

Officers, 2016-2017

Amy Thomas Laub
Chair
Nationwide Insurance Company

Arthur J. Parham, Jr.
Vice Chair
Entergy Services, Inc.

Robert J. Tuinstra, Jr.
Secretary & Treasurer
E.I. DuPont De Nemours
and Company

Theodore H. Ghiz, Jr.
Past Chair
The Coca-Cola Company

John J. Pydyszewski
Past Chair
Johnson & Johnson

Bobby L. Burgner
Past Chair
General Electric Company

Robert F. Montellione
Past Chair
Prudential Financial

Douglas L. Lindholm
President
Council On State Taxation

Directors

Barbara Barton Weiszhaar
HP Inc.

Deborah R. Bierbaum
AT&T

C. Benjamin Bright
HCA Holdings, Inc.

Paul A. Broman
BP America Inc.

Michael F. Carchia
Capital One Services, LLC

Tony J. Chirico
Medtronic, Inc.

Susan Courson-Smith
Pfizer Inc.

Meredith H. Garwood
Charter Communications

Denise J. Helmken
General Mills

Frank G. Julian
Macy's Inc.

Beth Ann Kendzierski
Apria Healthcare, Inc.

Kurt Lamp
Amazon.Com

Mollie L. Miller
Fresenius Medical Care
North America

Rebecca J. Paulsen
U.S. Bancorp

John H. Paraskevas
Exxon Mobil Corporation

Frances B. Sewell
NextEra Energy, Inc.

Warren D. Townsend
Wal-Mart Stores, Inc.

Frank A. Yanover
GE Capital Americas

Nikki E. Dobay
Senior Tax Counsel
(202) 484-5221
ndobay@cost.org

March 22, 2017

Arizona State Legislature
House Committee on Ways and Means
{Sent Via E-Mail}

Re: Comments Opposing S.B. 1242 – Third-Party Tax Disclosure

Dear Chair Michelle Ugenti-Rita and Members of the Committee:

On behalf of the Council On State Taxation (COST), I am writing in opposition to S.B. 1242, which would allow a city or town to contract with a third party to analyze certain taxes the Arizona Department of Revenue (“DOR”) collects on behalf of those local governments. Local governments can already obtain this information from the DOR, and this legislation would unnecessarily add more complexity. Additionally, by involving third-party contractors, this legislation would subject taxpayers to intrusive contacts (including potential audits) by the third-party contractors and increase the odds of a confidentiality breach.

COST

COST is a nonprofit trade association consisting of approximately 600 multistate corporations engaged in interstate and international business. COST’s objective is to preserve and promote equitable and nondiscriminatory state and local taxation of multijurisdictional business entities. Many of COST’s members do a significant amount of business in Arizona.

S.B. 1242 Increases Administrative Burdens

The COST Board of Directors has adopted a formal policy statement encouraging states to adopt a simplified sales, use, or similar transaction tax system (e.g., simplification of Arizona’s Transaction-Privilege Taxes (“TPT”)).¹ That policy statement explanation is:

The existing state and local sales, use of similar transaction tax system creates burdensome and unnecessary complexity—this complexity imposes substantial costs on vendors, states, and consumers. A simple tax system offers the potential to promote equitable and nondiscriminatory taxation, reduced tax rates for consumers, reduce administrative burdens for both business and the states, reduce the risk of vendor liability actions, and improve compliance.

¹ See COST Policy Statement:

[http://cost.org/uploadedFiles/About_COST/Policy_Statement/Simplification%20of%20the%20Sales%20and%20Use%20and%20Similar%20Transaction%20Tax%20System%202026%2013%20adopted%20\(2\).pdf](http://cost.org/uploadedFiles/About_COST/Policy_Statement/Simplification%20of%20the%20Sales%20and%20Use%20and%20Similar%20Transaction%20Tax%20System%202026%2013%20adopted%20(2).pdf).

COST was very pleased in 2013 when the Legislature comprehensively reformed the local administration of TPTs, which is now centrally collected and administered by the DOR. This greatly simplifies compliance with, and the administration of, the local TPTs for taxpayers in Arizona. Unfortunately, S.B. 1242 is a step in the wrong direction as it would add complexity by allowing third-party contractors to question and/or audit taxpayers regarding what jurisdiction(s) a taxpayer collected tax in, along with how much tax was collected. This is all information the DOR can provide the local governments, and it raises issues the DOR resolved with the local governments when the local TPT reform was enacted in 2013.

S.B. 1242 Unwisely Provides Confidential Information to Third Parties

The COST Board of Directors has also adopted a formal policy statement in opposition to disclosure of confidential taxpayer information.² That policy statement explanation is:

Taxpayers have a justifiable expectation of privacy. State departments of revenue audit business taxpayers on a regular basis to ensure that all relevant tax laws are appropriately enforced; releasing specific business tax returns or information from those returns to the public would serve no policy purpose.

While a third-party contractor is prohibited from disclosing confidential information, the risk of such disclosure is too great. To insure confidentiality, the Legislature would need to provide some protections in this bill, including the DOR being responsible for ensuring that taxpayers' confidential information is not breached. This is a significant risk that could be eliminated by simply rejecting this bill. The DOR and local governments should be able to work together to address concerns they have with taxpayers in their jurisdictions. Disclosure of confidential taxpayer information not only violates the law, it also erodes taxpayer confidence in government tax administration.

Summary

COST respectfully request the Committee reject S.B 1242. This legislation is not necessary and needlessly adds complexity to the DOR's administration of taxes on behalf of the local governments, while jeopardizing taxpayer confidentiality.

Sincerely,



Nikki E. Dobay

cc: COST Board of Directors
Douglas L. Lindholm, COST President & Executive Director

² See COST Policy Statement:

http://www.cost.org/uploadedFiles/About_COST/Policy_Statement/ConfidentialityOfTaxpayerInformation.pdf.