



## Arizona Sales Tax on Rent

Property Management Solutions for Over 30 Years

### Overview

This document describes a method for collecting sales tax from owners on rent and other accounts for Arizona jurisdictions that tax rental related income. Tenants may also be charged to reimburse owners for the tax collected. In 2018, the Arizona Department of Revenue introduced a new and still evolving process for reporting rental income and collecting taxes. The reporting process requires the purchase of an add-on module and is covered in a separate document.

### Related Documents

The [Arizona Tax Reporting](#) document explains how to generate a CSV file to report taxes to the Arizona Department of Revenue an optional module that is available for separate purchase.

The [Arizona Business License Excel Spreadsheet](#) document explains how to use a helper report to get started on creating the business license spreadsheet used by the Arizona Department of Revenue.

### Quick Links to Topics

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[Monthly Collection of Unit Related Taxes from Owner and Property Ledgers](#)

[Write Monthly Checks for Each Tax Jurisdiction](#)

## Summary of the Tax Collection Process

Collecting and paying the tax on receipts involves determining the net income subject to the tax for each unit for the taxable period, calculating the taxable amount, and then transferring the tax from an owner or property ledger to a management group ledger. If checks are written to the tax authorities, they are written from the management group ledgers. If the state transfers money out of the bank using ACH transactions, those transactions should be recorded against the management group.

If your management firm's policy is to have the tenant reimbursement the owner for the tax, this reimbursement is a separate process from collecting tax from the owner. Landlord®

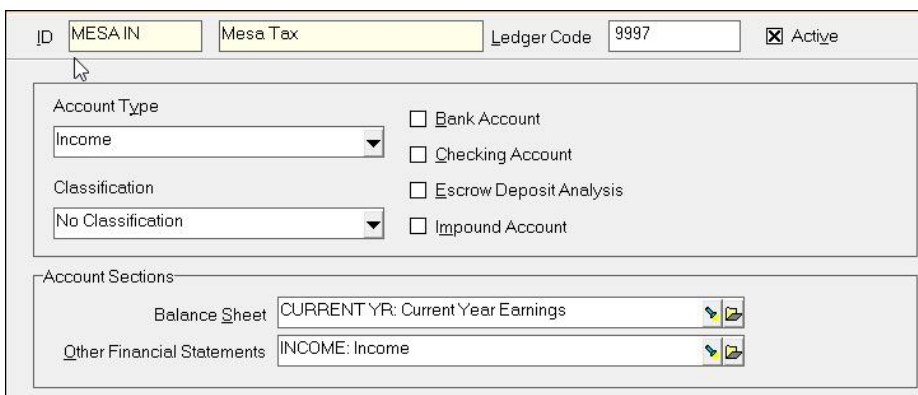
If you are collecting taxes for many jurisdictions, the setup process can be time consuming. A benefit to owning a license to our product and truly owning your data is that you may copy your database and experiment with settings on a separate computer. Different property managers have different systems in place to collect and reimburse the taxes. If you have not used our application for tax collection before, we strongly recommend that you confirm that the process described in this document works well with your in-house procedures by first testing on a copy of your database. If you need help setting up a test database or if the process does not meet your expectations, please call our help desk for assistance.

## One Time Setup for Tax Collection from the Owner

In 2018, the state of Arizona began collecting tax on behalf of the jurisdictions, but as of mid-2019 the process is evolving and for the time being we recommend tracking tax collections in separate management groups.

The first step is to set up a pair of account codes for each tax jurisdiction to transfer taxes paid from the owner to a holding ledger for the tax authority. In this example, we are using Mesa as the jurisdiction.

- Set up an account code called Mesa In: Mesa Tax with an account type of income. It will be used to receive the tax money collected from owners into a Management Group ledger for the tax authority. Create a separate account pair for each tax authority.



ID	MESA IN	Mesa Tax	Ledger Code	9997	<input checked="" type="checkbox"/> Active
Account Type					
	Income	<input type="checkbox"/> Bank Account			
		<input type="checkbox"/> Checking Account			
Classification					
	No Classification	<input type="checkbox"/> Escrow Deposit Analysis			
		<input type="checkbox"/> Impound Account			
Account Sections					
Balance Sheet	CURRENT YR: Current Year Earnings				
Other Financial Statements	INCOME: Income				

- Set up an account code called Mesa Out: Mesa Tax Paid with an account type of expense. It will be used to take the tax money from the owner. Create a separate one for each tax authority.

ID	MESA OUT	Mesa Tax Paid	Ledger Code	9998	<input checked="" type="checkbox"/> Active
Account Type					
	Expenses	<input type="checkbox"/> Bank Account			
<input type="checkbox"/> Checking Account					
Classification					
	No Classification	<input type="checkbox"/> Escrow Deposit Analysis			
<input type="checkbox"/> Impound Account					
Account Sections					
Balance Sheet	CURRENT YR: Current Year Earnings				
Other Financial Statements	EXPENSE: Expenses				

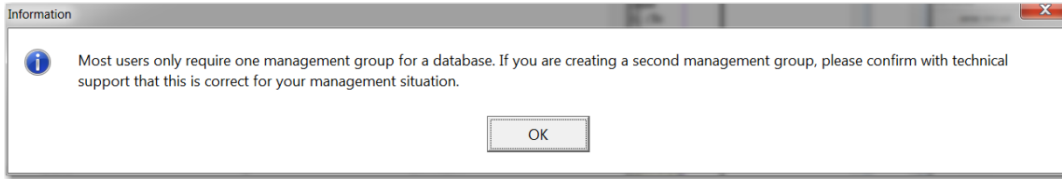
- Set up an account code called Sales Tax Paid with an account type of expense. It will be used to pay the tax authority. It should be set up like the MESA OUT expense account pictured above.
- Set up a Bill Code to point to the Sales Tax Paid account code that you can use on the check to the Tax Authority.

ID	SALES TAX PD	Sales Tax Paid	<input checked="" type="checkbox"/> Active
Account	SALES TAX PD: Sales Tax Paid		
Charge			

- Set up an Account List under <<Setup, Account List>> and add all accounts that are subject to the tax. It will be used to calculate the amount of tax owed to the taxing authority.

ID	TAXAZ	Taxable Income
Account	RENT: Rent	
Account	VENDING: Vending Proceeds	
Account	HUD RENT: Rent - HUD	
Account	HAP RENT: Rent - HAP	

- Set up a Tax Collections Management Group. It is where the collected tax will accumulate. This keeps the collected taxes separate from your management fee and other company income. You can create one management group for all tax jurisdictions or a separate management group for each tax authority. Say OK to the warning message.



ID	AZ TAX	AZ Tax Collection	Status	Active
Remittance Address		Additional Letterhead Information		
PROMAS 311 Maple Ave West Phoenix, AZ 85003 85003 ZIP <input type="checkbox"/> Foreign		Work Order		
Accounting				
Posting Table	STANDARD: Standard			
Accounting Method	Cash			
Start of Year	1/1/2017			

- Under <<Setup, Categories>> set up a Category for each tax jurisdiction. This will be used to identify which units are subject to tax collections. Instead of categories each unit has a Region field that can be used instead.

Name	Mesa Tax	Sort Position	
Section		Category is a Label	<input type="checkbox"/>
Category Type	General	Category is a Note	<input type="checkbox"/>
Alert Type	None	Profile Specific	<input type="checkbox"/>
Reminder Type	None	Hero PM Code	
Comment			
<input type="checkbox"/> Comment is a Template for New Categories			

- Method 1: Assign the category to the applicable units. In the Unit Profile, add a category. We recommend that you enter the payer's tax ID in the Qualifier field. This will either be the owner's tax ID or yours.

The screenshot shows a software interface for a unit profile. At the top, there are fields for 'ID' (TMAPLE), '11349 W Maple St', 'Key', and 'Status' (Active). Below these are 'Upload Manager' and 'Inspections' buttons. A tabbed menu at the bottom includes 'General', 'Comment', 'Emergency', 'Inspection', 'Listing', 'Maintenance', and 'Welcome'. The 'Inspection' tab is active, showing a 'Category' dropdown set to 'Mesa Tax', an 'Effective' date field, a 'Qualifier' text field containing '12345678', and an 'Expires' date field. A 'Comment' field is also visible at the bottom.

- Method 2: On the State Taxes tab enter the information for License and Location. The Region will be used in the Recurring Transfer record instead of the category.

The screenshot shows a software interface for state taxes. At the top, there are fields for 'ID' (10 WAY), '6226 N 10 Way', 'Key', and 'Status' (Active). Below these are 'Upload Manager' and 'Inspections' buttons. The main form area contains four input fields: 'License' with the value '21299128', 'Location' with '001', 'Region' with 'FX', and an empty 'Note' field.

- Under <<Setup, Recurring Transfer>> set up a Recurring Transfer profile. A recurring transfer is used to calculate the tax, collect it from the owners, and transfer it to the management group set up for each jurisdiction. Make sure you check the “Used for Tax Collection” box and set the alternate payee to the appropriate management group that collects the taxes. Keep in mind that the collection of taxes is separate from tenant reimbursement for taxes.
  - a. You can use the Category or the Tax Region to restrict the Transfer to the appropriate group.

**Mesa Tax [Recurring Transfer]**

ID: MESA    Mesa Tax     Used for Tax Collection

**Schedule**

Schedule: Monthly  
 Next Scheduled: 6/30/2021  
 Schedule Expires:   
 Delay in Days: 14

**Transfer Amount**

Percentage: 2  
 Minimum:   
 Maximum:   
 Round to Nearest Dollar:   
 Include if No Calculated Amount:

**Posting Information**

Debit Account: MESA OUT: Mesa Tax Paid  
 Credit Account: MESA IN: Mesa Tax  
 Alternate Payee: AZDOR TAX: AZDOR Tax Collection  
 Reference:  Transfer From Management Group  
 Memo:   
 Source Account:   
 Source List: TAX AZDOR: Taxable Income  
 Limit to Category: Mesa Tax  
 Limit to Tax Region:

**Mesa Tax [Recurring Transfer]**

ID: MESA    Mesa Tax     Used for Tax Collection

**Schedule**

Schedule: Monthly  
 Next Scheduled: 6/30/2021  
 Schedule Expires:   
 Delay in Days: 14

**Transfer Amount**

Percentage: 2  
 Minimum:   
 Maximum:   
 Round to Nearest Dollar:   
 Include if No Calculated Amount:

**Posting Information**

Debit Account: MESA OUT: Mesa Tax Paid  
 Credit Account: MESA IN: Mesa Tax  
 Alternate Payee: AZDOR TAX: AZDOR Tax Collection  
 Reference:  Transfer From Management Group  
 Memo:   
 Source Account:   
 Source List: TAX AZDOR: Taxable Income  
 Limit to Category:   
 Limit to Tax Region: Mesa

## One Time Setup for Tax Reimbursement from the Tenant

Note that the names and descriptions for the account and charge code names are suggestions. You may use more meaningful names if you choose.

- Set up an account code called Rent Tax Reimbursement as an income account. This is the account that will be used receive money tax reimbursements from the tenants.

The screenshot shows the 'Account Setup' form for 'RENT TAX'. The ID is 'RENT TAX', the description is 'Rent Tax Reimbursement', and the Ledger Code is '9999'. The account is marked as 'Active'. Under 'Account Type', 'Income' is selected. Under 'Classification', 'No Classification' is selected. The 'Account Sections' section shows 'Balance Sheet' set to 'CURRENT YR: Current Year Earnings' and 'Other Financial Statements' set to 'INCOME: Income'.

- For each tax jurisdiction, set up a tax charge code to point to the rental reimbursement account. These will be used to charge the tenant for the tax and credit the owner with the tax paid by the tenant.

The screenshot shows the 'Tax Charge Code' setup form. The ID is 'RENT TAX' and the description is 'Rent Tax Reimbursement'. The account is marked as 'Active'. The 'Account' field is set to 'RENT TAX: Rent Tax Reimbursement' and the 'Payoff Priority' is 'Normal'. On the right, several checkboxes are present: 'Subject to Late Charges', 'Subject to Management Fees', 'Taxable', 'Use to Track Deposits', 'Earns Interest as a Deposit', and 'Pay Management Group', all of which are currently unchecked.

- Set up a rate table to charge tenant each time rent is charged. Mark the <Pay to Owner> checkbox. You will need a rate table for each tax jurisdiction. For example, Mesa, Chandler, and Tempe. We are using Mesa for the example.

The screenshot shows the 'Rate Table' setup form for 'MESA'. The ID is 'MESA' and the description is 'Mesa Rental Tax'. Under the 'Taxes' section, there is a table with columns for 'Tax Charge' and 'Tax Rate (%)'. The first row shows 'RENT TAX: Rent Tax Reimbursement' with a rate of 1.75% and the 'Pay to Owner' checkbox checked. There are four empty rows below it, each with an unchecked 'Pay to Owner' checkbox.

- Select this rate table on the Lease tab in the Tenant profile for every tenant that is responsible for reimbursing the tax.

## Monthly Collection of Unit Related Taxes from Owner and Property Ledgers

- Go to <<GL, Scheduled Journal Entries>>. Mark the radio button for Tax Collection. Click <Compile>. The amount of tax to be paid is based on the unit-specific rent income transactions for each ledger.

**Scheduled Journal Entries**

Recurring Journal Entries  
 Recurring Transfers  
 Reconcile Property Management Fees  
 Tax Collections

Scheduled Through: 2/1/2018

Limit to Schedule: [Dropdown]

Restrict to: [Text Field]

Date	Payer	Transfer Amount
3/14/2018	1MAPLE: 11349 W Maple St	\$39.88
	Payee: AZ TAX: AZ Tax Collection	
	Source: AVONDALE: Avondale	

Buttons: Skip, Edit Source, Calculations

- You may click the <Calculations> button to view details of the calculations.

```

-----
Calculations
-----
Calculated for 1MAPLE: 11349 W Maple St [Unit]

to          2/1/2018  Period Start
            2/28/2018  Period End
-----
=                28  Days in Period

            $1,595.00  Rent
-----
=                $1,595.00  Source Amount

            $1,595.00  Source Amount
%                2.5    Percentage
-----
=                $39.88  Avondale
  
```

- Click the <Post> button to post the transactions. Once posted, the collected tax will have been transferred from the Owner and Property ledgers into the Management Group ledgers for each tax jurisdiction. You can run an income summary or income details report under <<Reports, Management Group Reports>> to determine how much to write the Tax Authority check for, or you can use the report printed from the Recurring Journal Entry screen.

Post Date	Account	Debit	Credit	Cross Reference	Payer / Payee	Source
2/14/2018	Mesa Tax		\$14.88	7 AV: 117 E 7 Av		Journal
2/14/2018	Buckeye In		\$14.70	NARRA: 20442 W Narramore		Journal
2/14/2018	Phoenix Tax		\$14.38	15 AV #3: 4739 N 15 Av - #3		Journal
2/14/2018	Glendale Tax		\$14.30	OREG 5960: 5960 W Oregon Av		Journal
2/14/2018	Glendale Tax		\$14.30	PALO KV2: 4775 W Palo Verde		Journal
2/14/2018	Glendale Tax		\$14.30	PUGET: 5018 W Puget Av		Journal
2/14/2018	Glendale Tax		\$14.30	RANCHO DR: 4870 W Rancho D		Journal
2/14/2018	Phoenix Tax		\$14.08	COOL #10: 2340 W Coolidge S		Journal
2/14/2018	Phoenix Tax		\$14.08	COOL #2: 2340 W Coolidge #2		Journal
2/14/2018	Phoenix Tax		\$14.08	COOL #3: 2340 W Coolidge #3		Journal

Date	Description	Amount	Balance
2/1/2018	Beginning Balance		\$0.00
<b>Income</b>			
	Phoenix Tax	\$4,694.72	
	Glendale Tax	\$1,039.96	
	Scottsdale Tax	\$392.60	
	Mesa Tax	\$178.58	
	Chandler Tax	\$165.24	
	Peoria Tax	\$149.58	
	Goodyear Tax	\$89.88	
	Gilbert Tax	\$87.23	
	Surprise Tax	\$82.39	
	Tempe Tax	\$54.90	
	Tolleson Tax	\$31.25	
	Avondale Tax	\$27.38	
	Buckeye In	\$14.70	
	<b>Total Income</b>	<b>\$7,008.41</b>	
	<b>Net Income (Loss)</b>	<b>\$7,008.41</b>	
	<b>Net Balance Change</b>	<b>\$7,008.41</b>	
2/18/2018	Ending Balance		\$7,008.41

## Write Monthly Checks for Each Tax Jurisdiction

Write a check to the tax authority using the appropriate Management Group as the Bill To and the Bill Code you create earlier.

Posting Date 2/18/2018  Hand Written  
Invoice # FEBRUARY 18, 2018  
Payee AZDOR: Arizona Department of Revenue [Vendor] Vendor  
Bank CHECKING: Bank Account Checking  
One Time  
Memo  
Work Order  
Check Number  
Discount (%)  
Discount (\$)  
1. Invoice 2. Payee Address & Comments  
Bill To AZ TAX: AZ Tax Collection [Management Group] Management Group  
Bill Code SALES TAX PD: Sales Tax Paid  
Amount \$7,000.00  Split Charge with Owner

Note that the check you write to the Tax Authority is based on the transactions in the Tax Management Group. If you discover that one of the units had the wrong category assigned, that means that both the report and the journal transfer were wrong. Voiding the check only voids the check. It does not affect the journal entries or the report.

To correct the journal entry:

- Void it out of the Tax Management Group ledger. Then use <<GL, Journal Transfer>> to move the money from the owner ledger to the correct Tax Management Group ledger.

To correct the report:

- Go into <<Setup, Recurring Transfer>>. Edit the transfer record that was incorrect.
- Note the Next Scheduled Date. Set the Next Scheduled Date back one month. Save
- Go to <<GL, Scheduled Journal Entries, Tax Collections>>. Compile for the same date you originally used.
- Print the report but DO NOT post the transactions.
- Go back to <<Setup, Recurring Transfer>>. Edit the transfer record and change the Next Scheduled Date back where it was.