

# Use Tax FAQ's

On August 6, 2019 citizens will vote on a local Use Tax ballot issue.

## How will passage of this Local Use Tax impact me?

### Answer

If you make an on-line purchase and it is shipped to you from out-of-state you **WILL** pay a local use tax of 2.25%.

However.....

If you buy items on-line from a Missouri business, you will **NOT** pay the local use tax.

If you shop at a local Macon retailer, you will **NOT** pay the use tax.

If you are a Macon business who sells items through a catalog or online store, the use tax would **NOT** apply.

If you never buy and ship anything to Missouri from an out-of-state vendor, you will **NEVER** pay any use tax.

## I'm a business owner, how does this impact my business?

### Answer

If you are a Macon business who sells items through a catalogue or online store, the use tax does NOT mean you would have to begin collecting use tax on those sales. The use tax is only applied to purchases from out-of-state vendors if the item is shipped to Missouri.

Items that are sales tax exempt are also exempt from use tax (e.g. Items purchased as inventory for resale are not subject to use tax. Items purchased for use in manufacturing are not subject to use tax. Items purchased by our local farmers that are currently tax exempt will remain exempt from use tax also).

## Why is this on the ballot?

### Answer

The U.S. Department of Commerce estimates that 11.1% of all United States retail sales of physical goods now occur online and forecasts that percentage will continue to increase. If those sales are made with out-of-state businesses, they are not subject to the local sales tax. Prior to the rise of online shopping, consumers were purchasing those items from local businesses and contributing to the local sales tax initiatives. The proposed use tax ensures an equal tax rate for those purchases made from online out-of-state vendors.

Additionally, if a use tax is approved the City will continue to be able to collect sales tax on out-of-state dealer and person-to-person purchases of motorized vehicles, boats, and trailers.

## What will the ballot language look like?

### Answer

“Shall the City of Macon impose a local use tax at the same rate as the total sales tax rate, currently 2.25%, provided that if the local sales tax rate is reduced or raised by voter approval, the local use tax rate shall also be reduced or raised by the same action? A use tax return shall not be required to be filed by persons whose out-of-state vendors do not in total exceed two thousand dollars in any calendar year.”

Yes

No

## What is a Local Use Tax?

### Answer

In the simplest terms, a local use tax is the same as a local sales tax but charged on out-of-state purchases.

A use tax is a sales tax imposed on the purchase of goods by Missouri residents from out-of-state vendors. This typically includes on-line purchases, catalog, and direct market sales from out-of-state vendors (non-Missouri sellers). The use tax is applied to the same type of products subject to traditional sales tax. The difference is where the goods are purchased and shipped. When individuals make purchases at retail stores in Missouri, they pay the sales tax that is applicable at that location. On the other hand, purchases by Missouri residents from out-of-state vendors that are shipped to Missouri are subject to a use tax.

While sales tax is based on the point-of-sale location, the use tax rate is based on the point-of-delivery. The amount of total use tax due on a transaction depends on the combined (State of Missouri, County, and City) use tax rate in effect at the Missouri location where the taxable purchase is delivered.

## Is this tax fair?

### Answer

Yes. The main purpose of the local use tax is to capture the revenue otherwise lost from out of state sales and create a level playing field for our local retail businesses that must collect the city sales taxes. Currently our local retailers are at a competitive disadvantage with giant on-line out-of-state vendors who do not have to collect local sales tax. These out-of-state businesses don't create local jobs or reinvest in our community and local economy.

Historically, the citizens of Macon have voted to impose local sales taxes as a means to fund vital city services. The use tax is a way of applying our existing voter approved sales tax to those sales currently not required or no longer required to pay it. As online sales increase, local businesses and City budgets stand to see reduced revenues because of this loophole. Macon's general sales tax revenue decreased by \$33,325.76 from 2017 to 2018. A use tax is a method for cities, counties, and states to keep up with an ever-changing e-commerce marketplace. The local use tax will fix this "loophole".

### **I already pay sales tax, is this a double tax?**

No. The sales tax applies to purchases made at retailers within Missouri, while use tax applies to purchases made from out-of-state vendors when those purchases are shipped to and used in Missouri. Purchases cannot fall into both groups and therefore a purchase would NEVER be taxed twice.

### **What if I buy something from a Missouri retailer using the internet; will the use tax apply?**

#### **Answer**

No. The use tax does not apply to purchases made by Missouri residents from a Missouri retailer. The use tax applies to purchases from out-of-state vendors (retail sellers) only. If a Missouri resident buys a product from a Missouri retailer over the internet, the sales tax based on the seller's location would apply to the purchase and would be revenue for the community that the Missouri seller is located in.

### **What about vehicle purchases? Are they treated differently than other purchases?**

#### **Answer**

Yes. The purchase of vehicles, trailers, boats and outboard motors are treated differently than other retail purchases. The sales tax on these purchases is assessed based on the location the item is registered. When Missouri residents purchase a car at an auto dealership, no sales tax is paid on the purchase at that time. When the resident goes to license the vehicle, trailer, boat or outboard motor with the Missouri Department of Revenue, the local sales tax will be imposed based on the address of the registrant.

### **How does this impact out-of-state motor vehicle sales tax?**

#### **Answer**

A court case in 2012 led to a mandate by the State of Missouri that motor vehicle sales taxes must be reauthorized by local voters before November 2022 or the municipality cannot continue to collect the revenue.

The Missouri Department of Revenue estimates that 21% of the total vehicle and marine sales are from out-of-state and person-to-person sales. The Missouri Department of Revenue provided one estimate (based on 2011 sales information) to assist cities in computing an estimated loss if the sales tax collection on these items is not reauthorized. Based on these estimates, Macon will lose approximately \$17,621 in **EXISTING** annual revenue it has relied on for over 40 years to help support expenses in the departments of public safety (police, fire, emergency services).

## How is the use tax collected?

### Answer

The use tax levels the playing field for our residents so that we all equally share in the consumption tax burden that was previously approved by our city residents.

If the out-of-state vendor has a nexus (physical presence) in Missouri (this can include a storefront, warehouse, etc.) the vendor will collect the local and state use tax at the time of sale and remit both to the Missouri Department of Revenue.

Since the 1960's, if the out-of-state vendor does not have a nexus in Missouri and did not collect the use tax, the purchaser must self-report their use tax debt to the Missouri Department of Revenue every April 15<sup>th</sup> if cumulative purchases exceed \$2,000 during the calendar year.

The passage of the Macon City local use tax does not change the self-report requirement. In other words, this is not a new obligation. Residents who do not currently self-report will not suddenly need to self-report as a result of the city voters having passed the local use tax.

## What would the Macon City local use tax rate be?

### Answer

If passed by the voters, the Macon use tax would be imposed on purchases made from out of state vendors for delivery and use in Macon at a rate of 2.25 percent (making the total use tax rate the same as the total local sales tax).

## Why are the State of Missouri and Macon County already charging use tax on online out-of-state purchases?

### Answer

Voters have already passed the Macon County use tax and the State of Missouri use tax.

The Macon County use tax passed in 2013 and the State of Missouri use tax passed in 1959. The current rate for Macon County use tax is 2.125% and the State of Missouri use tax is 4.225%. The City of Macon does not receive any share of these current use tax collections.

## What happens if the local sales tax rate increases by voter approval or decreases with the sunset of a current tax?

### Answer

The law requires the use tax to always be equal to the local retail sales tax rate.

If Macon's retail sales tax ever decreased, the use tax would automatically decrease to match. Likewise, if the voters of Macon approved a new sales tax the use tax would be raised by that same action.

## Are there exemptions to use tax?

### Answer

Yes, there are exemptions to the use tax.

- Items that are exempt from sales tax are also exempt from use tax.
- Items that are purchased for resale are exempt from use tax.
- Online out-of-state vendor purchases not exceeding \$2,000 cumulative annually are exempt.

## What will the use tax revenues be used for?

### Answer

The use tax will capture the same local sales tax rate for online out-of-state purchase and revenues are required to be used in the same manner already approved by voters.

- City of Macon sales tax rate is 2.25%
  - General Fund 1%
  - Transportation 0.5%
  - Park Improvements & Storm Water Mitigation 0.5%
  - Fire Protection 0.25%

The General Funds provide for a number of basic city services such as police, fire, emergency services, parks maintenance, equipment, building safety code enforcement, licensing and inspections, sidewalk improvements/repairs, street signs, and snow removal to name a few.

## Does this mean every online purchase will provide the City sales tax revenue?

### Answer

No. Use tax only applies to goods purchased from vendors located outside of Missouri. When a Missouri resident purchases online from a Missouri business, the sales tax rate is imposed at the seller's location. The revenue from that local sales tax will remain in the local jurisdiction where the Missouri online business selling the product is located.

For example, an online purchase from Columbia, MO. Bass Pro would be charged Columbia's sales tax rate and that sales tax revenue would remain in Columbia. No portion of sales tax charged on that online purchase would be shared with Macon.

## How much revenue will the use tax generate for the City of Macon?

### Answer

The Missouri Department of Revenue reports annual gross sales that were subject to use tax. 2016 sales were \$3,388,089. 2017 sales were \$4,014,706. The latest completed report shows that in 2018 the gross sales subject to Macon area local use tax increased to \$7,568,147. The U.S. Department of Commerce forecasts that e-commerce sales of physical goods will increase from 11.1% to 13.7% in the United States and 17.5% globally by the year 2021.

Based on the \$7,568,147 gross sales number, a rough estimate of \$170,283 (\$7,568,147x2.25%=\$170,283) would have been the maximum revenue possible from the passage of a use tax in 2018 (if none of the exemptions applied to the purchases).

\$170,283 annually is equivalent to:

- New ADA complaint sidewalk corners at 8 intersections
- Mill and Overlay of 9,000 SY of city streets
- 2 Police Officers and 1 Firefighter (includes: salaries, benefits and training)

### **Do other municipalities in Missouri have a local use tax?**

#### **Answer**

Yes. Many municipalities in Missouri already have a local use tax in place. Below is a list of use tax municipalities in Northeast Missouri along with the date the tax was passed:

Atlanta	4/3/2018	Kirksville	1/1/2013
Brookfield	10/1/1998	Memphis	7/1/2014
Bucklin	10/1/1996	Moberly	1/1/2013
Callao	4/3/2018	New Cambria	1/1/2013
Chillicothe	1/1/2016	Palmyra	4/1/1999
Clark	7/1/2013	Paris	4/3/2018
Edina	4/3/2018	Salisbury	7/1/2014
Hannibal	7/1/2015	Shelbyville	1/1/2014
Huntsville	7/1/2013		

### **I thought legislation was already passed on this issue. Why is a use tax needed?**

#### **Answer**

If court rulings, federal efforts on the Marketplace Fairness Act, or Missouri legislation enter into a Streamlined Sales Tax Compact, only cities with an existing use tax would see the results of those measures. Macon voter approval of a use tax will still be required to apply the local sales tax rate to out-of-state purchases.

### **Now that Amazon will have a nexus in Missouri, won't our City revenues increase?**

#### **Answer**

Only Missouri cities that have passed the local use tax can expect a revenue increase from Amazon sales. If the purchased items are shipped from an Amazon out-of-state warehouse facility the Macon use tax would be applied.

In 2016 Amazon was the leading e-retailer with \$46.6 Billion in e-commerce sales of physical goods in the United States. Walmart sales were second at \$12.76 Billion.

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