



**The Use Tax-
A National Look at
State Efforts**

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Background

The Use Tax: A two minute history

- **Became prevalent in the early part of the 20th Century**
- **A companion to the Sales Tax, designed to protect in-State businesses from untaxed, out-of-State purchases**
- **Major court cases relate to the States' attempts to require out-of-State businesses to collect and remit the Use Tax**



Challenges to Use Tax Administration

The Use Tax is difficult to collect for numerous reasons:

- **States cannot rely on retailers without nexus to collect and remit the tax**
- **States are often not aware that a purchase has been made**
- **Unlike the Sales Tax, consumers must voluntarily pay the tax**
- **Consumers often are not aware that they owe the tax**
- **Reporting mechanisms are not always well-known or easily accessible**
- **Public tolerance for enforcement of the Use Tax is limited**



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Reason for Recent Increased Attention

Policymakers are increasingly interested in the Use Tax for numerous reasons:

- **There is a loss of State tax revenues as a result of proliferation of out-of-State purchases.**
- **Untaxed, out-of-State purchases create an uneven playing field for businesses in their State;**
- **Declining budgets**
- **Public demand for maintained or increased government services; and**
- **Public resistance to tax increases.**



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Use Tax Gap Guess-estimates

The Use Tax gap is significant

- Annual losses from remote sales are estimated to be around \$13.5 billion.



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Overview of States Compliance Efforts

Individual States are doing a myriad of enforcement activities to address Use Tax non-compliance, including:

- Conducting Information Campaigns
- Offering Amnesty Programs
- Increasing Audit Coverage
- Making Legislative Changes
- Encouraging Voluntary Agreements with Non-Nexus Entities
- Adding a Line Item on the Income Tax Return



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Personal and Business Participation

Adapted from Minnesota Use Tax Study

State	Annual Participation Rate	Average Taxable Purchases Per Return
Rhode Island	0.14%	\$1090
New Jersey	0.28	700
Utah	0.57	450
Louisiana	0.59	580
Idaho	0.77	650
Connecticut	0.78	1530
Indiana	0.87	690
Wisconsin	0.91	860
Ohio	1.06	440
Kentucky	1.09	660
Vermont	1.47	861
Michigan	1.78	550
North Carolina	4.02	390
Maine	7.96	390



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Conventional Practices

- **Public Awareness Campaigns**
- **Individual State Audits**
- **Regional Information Exchanges**
- **Line Items on the Income Tax Returns**
- **Amnesty Programs**



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Best Practices

- **Targeted Information Notices**
- **Data Matching**
- **Self Audits**
- **Seeking Voluntary Agreements from Non-nexus Entities**
- **Proving Nexus**
- **Spot Audits of Zero Tax Returns**



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Closing

Good News

**There is a light at the end of the Use Tax tunnel.
There really are people who voluntarily pay the Use Tax.**



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One Compliant Taxpayer

As seen in Kiplinger's March 2004 Edition



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