

PRIVATE TAXPAYER RULING LR98-004

April 10, 1998

The following private taxpayer ruling is in response to your letter of March 17, 1998, in which you request the department to rule, on behalf of your client ..., that the documentation provided by the ... Corporate Purchasing Card System constitutes an acceptable substitute for vendor generated invoices for purposes of substantiating compliance with state sales and use tax laws.

The following is a restatement of the facts as presented in your letter.

Statement of Facts:

The ... Corporate Purchasing Card System (... CPCP) is a procurement card system that offers companies a new way of purchasing goods and services. The ... CPCP eliminates the requisition process and its associated expenses. It was designed to create a virtually "paperless" purchasing environment by eliminating hard copy paper invoices and purchase orders.

... and card-issuing financial institutions have developed desktop reporting systems that will provide corporate sponsors of purchasing card programs with consolidated billing statements and reports of all corporate card purchases using data provided by ..., the card-issuing financial institutions and the vendors. The statements will provide purchasers with the vendor's name, city and state, the cardholder's account number and name, the transaction amount and the transaction date. If the vendor has a point-of-sale terminal or computer submission system that allows for additional data entry and enters all of the necessary information, the report will also allow the customer to identify the sales price of the property, the amount collected, the total amount of the transaction, the tax situs of the sale, the ship-to zip code and a brief description of the purchase. Generally, corporations would not have any individual receipts or invoices for sales and use tax audits. For most transactions, only the billing statements, the reports and the data provided by ... would be available on audit.

The ... CPCP will work as follows:

1. Corporations will enroll in the program and distribute the corporate purchasing cards to appropriate employees,
2. Employees will make purchases of low cost items on behalf of the employer up to pre-set limits using the purchasing cards.

3. The vendor will electronically transmit specific sale-related data to

4. The card-issuing financial institution, on a daily basis, will furnish electronically, from a secured environment, corporate procurement card clients with sales-related data received by ... from vendors.

Your Position:

With respect to transactions where the ... CPCP reports generated from the desktop reporting software program can precisely identify the appropriate taxing jurisdiction based on the point of sale data it receives, ... CPCP reports constitute an acceptable substitute for vendor generated invoices for purposes of substantiating compliance with Arizona state sales and use tax laws.

With respect to transactions where the ... CPCP reports generated from the desktop reporting software program cannot precisely identify the appropriate taxing jurisdiction based on the point of sale data it receives, the data that the ... CPCP reports do present are acceptable as accurate information regarding the transaction. A vendor or purchaser may use the ... CPCP reports and other satisfactory evidence to establish the correct taxing jurisdiction.

Applicable Statutory Provisions:

Arizona Revised Statutes (A.R.S.) § 42-114(C) provides that every person subject to the taxes administered pursuant to this article shall keep and preserve suitable records and other books and accounts necessary to determine the tax for which the person is liable for the statutory period. These records shall be open for inspection at any reasonable time by the department or its authorized agent.

A.R.S. § 42-1316(A) delineates the documentation required to substantiate the validity of an exemption from transaction privilege tax.

A.R.S. § 42-1328 provides that the burden of proving that a sale of tangible personal property was not a sale at retail shall be upon the vendor, unless the vendor has taken a certificate signed by and bearing the name and address of the purchaser, a statement that the property was purchased for resale in the ordinary course of business, and that he has a valid license, with the number thereof, to sell the kind of property purchased.

Arizona Administrative Code (A.A.C.) R15-5-2214(A) provides that the vendor is responsible for transaction privilege tax and therefore shall provide sufficient documentation in support of all deductions from the tax base.

A.A.C. R15-5-2214(D) provides that documentation, including a certificate other than the

departmental certificate may be accepted by the vendor to establish the right to a deduction. If the vendor accepts a form of documentation other than a completed departmental certificate, the burden of proof remains with the vendor to establish the right to a deduction. Other documentation necessary to establish a deduction from the tax base shall contain the information required by A.R.S. § 42-1316(A).

Discussion:

Arizona imposes a transaction privilege tax which differs from the sales tax imposed by most states. The Arizona transaction privilege tax is imposed on the privilege of conducting business in the State of Arizona. This tax is levied on the **seller**, not the purchaser. The seller may pass the burden of the tax on to the purchaser; however, the seller is the taxpayer and is ultimately liable to Arizona for the tax.

Transaction privilege tax is imposed on the vendor; therefore, on sales which are subject to transaction privilege tax, the documentation provided by the MCPCP reports must be sufficient to substantiate **vendor** compliance with Arizona's transaction privilege tax laws.

The burden of proving that any transaction was not subject to transaction privilege tax remains on the vendor unless the purchaser provided the vendor with an exemption certificate which includes the information required by statute as delineated above. Exemption certificates must be retained by the vendor in order to document that the sales were exempt from tax.

If a vendor does not have nexus for transaction privilege tax purposes, the sale may be subject to Arizona's use tax. Arizona's use tax is imposed on the purchaser. However, out of state retailers are required by statute to register with the state and to collect the use tax from Arizona purchasers. Out-of-state retailers who make Arizona sales and who are registered to report and pay use tax to Arizona are required to retain exemption certificates in their files to document sales which are exempt from the use tax.

Since Arizona's use tax is imposed on the purchaser, for purchases which are subject to Arizona's use tax, the documentation provided by the ... CPCP reports must be sufficient to substantiate **purchaser** compliance with Arizona's use tax laws. In the event use tax has not been collected by the vendor and remitted to the state, purchasers must have sufficient documentation in their records to substantiate that a transaction was exempt from use tax.

During an audit, an Arizona transaction privilege and use tax auditor is required to examine a taxpayer's records. The taxpayer's records must contain sufficient documentation to trace a transaction from its original source to its final representation in the numbers included on its transaction privilege or use tax returns.

To be acceptable, an automated data processing system must comply with the following

requirements:

1. A general ledger, with source reference, must be written or printed out to be reconcilable with transaction privilege tax reporting periods.
2. The audit trail must be designed so that the details underlying the summary accounting, such as exemption certificates, may be identified and made available upon request.
3. The records must provide the auditor with the ability to trace any transaction back to its original source or forward to a final total. The system must have the ability to produce printouts of transactions as necessary to carry out the department's audit procedures.
4. Adequate record retention facilities must be available for storing applicable supporting documents.
5. A description of the automated data processing portion of the accounting system must be available.

Conclusion and Ruling:

On the basis of the information provided, with respect to those transactions where the ... CPCP reports can precisely identify the appropriate taxing jurisdiction based on the point of sales data it receives, we rule that the documentation provided by the ... CPCP reports will provide an acceptable substitute for vendor generated invoices in regard to sales which are subject to Arizona's transaction privilege or use tax.

With respect to those transactions which are subject to Arizona's transaction privilege or use tax, where the ... CPCP reports cannot precisely identify the appropriate taxing jurisdiction based on the point of sales data it receives, we rule that the documentation provided by the ... CPCP reports will provide accurate information concerning the transaction and that the purchaser may use the ... CPCP reports and other satisfactory evidence to establish the correct taxing jurisdiction.

However, the documentation provided by the ... CPCP reports will **not** provide an acceptable substitute for sufficient documentation in regard to sales which are exempt from Arizona's transaction privilege tax. In addition to the documentation provided by the ... CPCP reports, vendors must retain exemption certificates which include all the information required by A.R.S. §§ 42-1316 or 42-1328 in order to establish the exempt status of those sales.

For transactions which are exempt from the use tax, in addition to the documentation provided by the ... CPCP reports, retailers who are registered to collect and remit use tax to the state must also retain exemption certificates which include all the information required by A.R.S.

§§ 42-1316 or 42-1328 in order to establish the exempt status of those sales. If Arizona purchasers make purchases which are exempt from use tax from retailers who are not registered to collect and remit use tax to the state, the purchasers must have sufficient documentation in their records to substantiate that the transaction was exempt from Arizona's use tax.

The conclusions in this private taxpayer ruling do not extend beyond the facts presented in your letter dated March 17, 1998.

This response is a private taxpayer ruling and the determination herein is based solely on the facts provided in your request. The determination in this taxpayer ruling is the present position of the department and is valid for a period of four years from the date of issuance except as set out herein. This determination is subject to change should the facts prove to be different on audit. If it is determined that undisclosed facts were substantial or material to the department's making of an accurate determination, this taxpayer ruling shall be null and void. Further, the determination is subject to future change depending on changes in statutes, administrative rules, case law or notification of a different department position.