

LANDLORDS & PROPERTY MANAGERS

YOU OWE TAX ON REAL PROPERTY RENTALS IF:

You rent or lease real property to others. If you rent residential property to non-permanent residents, see the Hotel/Motel ~ Transient Lodging Tax guideline for additional information.

EXAMPLES OF TAXABLE FACILITIES INCLUDE:

- office buildings
- stores
- parking & storage facilities
- apartments, homes
- duplexes, triplexes, fourplexes
- banquet & meeting halls

AS A LANDLORD, WHAT ARE MY RESPONSIBILITIES?

As a landlord you are required to be licensed with the City and to report and pay tax on your gross rental income received from properties located within the City limits. Each rental location must be licensed and reported separately.

If you hire a property manager, that property manager *may* license your rental with the City and report and pay the tax on the gross rental income from your property.

AS A PROPERTY MANAGER, WHAT ARE MY RESPONSIBILITIES?

As a property manager, you are required to be licensed with the City and to report and pay tax on the rental income from the properties you manage, **UNLESS**:

1. you obtain a written declaration from the property owner that the owner is responsible for filing and paying the taxes on the rental income **AND**
2. you obtain the owner's City Transaction Privilege Tax License Number.

You must maintain the declaration and license number as part of your records for four years after the month in which you cease to manage the property.

HOW IS THE TAX CALCULATED?

The tax rate is 2% of the gross income. Income is any value received either as funds, bartered services or merchandise or payments made by the lessee to, or on behalf of, the lessor for property taxes, repairs, improvements, etc.

COLLECTION OF TAX

You may choose to charge the tax separately on each transaction, or include the tax in your price. If you over charge any tax to your tenants, you must remit the excess tax to the City.

If your price includes privilege tax, you can use factoring to "back into" the tax included in your gross income. For example, you collect \$650.00 rent on a real property rental, tax included, and the current tax rate is 2%.

Your tax calculation is:

Taxable Amount = \$650.00 / 1.02 = \$637.25
Total City Tax due= \$637.25 x .02= \$12.75

Your tax return will look like this:

Gross Rec.	Deduct.	Taxable Amt.	Tax Due
\$650.00	\$12.75	\$637.25	\$12.75

SPECIAL SITUATIONS

1. Sub-leases

When a property is subleased, the taxable landlord is the one directly leasing to the tenant in actual possession of the property. In the case of a partial rental, that is, where the lessee subleases a portion of the property to another, appropriation of tax is determined on a square foot basis. For example, "A" rents to "B" a 1,000 square foot building for \$500. "B" uses for himself 75% and subleases to "C" 25% or 250 square feet for \$200. "A" would charge "B" tax on 75% of \$500, and "B" would charge "C" tax on \$200.

2. Additions to Rent

Extra charges included in rent for services such as cleaning, common area maintenance fees, tenant improvements, real property taxes, security services, insurance and utilities are taxable as part of rental income. However, when a landlord installs individual utility meters for each tenant and charges each tenant for this service based on the actual charge for that meter, those utility charges are not taxable. In addition, fees or commissions you receive for allowing a business to operate vending machines or a laundry room on the property are taxable.

3. Laundromat Facilities

If you offer coin-operated laundromat facilities to your tenants, gross income received from those facilities is taxed

under the rental, leasing or licensing for use of tangible personal property section of the tax code.

If you rent out a portion of your building to a coin-operated laundromat operator, gross income received is taxed under real property rentals.

4. Security Deposits

Security deposits, cleaning deposits, pet fee deposits, etc. are taxable in the month they are forfeited by the tenant.

5. Manager's Apartment

If you offer an apartment to your manager rent-free, the fair market value of the apartment (one per every 50 apartments) is not subject to transaction privilege tax.

6. Exemptions

Charges by primary health care facilities to patients of such facilities for use of rooms or other real property during the course of their treatments by such facilities are exempt.

7. Related Entities

Commercial lease arrangements between businesses that are owned by at least 80% of the same shareholders are exempt from the tax. Please contact our office to discuss the information needed in order to qualify for the exemption.

To view a complete copy of the tax code, please go to: <http://www.cityofprescott.net>



**City of Prescott
Finance Department
Tax & Licensing Division
201 S. Cortez Street
P O Box 2077
Prescott, AZ 86302**

For more information please contact:

928 777-1268 Taxpayer Assistance Rep
928 777-1231 Privilege Tax Auditor
928 777-1247 Privilege Tax Supervisor

PRESCOTT PRIVILEGE TAX

**LANDLORDS
AND
PROPERTY
MANAGERS**



This publication is for general information regarding Transaction Privilege (Sales) Tax on residential & commercial rentals. For complete details, refer to the City of Prescott Privilege & Use Tax Code and related regulations. In the case of an inconsistency or omission in this publication, the language of the Tax Code will prevail. The transaction privilege tax is commonly referred to as a sales tax, however, under State of Arizona law, the tax is on the privilege of doing business in Prescott and is not a true sales tax.

June 2013