

Use Tax due on Internet and out-of-state purchases

Dear Client(s):

If you purchase merchandise from a vendor located outside the state or the country, you may owe California use tax. This includes purchases you make over the Internet. When we prepare your taxes, I will be asking you if you made purchases outside of California because you can pay the use tax with your income tax return.

Use tax is like sales tax but you pay it directly to the state, rather than to the retailer. The rule of thumb is: You owe use tax if what you bought would have been subject to sales tax if you purchased it at a local store and you did not pay California sales tax. You generally owe California use tax when you use, store, or consume — in California — tangible personal property purchased from an out-of-state vendor. If the vendor does not collect the California tax on the purchase, the purchaser must pay the tax directly to the state. If you don't report and pay your use tax in a timely manner, such as with your income tax return, the state may assess penalties and interest.

What is and is not subject to sales and use tax can be complicated. There are numerous exceptions to the rules, but here are some common ways that people make out-of-state purchases that are subject to use tax:

- Internet purchases
- Certain foreign purchases
- Shopping channel purchases
- Mail-order purchases

These are some common examples of items subject to use tax:

- Clothing
- CDs and books
- Computers, cameras and other electronic equipment
- Toys
- Household items such as small appliances
- Makeup
- Over-the-counter medications
- Collectibles
- Jewelry
- Sports equipment
- Computer programs shipped on a disc
- Vitamins and supplements

Items that are exempt from sales tax are also exempt from use tax. Here are a few examples:

- Music and other online media purchases for your phone, computer, iPod, or MP3 player which is transferred directly over the Internet.

- Software that is transferred over the Internet and nothing is mailed to you.
- Prescription drugs
- Newspapers, magazines, and other periodicals
- Most food items
- Purchases where the seller added California sales tax to your purchase

How do you pay the use tax?

The 2017 CA tax return will Include a line for the Use Tax amount, with 2 checkboxes if the amount on the Use Tax line is zero.

- One box will be “No Use Tax is owed.”
- The second will be that “You paid your Use Tax obligation directly to the CDTFA.” Note – this is the new agency, CA Dept. of Tax & Fee Administration, that replaced the State Board of Equalization, which has been disbanded. I assure you that they are equally ruthless. If you wish to pay it yourself and check that box, the use tax for 2017 is due on 4/15/18. Here is a link to the info page on CDTFA website: <http://www.cdtfa.ca.gov/taxes-and-fees/use-tax.htm#Personal>.
- If you choose not to declare it on your tax return, I regret that I cannot answer any further questions about the procedure.
- Reminder that you sign your E-file document under penalty of perjury. This is the equivalent of the physical signature you used to sign on paper returns in the past.

You still also have an option to include an automatic calculation of use tax into your return. You may only use this method **if you bought under \$1,000 of out-of-state goods**. It is based upon your income. If your CA AGI is under \$100,000, you will not pay more than around \$39, \$100,000 CA AGI, \$57. For \$200,000 CA AGI, \$77.

This means that if you know you bought over \$1,000 of goods you failed to pay tax on, you will have to come up with a figure of goods bought to give me, if you are including your Use Tax on your return. FYI – supplements are subject to sales tax, so if you are like me and buy a lot of mail-order supplements, you will have to track the purchases from companies which do not charge tax.

Sincerely,

Philip