

#2 USE TAX

An Educational Guide to Sales Tax in the State of Idaho

This brochure is intended to help businesses, organizations, and individuals understand how use tax applies to them. This information is based on the laws and rules in effect on May 1, 2006.

What is use tax?

Use tax is a tax on goods that you put to use or store in Idaho. If you haven't paid sales tax on these goods, you owe use tax (unless the items are held for resale or an Idaho exemption applies). The use tax rate is the same as the sales tax rate.

Is this something new?

No. Idaho's use tax laws have been in effect since 1965. Every state that has a sales tax also has a companion use tax. If there was no use tax, buyers would be encouraged to shop out of state to avoid paying tax.

Not paying use tax is one of the most common errors found when the Idaho State Tax Commission audits businesses.

When does use tax apply?

- **Untaxed purchases:** Use tax most commonly applies when you buy goods from retailers who don't collect sales tax. You owe use tax, whether the retailers are out of state or in Idaho.

Examples:

- Internet, catalog, or mail-order purchases and purchases of subscriptions or publications (many of these firms don't have to collect Idaho sales tax).
 - Buying goods in a nontaxing state to bring back to Idaho.
 - Buying from an out-of-state seller who ships or delivers the goods to you in Idaho.
- **Using untaxed goods in a taxable activity.**

Example: You're a farmer who qualifies for the production exemption. You buy tax-free oil for use in your tractor but also use it in your pickup. You owe use tax on the oil used in the pickup.

- **Using fuels in off-road equipment, if fuels tax was not paid or was refunded.** Special rules apply to fuels used in logging trucks and production equipment.
- **Withdrawing items from resale inventory:** Use tax applies when retailers take resale merchandise from their shelves to give away or to use themselves.

Example: You're a cleaning supply retailer who doesn't pay sales tax when you buy inventory intended for resale. Later, when you remove items from your resale stock to clean your store, you owe use tax on those items.

Example: You remove plywood from the untaxed resale inventory of your lumber store and give it to your church or a customer. You owe use tax.

- **Transfer of business assets and goods:** When businesses move to Idaho or come here to do work, they owe use tax on the assets and supplies they bring with them (unless they've paid tax to another state). See Brochure #6 — Out-of-State Businesses.

Example: You're an Oregon contractor who comes to Idaho to build a road. You bring job materials you bought in Oregon without paying tax. You owe use tax on the materials. You also owe use tax on any untaxed equipment you bring into Idaho, based on the time it's in Idaho (see the "Bringing Goods into Idaho" section of Brochure #6).

How is the use tax determined?

The amount of use tax is based on the fair market value of the item when it first becomes taxable. A recent purchase price of the item is usually its fair market value.

In the previous examples, the Idaho business owners who buy untaxed goods or withdraw them from a resale inventory owe use tax on the price they paid for the goods. The Oregon contractor owes use tax on the purchase price of the job materials.

What does the taxable purchase price include?

When you make a purchase, the taxable purchase price includes:

- **Transportation to the retailer:** Freight-in charges to get the goods to the retailer, who passes them on to you.
- **Manufacturer's or importer's excise tax:** Taxes that are imposed before the retail sale, but may still appear as a separate item on your purchase invoice. *Examples* include taxes on cars, gasoline, beer, wine, and cigarettes.
- **Incidental services:** Services the seller performs as part of the sale, such as a charge for assembling the item.
- **Manufacturer's coupons or rebates:** Refunds or discount price coupons offered by the manufacturer of the product, like those found in cereal boxes. For special rules that apply to motor vehicles, see Brochure #14, Motor Vehicles.
- **Prompt payment discounts:** Discounts that encourage you to pay your bill within a specified time, such as a 2% discount if a bill is paid within 10 days.

Example: Tom orders tires for his Idaho business from Jim's Tire Store in Oregon. Tom has a \$5 manufacturer's discount coupon for the tires. Jim's Tire Store doesn't have the tires in stock and has to order them from the manufacturer in Detroit. When Tom picks up the tires at Jim's, he charges them to his account. Later, Tom gets a bill that reads:

Four tires at \$80 each	\$320
Manufacturer's excise tax	\$ 12
Freight-in from manufacturer to retailer	<u>\$ 27</u>
	\$359
Less manufacturer coupon	<\$ 5>
Total due	\$354

(If paid by the 10th, take a 2% discount and pay only \$347)

Since Jim's store is in Oregon, Jim doesn't charge Idaho sales tax. Tom owes use tax on \$359, even though he paid the bill by the 10th and paid only \$347 for the tires. All of the separate charges are defined by the law as part of the taxable purchase price.

What charges aren't taxable?

None of the following charges or deductions are taxable, if they're listed separately on your purchase invoice:

- **Trade-in allowances** for merchandise traded in on other goods, whether as part payment, full payment, or exceeding full payment. (*The trade-in adjustment is allowed only on purchases made from a retailer and not on sales between individuals.*)
- **Trade discounts** offered by a retailer. This discount can be in the form of a coupon, a marked-down price, or a discount offered to a good customer. This doesn't include the prompt payment discount or any coupon or rebate offered by a manufacturer; these two discounts are taxable.
- **Federal excise taxes imposed at the retail level.** These taxes are either imposed on the retailer or the buyer. They include the federal tax on large tractor/trailer units.
- **Shipping and handling charges** for shipping the goods directly to the buyer.
- **Installation labor**, such as the labor to install parts in your car. Labor to repair goods you own is not taxable. However, the sales of the parts are taxable.
- **Charges for insurance** on goods you rent or buy.
- **Interest, carrying charges, service charges, or financing charges** on goods you buy. Special rules apply to leases.

Here are some examples to help explain these nontaxable amounts:

Example: Tom buys a stove from Fred's Appliance Store for \$800. Fred agrees to give Tom a \$250 trade-in allowance on his old stove. Fred's Appliance Store agrees to deliver the stove to Tom for an additional \$25. Fred's doesn't charge Tom sales tax. Tom owes use tax on \$550 (\$800 minus the \$250 trade-in). The \$25 delivery fee isn't taxable.

Example: John's Construction buys \$1,000 worth of lumber for an Idaho job from Bob's Building Supply store in Montana. John is a regular customer, so Bob gives John a 15% trade discount of \$150. John owes use tax on \$850 (\$1,000 - \$150).

Example: Mary buys a diamond ring for \$15,000 from a dealer in New York. The dealer agrees to ship the ring to Mary. She agrees to pay the bill over six months with 18% interest. She is late on one of her payments and has to pay a \$5 late charge. Mary must pay tax only on the \$15,000. The interest and late charge aren't taxable.

Summary

Taxable

- Services agreed to be rendered as part of the sale of tangible property
- Freight in to retailer
- Manufactured refund coupons
- Manufacturer rebates on goods other than motor vehicles

- Discounts for prompt payment
- Trade deductions between individuals
- Federal excise tax levied before the retail level

Nontaxable

- Installation charges
- Freight out direct to buyer
- Retailer coupons
- Manufacturer rebates on motor vehicles
- Trade discounts
- Trade-in allowances given by retailer
- Federal excise tax levied at retail level
- Finance, carrying, or interest charges

What if I pay tax to another state?

If you buy goods from an out-of-state retailer who collects another state's sales tax on the transaction, you don't owe use tax to Idaho *unless* the amount paid to the other state is less than the amount owed to Idaho. In that case, you must pay Idaho the difference between the two amounts. However, if the other state's amount is higher than Idaho's, you can't get a refund of the difference between the two states' taxes. You can't claim credit for sales tax paid to another state unless the other state's law required you to pay the tax. Tax paid in error doesn't qualify.

How do I pay use tax?

Businesses and Organizations:

If you're a retailer or wholesaler, record the use tax you owe on line #4 of your sales tax returns.

If you aren't a retailer or wholesaler and:

- **You owe use tax each month**, you must get a use tax permit and pay use tax with your use tax returns. To get a permit, apply online at business.idaho.gov or complete the Idaho Business Registration form (available on our Web site or at any Tax Commission office) and submit it to the Tax Commission. There is no fee for this permit.
- **Your purchases are infrequent and expensive**, use Form 850-U to pay the tax. The form is available on our Web site. *Examples* of expensive purchases are aircraft, artwork, or fine jewelry.
- **Your purchases are infrequent and inexpensive**, you can report and pay the use tax yearly with your Idaho Form 41 or Form 41S business income tax return. Check the tax return instructions for more information. *Examples* of these purchases are office supplies, magazines, books, and clothes.

Individuals:

- **If your purchases are frequent or expensive**, use Form 850-U periodically to pay the tax. The form is available on our Web site. *Examples* of expensive purchases are aircraft, artwork, or fine jewelry.

- **If you owe minimal use tax annually**, you can report and pay it with your Idaho Individual Income Tax Return. Check the income tax return instructions for more information. *Examples* of these purchases are office supplies, magazines, books, and clothes.

You can also pay the use tax at any Tax Commission office.

When is use tax due?

Use tax is due for the month in which the goods are first stored, used, or consumed in Idaho.

How do I keep track of taxable purchases?

Many businesses keep a use tax accrual account to post the tax due when the purchases are posted. The total of the accrual account is used to calculate use tax for the reporting period.

Some businesses keep a use tax worksheet that lists the purchases (and inventory withdrawals) on which they owe use tax. Whatever method you use, you must keep the records at least four years.

Individuals can use the worksheet on Form 850-U to track their untaxed purchases.

Contractors and use tax

Contractors are the consumers of all equipment and goods they use, including construction materials that become the landowner's property. This means if sales tax wasn't paid on the purchase of the materials, the contractors owe use tax. For more details, see Brochure #40 – Contractors.

For more information, read:

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| Rule 72 | Application and Payment of Use Tax |
| Rule 73 | Tangible Personal Property Brought or Shipped to Idaho |

For more information, contact:

- Idaho State Tax Commission: In the Boise area, 334-7660; Toll free, (800) 972-7660
- Hearing impaired: TDD (800) 377-3529
- **tax.idaho.gov**

This information was prepared by the Idaho State Tax Commission. It does not provide comprehensive explanations of Idaho tax laws or rules. Specific questions should be addressed to the Tax Commission or a qualified tax practitioner.