

# TAX FACTORS FOR CONTRACTORS

COMBINED RATE	COMBINED FACTOR
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5.00%	0.03147700
5.25%	0.03299891
5.50%	0.03451605
5.60%	0.03512157
5.80%	0.03633035
6.00%	0.03753609
6.50%	0.04053730
6.70%	0.04173255
6.75%	0.04203089
6.80%	0.04232906
6.90%	0.04292482
7.00%	0.04351985
7.10%	0.04411413
7.20%	0.04470768
7.25%	0.04500418
7.40%	0.04589257
7.50%	0.04648391
7.70%	0.04766440
7.75%	0.04795906
7.80%	0.04825355
8.00%	0.04942966
8.20%	0.05060287
8.50%	0.05235726
8.70%	0.05352326
8.80%	0.05410518
<a href="#">Click Here for Additional Rates</a>	



If the contract includes the sale of land, use the appropriate worksheet before applying these factors

## HOW THESE FACTORS ARE DERIVED

Assumption: The TAX is INCLUDED in the Gross Proceeds

### VARIABLES

G = Gross Proceeds  
 T = Total Tax Factored  
 R = Combined Tax Rate

The Equation:

$$T = 0.65R(G - T)$$

### THE SOLUTION

$$T = 0.65RG - 0.65RT$$

$$T + 0.65RT = 0.65RG$$

$$T(1 + 0.65R) = 0.65RG$$

$$T = \frac{0.65RG}{1 + 0.65R}$$

To find a factor, use:  $\frac{0.65R}{1 + 0.65R}$   
 (see example to right)

#### Computer spreadsheet example:

For 6.9% rate: Rate is in separate cell (B2) as decimal: 0.069. (Decimal **must** be used.)

#### Formula:

$$=ROUND(0.65*B2/(1+0.65*B2),8)$$

(Parentheses **must** be used.)

Yields the factor 0.04292482

### SAMPLE APPLICATION

GROSS PROCEEDS	\$10,000.00
COMBINED TAX RATE	7.5%
City Rate	2.0%
State & County Rate	5.5%

$$T = \frac{0.65(0.075)(10,000.00)}{1 + 0.65(0.075)}$$

$$T = 0.04648391(10,000.00) \text{ [Factor times Gross]}$$

T = 464.84

← Total Factored Tax

$$\text{Tax Base} = 10,000.00 - 464.84 = 9535.16$$

$$35\% \text{ Reduction} = 0.35(9535.16) = 3337.31$$

$$\text{Total Deductions} = 464.84 + 3337.31 = 3802.15$$

$$\text{Taxable Amount} = 10,000.00 - 3802.15 = 6197.85$$

$$\text{State \& County Tax} = 0.055(6197.85) = 340.88$$

$$\text{City Tax} = 0.02(6197.85) = 123.96$$

$$\text{Total Tax Due} = 464.84$$

**Test (Proof):** Factored Tax Equals Tax Due.

Note: If the factored tax and tax due differ by more than \$0.03, the calculations are incorrect.

# Contracting Tax Factoring **EXAMPLE**

**Assumptions:** *No tax amount is specified in the contract.  
No land is included in the contract.*

FIND THE COMBINED TAX RATE	
State Tax Rate	5.60%
County Tax Rate	0.70%
Add State & County Rates	6.30%
City Tax Rate	1.60%
Combined Rate	7.90%

\* State Rate is Always 5.6%.  
 \* Rate varies by County. Some Counties have no County Tax.  
 \* **This is the rate which appears in column 4 of the TPT-1.**  
 \* Rate varies by city. Some Cities have no tax.  
 \* Find the factor for this RATE on the TAX FACTORS FOR CONTRACTORS table.

	ITEM	Where the numbers come from	THE NUMBERS	Where the numbers go
1.	Gross Amount of Contract or Progress Payment	Contract/Invoice/Cash Receipts	10,000.00	Front of TPT-1 Column 1
2.	Factor for Combined Tax Rate	Contracting Tax Factors Table	0.04884197	
3.	Factored Tax	line 1 times line 2	488.41	Back of TPT-1 (Line 1)
4.	Basis for Standard Deduction	line 1 minus line 3	9,511.59	
5.	Standard Deduction	35% of line 4	3,329.05	Back of TPT-1
6.	Total Deductions	line 3 plus line 5	3,817.46	Back of TPT-1 and Front of TPT-1 Column 2
7.	Taxable Amount	line 1 minus line 6	6,182.54	Front of TPT-1 Column 3
8.	State & County Tax	State rate + County rate times line 7	389.50	Front of TPT-1 Column 5
9.	City Tax	City rate times line 7	98.92	City line or city return
10.	Total Tax	line 8 plus line 9	488.42	<b>PROOF:</b> Total tax should be within pennies of Factored Tax on line 3.

For ASSISTANCE call (602) 255-2060 or Toll Free (Arizona Only) 1-800-843-7196

# Contracting Tax Factoring Worksheet

**Assumptions:** *No tax amount is specified in the contract.  
No land is included in the contract.*

FIND THE COMBINED TAX RATE	
State Tax Rate	
County Tax Rate	
Add State & County Rates	
City Tax Rate	
Combined Rate	

- \* State Rate is Always 5.6%.
- \* Rate varies by County. Some Counties have no County Tax.
- \* **This is the rate which appears in column 4 of the TPT-1.**
- \* Rate varies by city. Some Cities have no tax.
- \* Find the factor for this RATE on the TAX FACTORS FOR CONTRACTORS table.

	ITEM	Where the numbers come from	Put your numbers here	Where the numbers go
1.	Gross Amount of Contract or Progress Payment	Contract/Invoice/Cash Receipts		Front of TPT-1 Column 1
2.	Factor for Combined Tax Rate	Contracting Tax Factors Table		
3.	Factored Tax	line 1 times line 2		Back of TPT-1 (Line 1)
4.	Basis for Standard Deduction	line 1 minus line 3		
5.	Standard Deduction	35% of line 4		Back of TPT-1
6.	Total Deductions	line 3 plus line 5		Back of TPT-1 and Front of TPT-1 Column 2
7.	Taxable Amount	line 1 minus line 6		Front of TPT-1 Column 3
8.	State & County Tax	State rate + County rate times line 7		Front of TPT-1 Column 5
9.	City Tax	City rate times line 7		City line or city return
10.	Total Tax	line 8 plus line 9		<b><u>PROOF:</u></b> Total tax should be within pennies of Factored Tax on line 3.

For ASSISTANCE call (602) 255-2060 or Toll Free (Arizona Only) 1-800-843-7196

# Tax Factors For Contractors

Assumption: The tax is included in the Gross Proceeds

Combined Rate	Combined Factor	Combined Rate	Combined Factor	Combined Rate	Combined Factor
5.00	0.03147700	6.60	0.04113530	8.20	0.05060287
5.10	0.03208634	6.65	0.04143401	8.25	0.05089572
5.15	0.03239072	6.70	0.04173255	8.30	0.05118839
5.20	0.03269491	6.75	0.04203089	8.35	0.05148088
5.25	0.03299891	6.80	0.04232906	8.40	0.05177318
5.30	0.03330272	6.85	0.04262703	8.45	0.05206531
5.35	0.03360634	6.90	0.04292482	8.50	0.05235726
5.40	0.03390977	6.95	0.04322243	8.55	0.05264903
5.45	0.03421300	7.00	0.04351985	8.60	0.05294062
5.50	0.03451605	7.10	0.04411413	8.65	0.05323203
5.55	0.03481891	7.15	0.04441100	8.70	0.05352326
5.60	0.03512157	7.20	0.04470768	8.75	0.05381431
5.65	0.03542405	7.25	0.04500418	8.80	0.05410518
5.70	0.03572634	7.30	0.04530049	8.85	0.05439588
5.75	0.03602844	7.35	0.04559662	8.90	0.05468639
5.80	0.03633035	7.40	0.04589257	8.95	0.05497673
5.85	0.03663207	7.45	0.04618833	9.00	0.05526689
5.90	0.03693360	7.50	0.04648391	9.10	0.05584667
5.95	0.03723494	7.55	0.04677931	9.15	0.05613629
6.00	0.03753609	7.60	0.04707452	9.20	0.05642574
6.10	0.03813783	7.65	0.04736955	9.25	0.05671501
6.15	0.03843842	7.70	0.04766440	9.30	0.05700410
6.20	0.03873883	7.75	0.04795906	9.35	0.05729302
6.25	0.03903904	7.80	0.04825355	9.40	0.05758175
6.30	0.03933907	7.85	0.04854785	9.45	0.05787032
6.35	0.03963890	7.90	0.04884197	9.50	0.05815870
6.40	0.03993856	7.95	0.04913590	9.55	0.05844691
6.45	0.04023802	8.00	0.04942966	9.60	0.05873494
6.50	0.04053730	8.10	0.05001662	9.65	0.05902280
6.55	0.04083639	8.15	0.05030984	9.70	0.05931047

If the contract includes the sale of land, use the appropriate worksheet before applying these factors.

## How these factors are derived:

### Variables

G = Gross Proceeds

T = Total Tax Factored

R = Combined Tax Rate

$$T = .65RG - .65RT$$

$$T + .65RT = .65RG$$

$$T(1 + .65R) = .65RG$$

$$T = .65RG / 1 + .65R$$

OR

To find the tax,  
multiply the gross by:  
 $.65R / 1 + .65R$