A 35% standard deduction is allowed for all income taxable as construction contracting. Labor charges are not deductible. The 35% standard deduction is computed after privilege (sales) tax, subcontracting and out-of-city contracting have been subtracted from gross income. When reporting 35% standard deduction use code 70 on the back of the return.

When reporting remediation contracting use deduction code 75 - 78 on the back of the return and provide a written description.

All deductions must be listed on the back of the return within Schedule A under the activity code of 15 for Contracting.

Note: The Chandler Code does not allow a deduction for land when real property is sold.

Factoring Sales Tax

The following factor may be used to calculate the total tax included in gross contracting income.

The factor is based on a combined state, county and city tax rate of 7.8%.

For contracting income that does not include the sale of land:

Total sales tax = .04825355 x gross income

The factored tax must be subtracted from the gross income prior to the calculation of the 35% Standard Deduction.

For contracting income that does include the sale of land, contact our office for a copy of the formula and a sample calculation.

Due Date

Tax Returns are due by the 20th of the month following the reporting period (monthly, quarterly or annually). A return is due even when no income is received. Returns not received and paid by the last working day of the month will be subject to late penalties and interest charges.

If you have any questions, please call (480) 782-2280.

NOTE: This information sheet is meant to be a guideline only. For complete details, refer to the City of Chandler Tax Code and related regulations. In case of inconsistency or omission in this brochure, the language of the Tax Code will prevail. You can request a copy of the Chandler Tax Code by calling or writing to the address on the front of this brochure; **or** you can obtain a practitioner's copy of the Model City Tax Code from the League of Arizona Cities and Towns, which includes the code options for all cities in Arizona. The taxable activities for Chandler may differ from the state and other Arizona cities. **You are urged to contact each jurisdiction individually.**

August 2001—supercedes all previous brochures.

City of Chandler License & Sales Tax

Privilege Tax Guidelines

Construction Contracting

Chandler • Arizona
Where Values Make The Difference

Mailing Address:
Mail Stop 701
PO Box 4008
Chandler, Arizona 85244-4008

Location:
Suite 105
55 North Arizona Place
Chandler, Arizona

Phone (480) 782-2280
Fax (480) 782-2295
TDD (800) 367-8939

A construction contractor is any person who, by himself or through others, improves, constructs, alters, repairs, adds to or subtracts from real property. Contracting activity is taxable at the location where the work is performed.

For Chandler Tax purposes, there are two major categories of persons involved in improvement to real property:

Owner-Builder

Any owner of real property who constructs (or has constructed) improvements to real property. An owner-builder becomes a Speculative Builder* if he sells the improved real property within twenty-four (24) months after the improvement is substantially complete. Owner-builders who do not sell the improved property within 24 months are subject to the tax on all materials and construction for the project. This tax is due during the 25th month after the construction is completed.

*Speculative Builders, including home developers, are liable for tax on the full sales price at the close of escrow or transfer of title, whichever is earlier. Sales of improved land and reconstructed property are also subject to the tax under the speculative builder activity.

Construction Contractor

Any person other than an owner-builder who constructs (or has constructed) improvements to real property. Gross income derived from acting as a subcontractor is exempt from the tax.

Contractors who work for a property owner (not another contractor or speculative builder) will be considered a prime contractor for that job.

To qualify as a subcontractor, you must obtain a written statement from the prime contractor or owner-builder for whom the work is performed, which includes the following:

- 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 and City of Chandler Transaction Privilege Tax License numbers; and
- in the case of work performed for an owner-builder, a statement that the owner-builder is improving the property for sale.

Distinction Between Contracting and Retail

Repairs, replacements, additions, or deletions to real property or anything permanently attached to real property is construction contracting.

Installation of floor covering, paint, wallpaper and cabinets is construction contracting.

The sale of consumable goods incorporated into or applied to real property is considered a retail sale. Examples of consumable goods are lubricants, washers and refrigerant.

Sale and installation of interior window coverings (drapes, mini-blinds, etc.) is retail activity.

Contracting Activities Include

- Construction or demolition of a building
- Road construction
- Sales of improved land
- Land excavation and landscaping installation (but not maintenance)
- Construction for government agencies (federal, state and local)
- Construction for schools, churches and nonprofit organizations
- Home remodeling (including painting, wiring, plumbing, wallpapering, repairs, etc.)
- Installation of solar energy devices
- Repair of air conditioners, plumbing, etc.
- Labor only contracts involving any of the above

When Construction Contracting is Taxable

Construction contracting is considered to be taxable in Chandler when the construction job is located in Chandler. Gross income from construction contracting is reported to the city where the work is performed.

Tax Rate

1.5% of gross receipts less allowable deductions.

Deductions

The following items are allowable deductions from gross income to arrive at taxable income.

Subcontracting income is exempt from tax when qualifying conditions previously described are met. When reporting subcontracting use deduction code 71 on the back of the return.

Out of City construction contracting income may be deducted if income from jobs completed in cities other than Chandler is included in the gross income reported. When reporting out-of-city construction use deduction code 62 on the back of the return.

Privilege (sales) tax collected is deductible. If sales tax was separately stated when the customer was billed, and the tax is included in the gross income reported, it can be deducted. If the total contract price included sales tax, but the tax was not separately stated (i.e. a lump sum amount), the appropriate sales tax can be "factored." To find the amount of tax in the total contract price, see the instructions for "factoring sales tax" that follow. For sales tax collected or factored use deduction code 64 on the back of the return.