



Elimination of TPT Going Into Effect

Effective January 1, 2025

The State Legislature passed Senate Bill 1131 which prohibits local governments from imposing Transaction Privilege Tax (TPT) or sales tax on long-term residential rentals. This bill was signed into law by the Governor during the 2023 legislative session. Below is a summary of the bill. To view the full text, click [here](#). The elimination of the TPT is estimated to be approximately \$230 million savings to renters annually.

The Arizona Department of Revenue (ADOR) has recently issued notices to property management companies and owners of residential rental properties regarding the expiration of a specific tax and instructions on how to handle TPT licenses with the Department. This guidance addresses some of the questions about ADOR's implementation of the new law.

Notify residents that the TPT on rent is going away on January 1 and their total payment will be reduced by the taxable amount. If the tax reduction does occur at the same point in time of a schedule rent increase (renewal) the communication should note the amount the monthly payment is being reduced as a result of the TPT elimination as well as any base rent adjustment. It is very important to show the TPT savings not roll the two items together.

According to ADOR, if a licensee is only engaged in business code 045 (rental of residential real property for 30 or more consecutive days) and no other business activities, the license should be canceled. This can be done by selecting "Close Your Account" on www.AZTaxes.gov or by marking "Final Return" on Form TPT-EZ when filing the last return for the year, which will be for December 2024, filed in January 2025.

For 2025 license renewals, ADOR will not renew licenses for taxpayers registered solely for residential rental activities. Note that hotels, motels, and other transient lodging businesses that offer stays of fewer than 30 days are still required to collect and remit TPT under the transient lodging or hotel classification. If you offer short term rentals on your properties you will want to keep the TPT license for rentals less than 30 days.

Please be aware that canceling the license does not exempt licensees from any previous tax liabilities or unreported taxes. If there are outstanding liabilities, enforcement actions may be taken. Payments for taxes collected, such as those from tenant payments not fully made by the end of 2024, should still be directed to ADOR.

Regarding taxes on utilities, if your utility provider or billing company assesses taxes on utilities, this is still a valid charge to pass on to tenants. However, if you use Ratio Utility Billing Systems (RUBS) or Flat Rate utility billing, tax should not be applied to those charges. The recent law changes do not remove taxation on utility charges, only on rent-based charges. Utility providers remain responsible for reporting the tax income to ADOR.

Always consult your CPA, accounting department and legal team when communicating these changes to your residents. We also recommend that you inform your residents of these changes to their payment amounts at least 30 days before January 1, 2025. You are not required to amend or sign a new lease; simply discontinue the tax charge.

If you have any questions about the bill, please feel free to contact Courtney LeVinus or Mark Fitzgerald. Contact information is as follows: clevinus@azmultihousing.org or mark@azcapitolconsulting.com
