

FAQ: USE TAX AND SALES TAX ON VEHICLES

WHAT IS THE USE TAX?

Use tax is imposed on the storage, use, or consumption of tangible personal property in this state on products purchased from out-of-state. The use tax is applied to the same type of products that are subject to sales tax. Products that are exempt from the sales tax would be exempt from the use tax. The state use tax rate is 4.225%. Cities and counties may impose an additional local use tax. The amount of use tax due on a transaction depends on the combined (local and state) use tax rate in effect at the Missouri location where the tangible personal property is stored, used, or consumed. In general, terms, while the sales tax rate is based on the point of sale, the use tax rate is determined based on the point of delivery. Local use taxes are distributed in the same manner as sales taxes.

WHAT IS THE RATE OF THE USE TAX?

The state of Missouri imposes a use tax at 4.225% the same as the retail sales tax. Local jurisdictions that have the power to impose a sales tax may also impose a use tax. The local use tax rate is imposed at the same rate as the total of the jurisdictions local option sales taxes.

HOW DOES THE USE TAX DIFFER FROM THE TRADITIONAL SALES TAX?

In most circumstances, the purchases made from brick and mortar retail stores are subject to the imposition of a sales tax based on the tax rate of jurisdiction in which the retailer is physically located. On the other hand, the use tax is imposed on purchases made from out-of-state vendors and the rate of the tax depends on the use tax rate in the jurisdiction that the purchaser is having the item shipped.

WHAT IF I BUY SOMETHING FROM A MISSOURI RETAILER USING THE INTERNET, WILL THE USE TAX APPLY?

No. The use tax does not apply if the purchase is from a Missouri retailer. Typically, in such a situation the sales tax based on the vendor's location would apply to the purchase.

WILL THE USE TAX APPLY TO EVERY PURCHASE MADE FROM OUT-OF-STATE VENDORS?

Out-of-state vendors that have contracts with the state of Missouri or vendors with a physical nexus in Missouri are required to collect the use tax. Consumers who make purchases from vendors that do not collect the use tax are required to report those purchases on their income tax when their annual purchases from non-collecting vendors exceed \$2,000. Purchases made from vendors who do not collect the use tax of less than \$2,000 are still subject to the use tax however, there is no mechanism that guarantees collection.

WON'T PASSAGE OF THE FEDERAL MARKETPLACE FAIRNESS AKA INTERNET TAX MAKE PASSAGE OF A LOCAL USE TAX A MOOT POINT?

The Marketplace Fairness Act is a federal legislation that would require vendors across the nation to collect the use tax on behalf of their consumer's state of residence. Only cities that have passed the use tax would benefit from such Federal legislation. Further, state level action may still be needed to enter into any National level compact on tax collection. Issues such as product exemption and sales tax holidays will likely need to be sorted out. For instance, some states exempt clothing from sales tax, but consider mittens to be sports gear that is subject to taxation. Other states exempt food, but don't consider candy bars as food.

WHAT ABOUT VEHICLE PURCHASES? ARE THEY TREATED DIFFERENTLY THAN OTHER PURCHASES?

Yes, the purchase of vehicles, trailers, boats, and outboard motors are treated differently than other retail purchases. Currently, the local sales tax is not paid at the time of purchase for these products. For instance, when Missouri residents purchase a car at an auto dealership no sales tax is paid on the purchase. Instead, when those products are registered with the Missouri Department of Revenue, the local sales tax will be imposed based on the address of the registrant (which may be a different jurisdiction from the location of the auto dealer who sold the car).

WHAT WAS THE STREET DECISION?

In January 31, 2012, the Missouri Supreme Court ruled that only cities with a use tax could collect local sales tax on purchases from out-of-state (as well as person to person sales). Purchases from Missouri auto dealers were still subject to the tax. The Missouri Department of Revenue estimated that approximately 20 percent of vehicle (and trailers, boats and outboard motors) sales occur from out-of-state vendors or are person-to-person sales and that this would result in a loss in revenue to local jurisdictions of approximately \$20.5 million.

WHAT WAS THE RESPONSE TO THE STREET DECISION?

In response to this momentous court decision the Missouri Municipal League sought relief from the Missouri Legislature. In 2013, the Legislature passed SB 182. This legislation re-imposed the local sales tax on vehicle sales (and person-to-person sales) in the form of an administrative fee. The legislation requires that cities that did not have a use tax in place prior to August of 2013 must receive voter approval to continue this administrative fee by November of 2016. Cities that do not gain voter approval to continue the tax by November of 2016 will lose the revenue stream after that date.

DON'T WE NEED TO PASS A USE TAX TO ENSURE THAT THE CITY CONTINUES TO RECEIVE SALES TAX ON OUT-OF-STATE VEHICLE PURCHASES?

No. While it is true that cities that had a use tax in place prior to the enactment of SB 182 (August 2013) will continue to receive revenue from out-of-state vehicle purchases without seeking voter approval for the administrative fee, for cities that don't currently have a use tax, passage of a new use tax may not prevent the loss of revenue after November of 2016. Language in SB 182 found in section 32.087 refers to municipalities "in which voters have previously approved a local use tax." This language calls into question whether a new use tax passed after August 28, 2013 will capture the administrative fee on vehicle sales. Therefore, the prudent course for cities that did not have the use tax in place prior to August of 2013 is to seek voter approval for the continuance of the administrative fee on vehicle purchases.

WHAT HAS THE MISSOURI MUNICIPAL LEAGUE DONE TO ADDRESS THE STREET DECISION LOOPHOLE?

The Missouri Municipal League was instrumental in the passage of SB 182. League staff, together with the auto dealers association and municipal officials across the state, worked tirelessly to see this bill passed. This legislation has prevented the loss of approximately \$40 million in much needed revenue to Missouri cities.

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