CITY OF FLAGSTAFF TRANSACTION PRIVILEGE (SALES) TAX



RETAIL SALES

This publication is for general information about the City of Flagstaff Transaction Privilege (Sales) Tax on retail sales. The City's Transaction Privilege Tax is commonly referred to as a sales tax; however, the tax is on the privilege of doing business in Flagstaff and is not a true sales tax. For complete details, refer to the City of Flagstaff City Code. In case of

inconsistency or omission in this publication, the language of the Flagstaff City Code will prevail.

YOU OWE RETAIL SALES TAX IF:

You are in the business of selling items to someone who plans to use the items and not rent or resell them (see Special Situation #1).

WHO PAYS RETAIL SALES TAX?

In Flagstaff, the seller owes the sales tax to the City. This is true whether or not the seller adds sales tax to the price of the item sold.

TAX RATE ON RETAIL SALES

The city tax rate is 1.721%. The total tax rate when combined with the County and State tax rates is 8.446%.

City of Flagstaff Privilege (Sales) Tax	1.721%
State	5.600%
County	1.125%
Total Tax Rate for most categories	8.446%

HOW DO I PAY RETAIL SALES TAX?

First, apply for a Transaction Privilege (Sales) Tax license from the City of Flagstaff licensing department. Applications are available online (http://www.flagstaff.az.gov/index.aspx?NID=47) or by calling (928) 213-2250. Then, report and pay sales tax to the City with the sales tax return provided by the licensing department. Taxpayers pay tax monthly, quarterly or annually based upon the annual taxable income estimated by the taxpayer.

Income from retail activities is reported under Tax Type 17 on the City sales tax return.

WHERE DOES THE SALE OCCUR?

In general, the sale occurs at the location of the seller.

SPECIAL SITUATIONS

1. <u>Sales for Resale:</u>

When you sell an item to someone who plans to rent or resell it, you do not owe tax on that sale. But you must have clear and complete records of these sales or you will be taxed as if all of your sales were taxable. Your records must separately show figures for retail sales and sales for resale. For each sale for resale, you must record the property sold, the buyer's name and address, the buyer's sales tax license number and a signed statement by the buyer stating that the goods will be resold in the ordinary course

of business. Wholesale suppliers making recurring sales to the same customer, for resale, may accept a blanket "resale certificate." To receive a resale certificate call (928) 213-2250.

2. <u>Services:</u>

If you operate a service business, income from that business is generally exempt from retail sales tax. However, this is true only if sales of tangible items are an incidental part of your business. If you regularly make sales of tangible items to your customers and/or maintain an inventory of tangible items available for sale to customers, you are engaged in retail business and are liable for tax on those sales. Examples of service businesses include doctors, attorneys and engineers.

3. Casual Sales:

If you occasionally sell an item, but you are not really in the business of selling those items, you've made a "casual" sale. In most cases, casual sales are not taxable. For example, if you have an annual yard sale, you do not owe tax on those sales. If you run an accounting business and occasionally sell a client a reference book, you do not owe tax on those sales. If, however, you regularly sell items at swap meets, craft fairs, etc., you owe sales tax and must obtain a license, even if you consider your sales to be a "hobby."

4. <u>Factored Sales Tax:</u>

You may choose to include sales tax in the price of an item, rather than show the tax separately. If so, you can use factoring to "back into" the tax included in your gross sales.

Gross Income Divided by 1.01721 = Taxable Income

(Including Tax) (1 plus the Tax Rate) (Excluding Sales Tax)

For example, if your gross income from retail totals \$100, tax included, and the tax is 1.08446%, your tax calculation is:

Gross income, including sales tax, of \$100 divided by 1.08446 = Taxable Income \$92.21

\$100 - \$92.21 = \$7.79 Sales tax collected, which should be reported as Deduction #64 on the City sales tax return.

If you choose to separately bill and collect the sales tax, you must remit the total amount collected. In some months, the tax collected may exceed the actual tax liability. Any excess tax that is collected must be remitted to the State, County, and City proportionately.

5. Trade-ins:

If you take a trade-in for partial payment on an item, you owe sales tax on the difference between the original selling price and the trade-in amount.

6. <u>Installation Labor Charges:</u>

When you charge for installation labor on items not becoming permanently attached to real property, you do not have to pay tax on the labor charges if you clearly show charges for labor separately on customer invoices and in your records. Otherwise, you will owe tax on all charges where labor and parts are combined.

7. <u>Bad Debts:</u>

A deduction for a bad debt generally applies only to accrual basis reporting. Income must have been reported in an earlier period <u>and</u> it must have been reported as taxable.

9. Freight:

Freight-in from the manufacturer or wholesaler to the retailer is considered a cost of doing business and therefore, cannot be deducted. Freight charged by the retailer to deliver goods to the customer (freight-out) can be deducted if the charge is separately listed on the customer invoice.

10. <u>Common Exemptions:</u>

- a. Items sold for resale.
- b. Items sold through a casual sale.
- c. Food sold by qualified retailers for home consumption. "Food" includes any item, which you can buy with either food stamps or food instruments issued under the Child Nutrition Act. Exempt food also includes ice and dry ice, but does not include hot prepared food or sandwiches or drinks served in an open container.
- d. Food sold to restaurants when that food is later provided free by the restaurant to its employees while they're on the job.
- e. Food, condiments and related items sold to certain private and parochial schools for grades twelve and under, licensed day care and certified group care facilities, and facilities that provide regular care for persons who are unable to care for themselves, and certain nonprofit organizations that provide food for no charge or a nominal fee.
- f. Warranty and service contracts.
- g. Items sold to qualifying health care organizations, hospitals, and community health centers.
- h. Medically prescribed drugs, eyeglasses, contact lenses, hearing aids, hospital beds, wheelchairs, corrective hearing aids, hospital beds, wheelchairs, corrective shoes, crutches, braces for neck, arm, leg or back, and prosthetic appliances.
- i. Insulin and insulin syringes and certain hearing aids.
- j. Items sold to nonresidents for use outside Arizona when the order is placed from outside of Arizona and the vendor ships or delivers the items to a location outside Arizona.
- k. Arizona lottery tickets.
- 1. Stocks and bonds.
- m. Sales of certain machinery, equipment and related items used in manufacturing, processing, job printing, mining, by telephone and telegraph companies, for electric power production and transmission, pipeline, airlines, railroads, and by oil and gas industries. This includes repair and replacement parts. Sales to contractors of material to be incorporated into a building in fulfillment.

Sales to U.S. Governments:

Federal government is taxed at 50%. Sales to state, city, and county governments, including public school districts and universities, are not exempt from City tax.

Sales to Native Americans and Tribal Councils;

For the sale to be exempt solicitation and placement of the order must occur on the Reservation; and delivery must be made to the Reservation; and payment must originate from the Reservation.

BUSINESS LOCATION WITHIN THE CITY:

If your business is located within the <u>City limits of Flagstaff</u>, you need to collect and remit the City tax (1.721%) to Flagstaff, regardless of the location of the buyer, if sold to a buyer within the State of Arizona. In no instance would you be entitled to an out-of-City sales tax deduction.

BUSINESS LOCATION OUTSIDE THE CITY:

If your business is located <u>outside of Flagstaff City limits</u>, the city tax imposed by the city where the buyer is located must be collected. If the county in which the city is located charges a tax, then their tax must also be collected from the buyer and remitted with the state taxes.

If your business is located <u>outside of Flagstaff City limits</u>, and transfer of title and possession occur at your business, then the sale is exempt from City tax. However, if you mail or hand-deliver the item to a customer who resides within the City limits of Flagstaff, you must charge the City tax (1.721%) and remit it to Flagstaff.

Currently, there are twelve cities in Arizona, which collect their own sales tax. If your business is located <u>outside of Flagstaff City limits</u>, and the buyer is located in any of these twelve cities, you must collect state, county, and their city taxes, but remit only the state and county tax to the Arizona Department of Revenue. You will also be required to remit the city tax directly to that city. You would need to obtain a sales tax license from the city in which the buyer is located.

The Arizona Department of Revenue (ADOR) collects the taxes for all other cities (which are referred to as "program cities"). If your business is located outside the Flagstaff City limits, and the buyer is located in a program city, then you would charge that city's tax rate, and remit the tax to ADOR with the state/county tax. You would obtain a sales tax license for each city from ADOR. If you have sales in a city not printed on the state return, list the city name, the applicable code for the city where the sale occurred, and its tax rate. Enter the gross amount, deductions, taxable income, and tax due on each line.

FOR ADDITIONAL INFORMATION CALL:

OR WRITE:

(928) 213-2250

City of Flagstaff Tax, Licensing & Revenue Division 211 W. Aspen Avenue Flagstaff, AZ 86001