

Residential Rental Property Ordinance Change

Frequently Asked Questions

What change is being made to the Tempe City Code regarding residential rentals?

On June 15, 2006, the City Council eliminated the tax exemption for one residential rental unit (Ordinance No. 2006.44). As a result, **all** residential rental property in the City of Tempe is now subject to the City's transaction privilege (sales) tax. Previously, the ordinance only applied to property owners who owned two or more residential rental units.

What is the effective date of this change?

On October 1, 2006, all residential rental property is now taxable.

If my residential rental unit is now subject to the City's privilege (sales) tax, what do I need to do?

All residential rental property owners must obtain a transaction privilege (sales) license from the City's Tax & License Division. License applications are available on the Division's web site at www.tempe.gov/salestax. Applications are also available at the Tax & License Division office (see address above).

Property owners affected by the ordinance change must obtain a license and pay the applicable fee by October 1, 2006.

How much is the license fee?

For owners of a single residential unit in the City, there is a one-time application fee of \$20 and the annual license fee is \$25. As the ordinance change is effective October 1, 2006, the initial \$45(application and annual license fee) will cover the balance of 2006 and calendar year 2007. The annual license fee for owners of multiple residential rental properties in the City is based on the amount of their annual taxable rental income.

How do I remit my privilege (sales) tax due to the City?

Owners of one residential rental unit will be required to report their rental income and remit the tax to the City on a quarterly basis. If a residential unit became subject to tax on October 1, 2006, your first tax return will cover the period October 1, 2006 through December 31, 2006 and is due by January 20, 2007.

Tax return forms will be mailed to you at the end of each quarter. For example, the return for the period October 1, 2006 through December 31, 2006 will be mailed to you at the end of December 2006.

My rental unit is currently vacant; do I still need to file a return?

Yes. Even if you had zero rental income, you are still required to file a return. On the return you will indicate no activity for the reporting period.

CONTINUED ON BACK

My property is managed by a property management company. Can they obtain my license and file my returns?

The Tax & License Division requires that the license be issued in the name of the property owner. A property management company can complete the license application; however, the property owner must sign the application and the license must be in the name of the property owner.

A property management company can file the required tax returns and remit tax to the City on behalf of the property owner.

If a landlord lives in Tempe but only owns rental property outside of Tempe city limits, do they still need a Tempe privilege (sales) tax license?

No. A Tempe license is not required if all of the property is located outside of Tempe. However, the landlord should contact the city where the rentals are located to determine their specific licensing requirements.

What do I do with my current lease?

Many leases contain a clause that states the tenant will pay any applicable taxes due. We recommend that you review your current lease document and, if necessary, seek appropriate legal advice.

If you want to include tax in your current rent (no separate charge for tax), you may calculate a factored tax amount and deduct this amount on your tax return. Information on calculating a factored tax deduction can be found at www.tempe.gov/salestax.

Prior to this Code change, was a residential rental property owner required to remit privilege (sales) tax on the first residential rental unit?

Yes. If a residential rental property owner also owned any commercial rental property or another residential rental property in Arizona, the owner was required to remit privilege (sales) tax on all Tempe rental property.

How was the public notified of the code change?

City Council Meeting with Public Hearings on June 1, 2006 and June 15, 2006.
East Valley Tribune newspaper articles
Tempe Today - August/September/October 2006 issue
Tempe Channel 11
City of Tempe Web site

What City Code section was changed?

The code change amended Sec. 16-445, Reg. 16-300.1 and Reg. 16-445.1.

When was the initial residential rental tax adopted by the City?

The residential rental tax was adopted by the City on November 1, 1968.

Where can I obtain additional information?

Visit the Tax & License web page: www.tempe.gov/salestax

Call: (480) 350-2955

Write or Visit:

City of Tempe
Tax & License Division Hours: Monday – Friday 8:00 - 5:00
660 S Mill Ave, Suite 105
Tempe, AZ 85280