

# RETAIL SALES

A 2% sales tax is imposed upon anyone in the business of selling items to another who plans to use those items and not resell or rent them.

## **ARE THERE ANY ITEMS I DO NOT COLLECT SALES TAX ON?**

**Sales for Resale:** Sales made to anyone who plans to rent or resell an item, may be exempt if proper records are completed and reasonable evidence exists the item is for resale or rental. For each transaction, the City and State Transaction Privilege Tax License number, business name, business address, and business activity of the customer must be documented. **Remember, without complete records, all your sales will be taxed.**

**Out-of-City:** In order for any sale to be considered an out-of-city sale, the transfer of title must occur outside the city, the stock from which the item came must be located outside city limits, and the order must be received at a permanent business location outside the city.

**Out-of-State:** In order for a sale to be considered an out-of-state sale, the order must be placed from outside the state by an out-of-state resident, the item must be delivered to a location outside the state, and property must be purchased for use outside the state. **Note:** This is treated differently by the state.

**Delivery, Installation, Repair and/or other Direct Customer Services:** When charges for delivery, installation, repair and

other direct customer services are separately charged and stated on receipts, invoices and taxpayer's records, they may be tax exempt. **Be aware,** installation of an item into real property, such as a home, may be considered construction contracting. (See Construction Contracting Guidelines)

**Sales of Warranty, Maintenance and Service Contracts:** Sales of warranty, maintenance and service contracts are tax exempt when separately charged and stated on the taxpayer's books. Parts provided incidental to a warranty, maintenance or service contract are subject to privilege or use tax.

**Sales to Nonprofit Primary Health Care Facilities:** Retail sales of items to any nonprofit primary health care facility are tax exempt unless they are sold or used by the facility to produce unrelated business income.

**Sales of Prosthetics:** Prosthetics are such items prescribed or recommended by a licensed podiatrist, chiropractor, dentist, physician or surgeon, psychologist or veterinarian. Prosthetics include: any man-made device for support or replacement of a part of the body, or to increase acuity of one of the senses, such as eyeglasses, hearing aids, artificial limbs or teeth, neck, arm, or leg braces. Insulin and insulin syringes, hospital beds, crutches, corrective shoes, drugs or medicine, oxygen and similar health aids are considered prosthetics. Equipment used to monitor, generate, or provide health support systems such as respiratory equipment is also tax exempt. Sales of vitamins and nonprescription drugs are not considered prosthetics and are taxable.

**Sales of Income-Producing Capital Equipment:** Sales of equipment used directly in the normal course of business for producing income and which are specifically defined in the Tax Code are tax exempt. Equipment used for storage, handling, testing and packing when not directly involved in the changing process are not tax exempt. In addition, structural changes to real property to install equipment are considered taxable under construction contracting.

**Ingredients or component parts:** Any items or materials that are direct ingredients or parts in goods that will later be sold or rented are tax exempt. Goods or items that are consumed or used up in the manufacturing process are not tax exempt. The sale of primary packaging materials or containers sold to a retailer or manufacturer are tax exempt. Items such as shopping bags, gift wrap and boxes sold to department stores or grocery stores are taxable.

**Food and Accessory Sales to Commercial Airlines:** Sales where the food is prepared for its passengers without additional charge for consumption in flight are exempt from privilege and use tax.

**Food and Accessory Sales:** Sales to a public education entity, pursuant to Title 15 of the A.R.S. 1-215, to the extent such items are prepared for individuals for consumption during normal school hours are exempt from privilege and use tax.

**Sales to Federal Government:** Sales made to the Federal Government by a manufacturer, modifier, assembler or repairer are 100% tax exempt. Sales made by any other person are only 50% tax exempt and tax is figured on 50% of gross

sale's price. Sales made to state, county or local city governments are taxable at 100%.

**Sale of Mining and Metallurgical Supplies:** Supplies used directly in the mining, smelting or producing of mineral products are tax exempt. These do not include janitorial equipment, office supplies, nor any motor vehicle licensed for use upon the highways.

**Food Purchased with Food Stamps:** Food purchased with food stamps provided by the Food Stamp Program or food instruments issued by the Child Nutrition Act are not taxed.

**Sales to Indians:** Sales to Indians or tribal councils are tax exempt only if solicitation and placement of order occurs on the reservation, delivery is to the reservation, and payment originates from the reservation. Proper documentation is required, or sale will be taxed.

### ***WHAT IF THE ITEM IS DELIVERED TO OR SHIPPED FROM ANOTHER ARIZONA CITY?***

If the retail sale item is delivered from out-of-city or shipped from out-of-city, the item is taxed at the permanent business location where the order was received.

### ***HOW DO I CALCULATE THE SALES TAX?***

Gross income from the retail sales are summed. Allowable deductions and exempt sales are reported on the front of the sales tax report and then subtracted from gross sales to arrive at taxable income. Taxable income is multiplied by .02 to calculate sales tax due.

**Remember, the responsibility to keep proper records and documentation for all tax exempt sales is with the taxpayer. Without proper documentation all sales will be taxed.**



**City of Prescott  
Finance Department  
Tax & Licensing Division  
P O Box 2077  
Prescott, AZ 86302**

For more information contact:

928 777-1268 Taxpayer Assistance Rep  
928 777-1210 Privilege Tax Auditor  
928 777-1231 Tax & Licensing Supervisor

This publication is for general use only. For complete details, refer to the City of Prescott Tax Code.

# PRESCOTT PRIVILEGE TAX

## RETAIL SALES



This publication is for general information regarding Transaction Privilege (Sales) Tax on retail sales. For complete details, refer to the City of Prescott Privilege & Use Tax Code and related regulations. In 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.

**March 2004**