



Retail Sales

CITY OF PHOENIX TRANSACTION PRIVILEGE (SALES) AND USE TAX

WHO MUST PAY THE TAX?

You must be licensed and pay tax if you are in the business of selling items (tangible personal property) to someone who plans to use the items and not rent or resell them. The seller owes the tax to the city of Phoenix whether or not the seller added the tax to the price of the item sold.

WHAT IS THE CITY TAX RATE?

The City's two-level tax rate structure is 2.3% for Level 1 and 2% for Level 2; the combined rate (including State & County taxes) is 8.6% for Level 1 and 8.3% for Level 2.

WHEN IS TAX DUE?

Your tax return and payment are due on the 20th day of the month following the reporting period.

WHICH CITY IS OWED THE TAX?

The Retail Sales tax liability is based upon the seller's location, NOT the location of the buyer. If your business location is within the corporate limits of the city of Phoenix, you must be licensed. Effective October 1, 2019, remote sellers and marketplace facilitators are required to collect and remit tax on the retail sales from transactions in Arizona. For more information, visit the Arizona Department of Revenue website at <https://azdor.gov/transaction-privilege-tax/retail-sales-subject-tpt/out-state-sellers>.

WHAT IS TAXABLE?

Generally, all sales of tangible personal property are taxable. Examples include the following items:

- sales to churches, schools, clubs, nonprofit organizations, and governmental agencies
- sales to federally chartered banks
- sales of consigned goods or by auctioneers
- sales of tools and equipment to contractors
- sales of furnishings and appliances to apartments
- sales of model home furnishings to builders

For further information, call the phone number or write to the address listed below.

DEDUCTIONS THAT CAN BE TAKEN (when included in the gross income on the front of your tax return form):

1. State, County and City tax collected whether charged separately or included in the sales price
2. bad debts on which tax was paid on a previously filed City tax return form
3. sales for resale or release
4. charges for repair, service, or installation labor
5. discounts, refunds, or returns
6. freight out or delivery charges
7. sales to "Qualifying Health Care Facilities", including hospitals, nursing homes and dialysis centers (must be non-profit entities)
8. fifty percent (50%) of sales to the U.S. government (100% if sold by a manufacturer, modifier, assembler, or repairer)

9. out-of-state sales that meet **all** of the following three criteria:
 - a. the order was received from the customer by mail, solicitation, internet or phone from outside the State, **and**
 - b. the title to the item passed to the customer outside of the state, **and**
 - c. the item is purchased for use outside of the State.
10. trade-ins
11. sales of gasoline
12. sales of “Income-Producing Capital Equipment” as defined by the Phoenix Tax Code
13. sales of prescription drugs and prosthetics
14. lottery ticket sales
15. sales of warranty, maintenance, and service contracts, if optional

DOCUMENTING NON-TAXABLE SALES

To properly document a non-taxable sale, you must obtain all of the following information:

1. customer’s name
2. customer’s business address
3. customer’s specific business activity
4. customer’s State license number, if any
5. customer’s City license number, if any
6. reason for exemption
7. evidence to establish to a reasonable businessperson that the sale is exempt

A completed certificate should be obtained **AT THE TIME OF THE SALE**. The State Exemption Certificate (Form 5000) is accepted by both the State of Arizona and the city of Phoenix.

CALCULATING THE TAX

You may choose to charge the tax separately or you may include tax in your price. Phoenix voters approved Proposition 104 in the August 25, 2015 City of Phoenix Election to fund a Comprehensive Transportation Plan. Included in the provisions of this voter-approved initiative was the implementation of a two-level tax structure imposed on sales or purchases of “big-ticket” items under the Retail Sales business classification. Following is a description of this two-level tax structure:

Retail Sales, Level 1 (State Business Activity Code 017)

The gross income from the sale of tangible personal property must be reported at a two and three tenths percent (2.3%) tax rate. When the gross income from the sale of a single item of tangible personal property exceeds ten thousand nine hundred sixty-eight dollars (\$10,968.00), the 2.3% tax rate shall apply to the first \$10,968.00 and reported under this business code.

Retail Sales, Level 2 (State Business Activity Code 165)

When the gross income from the sale of a single item of tangible personal property exceeds ten thousand nine hundred sixty-eight dollars (\$10,968.00), the amount greater than \$10,968.00 must be reported at the two percent (2.0%) tax rate under this business code.

Marketplace Facilitated or Remote Retail Sales, Level 1 (State Business Code 605)

The gross income from the retail sale or purchase of a single item of tangible personal property is required to be reported pursuant to A.R.S. §42-5043 at a two and three tenths percent rate (2.3%). When the gross income from the sale of a single item of tangible personal property exceeds ten

thousand nine hundred sixty-eight dollars (\$10,968), the 2.3% tax rate shall apply to the first \$10,968 and reported under this business code.

Marketplace Facilitated or Remote Retail Sales, Level 2 (State Business Code 625)

When the gross income from the retail sale or purchase of a single item of tangible personal property required to be reported pursuant to A.R.S. §42-5043 exceeds ten thousand nine hundred sixty-eight dollars (\$10,968), the amount greater than \$10,968 must be reported at the two percent (2.0%) tax rate under this business code.

If you include tax in your price (i.e., no separate charge for tax), you may back out the tax in order to compute the amount of tax included in your gross income. The formula is as follows:

Retail Sales, Level 1 – Single Item Valued at \$10,968.00

TAXABLE SALES divided by 1 + COMBINED TAX RATE of 8.6% (State, County & City tax)

Calculate the tax deduction as follows:

$$\text{Taxable Sales} \div \text{Factor (1.086)} = \text{Computed Taxable Income}$$

Taxable Sales less Computed Taxable Income equals your deduction for tax collected.

Example: \$10,968.00 \div 1.086 = \$10,099.45
 \$10,968.00 - \$10,099.45 = \$ 868.55 (tax collected deduction at Level 1)

This Retail Sales tax deduction must be reported under State Business Activity Code 017.

Retail Sales, Computation of Single Item Valued at \$13,000.00

TAXABLE SALES divided by 1 + COMBINED TAX RATE of 8.6% (State, County & City tax)

Level 1: Calculate the tax deduction for as follows:

$$\text{Taxable Sales} \div \text{Factor (1.086)} = \text{Computed Taxable Income}$$

Taxable Sales less Computed Taxable Income equals your deduction for tax collected.

Example: \$10,968.00 \div 1.086 = \$10,099.45
 \$10,968.00 - \$10,099.45 = \$ 868.55 (tax collected deduction at Level 1)

This Retail Sales tax deduction must be reported under State Business Activity Code 017.

TAXABLE SALES divided by 1 + COMBINED TAX RATE of 8.3% (State, County & City tax)

Level 2: Calculate the tax deduction as follows:

$$\text{Taxable Sales} \div \text{Factor (1.083)} = \text{Computed Taxable Income}$$

Taxable Sales less Computed Taxable Income equals your deduction for tax collected.

Example: \$13,000.00 - \$10,968.00 = \$2,032.00
 \$2,032.00 \div 1.083 = \$1,876.27
 \$2,032.00 - \$1,876.27 = \$ 155.73 (tax collected deduction at Level 2)

This Retail Sales tax deduction must be reported under State Business Activity Code 165.

A single item valued at \$13,000.00 will have a total tax collected deduction of \$868.55 at Level 1 reported under State Business Activity Code 017 and \$155.73 at Level 2 reported under State Business Activity Code 165, for a total amount of \$1,024.28.

If more tax was collected than was due, the City's portion of excess tax collected must be paid to the City, unless it is refunded to the customer. Please refer to the Transaction Privilege (Sales) and Use Tax Instruction Sheet for instructions on how to report excess tax collected or the tax collected deduction.

This material is available in alternate formats upon request. For more information, call (602) 262-6785, press 4, TTY (602) 534-5500 or write to City of Phoenix, Tax Division, 251 W. Washington Street, 3rd Floor, Phoenix, Arizona 85003. For more information on our licensing, tax rates, tax return instructions or access to the city of Phoenix Tax Code, visit our website at www.phoenix.gov/finance/plt.

This is general information only. For complete details, refer to the city of Phoenix Tax Code.