



ABA Leads Efforts to Pass State Bill 1446

By Mark Minter

The Arizona Builders Alliance has worked with the Department of Revenue, the League of Cities, the Construction Financial Managers Association, the Arizona Tax Research Association and industry allies to pass SB 1446, creating sweeping changes to sales tax on contractors. The Arizona construction industry was braced for confusing and unworkable changes to the prime contracting tax law effective January of 2015. The State Legislature had previously enacted changes to TPT that range from who must have a tax license to a major switch creating a difference between service and prime contracting.

Those changes included dual tax treatment for contractors purchasing material for new construction versus service and repair work. Under the January 1st law, a contractor purchasing material for service work would pay tax on the material at the point of sale. The same exact material purchased for new construction would have been tax exempt until incorporated into a project; where it would be taxed under the prime contracting scheme. This assumes the contractor would know the intended use of material at the time it was purchased!

The bill that the Arizona Builders Alliance asked to be introduced addresses several of these areas. SB 1446 addresses contractors doing both prime contracting and MRRRA work. The change allows those contractors to purchase all material tax exempt and then treat the material to the tax status of the project in which the material is incorporated.

Other changes include:

- A better definition of work done under maintenance, repair, replacement and alteration of existing facilities, so called "MRRRA" activities. The new law creates "bright lines" differentiating between minor and major alteration projects.
- MRRRA activities can be done under a contract with the property owner, as well as a property manager, tenant, insurance company or others.
- Change orders will be treated as separate contracts.
- Contractors who only do MRRRA work only will no longer be required to have a TPT license with the Department of Revenue.

Governor Ducey signed SB 1446 on February 24, 2015, which enacts new changes to Prime and MRRRA contracts. It is effective retroactive to January 1, 2015.