



ARIZONA STATE SENATE
Fifty-Sixth Legislature, First Regular Session

REVISED #2
FACT SHEET FOR S.B. 1184

municipal tax exemption; residential leases

Purpose

Prohibits a city, town or other taxing jurisdiction from levying a tax or fee on the business of renting or leasing real property for residential purposes (business of residential rentals) for residential dwellings of four or fewer units beginning October 1, 2024, and for residential dwellings of more than four units beginning January 1, 2028.

Background

Transaction privilege tax (TPT) on the business of residential rentals is imposed at the city-level and TPT rates vary by municipality. The Model City Tax Code (MCTC) is a uniform sales and use tax act that has been adopted by most Arizona cities and towns as the basis for imposing tax. Regardless of MCTC adoption, a city or town that levies a TPT, sales, gross receipts, use, franchise or other similar tax or fee may impose or increase the rate of tax applied on residential rentals, if approved by the qualified electors at a regular municipal election. Health care facilities, long-term care facilities and hotel, motel or other transient lodging businesses are excluded from the statutory requirements for taxing residential rentals (A.R.S. §§ [42-5014](#) and [42-6011](#)).

On 30 days' written notice to the tenant, a landlord may adjust the rental amount to equal the difference caused by a municipal change to the municipality's TPT on residential rentals, if the adjustment occurs after the effective date of the new TPT rate and the landlord's right to adjust the rent is disclosed in the rental agreement ([A.R.S. § 33-1314](#)).

The Arizona Department of Revenue (ADOR) transmits TPT revenues to the State Treasurer, separately accounting for certain categories with dedicated uses. A portion of TPT is designated for distribution to counties, incorporated municipalities and the state General Fund and is referred to as the distribution base. Monies in the distribution base are allocated monthly with 25 percent being paid to incorporated municipalities in proportion to their population to be used for any municipal purpose ([A.R.S. § 42-5029](#)).

The Joint Legislative Budget Committee (JLBC) fiscal note estimates that there would be no fiscal impact to the state General Fund since the state does not impose TPT on the business of residential rentals. JLBC estimates that S.B. 1184 may reduce municipal TPT revenues by \$(75.3) million in FY 2025, which would grow to \$(282.7) million by FY 2029 ([JLBC fiscal note](#)).

Provisions

1. Prohibits, beginning October 1, 2024, a city, town or other taxing jurisdiction from levying a tax or fee on the business of residential rentals for residential dwellings of four or fewer units.

2. Prohibits, beginning January 1, 2028, a city, town or other taxing jurisdiction from levying a tax or fee on the business of residential rentals for residential dwellings of more than four units.
3. Requires, until January 1, 2029, a property owner in a city or town that levies TPT on the business of residential rentals and that is affected by the TPT elimination to reduce their rent amount by an amount equal to the difference caused by the elimination.
4. Requires ADOR to separately account for revenues collected from remote sellers when depositing TPT revenues in the state General Fund.
5. Requires municipalities to use monies paid from revenues collected from remote sellers and paid to the municipality as part of the distribution base for public safety purposes before any other purpose.
6. Requires ADOR, retroactive to October 1, 2023, and by October 31, 2023, to post on its website and electronically notify each residential rental TPT licensee that a municipality will no longer levy the tax beginning:
 - a) October 1, 2024, for residential dwellings of up to four units; and
 - b) January 1, 2028, for residential dwellings of more than four units.
7. Requires ADOR, if they are unable to send the TPT licensee notices electronically, to send the notice by first class mail to:
 - a) the address on the TPT license;
 - b) the address of any residential rental property delegates; and
 - c) the address of each residential rental property.
8. Excludes health care facilities, long-term care facilities or hotel, motel or other transient lodging businesses from the prohibitions.
9. Specifies that the prohibitions apply regardless of whether the city or town has adopted the MCTC.
10. Contains a statement of legislative intent.
11. Makes technical and conforming changes.
12. Becomes effective on the general effective date, with a retroactive provision as noted.

Revisions

- Updates the fiscal impact statement.