



CITY OF PHOENIX PRIVILEGE LICENSE (Sales) TAX

WHO MUST PAY THE TAX?

You must be licensed and pay tax if you are in the business of leasing, licensing or renting non-residential real property located within the City of Phoenix to a tenant in actual possession (not subleased by them to someone else).

Licensing means any agreement between the property owner and the user of real property that does not grant the full rights of a lease. Examples of licensing income include commissions received for licensing space for vending and amusement game machines or pay telephones, the use of a business or property for filming movies or commercials, and similar charges for use of space.

WHAT IS THE CITY TAX RATE?

The City's tax rate is 2.1%; the combined rate (including County tax) is 2.6%.

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 in the business of leasing, licensing or renting any non-residential land, building, or space must pay tax to the City of Phoenix on the units located within the city of Phoenix.

Examples of taxable commercial rentals include:

- office buildings
- parking lots
- stores
- banquet halls
- factories
- meeting rooms
- commissions on vending machine or pay phone space
- storage facilities
- vacant land
- space at a swap meet
- churches
- safe deposit boxes

Rental of commercial property to related business entities, non-profit organizations and governmental agencies is taxable.

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 common area maintenance, property tax (paid to the lessor or the County), mortgage, repairs, insurance, 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):

1. County and City Sales Tax Collected whether charged separately or included in the lease price
2. Bad Debts on which tax was paid on a previous City return
3. Leases for Release (including sublease)
4. Discounts, Refunds or Returns

5. Leases to “Qualifying Health Care Facilities,” including: Hospitals, Nursing Homes & Dialysis Centers (must be non-profit)
6. 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.

SUBLEASING

Income from subleasing is taxable, but the sublease provides an exemption to the primary lessor. The primary lessor is entitled to an exemption for the portion of the property subleased by their tenant. For example, if A leases a 10,000 square foot building to B for \$6,000 per month (the primary lease), and B subleases 2,500 square feet to C for \$3,000 per month (the sublease), the tax liabilities of A and B are computed as follows:

- B’s liability is for the tax on his subleasing income of \$3,000
- A’s liability is reduced by the portion of the building that is subleased
2,500 square feet subleased (documented by B’s sublease agreement with C)
 $\div 10,000$ square feet in primary lease (between A and B)
= 25% of the primary lease is exempt (75% is taxable)
A is entitled to an exemption for 25% of their \$6,000 monthly income or \$1,500

This exemption must be computed based on the square footage subleased, not the values of the primary lease and the sublease.

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 (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:

TAXABLE LEASES divided by 1 + COMBINED TAX RATE of 2.6% (County & City, no State tax)
Calculate the tax deduction as follows:

Taxable Leases \div Factor (1.026) = *Computed Taxable Income*

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

Example: \$3,000.00 \div 1.026 = \$2,923.97
 \$3,000.00 - \$2,923.97 = \$ 76.03 (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 Privilege (Sales) 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, 1, TTY (602) 534-5500 or write to City of Phoenix, TAX DIVISION, 251 W. Washington Street, 9th Floor, Phoenix, Arizona 85003. For more information on our licensing, tax rates, tax return instructions or a copy of the Tax Code, visit our website at www.phoenix.gov/PLT.

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