

# RESTAURANT & BARS

To better serve you, the Arizona Department of Revenue offers online assistance and filing of your business taxes. To file your taxes online or to register to use the website, go to [www.aztaxes.gov](http://www.aztaxes.gov).

This publication is for general information about transaction privilege tax on restaurants and bars. The Arizona transaction privilege tax is commonly referred to as a sales tax, however, the tax is on the privilege of doing business in Arizona and is not a true sales tax.

For complete details, refer to the Arizona Revised Statutes and the Arizona Administrative Code. In case of inconsistency or omission in this publication, the language of the Arizona Revised Statutes and the Arizona Administrative Code will prevail.

## Who Must Pay

In Arizona, it is the seller who owes transaction privilege tax to the state. If you operate a business which prepares and sells food and drink for consumption on or off the premises, you are subject to the transaction privilege tax.

Examples of taxable facilities or activities include:

- standard eat-in restaurant
- restaurant serving food to eat in or take out bars, taverns, etc.
- catering services

The following are examples of facilities that are not subject to the transaction privilege tax as a restaurant in most situations:

- convalescent homes
- jails
- military installations
- homes for the aged or mentally or physically impaired
- fraternity and sorority houses
- public school districts (normal operations)
- day care centers

## What is the Tax Rate on Restaurants and Bars and How Do I Pay?

The current combined state and county rates for restaurants and bars can be found in the *Arizona State, County and City Transaction Privilege and Other Rate Tables* under Business Class Code 011. Many cities impose their own tax rates. "Program cities" have the state collect their taxes using the state form, the Transaction Privilege, Use and Severance Tax Return (Form TPT-1). Most of the larger cities license and collect tax independently and are called "non-program" cities. If you are unsure whether your city collects its own tax or if the state collects for it, check the *Arizona State, County and City Transaction Privilege and Other Tax Rate Tables*.

**NOTE:** For ease of reporting, state and county rates are combined on the *Arizona State, County and City Transaction Privilege and Other Tax Rate Tables*. City tax is reported separately. See Form TPT-1 instructions for details.

## Factoring Transaction Privilege Tax

When a business "factors" transaction privilege tax, it means the tax is included in the total price rather than shown as a separate charge. If you choose to factor the tax, the tax must be calculated using a factoring formula. There are many different factoring formulas depending on city taxes, county taxes, or differences in allowable city tax deductions. For information about factoring, see Transaction Privilege Tax Procedure TPP 00-1.

## Special Situations

### Restaurants Selling Groceries

Grocery stores, delicatessens and other retail outlets qualified to sell food tax exempt, but which also operate a restaurant on the premises, must keep separate records for the two activities. Food sold in the restaurant is taxable as a restaurant sale whether it is consumed on or off the premises.

### Sales to Government Personnel

Income from the sale of meals or drinks to the U.S. government, the State of Arizona and all other government subdivisions or their employees is taxable. This includes food and drink sold to military personnel or inductees who are being paid by the U.S. government.

### Tips

Gratuities (tips) separately charged on a patron's check are not subject to transaction privilege tax providing:

- a. You keep separate records of the gratuities for all employees providing the service; and
- b. All of the gratuities are distributed directly to those employees who provided the service.

Otherwise, the full amount of the gratuity is subject to tax under this classification.

### Fund Raising

Sales of food and drink for fund raising by churches, lodges and other nonprofit organizations not regularly engaged in the restaurant business are not subject to the transaction privilege tax.

### Cover Charges

Cover charges and other minimum charges made by a restaurant or bar are taxable under the restaurant classification. Admission charges for entertainment are taxable under the amusement classification.

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## Employee Meals

If there is a charge for employee meals, the meals are subject to the tax. If there is no value received by the employer and no charge for the meal and the employee consumes the food and drink on the premises during work hours, there is no transaction privilege or use tax due.

## Coupons

If a restaurant issues and redeems its own coupons which reduce the cost of a meal, only the net selling price of the meal is subject to tax.

However, a restaurant which accepts coupons or dining cards issued by a dining club or similar establishment is subject to the transaction privilege tax on the full value of the meal before the discount.

## Exemptions

The following transactions are exempt:

1. Sales of food or drink prepared for consumption on the premises of any veteran's service organization chartered by Congress, including auxiliary units.
2. Sales of food, drink and condiments for consumption within state or county prisons, jails or related institutions.
3. Sales by a person engaged in business under the restaurant classification to another restaurant, if the items are to be resold in the regular course of business.
4. Sales to hospitals or to licensed health care institutions operated exclusively for charitable purposes or operated by the federal or state government or their political subdivisions are exempt.
5. Sales of food, beverages, condiments and accessories to commercial airlines, if the items are provided without additional charge to passengers for consumption in flight.
6. A deduction is allowed for gross proceeds of sales or gross income derived from prepared food, drink, or condiment donated by a restaurant to a nonprofit charitable I.R.C. 501(c)(3) organization that regularly serves meals to the needy and indigent on a continuing basis at no cost.

## For Additional Information, call:

Phoenix ..... (602) 255-2060  
Toll free from area codes 520 & 928 .. (800) 843-7196

## For Hearing Impaired - TDD only:

Phoenix ..... (602) 542-4021  
Toll free from area codes 520 & 928 .. (800) 397-0256

## Or Write to:

Arizona Department of Revenue  
Taxpayer Information & Assistance  
1600 W Monroe  
Phoenix AZ 85007

## For Related Tax Information:

Internet Address ..... [www.azdor.gov](http://www.azdor.gov)

This publication is available in an alternative format upon request.