

# **Construction Contracting**

## **CITY OF GLENDALE PRIVILEGE LICENSE (Sales) TAX**

### **WHO MUST PAY THE TAX?**

You must be licensed and pay tax if you are in the business of constructing, repairing, improving, moving, wrecking, demolishing or otherwise altering real property. Construction contractors include subcontractors, specialty contractors, prime contractors, and any other persons receiving consideration for supervision and/or coordination of a construction project, or any part of a project, for others. Sales of commercial buildings within 24 months of completion, as well as sales of homes and improved lots at any time are taxable as speculative builder income. Please see “Speculative Builder/Owner Builder” brochure.

### **WHAT IS THE CITY TAX RATE?**

Glendale’s tax rate is 2.9%; the combined rate (including state & county taxes) is 10.2%.

### **WHEN IS TAX DUE?**

Your tax return and payment are due on the 20th day of the month following the reporting period.

### **WHICH CITY IS OWED THE TAX?**

Construction contracting tax is due to the city in which the real property under construction or repair is located.

### **WHEN IS CONSTRUCTION CONTRACTING REVENUE TAXABLE?**

A construction contractor must report taxable revenue on a ‘progressive billing’ or ‘cash receipts basis,’ not at completion of the contract.

### **WHAT IS TAXABLE?**

A construction contractor is taxable on the gross income derived from construction contracting performed within the city of Glendale. A contractor who furnishes labor only (such as a handyman) is subject to the same provisions as a contractor who furnishes both labor and materials. Please see Glendale City Tax Code Regulation 21.1-415.2 for classification of income as construction contracting or other activity.

A contractor is liable for tax on gross income from construction contracting unless a written declaration taking responsibility is obtained from either a construction contractor, including the contractor’s Glendale Privilege License number, or from an owner-builder declaring that he is improving the property for sale and providing the contractor with the owner-builder’s Glendale Privilege License number.

Income documented in this way is exempt subcontracting income. In order to be exempt from State Privilege tax a completed Form 5005 must be obtained. The State Exemption certificate (Form 5005), is available at [www.revenue.state.az.us/tpt\\_forms.htm](http://www.revenue.state.az.us/tpt_forms.htm).

Purchases or rentals of all tools, equipment or other items not directly incorporated into the construction project are subject to tax at the time of purchase or must be reported as a use tax purchase where a local tax is not applicable on the sale. No claim for resale or other exemption on these purchases or rentals can be made to any Arizona vendor.

**EXAMPLES OF TAXABLE CONTRACTING ACTIVITIES INCLUDE (but are not limited to) THE FOLLOWING:**

- Construction or demolition of a building
- Road construction
- Land excavation
- Landscaping (installation or removal, but not maintenance)
- Installation of floor covering
- Signs on buildings, poles, etc.
- Home remodeling (including painting, wiring, and wallpapering)
- Construction for government agencies (federal, state and local)
- Plumbing, electrical work and air conditioning
- Construction for schools, churches, and nonprofit organizations

For further information call the Tax & License Division (contact information below).

**DEDUCTIONS THAT CAN BE TAKEN (when included in the gross income on the front of your tax return):**

1. State, county and city tax collected whether charged separately or included in the sales price.
2. Bad debts on which tax was paid on a previous city return.
3. Discounts, refunds or returns.
4. 35% Standard deduction computed on income after all other deductions are subtracted from gross income.
5. Exempt subcontracting income (see above).
6. Out-of-city contracting.

**CALCULATING THE TAX**

You may choose to charge the tax separately or you may include tax in your price. If you include tax in your price (no separate charge for tax), you may back out the tax in order to compute the amount of tax included in your gross income.

The formula to determine the calculated tax factor is:

[COMBINED TAX RATE of 10.2% (State, County & City tax) times 65%]  
Divided by 1 + [COMBINED TAX RATE of 10.2% (State, County & City tax)  
times 65%]

$$(0.102 \text{ times } 0.65) / [1 + (0.102 \text{ times } 0.65)] = 0.0663 / 1.0663$$

$$\text{Calculated Tax Factor} = 0.0621776$$

Calculate the sales tax collected deduction as follows:

*Construction Cost times factor (0.0621776) = Computed Tax Collected Deduction*

Calculate the 35% standard deduction as follows:

*Construction Cost less Tax Collected Deduction times 35% = 35% Standard Deduction.*

Calculate the taxable amount as follows:

*Construction Cost less Tax Collected Deduction less 35% Standard Deduction = Taxable Amount*

Calculate the city tax due as follows:

*Taxable Amount times City Tax Rate (0.029) = City Tax Due*

Example:

$\$1,000,000.00 \text{ times } 0.0621776 = \$62,177.62 \text{ (tax collected deduction)}$

$\$1,000,000.00 - \$62,177.62 = \$937,822.38 \text{ (amount subject to standard 35\% deduction)}$

$\$937,822.38 \text{ times } 35\% = \$328,237.83 \text{ (35\% standard deduction)}$

$\$1,000,000.00 \text{ less } \$62,177.62 \text{ less } \$328,237.83 = \$609,584.55 \text{ (taxable amount)}$

$\$609,584.55 \text{ times } 0.029 = \$17,677.95 \text{ (city tax due)}$

*Please contact Tax and License staff at (623) 930-3190 for assistance, if needed in this calculation and/or the standard 35% deduction.*

If more tax was collected than was due, the City's portion of excess tax collected must be paid to the City, unless it is refunded to the customer. Please refer to the Privilege (Sales) Tax Instruction Sheet for instructions on how to report excess tax collected or the tax collected deduction.

For more information, on our licensing, tax rates, tax return instructions or a copy of the Tax Code go to [www.glendaleaz.com/taxandlicense/](http://www.glendaleaz.com/taxandlicense/) or call (623) 930-3190 or write to:

City of Glendale, Tax & License Division  
5850 W. Glendale Ave, Suite 104  
Glendale, Arizona 85301.

*This is general information only. The intent is to condense and simplify the language in the Glendale City Tax Code. For complete details, refer to the Glendale City Tax Code.*