

FACTORING SALES TAX

When tax has not been separately billed to your customer, you may factor the tax out of your gross income before calculating tax due to the Town, as well as the State & County.

The factoring rate is based on a combined State, County & Gilbert tax rate of 7.8%.

FACTORING RATE:

Total Sales Tax Due = .04825355 X Gross Income

Note: Be sure to subtract your factored or collected tax from your gross income before calculating your standard 35% deduction.

For assistance in calculating factored tax, the Arizona Department of Revenue offers a factoring spreadsheet and a factoring chart on their website – www.azdor.gov.

REPORTING TAXES

Gilbert is a program city with the Arizona Department of Revenue. You need a State Transaction Privilege Tax (TPT) ID # in order to report and submit Gilbert privilege (sales) tax. The required application may be obtained on the Arizona State Department of Revenue website – www.azdor.gov, or you may pick up the application at the AZDOR East Valley office located at 275 E Germann Road, Building 2, Suite 180 in Gilbert, AZ (Crossroads Gilbert & Germann) their phone number is 480-545-3500.

If you already have the State TPT ID #, you can complete a TPT License Update to add Gilbert as a program city to your current Tax ID #. On page 2 in Section C you will indicate that you are applying for a Gilbert Tax ID #. The cost is \$2.00.

Monthly forms will be mailed from the State to complete and submit with the tax due. If you do not receive a form, they may also be downloaded from the State website – www.azdor.gov. Penalties and interest may apply for forms not submitted as required.

**For additional information or assistance,
please contact our office:**

- **Phone – 480.503.6852**
- **Fax – 480.497.4943**
- **Email – salestax@gilbertaz.gov**

Please note that we make every effort to provide adequate and accurate tax information. This brochure is meant as a guideline only. In case of inconsistency or omission in this publication or in verbal information, the language of the Model City Tax Code will prevail. For complete details of the code, please refer to the link on our website at – www.gilbertaz.gov/taxcompliance - a copy of the code can be provided if you do not have internet access.

The transaction privilege tax is commonly referred to as sales tax; however it is actually based on the gross income of the person engaging in business within the Town and is the responsibility of the business owner, not the customer.



Town of Gilbert

Construction Contracting Tax Guidelines

TAX COMPLIANCE

50 East Civic Center Drive
Gilbert, Arizona 85296

480-503-6852

480-497-4943 fax

www.gilbertaz.gov/taxcompliance

DEFINITION

A construction contractor is any person who, by himself or by or through others, alters, improves, constructs, repairs, adds to or removes from real property.

This category includes the activities of developers, speculative builders, general contractors, sub-contractors, owner-builders and construction/project management.

A person or business may not meet the qualifications to be a licensed contractor by the Arizona Registrar of Contractors, but could still be subject to tax under the construction category.

CONSTRUCTION CONTRACTOR

Any person or business who, by himself or by or through others, alters, improves, constructs, repairs, adds or removes from real property for others would fall into this category.

Contractors who work for the owner of real property are considered prime contractors subject to this tax. Contractors working for taxable prime contractors may qualify as subcontractors.

To qualify as a subcontractor, you must obtain a written statement from the prime contractor or owner-builder for whom work is being performed. The statement must include:

- A declaration that the owner-builder or prime contractor is liable for the tax on such construction; and
- The owner-builder or prime contractor's Arizona Transaction Privilege Tax License number; and
- If working is performed for an owner-builder, a statement that the owner-builder is improving the property for sale.

OWNER-BUILDER

Any owner or lessor of real property who, by himself or by or through others, constructs or reconstructs any improvement to real property. Owner-builders who do not sell their improved real property within twenty-four (24) months after the improvements are substantially complete, are subject to tax on all materials and construction costs for the project. An owner-builder who does sell or transfer their property within twenty-four (24) months after the improvements are substantially complete is considered a "Speculative Builder".

SPECULATIVE BUILDERS

An owner-builder becomes a speculative builder if he sells or contracts to sell the improved real property within twenty-four (24) months of substantial completion of the improvements. Speculative builders are subject to tax on the full sales price of the property, including the improvements, at the earlier of close of escrow or transfer of title. Tax paid by the speculative builder to contractors may be credited against the tax due.

EXAMPLES OF CONTRACTING

- Construction or demolition of any building
- Road construction and repair
- Sale of improved land
- Land excavation and landscape installation
- Construction of government projects
- Construction of schools, churches and other non-profit agencies
- Home remodeling (includes painting, wallpaper, plumbing, wiring and repairs).
- Air conditioning, heating and plumbing
- Concrete installation and repair
- Construction/project management fees
- Labor only contracts for improvements or demolition of real property

DIFFERENCE BETWEEN CONTRACTING AND RETAIL

Construction contracting involves any repairs, replacements, additions or deletions to anything attached to or installed on real property.

The installation of floor coverings, cabinets or wallpaper are construction contracting. Painting is construction contracting. The installation of a sprinkler system or landscaping is construction contracting. Plumbing and electrical activities are construction contracting.

WHAT IS TAXABLE

The total amount received, including labor charges, is subject to the tax. Construction jobs are considered taxable to Gilbert when the work is performed within the town of Gilbert.

DEDUCTIONS

Subcontracting income is deductible when the qualifying conditions have been met.

Privilege (sales) tax collected or factored is deductible. If sales tax was separately stated on customer's bill and the collected tax is included in the reported gross income, you may deduct the collected tax. If sales tax was not separately stated on the customer's bill, the sales tax may be "factored" out of the total bill, and then deducted.

A 35% standard deduction is allowed for all taxable construction contracting income. Labor charges are **not** deductible.

Other deductions and exemptions may apply. Please refer to Gilbert Municipal Tax Code at www.gilbertaz.gov.