

# City of Prescott Tax Seminar Retail



# 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](http://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 Definitions

---

- “Business” means all activities or acts, personal or corporate, engaged in and caused to be engaged in with the object of gain, benefit, or advantage, either direct or indirect, but not casual activities or sales.
- Casual sales examples: Fewer than three garage or yard sales per year, retail store selling a used delivery truck, a clothing store selling old computer equipment.





# Retail Sales

---

- 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 selling tangible personal property at retail.

# Retail Sales Exclusions

---

- Sales of tangible personal property shall not include:
  - Sales of stocks, bonds, options, or other similar materials
  - Sales of lottery tickets
  - Sales of platinum, bullion, or monetized bullion, except minted or manufactured coins transferred or acquired primarily for their numismatic value
  - Sales by professional or personal service occupations where such sales are inconsequential elements of the service provided
  - Sales by federally exempt organizations recognized by the IRS under section 501(c)(3)



# Retail Sales

---

- The burden of proving that a sale of tangible personal property is not a taxable retail sale shall be upon the person who made the sale.



---

# **Deductions and Exemptions**

# Deduction Record Keeping Requirements

---

- If you have taxable activity like retail sales, and non-taxable sales like sales for resale or professional service income
  - The gross receipts from each activity must be kept separately in the books
  - If they are not kept separately, all activity will be taxable



# Retail Sales: exemptions

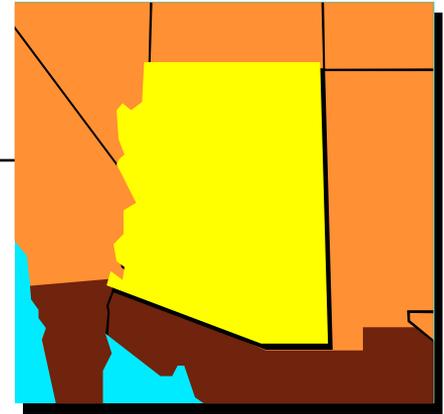
---

- Sales of tangible personal property to a person regularly engaged in the business of selling such property.



# Retail Sales: exemptions

---



## ○ Out-of-State sales

- “Out-of-State Sale” means the sale of tangible personal property and job printing if all of the following occur:
  - (1) The order is placed from without the State of Arizona; and
  - (2) The order is placed by other than a resident of the State to be determined in a manner similar to "resides within the City"; and
  - (3) The property is delivered to the buyer at a location outside the State; and
  - (4) The property is purchased for use outside the State.

# Retail Sales: exemptions

---

- Charges for delivery, installation, or other direct customer services as prescribed by Regulation.
  - “Delivery, Installation, or Other Direct Customer Services” means services or labor, excluding repair labor, provided by a taxpayer to or for his customer at the time of transfer of tangible personal property; provided further that the charge for such labor or service is separately billed to the customer and maintained separately in the taxpayer's books and records.
  - Note: All charges by a photographer resulting in the sale of a photograph (sitting fees, development fees, enlargements, travel fees, retouching, etc.) for services that occur prior to transfer of tangible personal property are not direct customer services and **are taxable**.



# Retail Sales: exemptions

---

- Charges for repair services as prescribed by Regulation, when separately charged and separately maintained in the books and records of the taxpayer.



# Retail Sales: exemptions

---

- Sales of warranty, maintenance, and service contracts, when separately charged and separately maintained in the books and records of the taxpayer.



# Retail Sales: exemptions

---

- Sales of prosthetics (prescribed medical supplies)
  - Drugs and medical oxygen
  - Prosthetics appliances
  - Insulin, insulin syringes
  - Prescription eyeglasses or contact lenses
  - Hearing aids



# Retail Sales: exemptions

---

- Sales of income-producing capital equipment.



# Retail Sales: exemptions

---



- Sales of rental equipment and rental supplies to those in the rental business.

# Retail Sales: exemptions

---

- Sales of mining and metallurgical supplies.



# Retail Sales: exemptions

---

- Sales of motor vehicle fuel and use fuel which are subject to a tax imposed under the provisions of Article I or II, Chapter 16, Title 28, Arizona Revised Statutes; or sales of use fuel to a holder of a valid single trip use fuel tax permit issued under A.R.S. Section 28-5739, or sales of natural gas or liquefied petroleum gas used to propel a motor vehicle.



# Retail Sales: exemptions

---



- Sales of tangible personal property to a construction contractor who holds a valid Privilege Tax License for engaging or continuing in the business of construction contracting where the tangible personal property sold is incorporated into any structure or improvement to real property as part of construction contracting activity.

# Retail Sales: exemptions

---

- Sales of motor vehicles to nonresidents of this State for use outside this State if the vendor ships or delivers the motor vehicle to a destination outside this State.





# Retail Sales: exemptions

---

- Sales of tangible personal property which directly enters into and becomes an ingredient or component part of a product sold in the regular course of the business of job printing, manufacturing, or publication of newspapers, magazines, or other periodicals. Tangible personal property which is consumed or used up in a manufacturing, job printing, publishing, or production process is not an ingredient nor component part of a product.

# Retail Sales: exemptions

---



- Sales made directly to the Federal government to the extent of:
  - (1) One hundred percent (100%) of the gross income derived from retail sales made by a manufacturer, modifier, assembler, or repairer.
  - (2) Fifty percent (50%) of the gross income derived from retail sales made by any other person.

# Retail Sales: exemptions

---

- Sales to tax exempt organizations and local or state governments **are** taxable unless specifically exempted by regulation. This is a tax on your business and you are not an exempt organization.



# Retail Sales: exemptions

---

- Sales to persons engaged in business classified under the restaurant classification of articles used for food, drink, or condiment.



# Retail Sales: exemptions

---



- Sales of tangible personal property to a qualifying hospital, qualifying community health center or a qualifying health care organization.

# Retail Sales: exemptions

---

- Items purchased with United States department of agriculture food stamps.



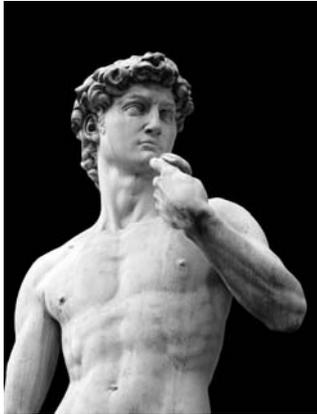
# Note

---

- Food for home consumption ***is*** taxable in Prescott
- The tax rate is 2%
- There is no State or County tax on food for home consumption
- Food for home consumption includes food purchased from vending machines not in a cafeteria

# Retail Sales: exemptions

---



- Paintings, sculptures, or similar works of fine art sold by the original artist when such art has single purpose. Dual purpose art (ie. pottery, glasswork, woodwork, jewelry, clothing, furniture, macramé, metalwork) are not exempt.

# Retail Sales: exemptions

---

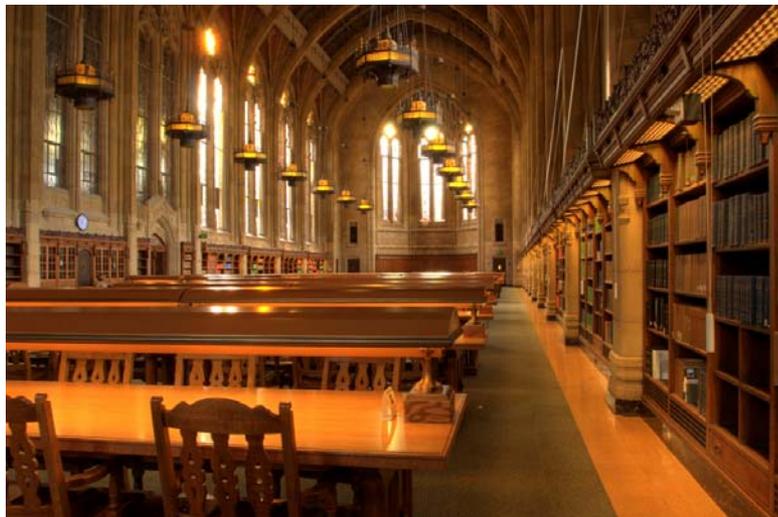
- Sales of aircraft acquired for use outside the State, as prescribed by Regulation.



# Retail Sales: exemptions

---

- Sales of materials that are purchased by or for publicly funded libraries including school district libraries, charter school libraries, community college libraries, state university libraries or federal, state, county or municipal libraries for use by the public as follows:
  - (1) Printed or photographic materials.
  - (2) Electronic or digital media materials.



# Retail Sales: exemptions

---

- Sales of food, beverages, condiments and accessories to a public educational entity for use during school hours.



# Retail Sales: exemptions

---



Food, beverages, condiments, and accessories (paper plates, plastic silverware, paper cups, napkins, etc.) sold to a nonprofit charitable organization that regularly serves meals to the needy and indigent on a continuing basis at no cost.

# Retail Sales: exemptions

---



- Sales of personal hygiene items to a person engaged in the business of and subject to tax as a Hotel/Motel if the tangible personal property is furnished without additional charge to and intended to be consumed by the person during their occupancy.

# Retail Sales: exemptions

---

- Freight out is tax exempt if for shipping only. If a charge of \$15 is on the bill for shipping **and** handling, then the \$15 is taxable.
- Freight in is always taxable.



# Retail Sales: exemptions

---



- Miscellaneous:
- Coupons – Store vs. Manufacturer
- Membership dues to a warehouse type club are taxable.
- Consigned goods are taxed to the actual seller of the goods.

# Break Time





# Arizona Form 5000

---

## Transaction Privilege Tax Exemption Certificate



# Arizona Department of Revenue

## Transaction Privilege Tax Exemption Certificate

**ARIZONA FORM**

**5000**

This form replaces earlier forms: 5000, 5001, 5002.

This exemption Certificate is prescribed by the Department of Revenue pursuant to ARS § 42-5009. The purpose of the certificate is to document tax-exempt transactions with qualified purchasers. It is to be filled out completely by the purchaser and furnished to the vendor. The vendor shall retain this Certificate for single transactions or for specified periods as indicated below. Incomplete Certificates are not considered to be accepted in good faith. Only one form of exemption can be claimed on a certificate.

### Purchaser's Name and Address

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Vendor's Name \_\_\_\_\_

### Check Applicable Box:

- Single Transaction Certificate
- Period From: \_\_\_\_\_ Through: \_\_\_\_\_

*(You must choose specific dates for which certificate will be valid)*

### Choose one transaction type per Certificate

#### Transactions with a Business

*(Please check appropriate item from numbers 1 - 19)*

Arizona Transaction Privilege Tax License Number \_\_\_\_\_

SSN / EIN \_\_\_\_\_

Other Tax License Number \_\_\_\_\_

Tax number for another tax agency \_\_\_\_\_

If no license number, provide reason: \_\_\_\_\_

\_\_\_\_\_

Precise Nature of Purchaser's Business

\_\_\_\_\_

#### Transactions with Native Americans & Native American Businesses

*(Please check item number 24 or 24a)*

Tribal Business License # \_\_\_\_\_

OR

Tribal ID# \_\_\_\_\_

Name of Tribe \_\_\_\_\_

#### Transactions with a Government entity or certain Health Care Institutions

*(Please check appropriate item from numbers 1 - 23)*

#### Transactions with nonresidents

*(Please check appropriate item from numbers 25 - 26)*

State of residence \_\_\_\_\_

Driver's License# \_\_\_\_\_

Driver's License State \_\_\_\_\_

SSN/ID \_\_\_\_\_

30 day Drive out permit # \_\_\_\_\_

**Reason for Exemption - check as applicable**

- 1. Tangible personal property to be resold in the ordinary course of business.
- 2. Tangible personal property to be leased or rented in the ordinary course of business.
- 3. Tangible personal property to be incorporated into a taxable contracting project.
- 4. Food, drink, or condiments purchased by a restaurant business.
- 5. Motor vehicle fuel and use fuel subject to tax under ARS § 28-5606 or 5708.
- 6. Use fuel to a holder of a valid single trip use fuel tax permit issued under ARS § 28-5739.
- 7. Aviation fuel subject to the tax imposed under ARS § 28-8344.
- 8. Pipes or valves four inches in diameter or greater to be used for transportation of oil, natural gas, artificial gas, water or coal slurry.
- 9. Neat animals, horses, asses, sheep, ratites, swine or goats used as breeding or production stock (including ownership shares in such animals).
- 10. Aircraft, navigational and communication instruments and related accessories sold or leased to:
  - Airlines holding a federal certificate of public convenience and necessity; or  Airlines holding a foreign air carrier permit for air transportation; or
  - Any foreign government or nonresidents of Arizona who will not use such property in Arizona other than in removing such property from this state.
- 11. Railroad rolling stock, rails, ties and signal control equipment used directly to transport persons or property for hire.
- 12. Buses or urban mass transit vehicles used directly to transport persons or property for hire or pursuant to a government mass transit program.
- 13. Central office switching equipment, switchboards, private branch exchange equipment, microwave radio equipment and carrier.  
Equipment including optical fiber, coaxial cable and other transmission media which are components of carrier systems sold or leased to persons engaged in the telecommunications business.
- 14. New machinery and equipment, used for commercial production of agricultural, horticultural, viticultural and floricultural crops and products in this state, consisting of tractors, tractor-drawn implements, self-powered implements, drip irrigation lines, and machinery and equipment necessary for extracting milk and for cooling milk and livestock.
- 15. Machinery, equipment or transmission lines used directly in producing or transmitting electrical power, but not including distribution.

(OVER)

25. Sales of tangible personal property to nonresidents of Arizona who are temporarily within Arizona, for their use outside of Arizona, when the vendor ships the property out of Arizona by common carrier or United States mail or delivers such property out of Arizona via the vendor's own conveyance.  
**NOTE:** The vendor shall retain adequate documentation substantiating the shipment of the property out of Arizona.
26. Sale of a motor vehicle (vehicle must be self-propelled) to a nonresident of Arizona whose state of residence does not allow a use tax exemption for transaction privilege taxes paid to Arizona and who has secured a special 30-day nonresident registration for the vehicle (please see Arizona Form 5010).

Describe the tangible personal property or service purchased or leased and its use below. (Use additional pages if needed)

### Certification

**A vendor that has reason to believe that the certificate is not accurate or complete will not be relieved of the burden of proving entitlement to the exemption. A vendor that accepts a certificate in good faith will be relieved of the burden of proof and the purchaser may be required to establish the accuracy of the claimed exemption. If the purchaser cannot establish the accuracy and completeness of the information provided in the certificate, the purchaser is liable for an amount equal to the transaction privilege tax, penalty and interest which the vendor would have been required to pay if the vendor had not accepted the certificate. Misuse of this Certificate will subject the purchaser to payment of the ARS § 42-5009 amount equal to any tax, penalty or interest. Willful misuse of this Certificate will subject the purchaser to criminal penalties of a felony pursuant to ARS § 42-1127.B.2.**

I, (print full name) \_\_\_\_\_, hereby certify that these transactions are exempt from Arizona transaction privilege tax and that the information on this Certificate is true, accurate and complete. Further, if purchasing or leasing as an agent or officer, I certify that I am authorized to execute this Certificate on behalf of the purchaser named above.

Signature of purchaser \_\_\_\_\_ Date \_\_\_\_\_

Title \_\_\_\_\_

# Retail vs. Construction

---

**Distinction between  
construction contracting  
and certain related  
activities**



# Retail vs. Construction

---

Certain rentals, leases, and licenses for use in connection with construction contracting.

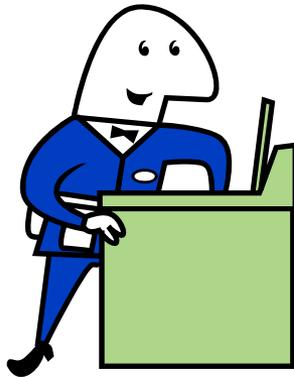
Rental, leasing, or licensing of earthmoving equipment with an operator shall be deemed construction contracting activity. Rental, leasing, or licensing of any other tangible personal property (with or without an operator) or of earthmoving equipment without an operator shall be deemed rental, leasing, or licensing of tangible personal property.



# Retail vs. Construction

---

- ❑ Distinction between construction contracting, retail, and certain direct customer service activities.



# Retail vs. Construction

---

- ❑ When an item is attached or installed on real property, it is a construction contracting activity and any subsequent repair, removal, or replacement of that item is construction contracting.



# Retail vs. Construction

---

- ❑ Items attached or installed on tangible personal property are retail sales.



# Retail vs. Construction

---



- ❑ Transactions where no tangible personal property is attached or installed are considered direct customer service activities (for example: carpet cleaning, lawn mowing, landscaping maintenance).

# Retail vs. Construction

---

- ❑ Sale of consumable goods incorporated into or applied to real property is considered a retail sale and not construction contracting. Examples of consumable goods are lubricants, faucet washers, and air conditioning coolant, but not paint.

# Retail vs. Construction

---

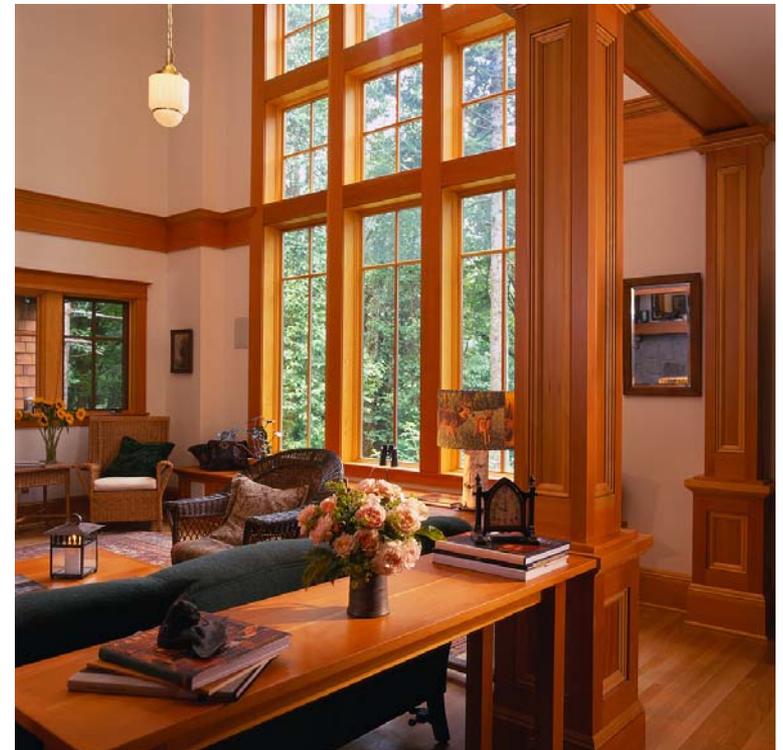
- ❑ Examples of tangible personal property which does not have independent functional utility include wall-to-wall carpeting, flooring, wallpaper, kitchen cabinets, or "built-in" dishwashers or ranges.



# Retail vs. Construction

---

- ❑ The installation of window coverings (drapes, mini-blinds, etc.) is always a retail activity.



# Reporting Non-Program City Transaction Privilege Tax

---

- ❑ **Retail activity is taxable where the business is located**
- ❑ **Gross receipts are reported and tax is paid to the city in which the business is located**
- ❑ **A “temporary business location” may be established if you participate in a trade or craft show**



# Multiple Business Classes

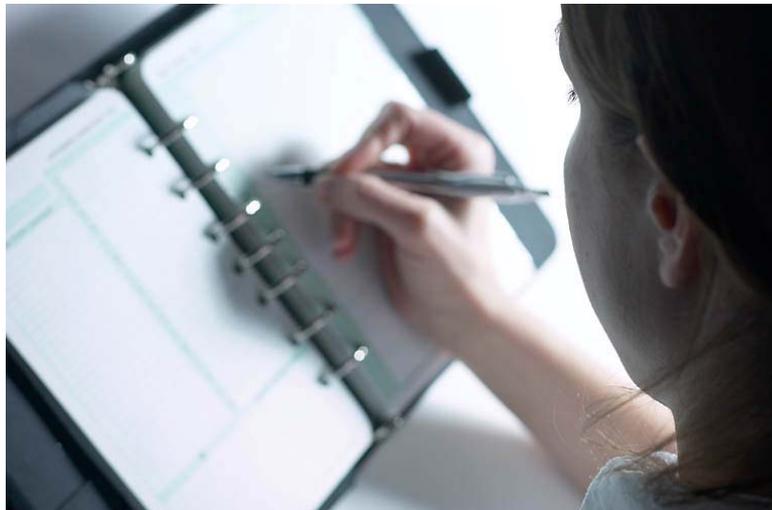
---

**It is possible for a business to have several different activities that they have to report tax for. It is important for the business to report the amount of gross receipts from each business class under the appropriate business class code, and take only valid deductions for that business class.**

# When to File

---

- Taxes shall be due and payable on or before the twentieth (20<sup>th</sup>) day of the month following the month in which the tax accrued.
- Interest and civil penalties will be assessed on returns received after the last business day of the month.
- Date received is not determined by postmark date.



# Filing Frequency

---



- Monthly - \$50,000 and up
- Quarterly - \$5,000.01 to \$49,999.99
- Annually – \$5,000.00 or less
- You can always request a more frequent filing frequency
- Less frequent filing frequencies must be requested in writing after six (6) months of reporting history

# Interest & Civil Penalties

---

- Failure to Pay- 10% of tax due
- Failure to File- 5% of tax due per month
- Can not exceed a total of 25%
- Interest accrues monthly with no cap





# Tax Collected or Factored

---

- The most common deduction is the deduction for tax itself.
- The gross receipts reported on the return should include whatever tax you have collected or factored.
- You should deduct this tax amount to avoid calculating tax on an amount that already includes tax.



# The Deduction for Taxes

---

- You are allowed to deduct state, county and city taxes included in your gross amount.
- Report the taxes collected or factored on the return.



## Collected Tax Example

---

A Prescott retail business had gross receipts of \$1,500 which **does not include** the taxes. \$500.00 of the gross receipts were sales for resale, and \$200.00 of the gross receipts were amounts charged to customers for labor. The combined tax rate for Prescott is 9.35% (7.35% + 2%).

# Collected Tax Example

---

$$\$1,500 - (\$500 + \$200) = \$800$$

$$\$800 \text{ multiplied by } .0935 = \$74.80$$

$$\$800.00 + \$74.80 = \$874.80$$

\$74.80 is the total amount of tax due

TPT Report information:

Gross	\$1,574.80
-------	------------

Deduction	\$774.80
-----------	----------

Net Taxable	\$800.00
-------------	----------



# Tax Factoring

---

- If you did not separately charge and collect transaction privilege tax you are allowed to assume the tax collected as part of the gross sale.
- Factoring is only appropriate when the taxes were not separately stated on the invoice.

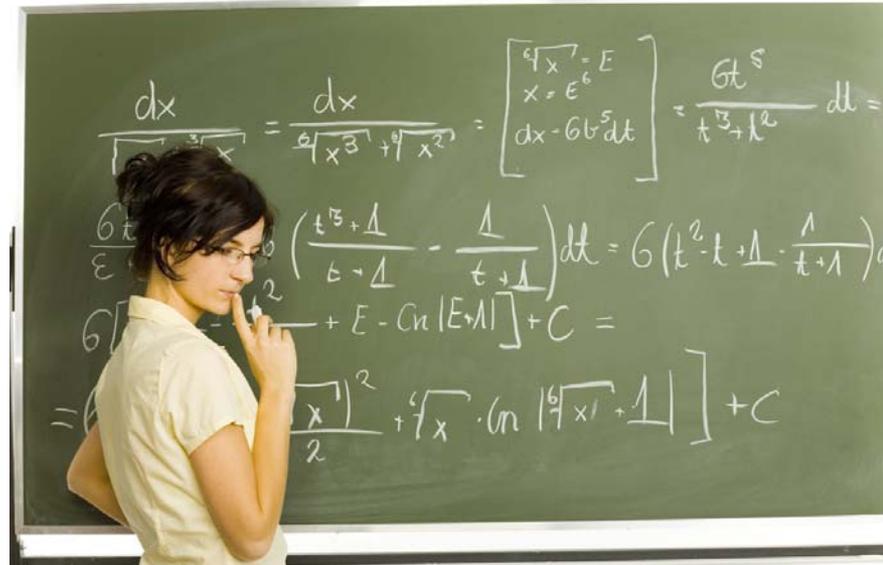
# Factoring Tax

---

**Prescott's Factored Tax Rate for  
Retail is  
0.085505**



# How to Factor Tax



- Tax rate / (1 + Tax Rate)
- .0935 / (1 + .0935)
- .0935 / 1.0935
- .085505

# Factoring Tax Example

---

- Mary owns a retail store. Her sales for the month were \$15,000 including tax.
- Of the \$15,000 in sales \$5,000 was sold to a legitimate out of state customer.
- Factor the tax and compute the Prescott tax due.

# Factoring Tax Example

---

- Gross Sales \$15,000.00
- Deductions \$5,000.00
- Total Net Receipts \$10,000.00
- Tax Factor Deduction
  - $0.0935 / 1.0935 \times \$10,000.00 =$
  - $.085505 \times \$10,000.00 = \$855.05$
  - \$855.05 = Factored Tax Deduction
    - Net taxable receipts ( $\$10,000 - \$855.05$ ) = \$9,144.95
    - Prescott tax =  $\$9,144.95 \times 2\% = \$182.90$

# Use Tax



# Use Tax

---



**Purchase of tangible personal property from a retailer out of state when no tax, or a lesser amount of tax, is paid on the purchase at the point of sale.**

# Use Tax

---

**Removal of tangible personal property from your inventory, on which no tax was paid at the time of purchase, for your own use or use in your business.**



# Use Tax Rates

---

The City of Prescott use tax rate is 2% times cost of tangible personal property.

ADOR also has a use tax. Their rate is 6.6%.



# Questions ?

---



**Please complete the  
evaluation handout**

---



**Thank You**