



What's the use of use tax?

5 tips for consumer use tax compliance

Overlooked, underestimated and under the radar. That's the best way to describe consumer use tax. The less popular cousin of sales tax, consumer use tax is one of the most mismanaged compliance issues. That's because most people don't know what it is, never mind how to comply with it. But ignorance isn't bliss. In fact, mismanaging use tax ranks in the top five for costliest compliance mistakes made by companies, according to accounting and tax consulting firm Peisner Johnson.

Following these five simple rules can keep you in compliance and out of trouble:



Tip 1: Buyers be-aware

So what exactly is use tax and how does it differ from sales tax? With sales tax, the seller collects sales tax from the buyer and remits it to the taxing authority. But if the seller doesn't collect sales tax, what then? That's where consumer use tax comes into play. Tax is still owed on the transaction, but now responsibility shifts to the buyer to pay it. Simply put: sales tax is collected by the merchant on taxable items they sell; consumers' use tax is paid by the buyer on taxable items they purchase. The rate for use tax is generally the same as sales tax and is based on the rate for the tax jurisdiction where the item was received or consumed. The buyer can be an individual or a business. For individuals, use tax compliance is much harder for a jurisdiction to enforce. It's basically an honor system - a reported line item on annual income tax returns. Businesses face much more scrutiny and typically have stricter reporting rules and are more likely to be audited for use tax.



Tip 2: The Internet isn't a tax-free zone

You purchase something online. The seller doesn't attach sales tax. So it's tax free, right? Wrong. Most ecommerce sellers only collect sales tax in states where they have nexus - a physical location or "connection" based on business activities that requires them to register and remit tax in that state. Catalog sales are similar. Often there's a line item on the order form that says, "Add sales tax if shipped to..." followed by a list of states. Those are locations where the seller is registered and required to collect sales tax. So if you aren't charged sales tax by an online or catalog retailer, that doesn't mean the transaction is tax free. It just means that now the burden is with the buyer to pay use tax. But few do. This is why federal legislation like the Marketplace Fairness Act and the Remote Transaction Parity Act have been gaining momentum and why some states have passed remote seller nexus laws to try and fill these gaps and shift the responsibility of remitting sales tax solely onto sellers.



Tip 3: Use it, you lose it (the exemption that is)

Use tax is trickier for companies. How you "consume" certain items in your business is often the determining factor. Common triggers include:

- » Inventory transfers
- » Promotional giveaways
- » Charitable donations
- » Fixed assets purchasing

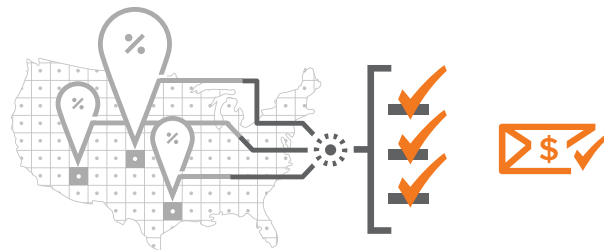
If these items were intended for resale and you didn't pay sales tax at the time of purchase, then you are now obligated to pay use tax. Or, if you bought equipment or furniture for your office and then moved locations, and the tax rate is higher in the new location, then you may owe the differ-

ence in use tax. This is where most auditors spend their time – checking that expenses, fixed assets and inventory transfers have been properly taxed. It’s also where most mistakes occur. State auditors say use tax errors are the number one audit risk and the bulk of assessments come from use tax not being paid. Certain industries like manufacturing, construction and hospitality face even greater risks because the use tax rules for these businesses are more complex and aren’t always consistent from state to state.

Tip 4: Step up your game



Ultimately, you are responsible for ensuring you handle sales and use tax correctly. Don’t assume your vendors are doing it right. Check invoices carefully. If the sale is exempt, reference a valid resale or exemption certificate. Be diligent in your purchasing processes. Verify tax rates are correct. Compare tax on the purchase order to tax on the invoice. Are they the same? Be sure expense reports include sales tax for any taxable transactions. These are all areas where auditors find mistakes. They’re likely to zero in on invoices that don’t show sales tax and ask you to supply a valid exemption certificate or proof that you paid use tax. Be ready!



Tip 5: Automate

Tax compliance is tricky and time consuming. Having a tax automation solution in place can eliminate a lot of compliance and audit headaches for sales and use tax. For example, Avalara AvaTax is a cloud-based software that requires only a simple integration to the billing systems you already use in your business. With AvaTax connected to your invoicing system, Avalara’s powerful calculation engine and precise geolocation technology determine the exact right rate to apply to every transaction and flows that data directly through to your tax returns. This minimizes exposure and creates an auditable data trail for all your taxable and exempt transactions. Avalara’s software can even help you manage exempt sales and documentation.

Did you find these five tips “use-ful”? Let us know!



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About Avalara

A privately held company, Avalara was founded by a team of tax and software industry veterans to fulfill a vision of delivering an affordable, scalable sales tax solution. Thus making what was not economically feasible in the past for mid-sized business not only affordable, but more accurate as well – all with the latest and most innovative technology available. From Bainbridge Island, close to Seattle, Avalara’s knowledgeable staff works tirelessly to help customers put the hassles of sales tax compliance out of mind. Avalara’s mission is to transform the tax process for customers by creating cost-effective state-of-the-art solutions. The company does so through integrated on-demand, Web-based software services that provide transparent transactions, accurate tax compliance, painless administration and effortless reporting.