

# REAL PROPERTY RENTALS

## YOU OWE TAX ON REAL PROPERTY RENTALS IF:

You are in the business of renting or leasing real property. If you rent residential property for less than 30 days, see the Hotel/ Motel Sales Tax Brochure. (Mesa Tax Code 5-10-445)

## TAX RATE

The tax rate is 2.0% of the gross income.

Mesa Business Code 045 ME (Residential Rental)  
Mesa Business Code 213 ME (Commercial Lease/  
Licensing For Use)

Maricopa County Business Code 013 MAR  
(Commercial Lease, tax rate .5%)

## CALCULATING THE TAX (TAX FACTORING)

You may choose to charge the tax separately or you may include tax in your sales price. If you include tax in your sales price, you may factor in order to "compute" the amount of tax included in your gross income for deduction purposes and obtain the "Net Taxable". To determine the factor, add one (1.00) to the total of state, county, and city tax rates.

## TAX FACTORS

Commercial Lease Example (Total Tax Rate 2.5%):

$$1.00 + .0200 + .005 = 1.025$$

Calculate as follows:

$$\text{Gross Income} / \text{Factor (1.025)} = \text{Net Taxable Income}$$

$$\begin{aligned} \$1000 / 1.025 &= \$975.61 \text{ (net taxable);} \\ &\text{the tax factor deduction is } \$24.39 \end{aligned}$$

$$\text{Tax Due Mesa @ 2\%} = \$19.51$$

$$\text{Tax Due Maricopa County @ .5\%} = \$4.88$$

$$\text{Total Tax} = \$24.39 \text{ (should always match the total tax factor amount)}$$

Residential Rental/Licensing for Use Example (Total Tax Rate 2%):  $1.00 + .0200 = 1.0200$

Calculate as follows:

$$\text{Gross Income} / \text{Factor (1.0200)} = \text{Net Taxable Income}$$

$$\begin{aligned} \$1000 / 1.0200 &= \$980.39 \text{ (net taxable);} \\ &\text{the tax factor deduction is } \$19.61 \end{aligned}$$

$$\text{Tax Due Mesa @ 2\%} = \$19.61$$

Transactions between related companies or persons are taxable by the City of Mesa. See Mesa City Code Section 5-10-100 for the definition of a "Person", Section 5-10-210 "Determination of gross income: transactions between affiliated companies or persons", and Section 5-10-220 "Determination of gross income: artificially contrived transactions".

(See 6 under special situations and effective dates for possible exemptions.)

## EXAMPLES OF TAXABLE FACILITIES INCLUDE:

- office buildings
- parking and storage facilities
- apartments/homes/duplex/triplex/fourplexes
- stores/factories/farmland
- banquet and meeting halls
- vacation rentals

## YOU ARE "IN THE BUSINESS" AND TAXABLE IF:

1. You have one or more non-residential rental units.
2. You have 2 or more residential units available for rent in the State.
3. You have 1 residential unit and one or more commercial units.
4. If you only own one residential single-family home in the state and it is located in Mesa, and rented to multiple unrelated tenants, such as college students, it would be taxable to the City of Mesa. If this same home is rented to a single family or person, it would not be taxable. If you have a broker or property manager, all Mesa units would be taxable.

## MARICOPA COUNTY ASSESSOR RESIDENTIAL RENTAL REGISTRATION

All Residential Rentals are required to be registered with the County Assessor. There may be penalties and fines for houses not correctly identified or registered as a rental. Registration may be completed on the assessor's website: [www.maricopa.gov/assessor/](http://www.maricopa.gov/assessor/). Please refer to the tab under Real Property for specific rental information and forms.

## SPECIAL SITUATIONS

### 1. Subleasing

When a property is subleased, the taxable landlord is the one directly leasing to the tenant in actual possession of the property. The primary lessor is entitled to an exemption for the portion of the property subleased by their tenant. This exemption must be computed based on the square footage subleased, not the values of the primary lease and the sublease.

### 2. Additions to Rent

Extra charges included in rent for services such as cleaning, common area maintenance fees, tenant improvements, property taxes, security services, insurance and utilities are taxable as part of rental income. But when a landlord installs individual utility meters for each tenant and charges each tenant for this service based on the meter reading, then those utility charges are not taxable.

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Monies received from the use of laundry rooms and or vending machines are also considered part of rental income.

3. **Security Deposits**  
Security deposits are only taxable if and when they are forfeited. Non-refundable deposits are taxable when received.
4. **Exemptions:** Charges by a qualifying hospital, qualifying community health center or a qualifying health care organization to patients of such facilities for use of rooms or other real property during the course of their treatment by such facilities are exempt. The fair market value of one apartment in an apartment complex provided rent free to an employee is not taxable. For complexes with more than 50 units, an additional apartment provided rent free to an employee for every additional 50 units is not taxable.
5. **Brokers, including property managers, shall file a return and remit tax imposed on the activity on behalf of the principal.** No deduction shall be allowed for any commissions or fees retained by such broker. A broker acting for a seller, lessor, or other similar person deriving gross income in a category upon which this Chapter imposes a tax shall be liable for such tax, even if his principal would not be subject to the tax if he conducted such activity in his own behalf by reason of the activity being deemed a "casual" one. The liability of a broker does not relieve the principal of liability, except upon presentation to the Tax Collector of proof of payment of the tax, and only to the extent of the correct payment. The broker shall be relieved of the responsibility to file and pay taxes upon the filing and correct payment of such taxes by the principal.  
(Regulation 5-10-100.1)
6. **Property Rentals Between Affiliated Entities**  
(Effective 7/1/13) New preemption in A.R.S. 42-6004 (A)(11), HB 2324 exempting leases between affiliated entities. Gross receipts derived from a lease between affiliated companies, businesses or persons if the lessor holds a controlling interest in the lessee, the lessee holds a controlling interest in the lessor, an affiliated entity holds a controlling interest in both the lessor and lessee or an unrelated person holds a controlling interest in both the lessor and lessee. Controlling interest means an 80% ownership of the voting shares of a corporation or of the interests in a company, business or person other than a corporation.

## Rental of Real Property & Licensing For Use

Space rental to vendors at events may be taxable if the rental constitutes a lease of real property. This tax is imposed on any individual renting property or space to vendors at events. Tax may

be added to the cost of the vendor's rental fee. If the rental were merely a "license" granting permission to use the space rather than an actual lease of the property, the rental income received would be taxable under licensing for use in the Mesa City Tax Code.

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

The definition of "Licensing for Use" means any agreement between the user ("licensee") and the owner or the owner's agent ("licensor") for the use of the licensor's property whereby the licensor receives consideration, where such agreement does not qualify as a "sale" or "lease" or "rental" agreement.

*This publication is for general information only about Transaction Privilege (Sales) Tax on real property rentals. For complete details, refer to the City of Mesa Privilege & Excise Tax Code and related regulations. In case of inconsistency or omission in this publication, the language of the Tax Code will prevail. The transaction privilege tax is commonly referred to as a sales tax, however, the tax is on the privilege of doing business in Mesa and is not a true sales tax.*

**FOR TPT LICENSING  
INFORMATION CONTACT:**  
**Arizona Department of Revenue**  
<https://www.aztaxes.gov>  
**602.255.3381**

**FOR MESA TAX  
INFORMATION CONTACT:**  
**480.644.3816**  
[salestax.info@mesaaz.gov](mailto:salestax.info@mesaaz.gov)



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