



CITY OF PHOENIX TRANSACTION PRIVILEGE (SALES) AND USE TAX

WHO MUST PAY THE TAX?

You must be licensed and pay tax if you are in the business of leasing, licensing or renting residential real property located within the city of Phoenix. Examples of residential rentals include houses, apartments, single family homes, condominiums, townhomes, manufactured homes, and mobile home (trailer) spaces. Rentals for less than 31 days are taxable under the Hotel classification.

WHAT IS THE CITY TAX RATE?

The City's tax rate is 2.3%; there is no State or County tax on residential rental.

WHEN IS TAX DUE?

Your tax return and payment are due on the 20th day of the month following the reporting period.

WHO IS TAXABLE?

A person who has three or more residential units rented or available for rent in the State of Arizona must pay tax to the city of Phoenix on the units located within the City. A property manager or broker who manages residential rental units must pay tax to the city of Phoenix on the units located within the city of Phoenix even if an individual owner would not be taxable. In this case, the property manager or broker may obtain the license and report the tax on the residential rental income for a property owner. Examples of residential rentals include houses, apartments, single family homes, condominiums, townhomes, manufactured homes, and mobile home (trailer) spaces.

Any person or property manager who has one unit of commercial property rented or available for rent **plus** one or more units of residential property available for rent in the State of Arizona must pay tax to the city of Phoenix on all units located within the city of Phoenix.

WHAT IS TAXABLE?

All amounts paid by the tenant under terms of the lease agreement are gross income to the lessor. All amounts paid by the tenant to the lessor or paid on the lessor's behalf are gross income including property tax (paid to the lessor or the County), mortgage, repairs, pet fees, non-refundable deposits, forfeited deposits, and recoveries due to court action.

DEDUCTIONS THAT CAN BE TAKEN (when included in the gross income on the front of your tax return form):

1. City sales tax collected whether charged separately or included in the lease price
2. bad debts on which tax was paid on a previously filed City tax return form
3. discounts, refunds, or returns
4. leases to "Qualifying Health Care Facilities," including hospitals, nursing homes and dialysis centers (must be non-profit entities)
5. utility charges **only if** individual utility meters have been installed for each tenant and the lessor charges each tenant the exact billing from the utility company

6. fair market value of one apartment provided rent-free to a property employee for each fifty apartments on the property

CALCULATING THE TAX

You may choose to charge the tax separately or you may include tax in your price. If you include tax in your price (i.e., no separate charge for tax), you may back out the tax in order to compute the amount of tax included in your gross income. The formula is as follows:

TAXABLE LEASES divided by 1 + COMBINED TAX RATE of 2.3% (City, no State or County tax)

Calculate the tax deduction as follows:

Taxable Leases ÷ Factor (1.023) = Computed Taxable Income

Taxable Leases less Computed Taxable Income equals your deduction for tax collected.

Example: \$1,000.00 ÷ 1.023 = \$977.52
 \$1,000.00 - \$977.52 = \$ 22.48 (tax collected deduction)

If more tax was collected than was due, the City's portion of excess tax collected must be paid to the City, unless it is refunded to the customer. Please refer to the Transaction Privilege (Sales) and Use Tax Instruction Sheet for instructions on how to report excess tax collected or the tax collected deduction.

This material is available in alternate formats upon request. For more information, call (602) 262-6785, press 4, TTY (602) 534-5500 or write to City of Phoenix, TAX DIVISION, 251 W. Washington Street, 3rd Floor, Phoenix, Arizona 85003. For more information on our licensing, tax rates, tax return instructions or access to the city of Phoenix Tax Code, visit our website at www.phoenix.gov/finance/plt.

This is general information only. For complete details, refer to the city of Phoenix Tax Code.