

Arizona – Transaction privilege tax exemption for corporate affiliate real property leases extended to non-corporate affiliates

June 26, 2013

In brief

Effective September 13, 2013, [H.B. 2324](#) provides that income from real property leases between two businesses with at least 80% common ownership is exempt from county privilege and municipal transaction privilege taxes. The new law expands the existing county and municipal exemption to affiliated *companies, businesses, and persons*. Arizona taxpayers, particularly REITs, with a significant amount of intercompany leases involving non-corporate entities should be aware that income from such leases may be exempt from these taxes.

In detail

The transaction privilege tax (TPT) is Arizona's version of a sales tax. Under this tax, the seller is responsible for remitting to the appropriate jurisdiction the entire amount of tax due, based on the gross proceeds or gross income of the business. A municipal TPT may be imposed locally by a city, town, or special taxing district.

Under current law, Arizona generally provides an exemption from county and selected city TPT for income derived from real property commercial leases between affiliated *corporations*.

Exemption

H.B. 2324 provides an exemption from county and

municipal TPT for income derived from leasing real property between affiliated *companies, businesses, or persons*. An affiliated relationship exists when:

- the lessor holds a controlling interest in the lessee
- the lessee holds a controlling interest in the lessor
- an affiliated entity holds a controlling interest in both the lessor and the lessee, or
- an unrelated person holds a controlling interest in both the lessor and lessee.

'Controlling interest' means direct or indirect ownership of at least 80% of the voting shares

of a corporation or of the interests in a company, business, or person other than a corporation.

Effective date

Absent an effective date in the bill, H.B. 2324 becomes effective on the [91st day](#) following the adjournment of the Arizona Legislature, which occurred on June 14, 2013. The 91st day following adjournment is [September 13, 2013](#).

The takeaway

While H.B. 2324 also makes a similar modification to the state commercial lease classification, the change should have little

impact on Arizona taxpayers since the state tax rate imposed on the commercial lease classification is zero.

The current exemption applies only to leases among corporate entities. Leases to or from limited liability

companies (or other entities) taxed as corporations currently do not qualify for the exemption.

H.B. 2324 expands the current municipal tax exemption to ‘companies,’ ‘businesses’ and

‘persons.’ Arizona taxpayers with non-corporate intercompany leases qualifying for an exemption TPT could realize a significant tax benefit.

Let’s talk

For more information about the expansive municipal transaction privilege tax exemption, please contact:

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