

# Weekly Legislative Update:

Online Sales Tax Origination and H.B. 2118

March 17, 2025



# ONLINE SALES TAX ORIGINATION

- **Prior to 2018, sales tax was generally only collected by retailers with a physical presence in a state.**
- **A business that had a physical presence within a municipality was required to collect a municipality's sales tax.**
- **Online sales were generally not subject to local sales tax.**
- **Municipalities missed out on sales tax revenue for transactions within their jurisdictions.**



# ONLINE SALES TAX ORIGINATION

- *South Dakota v. Wayfair, Inc. (2018)*
  - In a 5-4 ruling, the U.S. Supreme Court ruled that states could require online retailers to collect sales tax even if they do not have a physical presence in the state.
- In 2019, Arizona adopted an economic nexus law that requires remote sellers to collect TPT if they have \$100,000+ in sales in Arizona. This threshold applies to both state and local TPT.



# ONLINE SALES TAX ORIGINATION

- ***Wayfair* Impacts on Municipalities**
  - **State Revenue sharing:** Arizona has a system where the state distributes a portion of its revenues to municipalities. *After Wayfair*, this distribution now includes taxes collected from remote sellers.
  - **Local TPT Sales Tax:** Municipalities are permitted to set their own TPT rates. Now, after *Wayfair*, when remote sellers meet the economic nexus threshold, they must remit the local tax for each jurisdiction where the transaction occurs.



# H.B. 2118

- H.B. 2118 was introduced in the State House by Rep. Neal Carter (R – LD 15/Queen Creek) on January 13<sup>th</sup>.
- As written, if the business is located in Arizona, the sales tax will be sourced (collected) where the business is located rather than where the product is shipped to. This would effectively eliminate the ability of Arizona cities and towns to receive tax revenues generated from on-line purchases by residents within their communities and instead would transfer those taxes to the cities or towns where the shipping distributor is located, such as Amazon.
- The Bill passed out of the House 33-26, on party lines, on February 17<sup>th</sup>.



# H.B. 2118

C. For the purposes of subsection A of this section, an order is received when all of the information necessary to accept the order has been received by or on behalf of the seller **AT A BUSINESS LOCATION OF THE SELLER**, regardless of where the order is accepted or approved. The place of business or residence of the purchaser **OR THE LOCATION OF SERVERS USED TO TRANSMIT THE INFORMATION NECESSARY TO ACCEPT THE ORDER TO A BUSINESS LOCATION** does not determine where the order is received.



# H.B. 2118

- **Current Status:**
  - **The Bill is currently in the Senate and has been held several times in Senate Finance Committee.**
  - **The League of Arizona Cities has been working with the Arizona Department of Revenue to provide an amendment to the bill that will retain the current system where the sales tax goes to the shipping destination.**
  - **The Sponsor has thus far been willing to accept this language.**
  - **Once amendment language is finalized, expect the bill to move forward and for us to no longer oppose the bill.**



# REVENUE IMPACTS

FY	Annual Revenue
2019-20	\$374,489.06
2020-21	\$934,713.46
2021-22	\$1,160,451.22
2022-23	\$1,378,107.59
2023-24	\$1,579,038.51





# Questions?

