

ARIZONA SALES TAX ALERT

New Private Taxpayer Ruling holds that property managers in Arizona may be liable for sales tax when arranging or organizing build outs or tenant improvements.

In a private letter ruling issued on July 8, 2008 but only recently made public, the Department ruled that a property manager that supervised or coordinated modifications to real property was subject to the state sales tax (transaction privilege tax) as a construction contractor.

<http://www.revenue.state.az.us/ResearchStats/privaterules/08-005-D.pdf>

Most commercial property managers arrange for building repairs or building modifications for their tenants, rather than having their tenants contract directly with construction contractors. According to the Arizona Department of Revenue this makes property managers subject to sales tax as construction contractors.

The letter ruling. The property manager was responsible to obtain all goods and/or services from third-party vendors necessary to operate the properties being managed for a particular client. Examples of such goods and services include: landscaping services; washroom supplies; and elevator maintenance services. Additionally, the property manager also supervised and coordinated the modification of real property for its clients.

The property manager received invoices for these goods and services from the third-party vendors, and presented the invoices to the client for approval. All invoices include separate and distinct charges for sales tax.

Arizona, unlike most other states, imposes a sales tax on construction contractors under its prime contracting classification. Prime contractors are those contractors who are responsible for completion of the construction project to the property owner. The tax is calculated on 65% of the total revenue from the project.

The Department held that the property manager, by organizing and supervising the modification of real property was liable for sales tax on the project, regardless of the fact that the actual construction contractor may have charged tax on the project.

Result for property managers. Property managers that have organized or supervised real property modifications may be liable for sales taxes for the past four to six years or more, if tax returns were not filed with the state. For each \$1 million project the potential tax is at least \$50,000 plus potential interest and penalties that may double the amount due to the Department.

Actions: Property managers should review their records to determine their possible tax liability under this ruling. The tax professionals at the **Paradigm Tax Group** can work with the Department of Revenue



to minimize your past tax liabilities. **Paradigm Tax Group** is a national consulting firm specializing exclusively in providing taxpayers of commercial, industrial, multi-residential, and special purpose properties with full-range property assessment and tax management services. We began as a "Big 4" National Property Tax Services Practice and now we are an independent firm. We have a strategic national reach with [21 offices](#) across the United States. Check out our website at <http://www.paradigmatx.com> for more information.

Should you have any questions regarding this *Sales Tax Alert* or how the **Paradigm Tax Group** could assist you with this tax issue or any other state and local tax issue please contact Holly Unck at (602) 427-4059 or hunck@paradigmatx.com.

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