



CITY OF FLAGSTAFF TRANSACTION PRIVILEGE (SALES) TAX

ADVERTISING

This publication is for general information about the City of Flagstaff Transaction Privilege (Sales) Tax on advertising. 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. 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 THE ADVERTISING SALES TAX?

You owe sales tax on advertising income if you sell local advertising to a business. National advertising is not subject to City sales tax.

TAX RATE ON LOCAL ADVERTISING EFFECTIVE JUNE 1, 2013:

City of Flagstaff.....	1.721%
State.....	0.000 %
County.....	<u>0.000 %</u>
Total Tax Rate on Local Advertising.....	1.721%

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

Income from advertising activities is reported under Tax Type 18 on the City sales tax return.

FACTORING AND COLLECTING SALES TAX

Whether you charge the tax separately or factor the tax into the sales price, sales tax should be included in the gross income reported on the sales tax return. Deduction #64 may then be reported on the return of the city, county and state sales tax included in the gross income figure.

1. Factoring the Tax

You are allowed to include sales tax in the amount 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 advertising the total tax rate is 1.721%, thus the gross income is divided by 1.01721. The result will be taxable income excluding sales tax. The difference between gross income and taxable income is sales

tax collected.

Gross Income (Including Tax)	Divided by 1.01721 (1 plus the Tax Rate)	=	Taxable Income (Excluding Sales Tax)
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For example, if your gross income from advertising totals \$100, tax included, and the tax is 1.0721%, your tax calculation is:

Gross income, including sales tax, of \$100 divided by 1.01721 = Taxable Income \$98.31

\$100 - \$98.31 = \$1.69 Sales tax collected, which should be reported as Deduction #64 on the City sales tax return.

2. 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 to the City as excess collections.

WHAT CONSTITUTES TAXABLE LOCAL ADVERTISING?

Local advertising is defined as **all** advertising **except** the following:

1. The advertising of a product which is sold, or service which is provided, both within and without the State by **more** than one commonly designated business entity, located within the State. In addition, the advertisement names either **no** commonly designated business entity within the State or **more than one** commonly designated business entity.

Commonly Designated Business Entity means any person selling or providing any product or service to its customers under a common business name or style. There may be more than one legal entity conducting business functions using the same or substantially the same business name or style by virtue of a franchise, license, or similar agreement.

Example: An ad is taxable if it names **only one** commonly designated business entity. In advertisements, McDonalds offers two hamburgers for the price of one.

- A. The advertisement states: "See your local McDonalds for this special." This is taxable because one commonly designated business entity, "McDonalds," is named.
- B. The advertisement states: "See the McDonalds at 100 S Milton." This is also taxable because McDonalds is still one commonly designated business entity.
- C. The advertisement states: "See the McDonalds at 100 S Milton or 4000 N Highway 89." Even though two McDonalds locations are mentioned, McDonalds is still one commonly designated business entity and therefore this advertisement is taxable.

Example: An ad is exempt from City tax if none or more than one commonly designated business entity is mentioned. In the advertisements Coca-Cola is on sale for half price.

A. The advertisement states: "Buy Coca-Cola for half price at Safeway and Smith's." This is exempt because Safeway and Smith's are each commonly designated business entities. Since more than one common business entity is mentioned the ad is exempt.

B. The advertisement states: "Buy Coca-Cola for half price at your local grocer." This is exempt because the advertisement does not mention any common business entity. Coca-Cola is the product.

2. The advertising of a facility, service, or activity in which neither the facility nor the business site carrying on such service or activity is located within the State.

Example: An ad in the Arizona Daily Sun newspaper for a resort in Las Vegas is not subject to tax.

3. The advertising of a product which may only be purchased from an out-of-State supplier.

Example: An ad in a catalog to purchase an item through mail order from an out-of-State business is not subject to tax.

4. Political advertising for U S Presidential and Vice-Presidential candidates only.

Example: Ads for the US Presidential campaigns are not subject to tax. Ads for US Senators and Representatives, Governor, state, county and city positions are taxable.

5. Advertising by means of product purchase coupons redeemable at any retail establishment carrying such product. Product coupons redeemable only at a single commonly designated business entity are taxable.

Example: Coupons for Nike shoes in which the coupons are redeemable at any store that sells Nike. The charge for the coupons is exempt from sales tax because the coupons can be used at any stores that sell Nike.

Example: Coupons for Nike shoes in which the coupons are redeemable only at Tissaw's Sports Center. The charges for these coupons are subject to tax because the coupons are redeemable at only one commonly designated business entity.

6. Advertising of transportation services where a substantial portion of the transportation activity involves interstate or foreign carriage.

Example: Ads for America West Airlines would be exempt because most of their business involves interstate transportation.

FOR ADDITIONAL INFORMATION CALL:

(928) 213-2250

OR WRITE:

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