



City Of Prescott Tax Seminar Commercial & Residential Rental



Cell Phones

- As a courtesy to others, please turn your cell phones off or put on silent mode.
- If you need to use your cell phone, please leave the room.



Disclaimer

- Section 4-1-541 of the City of Prescott tax code states that anytime oral advise is given we must inform the recipient that the Tax Collector is not bound by oral advise.



Contact Information



www.prescott-az.gov

(928)-777-1268

**Matt Dunbar - Privilege Tax Supervisor
Barbara Goddard – Privilege Tax Auditor
Katie Pehl – Privilege Tax Audit Associate
Carla Lambert - Privilege Tax Clerk
Jayne Gamboa – Accounting Technician**

General Information

- Application Fee \$25 one time fee per property.
- Residential Rentals are usually set up on a quarterly basis for reporting, commercial is usually monthly.
- Reports are due the 20th of the month following the end of the period reported.
- There is a grace period with no penalty or interest charges if the form is in our office by the last business day of the month due.
- Post marks are not evidence of timely filing.

Reporting Period:

JAN-MAR

2010

Due Date:

Apr 20, 2010

General Rental Information

The Tax code reads:

The tax rate shall be at an amount equal to two percent (2%) of the **gross income** from the business activity upon every person engaging or continuing in the business of leasing or renting real property located within the City for a consideration, to the tenant in actual possession, or the licensing for use of real property to the final licensee located within the City for a consideration including any improvements, rights, or interest in such property; provided further that:

- (1) *Payments made by the lessee to, or on behalf of, the lessor for property taxes, repairs, or improvements are considered to be part of the taxable gross income.*
- (2) Charges for such items as telecommunications, utilities, pet fees, or maintenance are considered to be part of the taxable gross income.
- (3) However, if the lessor engages in telecommunication activity, as evidenced by installing individual metering equipment and by billing each tenant based upon actual usage, such activity is taxable under Section 4-1-470.

Gross Income



Sec. 4-1-200. Determination of gross income: in general.

(a) Gross income includes:

(1) the value proceeding or accruing from the sale of property, the providing of service, or both.

(2) the total amount of the sale, lease, license for use, or rental price at the time of such sale, rental, lease, or license.

(3) *all receipts, cash, credits, barter, exchange, reduction of or forgiveness of indebtedness, and property of every kind or nature derived from a sale, lease, license for use, rental, or other taxable activity.*

(4) all other receipts whether payment is advanced prior to, contemporaneous with, or deferred in whole or in part subsequent to the activity or transaction.

(b) *Barter, exchange, trade-outs, or similar transactions are includable in gross income at the fair market value of the service rendered or property transferred, whichever is higher, as they represent consideration given for consideration received.*

(c) No deduction or exclusion is allowed from gross income on account of the cost of the property sold, the time value of money, expense of any kind or nature, losses, materials used, labor or service performed, interest paid, or credits granted.

What's Included in Gross Income

- Rent
- Charges for Pets
- Charges for Utilities
- Maintenance Charges
- Charges for HOA Dues
- Charges for Property Taxes
- Charges for Repairs
- Non-Cash Payments
- Triple Net - CAM fees
- Deposits



Deposits

- Refundable deposits are included when kept.
- Non-Refundable deposits are included when received.



Affiliated Companies



Sec. 4-1-210. Determination of gross income: transactions between affiliated companies or persons.

In transactions between affiliated companies or persons, or in other circumstances where the relationship between the parties is such that the gross income from the transaction is not indicative of the market value of the subject matter of the transaction, the Tax Collector ***shall*** determine the "market value" upon which the City Privilege and Use Taxes shall be levied. "Market value" shall correspond as nearly as possible to the gross income from similar transactions of like quality or character by other taxpayers where no common interest exists between the parties, but otherwise under similar circumstances and conditions.



Examples of Affiliated Companies

- The building is owned by my LLC and is used by my other LLC.
- I personally own the building but it is used by my LLC.
- My LLC owns the building and my corporation uses it.
- My corporation owns the building and my other corporation uses the building. I personally own the stock of both corporations.

Licensing For Use



- Any agreement between the user and the owner for the use of the licensor's property, whereby the licensor receives consideration.
- Such an agreement does not typically qualify as a "sale" or "lease" or "rental" agreement.



Examples of Commercial Rentals

- Office Buildings
- Parking Lots or Spaces
- Banquet Halls
- Meeting Rooms
- Storage Units
- Vacant Land
- Rentals to Churches
- Swap Meet Space
- Factories
- Rentals to Non-Profit Organizations
- Related Entity Rentals
- Rentals to the Government
- Salon Booth Space
- Commission on Vending Machines, Pay Phones, ATMs, Etc.
- Safe Deposit Boxes

Examples of Residential Rentals

- House
- Condo
- Townhouse
- Apartment
- Trailer or Trailer Space
- Group Home
- Assisted Living Facilities
- Residential Space (Single Room)



What if?

- What if they don't pay me?
- What if their check bounces?
- What if the rent doesn't cover my costs?
- What if they move out and caused \$2,000 worth of damage?
- What if my son/grandma/ex lives there and just pays me back for utilities or other expenses?
- What if they want to rent my home for only two weeks?



Allowed Deductions

- Factored or Collected Tax
- Bad Debt
- Separately Metered Utility Charges
- Hospital or Care Facility Fees for Patients Receiving "Personal or Directed Care"
- Incarceration Fees
- One Apartment in a Complex Provided to an Employee Free of Charge.
- Lease or Rental for Re-lease or re-rental (Tenant subleases all of the property)
- Affiliated Transactions were one Corporation owns 80% or more of the other Corporation's Stock. (Remember an LLC is not a Corporation).



Most Common Deduction



- Factored or Collected Tax
 - Collected Tax = Total Tax Collected
 - Factored Tax
 - Gross income / 1.02 = Net Taxable
 - Net x Tax Rate = Tax due & Deduction

Factored Tax Example

- $\$3,000$ in rent / $1.02 = \$2,941.18$ Net Taxable
- $\$2941.18 \times .02 = \58.82
- Column 2 deduction = $\$58.82$
- Tax Due = $\$58.82$

Column 1	Column 2	Column 3	Column 4	Column 5
Gross	Allowable Page 2 - Deductions	= Net Taxable	Tax Rate	Column 3 x Column 4 = Tax Amount
3,000.00	58.82	2,941.18	2.00%	58.82
3,060.00	60.00	3,000.00	2.00%	60.00

DEDUCTIONS		Bus Class					
		13	13				
		LINE 1	LINE 2	LINE 3	LINE 4	LINE 5	LINE 6
1. Total tax collected or factored (State, county, and city)		58.82	60.00	0.00	0.00	0.00	0.00
2. Bad debts on which tax was paid		0.00	0.00	0.00	0.00	0.00	0.00
RETAIL & PERS. PROP. RENTALS							
3. Sales for resale		0.00	0.00	0.00	0.00	0.00	0.00
4. Repair, service, or installation labor		0.00	0.00	0.00	0.00	0.00	0.00
5. Discounts and refunds.		0.00	0.00	0.00	0.00	0.00	0.00
6. Sales to qualified health care org.		0.00	0.00	0.00	0.00	0.00	0.00
SALES TO U.S. GOVERNMENT							

Use Tax

- Use tax for business expenses.
 - No cost limit
- Use tax for personal expenses.
 - Under \$1,000 no use tax



Questions?



**Please complete the
evaluation handout**



Thank You