



The taxpayer's watchdog for over 70 years

ARIZONA TAX RESEARCH ASSOCIATION

ATRA SUPPORTS SB1279

Clarifying the Taxation of Computer Software

Background:

In the 1978 Arizona Court of Appeals case *Honeywell Information Systems, Inc. v. Maricopa County*, the Court ruled that computer software is not subject to the personal property tax. More specifically, the Court's decision stated "While Arizona statutes have long authorized taxation of intangibles, our cases have held that intangibles may not be taxed because the legislature has failed to provide a means of equalization for or collection of a tax against intangibles."

Contrary to the outcome of this court case, there have been recent efforts by certain county assessors to expand the personal property tax to all computer software. Further, in 2011, the Arizona Department of Revenue changed the reporting guidelines for personal property to include software. This change caused considerable alarm across the business community. An ATRA survey of county assessors also showed an inconsistent interpretation of the taxability of software.

Basis for ATRA's Support:

SB1279 is the result of negotiations between the Arizona Tax Research Association (ATRA) and the Arizona Department of Revenue. Current law does not specifically address the tax treatment of computer software.

This legislation defines "operating system software" and makes clear that the software necessary to operate personal and general purpose computers and the peripheral equipment is valued as part of the computer in which it is installed. All other software, whether it is canned or customized for a specific application by a computer, is not included when valuing personal property.

ATRA asks lawmakers to support SB1279!