

CITY COUNCIL REPORT

DATE: July 21, 2019

TO: Mayor and Councilmembers

FROM: Luis Pedroza, Finance Director City Treasurer

CC: Jerene Watson, Interim City Manager; Department Directors

SUBJECT: Single Retail Item \$10,000 or above

This report is in response to inquiries first from Vice Mayor Lindemann at the July 10th City Council meeting followed up by a question from Councilmember Grijalva on whether the City can change wording in our tax code to lessen the impact on taxing the large dollar transactions of \$10,000 or more.

DISCUSSION:

The Model City Tax Code has local option #V that allows the City to treat the taxing of big-ticket single retail items on a different tier of sales tax. The City has adopted this option into its Douglas Tax Code indicating that single items at \$10,000 receive a tax rate of 1 cent lower than the regular retail sales tax rate. With our existing tax rate of 2.8%, single items at \$10,000 or greater get taxed at 1.8%.

Our proposed 1 cent sales/use tax increase will bring the incentive from 1.8% to 2.8%. Additionally, we are clarifying the language so that we equitably tax the first \$10,000 at the same retail rate and anything above the \$10,000 will get the reduced tax rate. The correction in language will read as follows:

Notwithstanding the provisions of subsection (a) above, when the gross income from the sale of a single item of tangible personal property exceeds ten thousand dollars (\$10,000.00), the three and eight-tenths percent (3.8%) tax rate shall apply to the first \$10,000.00. Above \$10,000.00, the measure of tax shall be at a rate of two and eight-tenths percent (2.8%).

Currently, we are taxing a single retail item at \$10,000 or greater at the full incentive rate of 1.8%. With this change in language it more equitably treats items below \$10,000 by taxing at the same rate as other less than \$10,000 transactions, while still granting the incentive to the amount above \$10,000. The following is an example of a purchase of \$15,000 showing the differences in tax with old language and proposed language change:

Old language \$15,000 purchase tax liability:

$\$15,000 \times 2.8\% = \420.00

Under the old language the City tax liability would be **\$420.00**

New proposed language \$15,000 purchase tax liability:

$\$10,000 \times 3.8\% = \380.00

$\$5,000 \times 2.8\% = \140.00

Under the new proposed language, the City tax liability would be **\$520.00**

To answer Mr. Lindemann's question on whether the language in the City Tax Code can be changed from "item" to "transaction," therefore allowing cumulative retail transactions totaling \$10,000 or greater to be eligible for the incentive, it is not a possibility.

According to the League of AZ Cities and Towns, a change such as this one would require a unique exception for Douglas known as a green page item, something Cities agreed with the state that we would no longer do. Many years ago, in response to calls for preempting the Model Code, the cities and towns made a commitment to the Arizona Tax Research Association (ATRA) and the legislature that we will not create any new Green Page items. Since then we have been actively working to bring the Model City Tax Code and the State statutes closer together to the extent it is reasonably possible. Creating a new Green Page would be viewed as violating that commitment and subject us once again to increased pressure to eliminate the Model Code.

It is important that all Arizona cities continue to protect the Model Code that gives us the ability to tax items according to each individual city's economic conditions and not according to what the state taxes. One major item of concern if the Model Code were to be eliminated here in Douglas would be the loss of taxing food retail items for home consumption. With this tax going away, it would eliminate about \$1 million of our sales tax revenue.

RECOMMENDATION / CONCLUSION:

This report is for information only.