



CITY OF FLAGSTAFF TRANSACTION PRIVILEGE (SALES) TAX

TANGIBLE PERSONAL PROPERTY RENTALS

This publication is for general information about the City of Flagstaff Transaction Privilege (Sales) Tax on personal property rentals. 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.

WHO PAYS PERSONAL PROPERTY RENTAL TAX?

You owe transaction privilege (sales) tax on personal property rentals if you are in the business of renting tangible personal property to others.

Examples of taxable rentals include:

- Office equipment
- Construction equipment
- Data processing equipment
- Restaurant equipment
- Gardening equipment
- Machines
- Appliances
- Televisions, radios, VCRs, DVDs
- Floor polishers
- Tuxedos and other clothing
- Linens and towels
- Canned computer software
- Videotapes, movies, etc., for personal use

TAX RATE ON PERSONAL PROPERTY RENTALS EFFECTIVE JUNE 1, 2013:

City of Flagstaff.....	1.721%
State.....	5.600%
County.....	<u>1.125%</u>
Total Tax Rate of Personal Property Rentals.....	8.446%

PROCEDURE FOR SALES TAX PAYMENT

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.

REPORTING SALES ON THE SALES TAX RETURN

Report income from personal property rentals under Tax Type 14 on the City sales tax return.

TO WHICH CITY IS THE TAX PAID?

It is important that your rental sales be reported in the correct city. Rentals of personal property are unique in that the business renting the equipment is often in one city and the equipment and lessee are in another city. The following are guidelines for specific types of transactions.

1. If an item is “semi-permanently or permanently installed” the tax shall be paid to the city in which the installed item(s) are located.

The term “semi-permanently or permanently installed” means that the item of tangible personal property has, and is expected to have at the time of installation, a permanent location at the site installed, as under a long-term lease agreement, except that the person using or applying said property may eventually replace it because it has become worn out or has become obsolete or the person ceases to have the right to possession of said property.

Examples of “semi-permanently installed” items:

- Computers
- Duplicating machines
- Furniture not of a portable design
- Major appliances
- Store fixtures

Also, if installation of an item requires alterations to the premises, it is considered to be permanently installed.

If, under the terms of a rental agreement, an item remains located within the same city or town for more than 180 consecutive days, it shall be considered to be permanently installed.

2. An item that is not semi-permanently installed shall be subject to the sales tax in the city in which the business office of the lessor is located. This also applies to mobile transportation equipment and tangible personal property designed for regular use at different locations.

Examples of such items include:

- Mobile crane
- Trencher
- Automobile
- Camping equipment
- Construction contracting equipment
- Household items
- Trucks or trailers

3. Rental of earthmoving equipment **with** an operator, such as a backhoe or bulldozer, is classified as construction contracting and is taxable to the city in which the construction contracting activity occurs.
4. Rental of earthmoving equipment **without** an operator, or any other equipment with or without an operator, is deemed rental of tangible personal property and the tax is paid to the city in which the rental company office is located. The charge for the operator is not included in the taxable gross income if such charge is separately itemized to the lessee and separately maintained on the books and records of the lessor.
5. The hiring of mobile equipment (cranes, airplanes, limousines, etc.) is considered rental of tangible personal property whenever the charge is for a fixed sum or an hourly rate.
6. The activity of a common carrier conveying goods or persons for a fee based upon distance, and not time, is considered transporting for hire.
7. Automobile leases for a minimum period of 24 months are taxable at the location of the dealership from which the car was leased.

EXAMPLE: A Sedona resident leases an automobile from a dealership in Flagstaff and the monthly payments are made to a bank in Sedona. The bank in Sedona would collect the sales tax with the monthly payments but the tax would be remitted to Flagstaff because the dealership is located in Flagstaff

FACTORING AND COLLECTING SALES TAX

Factoring the Tax

You are allowed to include sales tax in the amount of rent charged, rather than show the tax separately. If you choose to do so, use factoring to “back into” the tax included in your gross sales. To factor the sales tax divide the gross income by 1 plus the combined tax rates. For rentals of tangible personal property the total tax rate is 8.446%, thus the gross income is divided by 1.08446. The result will be taxable income excluding sales tax. The difference between gross income and taxable income is sales tax collected.

Gross Income	Divided by 1.08446	=	Taxable Income
(Including tax)	(1 plus the tax rate)		(Excluding sales tax)

For example, if you rent an item for \$100, tax included, and the tax rate is 8.446%, your tax calculation is:

Gross income, including sales tax, of \$100 divided by 1.08446 = Taxable income of \$92.21
 \$100.00 - \$92.21 = \$7.79 sales tax collected.

Collecting the Tax

If you choose to separately bill and collect the sales tax, you must remit the total amount collected even if it exceeds the calculated tax liability. The excess tax collected must be remitted proportionately to the city, county and state as excess collections.

SPECIAL SITUATIONS

1. **Buying Items to Rent to Others**

If you're in the rental business, you don't owe sales tax on items you buy to rent to others. These sales are considered sales for resale and are exempt.

2. **Purchase of Repair and Replacement Parts**

The purchases of such items that are incorporated into rental equipment are not subject to sales tax.

3. **Charges Added to Rent**

Charges for items such as insurance, fuel, mileage, collision damage waiver and maintenance are taxable as part of your rental income. This is true even though the charges may be billed separately from the rental charge. However, if the business renting the property is also acting as an agent for an insurance company, then any insurance premiums collected are not taxed under sales tax.

4. **Rent for Re-Rent**

If you rent items to someone who re-rents the items to the ultimate consumer, the rental income, which you receive, is not taxable. To claim this exemption the lessor must obtain from the lessee a resale certificate, signed by and bearing the name and address of the lessee, stating that property was rented for re-rent in the ordinary course of business with the state and city sales tax license numbers listed.

5. **Rentals of Bedding and Linens to Hotels**

The rental of items such as bedding and linens to hotels/motels for use in their business of providing lodging or other room facilities is not considered rent for re-rent and is subject to the sales tax.

6. **Renting to Contractors or Non-profit Organizations**

Rentals of equipment to contractors and most non-profit organizations **are** subject to tax. (See exemptions)

7. **Lease-Purchases**

The rental income from leasing an item that has a purchase option is taxed under personal property rentals until the item is purchased. Income from the eventual sale of the item is then taxed as a retail sale.

EXEMPTIONS

1. Rental of tangible personal property to persons engaged in the business of renting such property.
2. Rental of tangible personal property that is semi-permanently or permanently installed within another city or town that levies an equivalent excise tax on the transaction.
3. Rental of films, tapes and slides by theaters, television stations and radio stations.
Note: The rental of videotapes to individuals for their own use is taxable. Related membership fees in video clubs and late charges are also included in rental income

and subject to tax.

4. The rental of prosthetics, income producing capital equipment, mining and metallurgical supplies.
5. Rental of tangible personal property to any non-profit primary health care facility
6. Separately billed charges for delivery, installation, repair, and/or maintenance.
7. The gross income from coin-operated washing, drying, and dry cleaning machines, or from coin-operated car washing machines. The exemption does not apply to distributors renting such equipment to persons engaged in these businesses.

FOR ADDITIONAL INFORMATION CALL:

(928) 213-2250

OR WRITE:

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