

CONSTRUCTION/ CONTRACTING



This publication is for general information regarding Transaction Privilege (Sales) Tax on construction contracting. For complete details, refer to the Town of Florence Privilege & Use Tax Code and related regulations. In the case of an inconsistency or omission in this publication, the language of the Tax Code will prevail. The transactions privilege tax is commonly referred to as a sales tax; however, under Arizona State law, the tax is on the privilege of doing business in Florence and is not a true sales tax.



June 2013

YOU OWE TAX ON CONSTRUCTION CONTRACTING IF:

You are in the construction business in the Town of Florence. A contractor is considered to be in business in Florence when the construction job is in Florence corporate boundaries. Contractors report the income from each job to the Arizona city/town in which the job is located, not to the city/town in which the contractor is based.

TAX RATE ON CONSTRUCTION CONTRACTING

The Town tax rate on construction contracting is 4% of taxable income.

WHAT IS CONSTRUCTION CONTRACTING?

Construction contracting includes construction, remodeling, repairs, demolition, etc. to real property. There does not have to be a contract for the work. A construction contractor who provides only labor is subject to the same provisions as one who provides both materials and labor.

Examples of taxable contracting activities include:

- Construction or demolition of a building
- Road construction
- Land excavation and landscaping
- Installation of permanently attached equipment
- Sales and installation of floor coverings
- Off-site improvements
- Home remodeling
- Repairs to a building

- Construction for a government agency
- Construction for a church or nonprofit organization
- Fair market value of land if included in gross income (speculative builders)

Examples of items not considered construction contracting:

- Landscape maintenance, lawn mowing and pruning
- Plug-in kitchen equipment (retail)

ARE SUBCONTRACTORS TAXED?

Subcontracting income is exempt from tax. To qualify for this exemption, the subcontractor must obtain the City/Town Privilege Tax License number from the prime contractor in addition to a written declaration from the prime contractor stating that he (the prime) is responsible for the tax. The Town has the exemption certificate available which you may use to document exemptions such as this. Contractors who work for a property owner, other than a speculative builder, will be considered a prime contractor for that job.

ARE OWNER-BUILDERS TAXED?

Owners who are improving real property for themselves may or may not be the party liable for paying the tax on the construction.

A homeowner who is building his/her own principal residence would not normally be the liable party. Each of the contractors or suppliers who provide materials and/or services would be liable based on their income from the job.

A “speculative builder” who is building a home or other property for sale would be liable for tax based on the property’s sales price. If the property is not sold within 24 months of the date it was completed, the tax would be due based on the cost of construction. The tax on a home in a home builders’ inventory is not due until the home is sold, even if it exceeds 24 months.

Other owner-builders who are building from their own use would not normally be liable for the tax. Their contractors and suppliers would be the liable parties. However, the owner may be liable for some additional tax if he/she sells the property within 24 months after completion.

GROSS INCOME

A contractors tax is based on their gross income from the contracting business. Normally this will be either the total amount of the contract or the sales price of the property when it is sold. The income is taxable regardless of whether it includes labor and materials or just labor.

Contractors may report on a progressive billing basis or on a cash receipt basis. Speculative builders report the total selling price at the time of close of escrow.

DEDUCTIONS

The following are typical deductions subtracted from the gross income to arrive at the taxable income:

- Exempt subcontracting
- Out-of-Town contracting
- Privilege tax collected. If you have charged your customer tax separately, and it is included in reported gross income, you may deduct it.

The tax shall be equal to four percent (4%) of the gross income from the business activity upon every person engaging or continuing in business as a speculative builder within the Town.

For more information please refer to **Sec. 8A-416** of the Town of Florence Tax Code. Copy available upon request.

A standard 35% deduction is allowed for all income taxable as contracting. This is in lieu of an actual labor deduction. This 35% should be computed after the land (if applicable) and privilege tax deduction have been taken.

**Town of Florence
Finance Department
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General Information:

Sales Tax Rates:

State	-	5.6 %
County	-	1.1 %
Town	-	4.0 %
Total	=	10.7%

**Tax change for State
effective 06/01/2013**

EXEMPTIONS AVAILABLE FOR ITEMS YOU PURCHASE

There is an exemption from the tax on retail sales for materials which a contractor purchases for incorporation into a building or improvement that he will sell and remit tax on. This does not apply to construction equipment and tools sold or leased to a contractor. It does not apply to any other tangible personal property which is not incorporated into the actual improvements being built, nor does it apply to materials purchased directly by an owner-builder.

To Figure Town Tax:

Example:

Sales Price (excludes land)	\$100,000.00
Less:	
35% Contractor's Deduction	- <u>35,000.00</u>
Taxable Amount	\$ 65,000.00
X 4% City Tax Due	\$ 2,600.00

**For more information
please contact:**

520-868-7570 Finance Department
520-868-7505 Finance Director

This publication is for general use only. For complete details, refer to the Town of Florence Tax Code. More detailed information is also available on the “**Taxpayer Bill of Rights**” Brochure, on the town website: www.florenceaz.gov.

For payment of Sales Tax for the Town of Florence, filing, or State Licensing contact ADOR @ 1-800-634-6494, or go to www.aztaxes.gov.