To better serve you, the Arizona Department of Revenue now offers online assistance and filing of your business taxes. To file your taxes online or to register to use the website, go to www.AZTaxes.gov

This publication provides general information about transaction privilege tax (TPT) on personal property rentals. For complete details, refer to the Arizona Revised Statutes and the Arizona Administrative Code. In case of any inconsistency or omission in this publication, the language of the Arizona Revised Statutes and the Arizona Administrative Code will prevail.

Who Must Pay

Anyone in the business of renting tangible personal property to others is subject to transaction privilege tax under the personal property rental classification.

Examples of taxable rental items include:
- office equipment
- construction equipment
- data processing equipment
- restaurant equipment
- gardening equipment
- machines
- appliances
- televisions and other electronics
- floor polishers
- tuxedos and other clothing
- linens and towels
- cars, trucks, boats, planes, etc.
- canned computer software
- DVD's, video games, movies, etc., for personal use

Businesses that rent items only as a side activity are still subject to the transaction privilege tax under the personal property rental classification. For example, a supermarket that rents carpet cleaning equipment must pay tax on the rental income.

What is the Tax Rate and How Do I Pay?

The current combined state and county tax rates can be found in the Arizona State, County and City Transaction Privilege and Other Tax Rate Tables under business code 014. For ease of reporting, state and county rates are combined. City tax is reported separately.

Factoring Transaction Privilege Tax

When a business “factors” transaction privilege tax, it means the tax is included in the total price rather than shown as a separate charge. There are many different factoring formulas depending on city taxes, county taxes, or differences in allowable city tax deductions. See Transaction Privilege Tax Procedure TPP 00-1 for information about factoring.

Reporting Rental Income

The state collects and distributes transaction privilege tax to Arizona counties, so it is important that a business determine and report rental income for the correct location. Your business location—the business address that appears on your business license—is the location that you should use to report rental income. If this address is not in Arizona, then the correct location to use is the lessee's residential or primary business street address. See Arizona Administrative Code rule R15-5-1503 for additional information.

Special Situations

1. Buying Items to Rent to Others

   If you are in the rental business, generally you are not taxable on purchases of items you buy for the purpose of renting to others. These purchases are considered sales for resale and are exempt.

2. Charges Added to Rent

   Additional charges to rent are subject to tax. For example, charges for installation, labor, repairs, pickup, delivery, assembly, set-up, personal property taxes, insurance, fuel, mileage, collision damage waivers, penalties, late fees, finance fees and maintenance are taxable as part of your rental income. This is true even though the charges may be billed separately from the rental charge. However, if the business renting the property is also acting as an agent for an insurance company, then any insurance premiums collected are not subject to transaction privilege tax.

3. Rent for Re-Rent

   If you rent items to another licensed rental business, you are not taxable on your rental income if you obtain from the lessee an exemption certificate, signed by and bearing the name and address of the lessee. The certificate must state that the property was rented for re-rent in the ordinary course of business, that the lessee has a valid license to rent such property and the certificate must include the license number. However,
the rental of items such as bedding and linens to hotels/motels for use in their business of providing lodging or other room facilities is not considered rent for re-rent.

4. **Renting to Contractors or Non-Profit Organizations**
Rentals of equipment to contractors and most nonprofit organizations are subject to tax.

5. **Lease-Purchase**
The rental income from leasing an item that has a purchase option is taxed under the personal property rental classification until the item is purchased. Income from the sale of the item at the end of the lease is taxed as a retail sale.

6. **Automobile Leases and Rentals**
To determine whether an automobile lease or rental is subject to tax, the Department of Revenue will examine whether the motor vehicle is licensed, registered, or primarily used in Arizona.

7. **Taxes Paid to Another State**
Arizona does not allow a rental business to take a deduction or credit for taxes paid in another state on a lease or rental of tangible personal property.

**Exemptions**

1. Leasing of a motor vehicle is exempt if the annual motor carrier fee is paid to the Department of Transportation during the entire term of the lease.

2. Items rented to a hospital organized and operated exclusively for charitable purposes. The institution must obtain a qualifying letter from the Department of Revenue for this exemption.

3. Items rented to nonprofit licensed nursing care institutions, licensed residential care institutions, or kidney dialysis centers. Also, items rented to qualified health care organizations if the property rented is used solely to provide health or medical related educational and charitable services. The institution must obtain a qualifying letter from the Department of Revenue for this exemption.

4. Items rented to hospitals, nursing care institutions or residential care institutions operated by the federal or state governments or political subdivisions of the state.

5. The rental of prosthetic appliances prescribed or recommended by a physician, dentist or medical professional. Prosthetic appliance means an artificial device necessary to support or take the place of a part of the body or to increase the activity of a sense organ.

6. Rental of films, tapes and slides by theaters, television stations and radio stations.

**NOTE:** The rental of movies, games, etc. to individuals for their own use is taxable. Related membership fees for such businesses are also taxable.

7. Rental of certain machinery or equipment used directly in manufacturing; processing; fabricating; job printing; refining; extracting ores or minerals; producing or transmitting electrical power; repairing, remodeling, or maintaining aircraft; drilling for oil or gas or extracting oil or gas; or research and development.

8. Rental of central office switching equipment, switchboards, PBX equipment, microwave radio equipment, and certain carrier equipment, to persons engaged in business classified under the telecommunications classification.

9. Rental of aircraft, navigational and communication instruments, and other accessories and related equipment to certain entities for commercial purposes.

10. Rentals of certain new agricultural equipment if the leases are for longer than two years.

11. Rental of tangible personal property that is shipped or delivered outside of the state and intended from the lease's inception for use exclusively outside of the state.

12. Rental of tangible personal property that is removed from Arizona and used exclusively outside of the state. Intermittent out-of-state use does not constitute removal from the state for use exclusively outside of the state, and the rental would still be subject to tax. Examples of intermittent out-of-state use include use of leased items on out-of-state business trips and service calls.

13. Leasing between parent corporations and subsidiary corporations or between subsidiary corporations if the parent corporation owns at least 80% of the subsidiary’s voting shares and paid taxes on the initial purchase of the item. This exemption does not apply to partnerships nor LLC’s.

14. Reimbursement by the lessee of a motor vehicle for payments by the lessor of vehicle registration and taxes to the extent that such fees are separately billed to the lessee.

15. Rental of solar energy devices. In order to claim this deduction, the lessor must be registered as a solar energy lessor.

**FOR ADDITIONAL INFORMATION:**

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www.AZTaxes.gov

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Toll-free within AZ: 1-800-352-4090

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