no, we do not collect Sales Tax”, the Purchaser shall then calculate 5.6%, of the cost of goods. If the purchase was made on the P-Card, this amount will be recorded on the Use Tax page in PeopleSoft Financials during the reconciliation of the P-Card. If the purchase was made on account, the usual Purchasing and Accounts Payable procedures shall be in effect.
  - c. Use Tax shall be calculated on the cost of goods only and shall not include shipping, handling, and/or freight costs.
  - d. If the purchase is not subject to tax, or is a purchase of exempt goods and/or services, the Purchaser shall attach documentation to the invoice substantiating this claim.


Accounts Payable has the responsibility to:

1. Document and record the applicable Use Tax
2. Follow the usual policies and procedures for issuing payment to a Vendor.

The Comptroller’s staff has the responsibility to:

1. Report and issue payment of Use Tax to the State of Arizona.

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2. Address questions and concerns raised by Departmental Leadership, Purchasing Card Liaison, and/or purchasers.
3. Assist, support, facilitate and train the University community regarding Sales and Use Tax, practices and requirements. They serve as a resource to Purchasers and Purchasing Card Liaisons, and can act as a liaison with the Department of Revenue when technical issues arise.
4. Financial Controls Analysis and Reporting is responsible for review and analyzing P-Card transactions and documents for reasonableness, accuracy, appropriate documentation that supports the expense and can stand alone to provide the details of the transaction. Purchasing Card reviews are conducted by Financial Controls Analysis and Reporting for departmental units. The findings of the reviews are shared and, if necessary, corrective action identified.
5. The Comptroller’s Office is NOT responsible for creating or maintaining the legislation or any updates, rulings, or guidance.

**General**

1. The University is subject to the payment of state and local Sales Tax and state Use Tax. The University shall be responsible for the payment of Sales Tax when the University transacts business, for goods, with a supplier and the supplier collects Sales Tax. Sales Tax shall be determined and collected at the point of sale.
2. The University is not tax exempt unless the purchase of equipment and/or machinery is tied directly to research and/or development.
3. The University shall be responsible for the payment of Sales Tax (TPT) or Use Tax, never both. The University is also responsible for paying Use Tax to the Arizona Department of Revenue for applicable purchases made from out-of-state vendors.
4. The amount of any applicable Sales or Use Tax is not to be considered as a factor in determining the low bid of competing bidders.
5. The University shall be responsible for collection and payment of Use Tax to the State of Arizona.
6. Use Tax is applicable when the University purchases goods (not services) from an out-of-state supplier and the supplier does not collect Sales Tax.
7. All out-of-state purchases for use, storage or consumption within Arizona, other than those from out-of-state suppliers with Arizona Sales Tax license numbers, are subject to Use Tax.
8. The University's financial system (PeopleSoft Financials) accumulates Use Tax for all out-of-state purchases for which tax applies, and the University remits payment directly to the Arizona Department of Revenue.
9. Use Tax added to invoices by out-of-state suppliers will not be paid.
10. Software purchases are subject to Use Tax. Custom software, warranties, installation, service agreements are not subject to Use Tax if listed separately on the invoice.

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- a. The lease, license, or sale of computer software programs is taxable regardless of the method (CD, floppy disk, download) used to transfer the program.
- b. If the vendor hosts the program, but NAU would still have the right to use the software without the vendor hosting, it would be subject to tax.
  - i. For example, the employee Online Sexual Harassment Prevention Training is available on-line to all employees. The vendor has provided HR with a single CD available for employee use offline. Therefore, this purchase is subject to tax.
- c. Maintenance agreements for updates, modifications, or revisions are taxable.
- 11. Internet orders shall be subject to Use Tax if tax is not already charged by the vendor.
- 12. Publications may be collecting tax, but this may not appear on the invoices. To determine which publications have already remitted tax
  - a. Contact the in-state or out-of-state publisher and inquire if they are registered with the Department of Revenue.
  - b. Verify with the vendor if they are charging transaction privilege tax or Sales tax.
  - c. If an order is placed directly with an out-of-state vendor, and the publication is sent directly to NAU, this transaction is subject to Use Tax.
- 13. If NAU purchases billboard space, radio/TV time, newspaper/magazine ad space, internet domain names, or flyers from an out-of-state vendor to target the Arizona market, the following principles apply:
  - a. The purchase of internet domain names is not taxable.
  - b. The printing of flyers is taxable. Use Tax is due for job printing contracted with an out-of-state vendor that is distributed in-state.
  - c. Local advertising by billboards, direct mail, radio, television, newspapers, magazines, other periodicals and publications or by any other means is not taxable.

**Exemptions**

- 1. The law indicates that exemptions do not apply to expendable supplies; janitorial equipment and hand tools; office equipment, furniture and supplies; tangible personal property used in selling and distributing activities; motor vehicles; shops, buildings, docks, depots, etc.; and motors and pumps used in drip irrigation systems.
- 2. If a subsequent Sales Tax audit disallows the exemption from Transaction Privilege Taxes, the department ordering the equipment could be charged at that time for the unpaid taxes.
- 3. Several technical exemptions apply to auxiliary operations, e.g., the purchase of textbooks by the NAU Bookstore, prescribed drugs and devices sold at Campus Health Services, printed and other media materials for use in the Cline Library.
- 4. Additionally, a broader exemption was enacted by the State of Arizona effective December 31, 1992, that provides exemption from Transaction Privilege Taxes on machinery and equipment used in research and development. Please complete and submit the Certification form to document this exemption.

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5. Generally, if there is a Sales Tax (TPT) exemption, then there is a corresponding Use Tax exemption. Be sure to document the reason for the exemption.
6. Since the Use Tax and Sales Tax are applied to Tangible Personal Property, services generally do not attract Sales and Use Taxes.
7. Exempt services
  - a) Professional and personal services
  - b) Repair, maintenance and installation services if the charges are separately stated on the invoice
  - c) Warranty or service contracts if charged separately on the invoice
  - d) Delivery charges if charged separately on the invoice
  - e) Internet access and cable services
  - f) Conference registration fees
  - g) Professional association membership dues
  - h) Computer services such as analysis, design, repair, support engineering
8. Exemptions on Tangible Personal Property (TPP)
  - a) Machinery and equipment used solely in research and development, including but not limited to:
    - i. Expendable materials, hand tools, glassware, office equipment, office furniture, office supplies, buildings, and vehicles are taxable.
    - ii. Replacement components of qualifying machinery and equipment are not taxable.
    - iii. Exempt chemicals are those used in manufacturing, processing, fabricating, mining, refining, metallurgical operations, research and development, and printing (if this involves causing or permitting a chemical or physical change to occur in materials as part of the production process.)
    - iv. "Printing" includes job printing, engraving, embossing, copying, and bookbinding.
    - v. Research animals are subject to tax.
    - vi. Breeding animals or production stock such as neat animals, horses, asses, sheep, ratites, swine, or goats are not subject to tax
  - b) Printed and other media materials purchased by NAU library
  - c) Food for human consumption
  - d) Medically prescribed drugs, equipment or devices
  - e) Purchases for resale
  - f) Items purchased from out-of-state vendors on which NAU has paid another state's Sales Tax of at least 5.6%.
  - g) Purchases made from federal funds where title remains with the federal government

Please note that goods or services purchased out-of-state from an out-of-state vendor for consumption outside of the state of Arizona are not subject to Arizona Sales/Use Tax.

9. Services subject to Use Tax

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#### 9. Services subject to Use Tax

Types of business activities that may be subject to the Transaction Privilege Tax include, but are not limited to:

- a. Hotel/motel lodging
- b. Amusements
- c. Construction contracting
- d. Transportation
- e. Utilities, communications

#### **Special Circumstances**

1. Tax is imposed on Tangible Personal Property regardless of the means of payment, including renting, leasing, buying, or financing.
2. If NAU makes a purchase on which transaction privilege tax has been paid and receives reimbursement from an outside party, reimbursement to the University of the amount paid does not constitute a subsequent sale.
3. Corrections to tax returns, such as credit or refund claims, must be filed by the taxpayer with the Department within four years after the report was required to be filed.
4. To determine the taxability of a purchase, please call either Glenn Birkett at 523-6094 or Heidi Conto at 523-7508.
5. For assistance in recording, reporting, or correcting Use Tax, please call Gerry Barela at 523-6064.

### CROSS-REFERENCES

[Use Tax Decision Tree](#)

[Certification Form for Tax Exempt Machinery and Equipment Purchased for Research and Development](#)

[Purchasing Card Reconciliation and use tax reporting process](#)

[Arizona Department of Revenue - TPT licensing](#)

[AZ Dept of Revenue Brochure](#)

[Arizona Form 5000](#)