

Commercial Rental

WHO MUST PAY THE TAX

You must be licensed and pay tax if you lease, license for-use or rent commercial real property located within the City of Tempe to a non-related party. The entity leasing or renting to the tenant in actual possession is responsible for the tax.

Examples include: office buildings, stores, warehouses, factories, churches, vacant land, parking lots, banquet halls, meeting rooms, and storage facilities (e.g. ministorage).

RELATED PARTIES

Effective July 1, 2013, income derived from commercial leases between affiliated parties is exempt from the transaction privilege tax. To qualify for the exemption, the lessor must own 80% of the lessee, or the lessee must own 80% of the lessor, or 80% of both the lessor and lessee must be owned by a third party.

If you have any questions concerning this exemption, please call the Tax & License office at 480-350-8656. To claim the exemption, complete the Commercial Rental Claim for Exemption form found at www.tempe.gov/salestax/forms and submit it to the Tax & License office at the address listed above.

LICENSE REQUIREMENTS

Owners of commercial rental properties are required to obtain and maintain a privilege (sales) tax license. The license must be maintained in the exact name of the legal owner of the property. Any changes in legal ownership require a new license within 30 days of the change.

HOW TO LICENSE

Effective January 1, 2017 the Arizona Department of Revenue will administer and collect taxes for all cities in the State. This includes all taxable commercial rental properties in the City of Tempe.

To become licensed with the Arizona Department of Revenue, file the Arizona Joint Tax Application (JT-1) that is available on either the City of Tempe web page or the Arizona Department of Revenue web page at AZDOR.GOV. There is also an online option that can be used by to apply and pay the Arizona Department of Revenue.

The online option can be used by registering first at AZTAXES.GOV. Once a user ID has been created a secure password will be sent from DOR and the application form can be completed.

FEES

The City of Tempe fee is \$50.00 for each individual rental property location.

WHAT IS TAXABLE

All amounts paid by the renter to, or on behalf of, the owner are taxable. In addition to rent, taxable income includes payments by the tenant for:

- Common area maintenance (CAM)
- Telecommunications (cable TV, phone, internet)
- Non-refundable deposits
- Forfeited deposits
- Utilities (not separately metered)
- Landscape maintenance
- Association fees
- Late fees, court fees and legal fees
- Repairs and/or tenant improvements
- Property taxes

Rentals to non-profit organizations and government agencies are taxable.

DEDUCTIONS FROM INCOME

The Tempe privilege tax is calculated on gross receipts. It is not a tax on your net income. Expenses are not deductible. The following items may be taken as a deduction on your tax return when they are included in the gross reported receipts:

- City privilege and County excise tax collected or factored
- Bad debts on which tax was paid on a previous return
- Refundable security deposits, unless they are retained
- Utility charges, only if individual utility meters have been installed and each tenant pays the exact amount billed by the utility company

The following expenses paid by the owner or tenant are **NOT** allowable deductions:

- Repairs, landscape maintenance or other service labor
- Common area maintenance fees
- Property taxes

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LICENSING FOR USE

When an agreement is made to provide commercial space without the full rights of a lessee, it is considered licensing-for-use of real property and is taxable. For example, commissions received for licensing space for vending machines, games or pay phones are considered to be licensing-for-use of real property and are taxable.

SUBLEASING

Income from subletting of property is taxable. For example, a retailer who leases a building and then sublets a portion of the space to another retailer for the right to occupy a section of the premises is subject to tax on the income from the sublease.

CALCULATING THE FACTORED TAX DEDUCTION

If you include tax in your rent (no separate charge for tax), you may compute the amount of tax included in your gross income for deduction purposes in the following manner:

Example:

Gross	*	Factor Rate	=	Factored Tax Deduction
\$1,000	*	.02248	=	\$22.48

WHAT IS THE TAX RATE

The City's tax rate is 1.8%

FOR ADDITIONAL INFORMATION

Call: (480) 350-2955

Web Page: www.tempe.gov/salestax

Email: rent@tempe.gov

Location: City of Tempe

Tax & License Division

20 E. 6th Street, 3rd Floor

Tempe, AZ 85281

Hours: Monday – Friday 8 a.m. – 5 p.m.

This publication is for general information only. Please refer to the City of Tempe Code for complete information