



City of Peoria • Finance Department • Tax & License Section  
8401 W. Monroe St. Peoria, AZ 85345

## **CITY OF PEORIA PRIVILEGE (SALES) TAX GUIDELINES: RENTAL OF COMMERCIAL REAL PROPERTY**

### **You Owe Tax on Commercial Real Property Rentals If:**

You are in the business of leasing, licensing-for-use or renting commercial real property located within Peoria. The entity leasing or renting to the tenant in actual possession is responsible for the tax.

### **Examples of Taxable Commercial Rentals Include:**

- ◆ Office Buildings
- ◆ Stores
- ◆ Warehouses
- ◆ Factories
- ◆ Churches
- ◆ Vacant Land
- ◆ Parking Lots
- ◆ Banquet Halls
- ◆ Meeting Rooms
- ◆ Storage Facilities (e.g. mini-storage)
- ◆ Safe Deposit Boxes

### **License Requirements**

Owners of commercial rental properties are required to obtain and maintain a Privilege (Sales) Tax License.

A separate license is required for each non-residential rental property. Commercial and residential properties cannot be maintained on the same license; separate licenses are required.

▶ The license must be maintained in the exact name of the legal owner of the property. Any changes in legal ownership require a new license within 30 days of the change in ownership.

### **Tax Rate**

The City of Peoria tax rate is 1.8% on all income from the rental, leasing and licensing-for-use of commercial real property.

For rental and leasing of commercial real property, the combined rate (including State & County taxes) is 2.3%. (Note: The Maricopa County tax of 0.5% is reported to the State on the TPT-1 form.) The combined rate for Licensing-For-Use (see below) of commercial real property is 1.8% (City only).

## Collection of Tax

You may choose to charge the Privilege (Sales) Tax separately on each sale, or include the tax in your price. If you overcharge any tax to your customers, you must remit the excess tax to the city. If you include tax in your price, you can use factoring to “back into” the tax included in your gross sales. See our brochure on Factoring Tax.

## What is Taxable?

All amounts paid by the renter to, or on behalf of, the owner are taxable.

In addition to rent, taxable income includes payments by the tenant for:

- ◆ Common area maintenance (CAM)
- ◆ Property taxes
- ◆ Non-refundable deposits
- ◆ Forfeited deposits
- ◆ Charges for utilities, unless separately metered and “pass through” only
- ◆ Landscape maintenance
- ◆ Association fees
- ◆ Late fees, court fees, legal fees
- ◆ Repairs, improvements

▶ Rents received from non-profit organizations and government agencies are taxable.

## Deductions From Income

The Peoria privilege (sales) tax is calculated on your gross receipts. It is not a tax on your net income. Expenses are not deductible.

The following deductions may be taken as a deduction on your tax return when they are included in the reported gross receipts:

- ◆ City and County privilege (sales) taxes collected or factored
- ◆ Bad debts on which tax was paid on a previous return
- ◆ Refundable security deposits, unless they are retained
- ◆ Utility charges, only if individual utility meters have been installed and each tenant pays the exact amount billed by the utility company
- ◆ Gross income derived from a corporation leasing to an affiliated corporation.

▶ Property taxes paid by the owner or tenant are NOT an allowable deduction.

## Licensing-For-Use

When an agreement is made to provide commercial space without the full rights to a lease, it is considered licensing-for-use of space and is taxable. For example, commissions received for licensing space for vending machines or games are considered to be licensing-for-use of real property and are taxable.

## Subleasing

Income from subleasing is taxable, but the sublease provides an exemption to the primary

lessor. The primary lessor is entitled to an exemption for the portion of the property subleased by their tenant.

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

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

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

## Contact Information

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► **This brochure is meant to be a guideline only.** For complete details, refer to the [City of Peoria Tax Code](#) and related regulations. In all cases, the language of the tax code shall prevail.

*Updated November 2013*