

LANDLORDS & PROPERTY MANAGERS

YOU OWE TAX ON REAL PROPERTY RENTALS IF:

You rent or lease real property to others. If you rent residential property for periods under 30 days at a time, see the "Hotel/Motel ~ Transient Lodging Tax" brochure for additional information.

Examples of taxable facilities include office buildings, stores, parking & storage facilities, apartments, homes, duplexes, triplexes, and banquet & meeting halls.

AS A LANDLORD, WHAT ARE MY RESPONSIBILITIES?

As a landlord you are required to be licensed through the Arizona Department of Revenue (ADOR) and pay tax on your gross rental income received from properties located within the City limits. See the brochure "Reporting Tax to the Arizona Department of Revenue" for more information. Each rental location must be added separately to your license and reported on separate lines of the report.

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.

Residential Rental landlords must also register their rental with the Yavapai County Assessor's Office. You can reach the Assessor's office at 928-771-3220. The form is called "Notification of Residential Rental Property" and is located on www.yavapai.us/assessor/forms.

AS A PROPERTY MANAGER, WHAT ARE MY RESPONSIBILITIES?

As a property manager, you are required 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 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.

You may choose to pass the tax on to the tenant by separately adding it to the rent or consider the tax included in the rent. If you over charge any tax to your tenants, you must remit the excess tax to the City.

REPORTING THE TAX

Below are examples of two scenarios. Monthly rent is \$1,000.

- 1) Tax added to rent – (\$1,000 x 2% = \$20 tax). Tenant pays \$1,020.

Gross	Deduction	Taxable	Tax Due
\$1,020	\$20	\$1,000	\$20

- 2) Tax not added to rent. Tenant pays \$1,000. Here you will need to "factor" the tax that is included in the gross income:

$$\$1,000 \div 1.02 = \$980.39 \text{ rent} \times .02 = \$19.61 \text{ tax}$$

Gross	Deduction	Taxable	Tax Due
\$1,000	\$19.61	\$980.39	\$19.61

Reporting can be done online through www.aztaxes.gov or mailed in with the forms the ADOR provides. Make sure you report the tax under the region code of "PR" and "PRESCOTT". The business codes are as follows:

- Residential Rental: 045
- Commercial Rental : 213
- For transient lodging such as vacation rentals two codes are required: 044: Hotel/Motel (2%) and 144: Hotel/Motel (3%Bed Tax)

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. Commercial Lease - 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.

- 8. Rental to Family Members:** If you are renting to members of the individual's family, the transaction is exempt from tax. "Members of the individual's family" means the individual's spouse and brothers and sisters, whether by whole or half blood, including adopted persons, ancestors and lineal descendants. [ARS 42-6004(11)(d)]

To view a complete copy of the tax code, please go to: <http://www.prescott-az.gov>



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PRESCOTT PRIVILEGE TAX

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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.

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