

Use Tax for Individuals

156

Sales Tax
Fact Sheet

What's New in 2013

Starting July 1, 2013, out-of-state sellers must collect sales tax if they have a customer referral agreement with a Minnesota resident or business and their gross receipts were at least \$10,000 over 12 months (preceding four quarterly periods).

What is use tax?

Use tax is the complement to sales tax. If you buy a taxable item for your own use without paying sales tax, you probably owe use tax. The use tax rate is the same as the sales tax rate (6.875%) and the same exemptions apply. Here are some examples of when use tax is due if sales tax was not charged:

- Purchases over the Internet, by mail order, or from a shopping channel.
- Purchases of building materials or an uninstalled ready-to-move home or log home from outside Minnesota when you are responsible for the hookup of electrical and plumbing, and for the completion of the masonry work. (Manufactured homes for residential use are taxed at a rate of 4.225 percent. See Fact Sheet 150, *Manufactured Homes*, for more information.)
- Purchases of jewelry, boat motors, snowmobiles, ATVs, art, furniture, tools or appliances.
- Purchases where a Minnesota seller does not charge you sales tax on a taxable item.
- Purchases from retailers in other countries regardless if foreign taxes or duty have been paid.
- Shipping and handling fees for taxable items.

Local use tax. You may also owe local use tax. Several cities and counties have local sales and use taxes. If you buy taxable items for use in these localities and are not charged local sales tax, local use tax is due. Local taxes are listed and explained in Fact Sheet 164, *Local Sales and Use Taxes*.

Penalty. If you fail to report use tax on taxable items, penalty and interest may be assessed in addition to the tax.

Aircraft, ATVs, boats and snowmobiles. Sales or use tax is due on all purchases of watercraft, snowmobiles, ATVs and aircraft, regardless if the item is registered with the Department of Aeronautics, the Department of Natural Resources, or a Deputy Registrar's office. If tax was not paid at the time of purchase or when the item was registered, you must report use tax.

Alcoholic beverages. If you enter Minnesota with more than one liter of intoxicating liquor or more than 288 ounces of malt liquor — on which you did not pay Minnesota tax — you may also be required to file and pay alcoholic beverage excise tax. For details, see Form LB58, *Alcoholic Beverage Excise Tax Return*.

Tobacco products. When you buy tobacco products in Minnesota, the price you pay includes Minnesota tobacco tax and the health impact fee. If you buy tobacco products outside the state and are not charged these Minnesota taxes, you may also need to file Form CT303, *Consumer's Tobacco Tax Return*.

Why is there a use tax?

Use tax protects Minnesota businesses from unfair competition. If tax is not paid on items brought into your community, the local businesses are at a competitive disadvantage. The total amount they charge for a particular item will be 6.875 percent greater, even if the price of the item is the same.

Why don't all out-of-state businesses collect use tax?

If an out-of-state retail business has a physical presence in Minnesota (such as a store, warehouse, salesperson, etc.), that business is required by law to register and collect Minnesota tax. Mail order companies and others who solicit sales only through advertising in Minnesota generally are not required to register. However, many of these businesses voluntarily collect tax as a convenience to their customers.

Beginning July 1, 2013, a business is required to register, collect, and remit sales tax if they enter into an

agreement with a solicitor for the referral of Minnesota customers (whether by a link on a website, or otherwise) for a commission, and the business's gross receipts from such referrals are at least \$10,000 in the 12-month period ending on the last day of the most recent calendar quarter.

If you know someone is not charging tax correctly, call our Tipline at 651-297-5195 or toll free 1-800-657-3500 to leave a confidential message.

Are there any exceptions?

Purchases made by an individual for personal use are exempt from use tax if the individual's total purchases subject to use tax are \$770 or less in the calendar year. If an individual buys more than \$770 of taxable items in a calendar year, all of that person's purchases are taxable. *This exemption does not apply if the seller was a business that is required to collect Minnesota sales or use tax. It also does not apply to purchases made for business use.*

How would the state know?

Minnesota is a member of the Great Lakes Interstate Sales Compact and the Midwest Border States Compact. These are mutual tax enforcement agreements that help the states enforce sales and use tax laws through an information exchange.

Through these agreements, out-of-state businesses are encouraged to voluntarily register and collect Minnesota use tax. If the business does not register, Minnesota may contact purchasers directly for payment. If the tax has not been paid and is past due, the bill will include penalty and interest.

Minnesota also receives information about international purchases directly from the United States Customs Service.

What if I paid tax to another state?

Minnesota allows credit for all state and local sales or use tax legally required to be paid to another state, not to exceed Minnesota's state and local tax rate. Credit is not allowed for foreign taxes and customs duty charges.

How is use tax paid?

Individuals who owe use tax, but are not required to hold a sales tax permit, can file a use tax return annually, regardless of the total amount of purchases. These returns are due by April 15 of the following year.

If you receive a letter from the Minnesota Department of Revenue that includes a paper Form UT1, *Individual Use Tax Return*, be sure to follow the instructions and file the paper return.

All other individuals can now file their annual tax return and pay tax using **e-Services**. Go to our website at www.revenue.state.mn.us and click "For Individuals." Click on "I need to file..." and then click on "Consumer Use Tax." Enter your Social Security number and follow the prompts to file and pay individual use tax.

You may also file by paper by using Form UT1, *Individual Use Tax Return*. Download the form from our website, or call our office to request one.

References:

M. S. 297A.63, Use taxes imposed; rates
M. S. 297A.67, Subd. 21, De minimis exemption
M. S. 289A.11, Subd. 1, Return required

Other fact sheets you may need:

Use Tax for Businesses, #146
Delivery Charges, #155
Local Sales and Use Taxes, #164