

## CITY COUNCIL REPORT

DATE: October 17, 2017

TO: Mayor and Councilmembers

FROM: Sandy Corder, Revenue Director

CC: Rick Tadder, Barbara Goodrich, Shane Dille, Josh Copley,  
Leadership Team

SUBJECT: 2018 BUSINESS AND TRANSACTION PRIVILEGE TAX LICENSE  
CODE – CHANGES

This is an informational item for Council.

City of Flagstaff Management Services is proposing changes to the City Code related to business licensing and fees. City staff is planning to meet with the Flagstaff Chamber of Commerce and the business community in the fall, and to hold a work session with Council in December.

### BACKGROUND

The City currently requires an occupational business license to engage in 35 types of occupations, and five (5) kinds of whole sale operations (City Code, Chapter 3-01, *General License Regulations*). Many occupations do not require a license, such as those businesses that require a local transaction privilege tax (“TPT”) license.

The City currently also has separate permitting regulations for peddlers and solicitors (City Code, Chapter 3-02, *Peddlers and Solicitors*). This type permit applies to any business going door to door.

The City requires a TPT License to engage in taxable activities (City Code, Chapter 3-05, *Privilege and Excise Taxes*). Many businesses do not engage in taxable activities. For example, taxable income from services, such as certified public accounting, is generally not taxed.

Historically, Flagstaff issued a combined TPT/occupational business license. City staff could identify a majority of, but not all businesses within the City. Tax records are confidential, so use of this data was limited to tax administration. Therefore, staff is recommending we split the application for each license, TPT Licenses to be administered by the state and Business Licenses by the City.

Commencing on January 1, 2017, the Arizona Department of Revenue (“ADOR”) assumed responsibility for local TPT licensing. ADOR now issues both state and

local TPT licenses. As you may recall, in May 2012, then Governor Jan Brewer issued Executive Order 2012-01 calling for the creation of a Transaction Privilege Tax Simplification Task Force. The Task Force recommendations resulted in the Arizona Legislature adopting new laws from 2013 through 2016 related to tax simplification. Included was the transition of TPT administration from the local level to a centralized model administered by ADOR.

The City still plays a role in taxpayer education and compliance (including limited audit authority). Businesses move, go out of business, and new businesses open. ADOR records currently are not an efficient means to track local businesses. Some information is available through the Inter-Governmental Agreement with Phoenix and the Business Intelligence software, but not in a format easily exported for statistical and monitoring analysis. Additionally, as information is supplied via TPT licensing, the information is considered by State statute to be confidential and, therefore, bars detailed reporting on the various City businesses.

To help achieve a greater level of reporting of City businesses, City staff recommends a comprehensive business license. The primary changes being proposed are discussed below.

## DISCUSSION

1. Business location vs. occupation. The City currently issues occupational business licenses, based upon occupation (5 kinds of wholesalers, and 35 other occupations).

→ City staff is proposing to require all business locations to be licensed. Anticipated benefits are:

- More comprehensive business data. Business activity is important information for businesses considering relocating to or business opportunities in Flagstaff. The City frequently receives requests for business data.
  - One of Council Goals is identified as “Economic Development: Grow and strengthen a more equitable and resilient economy.”
- Business licensing will help the City with code compliance, including local zoning, building codes, fire codes, minimum wage, civil rights, and local taxation.
  - One of Council Goals is identified as “Code Compliance: Achieve comprehensive and equitable code compliance.”

2. Business license fee. The City’s current occupational business license fee is \$20. This fee has not increased for at least 15 years.

→ City staff is proposing that the City reduce the annual license fee to \$8. Benefits to reducing the license fee:

- Encourage licensing.
  - Keep business licensing fees overall low.
  - Include businesses that currently only require a business license.
3. Local TPT license fee. The City currently charges a one-time local TPT license fee of \$46, which is collected by ADOR. The renewal fee is currently \$0. ADOR also charges a one-time state TPT license fee of \$12. A.R.S. § 42-5005.
- ➔ City staff is proposing an annual renewal fee for the local TPT license, in the amount of \$46. The annual fee may not exceed \$50. A.R.S. § 42-5005.D. These fees help pay City staff, as well as for the costs of local tax administration that are charged by ADOR to the City. The FY 2018-19 budget anticipates that City will owe \$150,000 to ADOR for local tax administration.
4. Streamlining. City staff is proposing changes that may reduce paperwork. These include:
- Peddlers and solicitors will obtain a business license, versus a permit.
  - City will adopt exemptions from business licensing consistent with state law, and/or to avoid duplicative licenses.

The City will publish notice of any proposed changes in fees on the City website along with data to support the fees at least 60 days before they are considered.

City staff plans to bring the business licensing code changes forward to Council for possible approval in January 2018. The overall timeline is as follows:

Action Date(s)	Action Item
10/23/2017-11/2/2017	Community Outreach
11/3/2017	60 Day Notice
12/12/2017	Work Session
12/13/2017-12/31/2017	Additional Outreach
1/2/2018	1st Read
1/16/2018	2nd Read
3/1/2018	Effective Date

**RECOMMENDATION / CONCLUSION**

This report is for information only.