



## ARIZONA TRANSACTION PRIVILEGE TAX NOTICE

TPN 19-2

(Dated 12/19/19)

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Governor

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### PROPAGATIVE MATERIALS

A.R.S. § 42-5061 imposes the transaction privilege tax ("TPT") under the retail classification. The retail classification is comprised of the business of selling tangible personal property at retail. The tax base for the retail classification is the gross proceeds of sales or gross income derived from the business.

Prior to December 1, 2019, A.R.S. § 42-5061(A)(33) provided a deduction from the retail tax base for "[s]ales of seeds, seedlings, roots, bulbs, cuttings *and other propagative material* to persons who use those items to commercially produce agricultural, horticultural, viticultural or floricultural crops in this state." A.R.S. § 42-5159(A)(9) provided the corresponding use tax exemption.

The statutes did not provide a definition of the term "*other propagative material*."

City privilege taxes are imposed under the Model City Tax Code ("MCTC"). Similar to Arizona's TPT, MCTC § -460 imposed the city privilege tax on the business of selling tangible personal property at retail. Prior to December 1, 2019, MCTC § -465(r) provided an exemption for the sale of fertilizer, fungicides, seed treating chemicals and other seed treating chemicals to a person engaged in the business of farming, ranching, or feeding livestock, poultry or ratites. However, Model Option #10 permitted cities to elect to tax such sales. Cities that did **not** chose Model Option #10 include Buckeye, Bullhead City, Casa Grande, Chandler, Chino Valley, Colorado City, Duncan, Gilbert, Huachuca City, Mammoth, Maricopa, Mesa, Oro Valley, Phoenix, Pima, Quartzsite, Queen Creek, St. John's, Scottsdale, Sedona, Snowflake, Thatcher, Tucson, Wilcox, Winslow and Yuma. Accordingly, those cities do *not* impose a city privilege tax on the sale of fertilizer. However, all other cities do.

Laws 2019, Chapter 288 (H.B. 2275) amended A.R.S. § 42 5061(A)(33). That section now provides a broad deduction for the sale of *propagative materials* to persons who use those items to commercially produce agricultural, horticultural, viticultural or floricultural crops in Arizona. It also defines "propagative materials" as including:

seeds, seedlings, roots, bulbs, liners, transplants, cuttings, soil and plant additives, agricultural minerals, auxiliary soil and plant substances, micronutrients, fertilizers, insecticides, herbicides, fungicides, soil fumigants, desiccants, rodenticides, adjuvants, plant nutrients and plant growth regulators.

The definition of propagative materials does not include any part of the cannabis plant.

This change in definition is effective from and after **November 30, 2019**.

Additionally, A.R.S. § 42-6017 provides that A.R.S. § 42-5061 supersedes all city or town ordinances or other local laws insofar as the ordinances or local laws relate to the taxation of business activities classified under A.R.S. § 42-5061. This essentially means that the state and city laws in relation to TPT on retail sales are uniform unless otherwise provided.

A.R.S. § 42-6017(C)(3)(a) provides that a city or town may, notwithstanding A.R.S. § 42-5061(A)(33), *continue* to levy an existing TPT that was levied on or before May 1, 2019, on the gross proceeds of sales or gross income derived from the sales of propagative materials to persons who use those items to commercially produce agricultural, horticultural, viticultural or floricultural crops. However, this provision specifies periods beyond which cities may not impose the tax on those sales based on city populations. The populations and periods are as follows:

- For cities with a population of *fifty thousand or less*, the city may *not* impose a tax on the sale of propagative materials to commercial producers of agricultural, horticultural, viticultural or floricultural crops from and after **June 30, 2021**.
- For cities with a population of *more than fifty thousand*, the city may *not* impose a tax on the sale of propagative materials to commercial producers of agricultural, horticultural, viticultural or floricultural crops from and after **December 31, 2019**.

Thus, from and after **November 30, 2019**, the state and county no longer impose the TPT on the sale of propagative materials to commercial producers of agricultural, horticultural, viticultural or floricultural crops in Arizona. For city privilege tax purposes, cities that imposed the tax on or before May 1, 2019, and with populations of less than fifty thousand may continue to impose the city privilege tax on the sale of propagative materials until **June 30, 2021** and those with populations of over fifty thousand that currently impose the tax may continue to do so until **December 31, 2019**. Cities that will not impose a tax on propagative materials from and after December 31, 2019, include Avondale, Flagstaff, Glendale, Goodyear, Lake Havasu, Peoria, Surprise, Tempe. Propagative materials sold to

commercial producers of agricultural, horticultural, viticultural or floricultural crops in Arizona are not taxable after June 30, 2021, *by any city*.

**Taxability Matrix of Propagative Materials**

<b>Jurisdiction</b>	<b>Region Code</b>	<b>Population Estimate (as of July 1) - 2018</b>	<b>Sale of Propagative Materials for use in Commercial Crop Production Until 12/31/2019</b>	<b>Sale of Propagative Materials for use in Commercial Crop Production BETWEEN 1/1/20 Until 6/30/2021 NOT Taxable Thereafter</b>
<b>Arizona and its Counties</b>	See Rate Table	5,697,923	NOT TAXABLE	NOT TAXABLE
<b>Apache Junction</b>	AJ	41,739	TAXABLE	TAXABLE
<b>Avondale</b>	AV	85,835	TAXABLE	NOT TAXABLE
<b>Benson</b>	BS	4,873	TAXABLE	TAXABLE
<b>Bisbee</b>	BB	5,209	TAXABLE	TAXABLE
<b>Buckeye</b>	BE	74,370	NOT TAXABLE	NOT TAXABLE
<b>Bullhead City</b>	BH	40,421	NOT TAXABLE	NOT TAXABLE
<b>Camp Verde</b>	CE	11,239	TAXABLE	TAXABLE
<b>Carefree</b>	CA	3,876	TAXABLE	TAXABLE
<b>Casa Grande</b>	CG	57,232	NOT TAXABLE	NOT TAXABLE
<b>Cave Creek</b>	CK	5,760	TAXABLE	TAXABLE
<b>Chandler</b>	CH	257,165	NOT TAXABLE	NOT TAXABLE
<b>Chino Valley</b>	CV	12,003	NOT TAXABLE	NOT TAXABLE
<b>Clarkdale</b>	CD	4,393	TAXABLE	TAXABLE
<b>Clifton</b>	CF	3,700	TAXABLE	TAXABLE
<b>Colorado City</b>	CC	4,857	NOT TAXABLE	NOT TAXABLE
<b>Coolidge</b>	CL	12,993	TAXABLE	TAXABLE
<b>Cottonwood</b>	CW	12,199	TAXABLE	TAXABLE
<b>Dewey-Humboldt</b>	DH	4,106	TAXABLE	TAXABLE
<b>Douglas</b>	DL	15,978	TAXABLE	TAXABLE
<b>Duncan</b>	DC	789	NOT TAXABLE	NOT TAXABLE

<b>Eagar</b>	EG	4,899	TAXABLE	TAXABLE
<b>El Mirage</b>	EM	35,670	TAXABLE	TAXABLE
<b>Eloy</b>	EL	19,391	TAXABLE	TAXABLE
<b>Flagstaff</b>	FS	73,964	TAXABLE	NOT TAXABLE
<b>Florence</b>	FL	26,419	TAXABLE	TAXABLE
<b>Fountain Hills</b>	FH	24,987	TAXABLE	TAXABLE
<b>Fredonia</b>	FD	1,300	TAXABLE	TAXABLE
<b>Gila Bend</b>	GI	2,094	TAXABLE	TAXABLE
<b>Gilbert</b>	GB	248,279	NOT TAXABLE	NOT TAXABLE
<b>Glendale</b>	GE	250,702	TAXABLE	NOT TAXABLE
<b>Globe</b>	GL	7,346	TAXABLE	TAXABLE
<b>Goodyear</b>	GY	82,835	TAXABLE	NOT TAXABLE
<b>Guadalupe</b>	GU	6,597	TAXABLE	TAXABLE
<b>Hayden</b>	HY	633	TAXABLE	TAXABLE
<b>Holbrook</b>	HB	5,093	TAXABLE	TAXABLE
<b>Huachuca City</b>	HC	1,738	NOT TAXABLE	NOT TAXABLE
<b>Jerome</b>	JO	457	TAXABLE	TAXABLE
<b>Kearny</b>	KN	2,145	TAXABLE	TAXABLE
<b>Kingman</b>	KM	30,314	TAXABLE	TAXABLE
<b>Lake Havasu City</b>	LH	55,090	TAXABLE	NOT TAXABLE
<b>Litchfield Park</b>	LP	6,310	TAXABLE	TAXABLE
<b>Mammoth</b>	MH	1,650	NOT TAXABLE	NOT TAXABLE
<b>Marana</b>	MA	47,007	TAXABLE	TAXABLE
<b>Maricopa</b>	MP	50,024	NOT TAXABLE	NOT TAXABLE
<b>Mesa</b>	ME	508,958	NOT TAXABLE	NOT TAXABLE
<b>Miami</b>	MM	1,774	TAXABLE	TAXABLE
<b>Nogales</b>	NO	20,188	TAXABLE	TAXABLE

<b>Oro Valley</b>	OR	45,395	NOT TAXABLE	NOT TAXABLE
<b>Page</b>	PG	7,566	TAXABLE	TAXABLE
<b>Paradise Valley</b>	PV	14,502	TAXABLE	TAXABLE
<b>Parker</b>	PK	3,200	TAXABLE	TAXABLE
<b>Patagonia</b>	PA	881	TAXABLE	TAXABLE
<b>Payson</b>	PS	15,710	TAXABLE	TAXABLE
<b>Peoria</b>	PE	172,259	TAXABLE	NOT TAXABLE
<b>Phoenix</b>	PX	1,660,272	NOT TAXABLE	NOT TAXABLE
<b>Pima</b>	PM	2,512	NOT TAXABLE	NOT TAXABLE
<b>Pinetop-Lakeside</b>	PP	4,433	TAXABLE	TAXABLE
<b>Prescott</b>	PR	43,314	TAXABLE	TAXABLE
<b>Prescott Valley</b>	PL	45,751	TAXABLE	TAXABLE
<b>Quartzsite</b>	QZ	3,766	NOT TAXABLE	NOT TAXABLE
<b>Queen Creek</b>	QC	42,503	NOT TAXABLE	NOT TAXABLE
<b>Safford</b>	SF	9,872	TAXABLE	TAXABLE
<b>Sahuarita</b>	SA	30,282	TAXABLE	TAXABLE
<b>San Luis</b>	SU	33,490	TAXABLE	TAXABLE
<b>Scottsdale</b>	SC	255,310	NOT TAXABLE	NOT TAXABLE
<b>Sedona</b>	SE	10,335	NOT TAXABLE	NOT TAXABLE
<b>Show Low</b>	SL	11,321	TAXABLE	TAXABLE
<b>Sierra Vista</b>	SR	44,420	TAXABLE	TAXABLE
<b>Snowflake</b>	SN	5,858	NOT TAXABLE	NOT TAXABLE
<b>Somerton</b>	SO	16,491	TAXABLE	TAXABLE
<b>South Tucson</b>	ST	5,697	TAXABLE	TAXABLE
<b>Springerville</b>	SV	1,982	TAXABLE	TAXABLE
<b>St. Johns</b>	SJ	3,517	NOT TAXABLE	NOT TAXABLE
<b>Star Valley</b>	SY	2,303	TAXABLE	TAXABLE

<b>Superior</b>	SI	3,141	TAXABLE	TAXABLE
<b>Surprise</b>	SP	138,161	TAXABLE	NOT TAXABLE
<b>Taylor</b>	TL	4,262	TAXABLE	TAXABLE
<b>Tempe</b>	TE	192,364	TAXABLE	NOT TAXABLE
<b>Thatcher</b>	TC	5,138	NOT TAXABLE	NOT TAXABLE
<b>Tolleson</b>	TN	7,299	TAXABLE	TAXABLE
<b>Tombstone</b>	TS	1,300	TAXABLE	TAXABLE
<b>Tucson</b>	TU	545,975	NOT TAXABLE	NOT TAXABLE
<b>Tusayan</b>	TY	587	TAXABLE	TAXABLE
<b>Wellton</b>	WT	3,030	TAXABLE	TAXABLE
<b>Wickenburg</b>	WB	7,840	TAXABLE	TAXABLE
<b>Willcox</b>	WC	3,534	NOT TAXABLE	NOT TAXABLE
<b>Williams</b>	WL	3,226	TAXABLE	TAXABLE
<b>Winkelman</b>	WM	352	TAXABLE	TAXABLE
<b>Winslow</b>	WS	9,427	NOT TAXABLE	NOT TAXABLE
<b>Youngtown</b>	YT	6,836	TAXABLE	TAXABLE
<b>Yuma</b>	YM	97,908	NOT TAXABLE	NOT TAXABLE

### Explanatory Notice

**The purpose of a tax notice is to provide general guidance to assist taxpayers in becoming familiar with Arizona tax laws. A tax ruling is intended to encompass issues of law that are not adequately covered in statute, case law or administrative rules, but are not intended to address complex issues in detail or to address a taxpayer's specific circumstance. Relevant statute, case law, or administrative rules, as well as a subsequent notice, may modify or negate any or all of the provisions of any tax notice. If the information in a notice is shown to be erroneous and a taxpayer shows reasonable reliance on that information, the taxpayer will be liable for any tax or interest which may result from the erroneous advice, but no penalties will be imposed. See GTR 08-1 for more detailed information regarding documents issued by the Department of Revenue.**