



**CITY OF DOUGLAS  
TRANSACTION PRIVILEGE TAX ORIENTATION**

*“Douglas – the premier southwestern border community.”*

**CITY OF DOUGLAS**  
**TRANSACTION PRIVILEGE TAX ORIENTATION**

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**CITY OF DOUGLAS**  
**TRANSACTION PRIVILEGE TAX ORIENTATION**

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**TRANSACTION PRIVILEGE TAX ORIENTATION**

**A. COMPLETION OF THE RETURN** (See Exhibits A and B)

The column titled Business Description identifies your type of business and is preprinted. The next column, labeled Line, refers to the rows (or lines) on the return. The rows are used to complete the back of the return when there is more than one business class. The lines also assist in arriving at the subtotal. A stat code is assigned to the business activity, and is preprinted in the column titled Business (Bus.)Class. The column labeled Region Code is the two digit location suffix which is preprinted.

**1. Gross Income**

Column 1, Gross Income, is defined as income received or earned before any expenses. It is not gross profit nor net income. Enter the gross income from each business class and suffix. If you report on the cash basis, enter the total amount received, including draws for construction contracting. If you report on the accrual basis, enter the total amount per customer invoices, including progressive billings for construction contracting.

**Do not round numbers.** Use exact dollars and cents.

If you have no income to report, check the box above column 1 and sign the return.

**2. Deductions**

Column 2, Deductions, is the total of the deductions for each applicable business class from the last row on the back of the return (Total Deductions).

On the back of the return, there are five columns which correspond to the five lines on the front of the return for the business class. Enter the preprinted business class code above each line in the space provided.

There are 19 deductions printed to the left of the columns. Enter the amount of each deduction on the appropriate deduction line for each applicable business class. The column with the deduction codes is for internal use. If a deduction which you are allowed to claim is not listed, enter the name of the deduction on the line for "other", and enter the amount in the column relating to the business class. Examples include Commissions. **The deductions must be included in the reported income and then subtracted.**

**Deductions which are not itemized on the back of the return will be disallowed.**

**3. Taxable Income and Tax Due** (See Exhibits C and D)

Subtract total deductions in column 2 from gross income in column 1, and enter the result in column 3. This amount is subject to tax.

$$\text{Gross Income minus Total Deductions} = \underline{\text{Taxable Income}}$$

In column 4 is the preprinted tax rate for each business class. Convert the tax rate to a decimal when computing the tax amount. For example, 2.8% becomes .028; and for hotels/motels, 4.8% becomes .048 (This is adding the Transaction Occupancy Tax, 2% and Hotel/Motel Tax 2.8%)

Multiply the taxable income from column 3 by the tax rate for each business code.

$$\text{Taxable Income} \times .028 = \text{Tax Due}$$

$$\text{Taxable Income} \times .048 = \text{Tax Due}$$

Enter the result in column 5, Tax Amount. If your return consists of more than one page, enter on line 5 the total of the tax amounts in column 5 from the additional pages. Add lines 1 through 4 in column 5 and enter the result on line 6 for the Total from Additional Pages. Add Lines 5 and 6 on Line 7. This is to add the Total on current page and total from additional pages (if any).

In order to "proof" that the computation of tax due is correct:

$$(\text{Total Tax Collected} / 9.9) \times 2.8 = \text{City Tax Due}$$

$$(\text{Total Tax Collected} / 11.85) \times 4.8 = \text{City Tax Due for hotels}$$

Use the deduction for Sales Tax Collected or Factored, or the tax amount from your records for total tax collected. Compare to the tax due per return. They should agree.

Note that if certain income is subject to only the state and county tax, that income must first be backed out before verifying city tax due.

#### **4. Excess Tax Collected** (See Exhibit E)

Excess tax collected results when more tax was charged than required. Remit the city portion to the city and the state and county portions to the state.

$$((\text{Tax collected minus tax due}) / 9.9) \times 2.8 = \text{Excess city tax}$$

$$((\text{Tax collected minus tax due}) / 9.9) \times 7.1 = \text{Excess state/county tax}$$

Enter the amount of Excess City Tax Collected on line 8.

#### **5. Payment of Tax**

Add the subtotal from line 7 and excess tax collected from line 8. Enter the sum on line 9 for the Grand Total.

Penalty and interest are assessed for late or unpaid taxes. Refer to page 8 of the handout for an explanation of how they are calculated. If you want the City to compute the penalty and interest, then leave line 10 blank.

Add the amount on lines 9 and 10 and Enter Total Liability on line 11.

If you received a notice of a credit balance or balance due, enter the amount to be applied to the tax due on line 12.

Subtract or add the amount on line 12, Balance Due or Overpayment from Prior Tax Periods, if applicable, from the Total Liability, line 11, to get Net Amount Due on line 14.

*This is only for speculative builders and Utility companies:*

*For speculative builders, please apply amount of city tax already paid on line 13. And for Utility companies please apply franchise fees offset on line 13. Line 13 amount should be subtracted by the Total Liability on line 11 and also add/subtract any balance due or overpayment from line 12; the amount from the equation should be placed on line 14*

Enter the total amount of the check on line 15. Make the check payable to City of Douglas and write the taxpayer number on the check. Date and sign the return.

Submit the original return, and retain a copy for your records.

## **6. Changes**

Changes can be reported by checking the box “check here if any changes in account status and complete the back of this form” in the top middle of the return. If there is a change in the business location or mailing address, or if you closed or sold your business, please make the change in the back of your return. If the business was sold, show the name, address, and phone number of the new owner. If you want your license canceled, indicate the reason and effective date.

Note that if the physical location has changed, you must complete a new application and pay the \$25 fee. The license number will remain the same if ownership has not changed.

## **7. Contracting Definition**

Contracting is any improvement to real property. The item is attached or installed on real property, and cannot be removed when the owner moves.

The method of payment, such as, hourly or bid, and possession of a contractor license are irrelevant.

Examples of contracting include floor covering, plumbing, painting, and landscaping.

If the initial job was contracting, then any additional work, such as repair and removal, will be contracting, even if no materials are involved.

*Sixty-five percent of the total job is taxable.* Regardless of the actual labor involved, only 35% can be deducted.

## **B. SPECIFIC DEDUCTIONS**

### **1. Factoring of Sales Tax** (See Exhibits F and G)

The seller has the option to either pay the tax from the business proceeds, or pass on the tax to the buyer.

If the seller charges the tax to the customers, the amount collected can be deducted as **sales tax collected**. Either total the amount of tax from the invoices or the register tape totals, or obtain the amount from the ledger account or journal total.

If the seller absorbs the tax, or the tax is included in the sales or contract price, a deduction is still allowed by **factoring** the tax.

There are two methods to factor the tax for retail sales:

1. Income subject to tax X .09008189(for the 9.9 rate) = tax to deduct.

Refer to the chart (Exhibit I) to obtain the factor.

2. Income subject to tax / 1.099 = taxable income\*

Taxable income X .099 = tax to deduct

\* DO NOT MULTIPLY, because the tax is assumed to be included in the gross.

Be sure to use the correct tax rate if your business is a hotel/motel.

For contracting income:

(Gross income minus applicable deductions) X .06045944 =  
tax to deduct (See Exhibit I for factors.)

### **2. Out of City Retail Sales** (definition on page 25 of Tax Code)

#### Location In City

If the retail business is located within the city limits, you cannot claim this deduction. The location of the buyer is irrelevant. Note the three criteria on page 25 of the Tax Code in order for the deduction to be valid.

#### Outside of City (See Exhibit J)

If your business is located outside the city, the location of the buyer determines the amount of city tax to collect. You are entitled to the out of city deduction if the sale does not occur within Douglas

and the inventory is not in the city. If you mail or deliver the item to a customer in the city, you must charge the city tax and remit it to Douglas.

If you have customers in various cities, you must collect the applicable tax for that city, and remit the tax to the city in which the sale occurred. Do not remit it to Douglas.

You must obtain a sales tax license from the city in which the buyer is located. If the buyer is not in Cochise County be sure to collect the correct county tax.

The Department of Revenue collects the city tax for several cities, called "program cities". In this case, you report the city tax on a separate line on the state return. (Refer to the instructions for the state return.)

**3. Out of State Sales** (definition on page 25 of Tax Code)

All four criteria must be met in order to claim this deduction:

1. Order is placed from outside the state,
2. By a nonresident, *and*
3. Delivered outside the state, *and*
4. Payment is received from outside the state.

In the event that you are audited, invoices must reflect these criteria. The burden of proof is on the business. (Refer to Reg. 3.04.350.3 on page 68.)

**4. Government Sales** (see Sec. 5.04.465n on page 63)

**Retail** sales to the federal government by a manufacturer, modifier, assembler, or repairer are exempt. Retail sales to the federal government made by any other person are fifty percent exempt. The deduction applies **only** to the retail category. All other government entities are no longer exempt.

**5. Exempt Institutes** (see Sec. 5.04.270 on page 12-13)

This exemption applies to nonprofit qualifying community health centers, nonprofit qualifying health care organizations, and nonprofit qualifying hospitals.

There is NO exemption of city tax for contracting labor, advertising, and transient lodging for hospitals, qualifying community health centers, or qualifying health care organizations.

**6. Sales to Native Americans** (see Reg. 5.04.100.4 on page 100)

If all the following conditions are met, sales to Native Americans and tribal councils are exempt as out of state sales.

1. Solicitation and placement of the order occurs on the reservation; *and*
2. Delivery is made to the reservation; *and*
3. Payment originates from the reservation.

### **7. Sales Returns** (Sec. 5.04.240 on page 35; see Exhibits K,L)

An amount refunded for an item returned by a customer can be taken as a sales return deduction, provided that the amount refunded was included in taxable income in a prior reporting Period. To figure the deduction amount, report the amount refunded **including tax** (assuming that you included tax in the gross income and took a deduction for sales tax in a prior period. For the sales tax collected deduction, show sales tax refunded as a **negative** amount (or subtract from the amount of tax being deducted).

It is possible that the sales return may exceed income.

### **8. Freight In versus Freight Out** (see Sec 5.04.100.2 on page 99)

Charges for delivery from the manufacturer to you, the vendor, is freight in. This is considered part of the cost of sale and cannot be deducted. It should be added to the sales price if the charge is passed on to the customer.

Charges for delivery from you, the seller, to the buyer is freight out. This is deductible if the charge is listed separately on the invoice.

In addition, "trip charge" or travel is deductible if separately shown on the invoice.

### **9. Bad Debt Write Off** (see Sec. 5.04.230(b) on page 35)

This deduction generally applies only to accrual basis reporting. However, if you report on the cash basis, and included in income are checks which in the next month are returned due to insufficient funds, then you can claim this deduction.

Income must have been reported as taxable income. For example, if in June gross income included a sale for resale which was deducted as nontaxable, and six months later it was determined that the amount was not collectible; the deduction for bad debt cannot be taken because the income was already deducted in June.

If the taxpayer is on the cash basis method where income is not reported (recognized) until received, and a year later it is determined that the amount cannot be collected, you cannot take a deduction for a bad debt because you never reported the amount as taxable income.

Any amount which is subsequently collected on a write off account is to be included in gross income for the month in which it was collected. Do not deduct the expense of collection.

### **10. Service Labor** (see Sec. 5.04.465.1)

The **service labor** deduction applies to retail businesses only; the labor charge must be separated on the customer invoice. Labor to produce or manufacture a product cannot be deducted because the labor occurs prior to the transfer of property.

### **11. Gasoline Sales**

The deduction for **gasoline sales** applies only to businesses engaged in sales of gasoline, such as, service stations.

## 12. National Advertising

The deduction for **national advertising** applies only to businesses which are engaged in advertising, such as, television and radio stations. This deduction does not mean that you can subtract advertising expenses.

## 13. Standard 35% Contractors Deduction

This deduction is computed last. (Refer to Exhibit M)

First, subtract from gross income all income which is not subject to city tax, such as, out of city jobs, and subcontract income.

Second, multiply the net receipts (income subject to city tax) by .06045944 (contracting factor for 9.9%) to obtain the total sales tax to deduct for sales tax factored.

Third, subtract the total sales tax (deduction code 551) from the net income. Multiply the result by 35% (.35); this is the "labor" to deduct as the standard 35% contractors deduction. Even though it may be more or less than the actual labor, you must deduct 35%.

## C. REPORTING

1. In the upper right corner of the return, "**Period Covered**" is listed. If you file monthly, the beginning of the month (From) and the last day of the month (Through) are printed.

If your filing status is quarterly, the first day of the first month in the quarter and the last day of the last month of the quarter are printed. For example, 10/1/2010 through 12/31/2010 would be printed for the fourth quarter of 2010 (October, November, and December).

When reporting on a quarterly basis, do not list each month of the quarter with the corresponding income. Report the combined income for the three months on one line.

Even though you may not have had any sales in the reporting period, **you must still file the return.**

### 2. Due Date

The return is due on the 20<sup>th</sup> of the month following the period in which the tax accrues. In other words, you have 20 days to complete the return. For example, if your filing status is monthly, the return for reporting income received in February is due by March 20th. However, the return is still considered timely if it is **RECEIVED** by the last **business** day of the month. The postmark date determines whether the return is considered received timely:

1. Postmark date must be used as there is a state law that requires it.

### 3. Accounting Methods

There are two methods of accounting. On the **accrual** basis, you report income when revenue is earned.

If you are a retail business or a construction contractor, and you use the accrual basis, report income based on the customer invoice date, or on progressive billing if a general contractor.

On the **cash** basis, you report income when payment is received.

A general contractor on the cash basis must report each draw when received.

For audit purposes, it is recommended that you file your sales tax returns on the same basis that your accounting records are maintained. The burden of verification is on the taxpayer. Invoices or contracts should be filed (organized) according to the reporting method.

General contractors must report either on a progressive billing (accrual) basis or cash receipts basis. **Even though the accounting records are maintained on the completed contract basis, you must report either when you bill the customer or when draws are received.**

Speculative builders report the sales price at close of escrow or at transfer of title, whichever occurs earlier. If escrow closes June 30 but proceeds are not received until July 1, you must report the sale on the report for June - not July.

#### **4. Penalties and Interest**

##### Failure to file penalty

Failure to file penalty is 5% of tax due on the return per month or fraction of a month beginning on the first day of the month of delinquency. This penalty, combined with the failure to pay penalty cannot exceed 25%.

##### Failure to pay penalty

Failure to pay penalty is 10% of tax due of the delinquent month. This penalty, combined with the failure to file penalty cannot exceed 25%. If a portion of the tax is paid with the return the penalty is on the balance of the tax not paid.

##### Interest

Interest is calculated at the ADOR rate posted on their web site that is the same as the required interest rate per your code. Interest accruing each year is compounded into tax January 1 of every year

Sec. 5.04.540 on pages 73 lists circumstances under which penalties can be abated. Penalties will most likely be waived if past returns have been filed and taxes paid in a timely manner. To request a waiver, submit a written request with an explanation to the Sales Tax Administrator within 45 days following imposition of the penalty.

#### **D. OTHER**

##### **1. Exemption Certificates (Exhibits N, O)**

When a retail business makes a sale for resale, which is not subject to tax, a City of Douglas exemption certificate should be completed by the purchaser. The certificate serves as proof of exemption. The City also recognizes the exemption certificate which is issued by ADOR; however, the purchaser is always required to possess a city license if s/he conducts business in Douglas. Additionally, businesses from Mexico who purchase for resale, which is not subject to tax, must

completely fill out and present the “Border States Uniform Sale for Resale Certificate” (Exhibit O). **REMEMBER: In order for sale to be exempt, the purchase must be for items that are normally sold for their type of business.**

Per Reg. 5.04.360.2 on page 89, the certificate is to be completed for each transaction at the time of the transaction. For regular customers, the exemption certificate should be updated annually.

In an audit, the sale for resale deduction will be disallowed for the following reasons:

- The purchaser does not have a city sales tax license, although the state license is on the certificate. If the sales are large or frequent and the purchaser is still in Douglas, then s/he will be audited and be liable for the tax. If the purchaser cannot be located, then the business which made the sales will owe the tax.
- The purchaser is not engaged in a similar type business where the items bought tax free will not be resold.

A subcontractor who performs work for a general contractor should obtain an exemption certificate for **each job**. The general contractor must provide his/her city sales tax license if the job is within the city limits.

If the contractor is hired by an owner-builder who states that s/he will pay the tax but does not possess a sales tax license, or has a license for a business other than construction contracting, the contractor will be liable for the tax on income received from the owner-builder. In both cases, the owner-builder is not engaged in the business of constructing homes.

## **2. Late Fees**

If you impose a fixed charge for late payment or overdue items, you must include such charges in gross receipts. Late fees, service fees, late penalty, etc. cannot be deducted from taxable income. Examples are late fees assessed by video stores and landlords. Finance charges are not taxable.

## **3. Payment of Sales Tax at Time of Purchase**

The Tax Code (Sec. 5.04.416 (3) page 50) permits a tax credit - for **speculative builders ONLY** - for city taxes paid at time of purchase of materials.

If this exception does not apply to you, and you choose to pay the tax at time of purchase, you will be paying taxes twice unless you obtain a refund from the vendor.

The tax is applied to the sales price which the ultimate consumer pays, not to your cost which does not reflect the markup.

Some business owners incorrectly believe that they can pay tax on the materials at purchase, then show the total sale to the customer as a labor charge, and thus, avoid (evade) the tax.

## **4. Length of Time to Keep Records** (Sec. 5.04.350 on page 42)

Records must be kept for a minimum of four years. However, if you are audited, and taxable income was under reported by 25%, the audit period will be extended to six years.

### **5. Records Required for an Audit**

You must maintain books and records which substantiate the income and deductions reported on the sales tax returns.

**Income records** which are subject to examination include:

- \_ customer invoices and/or contracts
- \_ sales or receipts journal
- \_ general ledger revenue accounts
- \_ business bank statements and deposit records
- \_ check register
- \_ cash register tapes if applicable
- \_ federal income tax returns
- \_ lease agreements if rent commercial property
- \_ escrow documents if speculative builder
- \_ purchase or vendor invoices, contracts if owner-builder

It is strongly recommended that you list the source of each deposit on the deposit ticket and in the check register at time of entry.

If there is a discrepancy among the various sources of income, the record which shows the largest amount will be used as the gross income.

In some cases, external confirmations will be made, wherein the customer will be contacted to corroborate income.

*Trade-outs, barter*, and similar transactions are considered income even though no money is exchanged. Include the fair market value of the service rendered or property transferred, whichever is higher; they represent consideration given for consideration received. (Sec. 5.04.200 on page 34)

“To prevent evasion of taxes . . . , it shall be presumed that all gross income is subject to the tax until the contrary is established by the taxpayer”. (Sec. 5.04.400 (c), page 43)

**Documents to support deductions** include:

- resale certificates which list state and city sales tax license numbers, and reflects a similar type business
- name and address of customer on the invoice
- shipping records (freight out), documentation of location of buyer at time of order placement

- credit memo invoice, canceled check to show sales return or refund
- purchase orders, check stubs from non-profit health care facilities
- exemption certificates from general contractors with state and city sales tax license numbers if job is in city and the job location

No deduction is allowed for costs of doing business, losses, Production labor, permit fees.

## **6. Use Tax**

The City of Douglas levies use tax for the storage or use in the City of tangible personal property, for the purpose of raising revenue to be used in defraying the necessary expenses of the City, such taxes to be collected by the Tax Collector.

The following are subject to use tax:

(a) Any person who acquires tangible personal property from a retailer, whether or not such retailer is located in this City, when such person stores or uses said property within the City.

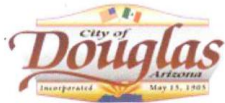
(b) Any retailer not located within the City, selling, renting, leasing, or licensing tangible personal property for storage or use of such property within the City, may obtain a License from the Tax Collector and collect the Use Tax on such transactions. Such retailer shall be liable for the Use Tax to the extent such Use Tax is collected from his customers.

(c) Every agent within the City of any retailer not maintaining an office or place of business in this City, when such person sells, rents, leases, or licenses tangible personal property for storage or use in this City shall, at the time of such transaction, collect and be liable for the tax imposed by this Article upon the storage or use of the property so transferred, unless such retailer or agent is liable for an equivalent excise tax upon the transaction.

(d) Any person who acquires tangible personal property from a retailer located in the City and such person claims to be exempt from the City Privilege or Use tax at the time of the transaction, and upon which no City Privilege Tax was charged or paid, when such claim is not sustainable.

(e) Every person storing or using tangible personal property under the conditions of a warranty, maintenance, or service contract.

The City will consider, as subject to sales tax, retail sales of items purchased from a Douglas business which are for personal use.



**Privilege (Sales) and Use Tax Return**

Mail and return remittance (if applicable) to:

**CITY OF DOUGLAS**  
425 10th St  
Douglas, AZ 85607-2008

TAX PAYER NO. 0000	
PERIOD COVERED FROM	THROUGH
9/01/2010	9/30/2010
CITY LICENSE NO.	

DO IT ALL HARDWARE  
425 10TH STREET  
DOUGLAS AZ 85607

Check here if any changes in account status and complete the back of this form.

**SPECIAL NOTICE**

JUST PLACE A CHECK HERE AND SIGN AT THE BOTTOM IF YOU HAVE NO TAX TO FILE

THIS RETURN IS DUE ON THE 20TH OF THE MONTH

Business Description	Line	Bus. Class	Region Code	Column 1	Column 2	Column 3	Column 4	Column 5		
				Gross	Allowable pg 2 - Deductions	= Net Taxable	X Tax Rate	= Tax Amount		
RETAIL	1	17		<b>4,000.00</b>	<b>1,006.37</b>	<b>2,993.63</b>	2.80	<b>83.82</b>		
RENTAL - PERSON	2	14		<b>500.00</b>	<b>45.04</b>	<b>454.96</b>	2.80	<b>12.74</b>		
USE TAX	3	29		<b>200.00</b>	<b>0.00</b>	<b>200.00</b>	2.50	<b>5.00</b>		
	4									
	5									
	6	<b>TOTAL FROM ADDITIONAL PAGES</b>								
	7	<b>SUBTOTAL (Add Col.5, Lines 5 and 6)</b>							<b>101.56</b>	
	8	<b>ENTER EXCESS CITY TAX COLLECTED</b>						Plus (+)		
	9	<b>GRAND TOTAL</b>							Equals (=)	<b>101.56</b>
	10	<b>PENALTY &amp; INTEREST (see instructions)</b>						Plus (+)		
	11	<b>ENTER TOTAL LIABILITY</b>						Equals (=)		
	12	<b>BALANCE DUE OR OVERPAYMENT FROM PRIOR TAX PERIODS</b>						Plus/Minus ( )	0.00	
	13	<small>TAX CREDIT FOR SPECULATIVE BUILDERS (city tax already paid) AND UTILITY, TELECOMMUNICATION (for Franchise Fee offset)</small>						Minus (-)		
	14	<b>ENTER NET AMOUNT DUE</b>						Equals (=)	<b>101.56</b>	
	15	<b>ENTER TOTAL AMOUNT PAID</b>							<b>101.56</b>	

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Taxpayer's Signature  
**JANE DOE**  
Print Name

Date  
**10/20/10**  
**520-417-7333**  
Phone

Paid Preparer's Signature  
\_\_\_\_\_  
Print Paid Preparer's Name

**A SIGNATURE IS REQUIRED TO MAKE THIS RETURN VALID**

Return original with remittance.

Please make check payable to: CITY OF DOUGLAS  
For assistance, call Customer Service (520) 417-7333

**EXHIBIT A**

**INSTRUCTION AND DEDUCTION EXPLANATIONS**

RETURN IS DUE ON THE 20TH OF THE MONTH FOLLOWING THE REPORTING PERIOD AND DELINQUENT IF NOT RECEIVED BY THE LAST WORKING DAY OF THE MONTH.

**PENALTIES:** File your return whether or not taxes are due.

1. Failure to file - A penalty of 5% of the tax due will be assessed for each month, or fraction elapsing between the delinquency date of the return and the date on which it is filed.
2. Failure to Pay - A penalty of 10% of the unpaid tax will be assessed if the tax is not paid timely.
3. Total Penalty - Total Penalties will not exceed 25%.

**INTEREST:** Taxes paid after the delinquency date will be assessed interest at the rate of 4% per year until paid.

**ALLOWABLE DEDUCTIONS BY BUSINESS ACTIVITY**

Class	Activity	Allowable Deduction Codes	Tax Rate	Class	Activity	Allowable Deduction Codes	Tax Rate
01	Advertising	551, 558	2.8%	13	Rental of Real Property	551, 558	2.8%
02	Mining	551, 740	0.1%	14	Personal Property Rental	551, 558, 740	2.8%
04	Utilities	503, 551, 558	2.8%	15	Contracting	502, 518, 550, 551, 555, 560	2.8%
05	Telecommunication	503, 551, 558	2.8%	16	Speculative Builder	502, 518, 551, 560	2.8%
06	Transporting	503, 558	2.8%	17	Retail	503, 551, 558, 504, 526, 529, 535, 536, 548, 590, 630, 730, 740	2.8%
07	Manufactured Buildings	504, 551	2.8%	18	Retail Single Item Over \$10,000	551	1.8%
08	Wholesale Feed	504, 551, 558	2.8%	20	Timbering	551	2.8%
09	Publication	504, 551, 558	2.8%	25	Hotel/Motel	551, 558	2.8%
10	Job Printing	503, 504, 551, 558	2.8%	26	Transient Lodging	551, 558	2.0%
11	Restaurant & Bar	551, 558	2.8%	29	Use Tax	551, 740	2.5%
12	Amusement	551, 558	2.8%				

**SCHEDULE A - DETAIL OF DEDUCTIONS**

For Assistance, Call Customer Service (520) 417-7333 Fax (520) 417-7162

Enter below the deductions and exclusions you used in computing your City Transaction Privilege (Sales) and Use Tax. You must keep a detailed record of all deductions and exclusions. Failure to maintain proper documentation and records required by the city ordinance may result in their disallowance. A separate detail of city's records and documentation must be maintained only when the income, deductions and exemptions are different from the state's. Please use the table above for allowable deductions.

**Note:** The line numbers listed at the top of these columns correspond with the line number for business activity on the front.

Enter Business Class Preprinted on the Front		17	14	29		
Deduction Code	Deduction Code Description	Line 1	Line 2	Line 3	Line 4	Line 5
502	35% Contractor Deduction					
503	Sales for Resale	<b>500.00</b>				
504	Out of State Sales	<b>150.00</b>				
518	Fair Market Value of Land					
526	Prosthetic Devices					
529	Auto to Nonresident if Shipped O/S					
535	Pipes or Valves 4 inch or Larger					
536	Prescription Drugs					
548	Retail Sales to US Gov't (50% Deduct)					
550	Subcontracting					
551	Sales Tax Collected or Factored	<b>296.37</b>	<b>45.04</b>			
555	Out of City Contracting					
558	Bad Debts					
560	Impact Fees					
561	Freight Out - Job Printing					
590	Gasoline					
630	Retail Service Labor					
730	Income Producing Capital Equipment					
740	Freight Out	<b>60.00</b>				
888	Other deductions not Listed					
	Explain:					
	Explain:					
	Explain:					
	<b>Total Deduction to Column 2</b>	<b>\$ 1006.37</b>	<b>\$ 45.04</b>	<b>\$ 0.00</b>	\$	\$

**CHANGES IN STATUS**

License Number:		Effective Date of Change:	
My Business name has changed to:			
My business location has moved to:			
My new location is rented. The landlord's name mailing address and telephone number is:		Landlord's telephone no:	
My phone numbers have changed:	New business phone number:	New mailing phone number:	
Please change my mailing address to:			
Please send a new License Application for the following reason: <input type="checkbox"/> The ownership of my business has changed to: <input type="checkbox"/> I have another location in Douglas			
<input type="checkbox"/> Please cancel my License for the reason noted at the right:			
Note: If the business has been sold, please provide us with the new owner's name, address, and telephone number. Your license must be returned to complete the cancellation process.			

**EXHIBIT B**

**GROSS RECEIPTS – TOTAL DEDUCTIONS = TAXABLE INCOME**

**EXAMPLE:**  $4,000.00 - 1,006.37 = 2,993.63$

**TAXABLE INCOME X 0.028 = CITY TAX DUE**

**EXAMPLE:**  $2,993.63 \times 0.028 = 83.82$

**TOTAL DEDUCTION + TAXABLE INCOME = GROSS INCOME**

**EXAMPLE:**  $1,006.37 + 2,993.63 = 4,000.00$

**EXHIBIT C**

**TO PROOF THAT TAX DUE IS CORRECT:**

**(DEDUCTION NUMBER 551/9.9) X 2.8 = CITY TAX DUE**

**(DEDUCTION CODE 551/9.9) X 7.1 = STATE & COUNTY TAX DUE**

**CITY TAX DUE + STATE & COUNTY TAX DUE = DEDUCTION NUMBER  
551**

**EXAMPLE: (296.37/9.9) X 2.8 = 83.82**

**(296.37/9.9) X 7.1 = 212.55**

**83.82 + 212.55 = 296.37**

**EXHIBIT D**



# FACTOR TAX FOR RETAIL SALES

## METHOD ONE

**FACTOR FOR 9.9% TAX RATE = 0.09008189**

**MULTIPLY INCOME SUBJECT TO TAX BY 0.09008189**

<b>EXAMPLE:</b>	<b>Gross income</b>	<b>2,020.07</b>
	<b>Commission</b>	<b>20.00</b>
		<hr/>
	<b>Income subject to tax</b>	<b>2,000.07</b>
	<b>Factor</b>	<b>X 0.09008189</b>
		<hr/>
<b>Deduction code 551</b>		<b>180.17</b>

**EXHIBIT F**

# FACTOR TAX FOR RETAIL SALES

## METHOD TWO

DIVIDE INCOME SUBJECT TO TAX BY 1.099

THEN MULTIPLY BY 0.099

<b>EXAMPLE:</b>	<b>Gross Income</b>		<b>2,020.07</b>
	<b>Commission</b>		<b>20.00</b>
		<hr/>	
	<b>Income subject to tax</b>		<b>2,000.07</b>
	<b>Divide By</b>	<b>÷</b>	<b>1.099</b>
		<hr/>	
	<b>Taxable Income</b>		<b>1,819.90</b>
	<b>Tax Rate</b>	<b>X</b>	<b>0.099</b>
		<hr/>	
	<b>Deduction Number 551</b>		<b>180.17</b>

EXHIBIT G

**CONTRACTOR WHO CHARGES CUSTOMER TAX**

**\*INVOICE\***

07/15/10

Remove old roof & put on new roof	\$2,500.00
Plus tax	160.88
Due on completion	\$2,660.88

Materials \$1,000

Labor \$1,500

Total \$2,500

\$ 2,500
x.064352
\$160.88

x 0.65

Amount Net of Standard Deduction \$1,625

Tax Rate x 0.099

\$160.88

**EXHIBIT H**

## TABLE OF TAX RATE FACTORS

(Table to be used for factoring tax out of gross income)

<b>BUSINESS TYPE</b>	<b>TAX RATE</b>	<b>FACTOR</b>
Rental of Real Property	2.80%	0.02723735
Contracting	9.90%	0.06045944
Retail	9.90%	0.09008189
Retail Tax Single Item over \$10,000	8.90%	0.08172635
Hotel/Motel – Transient Lodging	11.85%	0.10594546

EXHIBIT I

## **RETAIL BUSINESS LOCATED IN/OUTSIDE THE CITY LIMITS**

### **LOCATION IN THE CITY:**

If your business is located in the City, you would collect and remit the 2.8% city tax to Douglas, regardless of the location of the buyer, if within the state. In no instance would you be entitled to an out of city sales tax deduction.

### **LOCATION OUTSIDE THE CITY:**

If your business is located in the County, the city tax imposed by the city where the buyer is located must be collected. If the county in which the city is located charges a tax, then that tax must also be collected from the buyer and remitted with the State tax.

If your business is located in the County, and transfer of title and possession occur at your business, then the sale is exempt from city tax. However, if you mail or hand-deliver the item to a customer, who resides within the city limits of Douglas, you must charge the city tax and remit it to Douglas.

Currently, there are fifteen cities in Arizona which collect their own tax. This means that businesses must remit the city tax directly to that city, and remit only the State/County tax to the Arizona Department of Revenue. If your business is in the County and the buyer is located in one of these cities, then you are required to charge that city's tax rate, and remit the tax directly to that city. In order to do this, you would have to obtain a sales tax license from the city in which the buyer is located.

The Arizona Department of Revenue (ADOR) collects the tax for all other cities (which are referred to as "program cities"). If your business is in the County and the buyer is located in a program city, then you would charge that city's tax rate and remit the tax to ADOR with the State/County tax. You would obtain a sales tax license for each city from ADOR. If you had sales in a city not printed on the State return, you would list the city name, the applicable code for the city where the sale occurred, and the rate. Enter the gross amount, deductions, taxable income, and tax due on each line.



**Privilege (Sales) and Use Tax Return**

Mail and return remittance (if applicable) to:

**CITY OF DOUGLAS**  
425 10th St  
Douglas, AZ 85607-2008

TAX PAYER NO. 0000
PERIOD COVERED FROM 9/01/2010 THROUGH 9/30/2010
CITY LICENSE NO.

DO IT ALL HARDWARE  
425 10TH STREET  
DOUGLAS AZ 85607

Check here if any changes in account status and complete the back of this form.

**SPECIAL NOTICE**

JUST PLACE A CHECK HERE AND SIGN AT THE BOTTOM IF YOU HAVE NO TAX TO FILE

THIS RETURN IS DUE ON THE 20TH OF THE MONTH

Business Description	Line	Bus. Class	Region Code	Column 1 Gross	Column 2 Allowable pg 2 - Deductions	Column 3 = Net Taxable	Column 4 X Tax Rate	Column 5 = Tax Amount
RETAIL	1	17		<b>300.00</b>	<b>127.02</b>	<b>172.98</b>	2.80	<b>4.84</b>
RENTAL - PERSON	2	14					2.80	
USE TAX	3	29					2.50	
	4							
	5							
6 TOTAL FROM ADDITIONAL PAGES								
7 SUBTOTAL (Add Col.5, Lines 5 and 6)								
8 ENTER EXCESS CITY TAX COLLECTED							Plus (+)	
9 GRAND TOTAL							Equals (=)	
10 PENALTY & INTEREST (see instructions)							Plus (+)	
11 ENTER TOTAL LIABILITY							Equals (=)	
12 BALANCE DUE OR OVERPAYMENT FROM PRIOR TAX PERIODS							Plus/Minus ( )	0.00
13 TAX CREDIT FOR SPECULATIVE BUILDERS (city tax already paid) AND UTILITY, TELECOMMUNICATION (for Franchise Fee offset)							Minus (-)	
14 ENTER NET AMOUNT DUE							Equals (=)	
15 ENTER TOTAL AMOUNT PAID								

**Sales for September**

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Taxpayer's Signature  
**JANE DOE**  
Print Name

Date  
\_\_\_\_\_  
Phone  
\_\_\_\_\_

Paid Preparer's Signature  
\_\_\_\_\_  
Print Paid Preparer's Name

**A SIGNATURE IS REQUIRED TO MAKE THIS RETURN VALID**

Return original with remittance.

Please make check payable to: CITY OF DOUGLAS  
For assistance, call Customer Service (520) 417-7333

**EXHIBIT K**

**INSTRUCTION AND DEDUCTION EXPLANATIONS**

RETURN IS DUE ON THE 20TH OF THE MONTH FOLLOWING THE REPORTING PERIOD AND DELINQUENT IF NOT RECEIVED BY THE LAST WORKING DAY OF THE MONTH.

**PENALTIES:** File your return whether or not taxes are due.

1. Failure to file - A penalty of 5% of the tax due will be assessed for each month, or fraction elapsing between the delinquency date of the return and the date on which it is filed.
2. Failure to Pay - A penalty of 10% of the unpaid tax will be assessed if the tax is not paid timely.
3. Total Penalty - Total Penalties will not exceed 25%.

**INTEREST:** Taxes paid after the delinquency date will be assessed interest at the rate of 4% per year until paid.

**ALLOWABLE DEDUCTIONS BY BUSINESS ACTIVITY**

Class	Activity	Allowable Deduction Codes	Tax Rate	Class	Activity	Allowable Deduction Codes	Tax Rate
01	Advertising	551, 558	2.8%	13	Rental of Real Property	551, 558	2.8%
02	Mining	551, 740	0.1%	14	Personal Property Rental	551, 558, 740	2.8%
04	Utilities	503, 551, 558	2.8%	15	Contracting	502, 518, 550, 551, 555, 560	2.8%
05	Telecommunication	503, 551, 558	2.8%	16	Speculative Builder	502, 518, 551, 560	2.8%
06	Transporting	503, 558	2.8%	17	Retail	503, 551, 558, 504, 526, 529, 535, 536, 548, 590, 630, 730, 740	2.8%
07	Manufactured Buildings	504, 551	2.8%	18	Retail Single Item Over \$10,000	551	1.8%
08	Wholesale Feed	504, 551, 558	2.8%	20	Timbering	551	2.8%
09	Publication	504, 551, 558	2.8%	25	Hotel/Motel	551, 558	2.8%
10	Job Printing	503, 504, 551, 558	2.8%	26	Transient Lodging	551, 558	2.0%
11	Restaurant & Bar	551, 558	2.8%	29	Use Tax	551, 740	2.5%
12	Amusement	551, 558	2.8%				

**SCHEDULE A - DETAIL OF DEDUCTIONS**

For Assistance, Call Customer Service (520) 417-7333 Fax (520) 417-7162

Enter below the deductions and exclusions you used in computing your City Transaction Privilege (Sales) and Use Tax. You must keep a detailed record of all deductions and exclusions. Failure to maintain proper documentation and records required by the city ordinance may result in their disallowance. A separate detail of city's records and documentation must be maintained only when the income, deductions and exemptions are different from the state's. Please use the table above for allowable deductions.

**Note:** The line numbers listed at the top of these columns correspond with the line number for business activity on the front.

Deduction Code	Deduction Code Description	Enter Business Class Preprinted on the Front				
		17 Line 1	14 Line 2	29 Line 3	Line 4	Line 5
502	35% Contractor Deduction					
503	Sales for Resale					
504	Out of State Sales					
518	Fair Market Value of Land					
526	Prosthetic Devices					
529	Auto to Nonresident if Shipped O/S					
535	Pipes or Valves 4 inch or Larger					
536	Prescription Drugs					
548	Retail Sales to US Gov't (50% Deduct)					
550	Subcontracting					
551	Sales Tax Collected or Factored	<b>17.12</b>				
555	Out of City Contracting					
558	Bad Debts	<b>109.90</b>				
560	Impact Fees					
561	Freight Out - Job Printing					
590	Gasoline					
630	Retail Service Labor					
730	Income Producing Capital Equipment					
740	Freight Out					
888	Other deductions not Listed					
	Explain:					
	Explain:					
	Explain:					
	<b>Total Deduction to Column 2</b>	<b>\$ 127.02</b>	\$	\$	\$	\$

**This is \$27.02 less Tax \$9.90**

**This is \$100 return + Tax \$9.90**

**CHANGES IN STATUS**

License Number:		Effective Date of Change:	
My Business name has changed to:			
My business location has moved to:			
My new location is rented. The landlord's name mailing address and telephone number is:		Landlord's telephone no:	
My phone numbers have changed:	New business phone number:	New mailing phone number:	
Please change my mailing address to:			
Please send a new License Application for the following reason: <input type="checkbox"/> The ownership of my business has changed to: <input type="checkbox"/> I have another location in Douglas			
<input type="checkbox"/> Please cancel my License for the reason noted at the right:			
Note: If the business has been sold, please provide us with the new owner's name, address, and telephone number. Your license must be returned to complete the cancellation process.			

**EXHIBIT L**

**CALCULATION OF 35% STD. CONTRACT DEDUCTION**

<b>Gross Income</b>		<b>\$200,000.00</b>
<b>Less Income not subject to city tax:</b>		
<i>Subcontractor Income (Deduction #550)</i>	35,000.00	
<i>Out-of-City Projects (Deduction #555)</i>	5,000.00	<u>(40,000.00)</u>
<b>Income subject to city tax</b>		<b>160,000.00</b>
<b>contracting Factor</b>	x	<u><b>0.06045944</b></u>
<b>Sales Tax Factored (Deduction #551)</b>		<u><b>9,673.51</b></u>
<b>Income subject to city tax</b>		<b>160,000.00</b>
<b>Less: Sales Tax</b>		<u><b>(9,673.51)</b></u>
<b>Income net of tax</b>		<b>150,326.49</b>
	x	<u><b>0.35</b></u>
<b>Standard 35% (Deduction #502)</b>		<u><b>52,614.27</b></u>
<b>Gross Income</b>		<b>200,000.00</b>
<b>Less: Total deductions</b>		<u><b>(102,287.78)</b></u>
<b>Taxable Income</b>		<b>97,712.22</b>
<b>City Sales Tax Rate</b>		<u><b>0.028</b></u>
<b>City Tax Due</b>		<b>2,735.94</b>

**EXHIBIT M**

INVALID UNLESS COMPLETED IN FULL

VENDOR'S NAME \_\_\_\_\_

Sales Invoice No. \_\_\_\_\_

Customer's Exemption Claim  
City of Douglas Privilege License (Sales) Tax

Customer's Business Name: \_\_\_\_\_

Customer's Business Address: \_\_\_\_\_

Specific Business Activity:  
(e.g., if retailer, lessor, or  
manufacturer, specify items  
leased, sold or made, i.e.,  
cars, computers, clothes, etc.) \_\_\_\_\_

Customer's License Nos. \_\_\_\_\_ City: \_\_\_\_\_ State: \_\_\_\_\_

ITEMS CLAIMED AS EXEMPT FROM TAX

\_\_\_\_\_ : All Items on This Invoice or Purchase Order.

or

\_\_\_\_\_ : Only Those Items marked with An "E".

REASON FOR CLAIMED EXEMPTION:

\_\_\_\_\_ : The items claimed as exempt are sold, rented, leased, or licensed by the above  
named customer in the normal course of its business activity.

or

\_\_\_\_\_ : The items claimed as exempt are exempt from the City of Douglas Privilege Tax  
for the following specific reason(s):

CUSTOMER'S CERTIFICATE

I certify that the above information is accurate to the best of my information and belief, and that I am  
authorized by the Customer above to acquire the items claimed as exempt on a tax-free basis on its behalf.  
I further understand that the making of a false or fraudulent claim to obtain a tax exemption is a Class Two  
Misdemeanor under City Code Section 5-04-580.

Name \_\_\_\_\_

Date \_\_\_\_\_

Title \_\_\_\_\_

**EXHIBIT N**