COMMERCIAL LEASE

YOU OWE TAX ON COMMERCIAL REAL PROPERTY RENTALS IF:

A taxpayer is in the commercial lease business and considered taxable if you are in the business of leasing, licensing, or renting non-residential real property located in the City of Prescott. Examples of taxable facilities include:
- office buildings
- churches
- stores
- factories
- vacant land
- parking and storage facilities
- banquet halls
- meeting rooms
- parking lots
- booth rental

AS A COMMERCIAL LANDLORD, WHAT ARE MY RESPONSIBILITIES?

As a landlord for commercial properties in the City of Prescott, you must obtain a Transaction Privilege Tax License.

Transaction Privilege Tax License: 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. You can apply, report, and pay taxes online at www.aztaxes.gov. Each rental location must be added separately to your license and reported on separate lines of the report. When you apply, choose “TPT for Cities Only” and you will only be charged a $5.00 one-time fee for each location.

HOW IS THE TRANSACTION PRIVILEGE TAX CALCULATED?

The tax rate is 2.75% 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 2.75% = $27.50 tax). Tenant pays $1,027.50.

<table>
<thead>
<tr>
<th>Gross</th>
<th>Deduction</th>
<th>Taxable</th>
<th>Tax Due</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,027.50</td>
<td>$27.50</td>
<td>$1,000</td>
<td>$27.50</td>
</tr>
</tbody>
</table>

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 ÷ 1.0275 = $973.24 rent x .0275 = $26.76 tax.

<table>
<thead>
<tr>
<th>Gross</th>
<th>Deduction</th>
<th>Taxable</th>
<th>Tax Due</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,000</td>
<td>$26.76</td>
<td>$973.24</td>
<td>$26.76</td>
</tr>
</tbody>
</table>

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 code for commercial rental is 213.

SPECIAL TAX 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 laundry rooms on the property are taxable.

3. Security Deposits: Security deposits, cleaning deposits, pet fee deposits, etc. are taxable in the month they are forfeited by the tenant.
4. **Renting to Governments**: Income from the rental of property to the U.S. government, the State of Arizona and all other government subdivisions is fully taxable.

5. **Related Entities**: Commercial lease arrangements between businesses that are owned by at least 80% of the same shareholders are exempt from the tax.

6. **Health Care 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.

For more information on Commercial Lease Transaction privilege tax (TPT), special situations, and exemptions:

**Contact:**

**Arizona Department of Revenue**
1-800-352-4090
1-602-255-3381

[www.azdor.gov](http://www.azdor.gov)
[www.AZTaxes.gov](http://www.AZTaxes.gov)

**Finance Department**
**Tax & Licensing Division**

201 S. Cortez Street
P O Box 2077
Prescott, AZ 86302

Phone: (928) 777-1268
Fax: (928) 777-1255
Email: salestax@prescott-az.gov

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. To view a complete copy of the tax code, please go to: [http://www.prescott-az.gov/](http://www.prescott-az.gov/)

September 2019