



Restaurants & Bars

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 preparing and selling food and drink for consumption on or off the premises. Examples of taxable facilities include but are not limited to the following:

- Restaurants serving food to eat in or take out
- Delicatessens selling prepared foods
- Restaurants selling to governmental agencies or their employees
- Ice cream parlors and bakeries with facilities for eating on the premises
- Street vendors and mobile vendors selling in public places or at entertainment and sports events
- Caterers
- Movie theater concessions
- Bars and taverns
- Boarding Houses

WHAT IS THE CITY TAX RATE?

The City's tax rate is 2.0%; the combined rate (including State & County taxes) is 8.3%.

WHEN IS TAX DUE?

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

SPECIAL PROVISIONS

- Restaurants Selling Groceries – Grocery stores, delicatessens and other retail stores qualified to sell tax exempt foods, but also operating a restaurant on the premises, must keep separate records for the two activities. Otherwise, all income is taxable.
- Tips – Gratuities (tips) separately charged are taxable unless:
 - ❖ separate records are kept for all employees providing services, and
 - ❖ the entire amount of the tip is distributed directly to the employee(s) who provided the services.
- Cover charges – Cover charges and other minimum charges are taxable.
- Caterers – Caterers are taxable based on their regular business location, not the location of the customer. Charges for delivery, set-up and clean-up are exempt if separately stated to the customer and separately maintained in the caterer's books and records.
- Employee meals – If a charge is made for employee meals, the amount paid by the employee is taxable. If no charge is made for the meals, the cost of the food used for the meal is subject to use tax (see Use Tax bulletin).
- Complimentary Meals and Beverages – If no charge is made, the cost of the food and beverage used is subject to use tax (see Use Tax bulletin).
- Coupons – If the restaurant issues a coupon, e.g., "two for the price of one," only the price paid by the patron is taxable.
- Vending and Amusement Machines – When vending and amusement machines, including public telephones, are located in a restaurant or bar and are not owned by the restaurant or bar; the income received from the vending company (often called a commission) is taxable as

licensing for use of real property. The tax rate is 2.1% (see the Commercial Real Property Rental brochure).

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

1. State, County and City 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. Sales to "Qualifying Health Care Facilities," including: Hospitals, Nursing Homes & Dialysis Centers (must be non-profit)

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 SALES divided by 1 + COMBINED TAX RATE of 8.3% (State, County & City tax)
Calculate the tax deduction as follows:

Taxable Sales ÷ Factor (1.083) = Computed Taxable Income

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

Example: \$3,000.00 ÷ 1.083 = \$2,770.08
 \$3,000.00 - \$2,770.08 = \$229.92 (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.