



# CITY OF TUCSON

## A GUIDE TO UNDERSTANDING BUSINESS TAXES AND LICENSES

### RETAIL BROCHURE

*This brochure contains general information about City of Tucson Business Privilege (Sales) Tax on retail sales. This information is based on the City of Tucson Business Privilege Tax Code in effect on October 1, 2011. In case of inconsistency or omission, the Tucson Tax Code will prevail.*

**WHO MUST PAY?** If you are in the business of selling tangible personal property to consumers and the sale is not exempt from city tax, then you owe the retail sales tax. In Tucson, the seller owes the sales tax to the City of Tucson whether or not the seller added sales tax to the price of the items sold. The burden of proving that a sale of personal property is not a taxable sale is upon the seller.

**HOW DO I PAY RETAIL SALES TAX?** You must get a Business Privilege (Sales) Tax License from the License Section. Report sales and applicable tax to the City of Tucson on the retail tax return that you will receive monthly after you apply for the license. Note: State taxes are reported separately.

**WHO RECEIVES THE RETAIL SALES TAX?** The City of Tucson receives 2% tax from all taxable sales by businesses located within the city limits regardless of the customer's location.

**SALES TAX COLLECTED:** If you itemize tax separately on your customer's receipts and keep records of it on your books, you may take the actual tax collected as a deduction. If you do not separately itemize the tax, you may factor sales tax collected from your gross taxable sales.

#### SPECIAL SITUATIONS

**1. Sales-for-Resale:** When you sell an item to someone who plans to rent or resell it, you do not owe tax on that sale. However, you must have clear and complete records of these sales. 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, and obtain a signed statement by the buyer stating that the goods will be resold in the ordinary course of business. You should also obtain the buyer's city and state sales tax license numbers. (A completed Arizona Form 5000 would suffice.) Without complete records, all your sales are subject to the tax. You must be assured that the purchaser is in the business of selling this property in the ordinary course of their business.

**2. Services:** 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 a retail business and are liable for tax on those sales. Charges for repair services by a retailer are

exempt when separately charged and separately maintained in the books and records. Examples of service businesses include landscape maintenance, doctors, attorneys and interior decorators. Service businesses and retailers who provide nontaxable services are required to have a Service License.

**3. 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. The trade-in deduction on an item cannot exceed the cost of the item.

**4. Installation Labor Charges:** When you charge for installation labor on items not becoming permanently attached to real property, you don't have to pay tax on the labor charges if you clearly show those charges separately on customer invoices and in your records. Otherwise, you will owe tax on all charges where labor and parts are combined. A Service License is not required if you have a Privilege Tax License.

**5. Exclusion of Certain Fees and Taxes from Gross Income:** The federal excise tax imposed on heavy trucks and trailers (under 26 United States Code 4051) is not part of the gross proceeds and therefore not taxable. Waste tire disposal fees imposed pursuant to A.R.S. Section 42-1302 are also not taxable.

**6. Delivery:** Freight in from the manufacturer or wholesaler to the retailer or consumer is considered a cost of doing business and part of the selling price of the product, and therefore taxable. Freight charged by the retailer to deliver goods from his Tucson location to the purchaser is not subject to tax when itemized on the invoice. A Service License may be required for a business that has delivery only and no retail sales.

**7. Common Exemptions and Deductions:** The following items are not taxed under the city retail privilege tax.

a. Items sold for resale (including sales to rental businesses that plan to rent the property to their customers).

b. Out-of-City sales are valid only if you have a permanent business location outside the city where the order is received, the items are stocked, and transfer of title and possession occur.

c. Out-of-State sales require the receipt of an order from a buyer from outside of Arizona and the items are shipped or delivered outside Arizona for use outside the state. (Purchaser can not be in Arizona when placing the order or when receiving the items. One exception is for purchases of vehicles as noted under "v".)

d. Medically prescribed or recommended includes drugs, oxygen, and prosthetic appliances. It does not include medical marijuana.

e. Insulin, insulin syringes, glucose test strips.

f. 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, pipelines, airlines, railroads, oil and gas industries, and in cleanrooms. This includes repair and replacement parts; however, expendable materials are taxable.

g. Sales of certain new agricultural equipment.

h. Sales of mining and metallurgical supplies. This exemption excludes janitorial equipment and supplies; office equipment, furniture, & supplies; or motor vehicles licensed for use on state highways. Sales to sand and gravel companies are not exempt as they are considered retailers and not mines.

i. Sales of motor vehicle fuel and use fuel or sales of natural gas or liquefied petroleum gas for motor vehicles.

- j. Sales to contractors of material to be incorporated into a building in fulfillment of a contract. The vendor must secure a statement from the contractor stating the materials purchased will be incorporated into a building, structure, etc., in fulfillment of a contract, and is not for personal use. The vendor must also have the contractor's Business Privilege License number and business name and address.
- k. Items sold to qualifying hospitals, qualifying community health centers, or qualifying health care organizations. Obtain a copy of their current year state or city letter of exemption. Sales of items to non-profit organizations that engage in training, job placement or rehabilitation programs, or testing for mentally or physically handicapped people are exempt if the property sold is used exclusively for those activities.
- l. Food sold by qualified retailers for home consumption. "Food" includes any item that you can buy with either food stamps or food instruments issued under the Child Nutrition Act. Exempt food also includes ice, dry ice for packing and shipping food, but does not include prepared food or sandwiches or drinks served in an open container. Food does not include edible products infused with medical marijuana.
- m. Fine Art: A one of a kind art creation such as a painting or sculpture that is aesthetic only and sold by the original artist. Art creations which serve a useful purpose as well as being aesthetic i.e. jewelry, macramé, glasswork, pottery, woodwork, metalwork, furniture, and clothing are classified as taxable. Additionally, copies of an original art creation produced in mass are not considered fine art and are therefore taxable.
- n. Food sold to restaurants which is prepared for or served to customers. Food sold to restaurants when that food is later provided free by the restaurant to its employees while they are on the job. Food sold to airlines or public educational entities.
- o. Warranty, maintenance, and service contracts.
- p. Items sold through a casual sale.
- q. Arizona lottery tickets.
- r. Stocks and bonds.
- s. Precious metal, bullion or monetized bullion except in the form of jewelry or certain coins with numismatic value.
- t. Sales of tangible personal property that directly enters into and becomes an ingredient or component part of a product sold in the regular course of the business of job printing, manufacturing or publication of newspapers, magazines or other periodicals. Tangible personal property which is consumed or used up in a manufacturing, job printing, publishing, or production process is neither an ingredient nor component part of a product.
- u. Sales of food products by producers.
- v. Motor vehicle sales to nonresidents of Arizona for use outside Arizona if the vendor ships or delivers the vehicle out of state.
- w. Sales of tangible personal property used in remediation contracting.
- x. Sales of materials to publicly funded libraries.
- y. Sales of personal hygiene items to hotels and motels that are intended to be consumed during occupancy.
- z. Sales of groundwater measuring devices (ARS Sec. 45--604).
- aa. Sales of aircraft to be used outside the State.
- bb. Sales or transfer of telecommunication equipment used as inducement for contracts.
- cc. Sales of alternative fuel to a used oil fuel burner.

dd. Sales of solar energy devices are exempt starting July 1, 2008. Retailer must be registered with Arizona Department of Revenue.

**8. Sales to U.S. Government:** These sales are taxable at one half the regular tax rate. Sales of products directly to the U.S. government by a manufacturer, modifier, assembler or repairer of such products are not taxable. Sales to U.S. Government departments or agencies based at Davis Monthan Air Force Base are also not taxable.

**9. Sales to Native Americans:** Sales to Native Americans or tribal councils are not taxable when the order is taken and delivery is made on the reservation. Payment must originate from the reservation.

**10. Vehicle Dealers:** A manufacturer's cash rebate on the sales price of a motor vehicle when the buyer assigns the buyer's right in the rebate to the retailer shall be excluded from gross income. Registrations fees, license fees and taxes, and lieu taxes imposed by Title 28 A.R.S. are excluded from income when remitted to the proper authorities and itemized to the customer and in the books of the seller. The federal excise tax known as the luxury tax [26 U.S.C. § 4001(.01)] is not taxable and is excludable from gross income.

**11. Other:** Sales made to cities, counties, school districts, state or other political subdivisions are taxable.

**SPECIAL NOTE - Nonprofit organizations:**

**Most sales to non-profit organizations are taxable.** Sales by non-profit organizations that qualify under 26 U.S.C. section 501(c) are not taxed unless the IRS determines the sales are unrelated business income. Therefore, they do not qualify for a resale deduction. Their purchases are taxable unless they qualify for a specific exemption under 19-465 of the City code. (For an example see item k in this brochure.)

FOR MORE INFORMATION ABOUT...

Taxes –Audit Section: City of Tucson – Tax Audit Section - (520) 791-4681  
255 W. Alameda - Second Floor,  
P.O. Box 27210, Tucson, Arizona , 85726-7210

Licenses –License Section: City of Tucson - License Section - (520) 791-4566  
255 W. Alameda - First Floor  
P.O. Box 27210, Tucson, Arizona, 85726-7210

Hearing impaired: TDD (520) 791-2639

Visit the City of Tucson Web Page at: <http://www.tucsonaz.gov>

To read more about the business privilege tax: <http://www.tucsonaz.gov/finance/BusInfo.html>

**The City of Tucson prepared this brochure. It does not provide comprehensive explanations of Tucson tax laws, rules, or regulations. Specific questions should be addressed to the City of Tucson Tax Audit Section. Rev. 12-11**