



Rental of Real Property

CITY OF GLENDALE PRIVILEGE LICENSE (Sales) TAX

WHO MUST PAY THE TAX?

You must be licensed and pay tax if you are in the business of renting, leasing, or licensing for use residential real property *or* renting, leasing, or licensing for use *non-residential* real property (Commercial Rental) located within the City of Glendale to a tenant “in actual possession” (the tenant is not subleasing to someone else).

“Licensing” means any agreement between the property owner and the user of real property that does not grant the full rights of a lease.

[Examples of licensing income include commissions received for licensing space for vending and amusement game machines or pay telephones, the use of a business or property for filming movies or commercials, and similar charges for use of space.]

[Examples of residential rentals include: houses, apartments, manufactured homes, mobile home (trailer) spaces.]

Note: Anyone person required to be licensed and report under this activity is required to obtain ONLY one license per person for all locations and units of real residential property rented within the City. Non-Residential rental properties must have a separate license for each location.

In addition, rental activities of “residential real property” for less than 30 consecutive days are taxable under the Hotel/Motel classification.

WHAT IS THE CITY TAX RATE?

The City’s tax rate on residential rental is 2.2%; there is no State or County tax. The City’s tax rate on non-residential rental is also 2.2%; however, the combined rate (including County tax) is 2.7%.

WHEN IS TAX DUE?

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

WHO IS TAXABLE?

A person who has one or more residential units rented or available for rent must pay tax to the City of Glendale on the units located within the City. A property manager or broker who manages residential rental units must pay tax to the City of Glendale on the units located within the City of Glendale. In this case, the property manager or broker may obtain the license and report the tax on the residential rental income for a property owner.

A person in the business of renting, leasing, or licensing for use any *non-residential* land, building, or space (Commercial Rental) must pay tax to the City of Glendale on all units located within the City.

Examples of taxable commercial rentals include:

- office buildings
- parking lots
- stores
- banquet halls
- factories
- meeting rooms
- commissions on vending machine or pay phone space
- storage facilities
- vacant land
- space at a swap meet
- churches
- safe deposit boxes

Rental, leasing, or licensing for use of *non-residential* property to related business entities, non-profit organizations and governmental agencies is taxable. However, rental, leasing, or licensing for use of *non-residential* property to a corporation where the lessor's aggregate holdings in the lessee corporation is at least eighty percent (80%) of the voting stock of the lessee corporation is not taxable to the City.

WHAT IS TAXABLE?

All amounts paid by the tenant under terms of a lease agreement are considered taxable gross income to the lessor. All amounts paid by the tenant to the lessor or paid on the lessor's behalf are also considered taxable gross income to the lessor including; property taxes (paid directly to the lessor or the County), mortgage payments, repairs, pet fees, non-refundable deposits, forfeited deposits and recoveries due to court action.

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

1. County and/or City Sales Tax Collected whether charged separately or included in the lease price.
2. Lease for release (including sublease).
3. Discounts, refunds or returns.
4. Leases to “Qualifying Health Care Facilities,” including: hospitals, nursing homes & dialysis centers (Business must be non-profit).
5. Utility charges *only if* individual utility meters have been installed for each tenant and the lessor charges each tenant the exact billing from the utility company.
6. The fair market value of one apartment on the property provided rent free to an employee for each fifty (50) apartments on the property.

SUBLEASING

The primary lessor is entitled to an exemption for the portion of the property subleased by their tenant. Income from subleasing is taxable, but the sublease provides an exemption to the primary lessor.

For example, if lessor “A” leases a 10,000 square foot building to lessee “B” for \$6,000 per month (the primary lease), and lessee “B” subleases 2,500 square feet to sub-lessee “C” for \$3,000 per month (the sublease); the tax liabilities of A and B are computed as follows:

- A’s liability is reduced by the portion of the building that is subleased (2,500 square feet) (documented by B’s sublease agreement with C) $\div 10,000$ square feet in primary lease (between A and B) = 25%. Therefore 25% of the primary lease is exempt from tax and 75% is taxable. A is entitled to an exemption for 25% of their \$6,000 monthly income or \$1,500.
- B’s liability is for the tax on his subleasing income for the entire amount of \$3,000.

This exemption must be computed based on the square footage subleased, not the “values of the primary lease and/or the sublease”.

CALCULATING THE TAX

You may choose to charge the tax separately or you may include tax in your price. If you include tax in your price (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 for *residential real property* is:

TAXABLE LEASES divided by 1 + COMBINED TAX RATE of 2.2% (City, no State or County tax)

Calculate the tax deduction as follows:

Taxable Sales ÷ Factor (1.022) = *Computed Taxable Income*.
Taxable Sales less *Computed Taxable Income* equals your deduction for tax collected.

Example: $\$1,000.00 \div 1.022 = \978.47
 $\$1,000.00 - \$978.47 = \$21.53$ (tax collected deduction)

The formula *non-residential real property* is:

TAXABLE LEASES divided by 1 + COMBINED TAX RATE of 2.7% (City, and County tax, no State tax)

Calculate the tax deduction as follows:

Taxable Sales ÷ Factor (1.027) = *Computed Taxable Income*.
Taxable Sales less *Computed Taxable Income* equals your deduction for tax collected.

Example: $\$1,000.00 \div 1.027 = \973.71
 $\$1,000.00 - \$973.71 = \$26.29$ (tax collected deduction)

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 Privilege (Sales) Tax Instruction Sheet for instructions on how to report excess tax collected or the tax collected deduction.

For more information, on our licensing, tax rates, tax return instructions or a copy of the Tax Code go to www.glendaleaz.com/taxandlicense/ or call (623) 930-3190 or write to:

City of Glendale, Tax & License Division
5850 W. Glendale Ave, Suite 104
Glendale, Arizona 85301.

This is general information only. The intent is to condense and simplify the language in the Glendale City Tax Code. For complete details, refer to the Glendale City Tax Code.