



REAL PROPERTY RENTALS

Chandler Transaction Privilege (Sales) & Use Tax

This serves as general information only. For complete details, please refer to the City of Chandler Tax Code.

June 2012

WHO MUST PAY THE TAX?

You must be licensed and pay tax if you are in the business of leasing or renting real property or licensing for use of real property to the final licensee located within the City of Chandler.

Licensing means any agreement between the property owner and the final user of real property. Examples include commissions received for licensing space for vending and amusement game machines, pay telephones, and the use of a portion of a business or property for filming movies or commercials.

WHEN IS TAX DUE?

Tax is due on the 20th day of the month following the month in which the revenue was recognized.

WHAT IS THE TAX RATE?

The tax rate for the Real Property Rental classification is 1.5% of taxable income.

RESIDENTIAL RENTALS

A person who has one or more residential units rented or available for rent in the City of Chandler must pay tax to the City of Chandler on the units located within the City of Chandler.

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

The property manager or broker is taxable even if an individual owner would not be taxable.

Examples of residential rentals include:

- Houses
- Apartments
- Manufactured Homes
- Time Shares

Residential rentals for less than 30 days are subject to an additional 2.9% transient tax.

COMMERCIAL PROPERTY RENTALS

A person in the business of leasing, renting, or licensing for use any non-residential land, building, or space must pay tax to the City of Chandler on the units located within the City of Chandler.

Examples of taxable commercial rentals include:

- Office Buildings
- Stores
- Factories
- Churches
- Vacant Land
- Parking Lots
- Banquet Halls
- Meeting Rooms
- Storage Facilities

Rentals to Non-Profit Organizations and Governmental Agencies are taxable.

Commercial property includes residential property that is used for commercial purposes (e.g. a bedroom used as an office).

WHAT IS TAXABLE? (RESIDENTIAL & COMMERCIAL)

All payments made by the renter, or on renter's behalf, to the lessor are taxable. Taxable income includes payments for property taxes, repairs, improvements, telecommunications, utilities, pet fees, non-refundable deposits, forfeited deposits, and common area maintenance charges.

NON-TAXABLE RENTAL REVENUE (DEDUCTIONS)

- Refundable security deposits, unless they are retained.
- Utility charges are exempt if individual utility meters are installed and each tenant pays the exact amount billed by the utility company.
- Room charges to patients in qualifying hospitals, qualifying community health centers, or qualifying health care organizations.
- Gross receipts derived from incarcerating or detaining inmates.
- Gross receipts derived from renting to a corporation are exempt, provided that the lessor's aggregate holdings in the lessee corporation amount to at least 80% of the voting stock of the lessee corporation.
- Gross receipts derived from a corporation renting real property to an affiliated corporation or reciprocal insurer. Please see the Chandler Tax Code for the definition of affiliated corporation or reciprocal insurer.

CALCULATING THE TAX

You may choose to charge the tax separately or you may include tax in your rental/lease price. If you include tax in your price, you may factor in order to “compute” the amount of tax included in your gross income for deduction purposes.

To determine the factor, add one (1.00) to the total of state, county, and city tax rates.

Commercial Example: $1.00 + .02 = 1.02$

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Calculate as follows:

$$\frac{\text{Taxable Income}}{\text{Factor (1.02)}} = \text{Computed Taxable Income}$$

Residential Example: $1.00 + .015 = 1.015$

Calculate as follows:

$$\frac{\text{Taxable Income}}{\text{Factor (1.015)}} = \text{Computed Taxable Income}$$

Taxable income less computed taxable income equals your deduction for tax collected.

If more City tax was collected than was due, the EXCESS TAX COLLECTED must be remitted to the City.

USE TAX

This is a tax on items that were purchased, leased, or rented without paying privilege or sales tax. The purchased, leased, or rented items become taxable when they are used, stored, or consumed within the City. Most commonly, purchases, leases, or rentals from out-of-state vendors will fall into this category. The use tax does not apply to purchases, leases, or rentals which are resold or re-leased in the normal course of business.

The City of Chandler Use Tax rate is 1.5%. Businesses are responsible for computing and paying use tax.