



Q & A on the Connecticut Use Tax for Businesses and Professions

Purpose: This Informational Publication discusses the Connecticut use tax and its application to businesses and answers commonly asked questions about the tax.

You must pay Connecticut use tax on taxable goods and services when a Connecticut retailer fails to collect Connecticut sales tax from you or when you purchase taxable goods or services (taxable if the benefit of the services is received in Connecticut) for use in Connecticut from an out-of-state merchant not registered to collect Connecticut use tax.

1. What is the use tax?

Use tax is the tax you pay when Connecticut sales tax is not paid to a retailer. The use tax is complementary to the sales tax. Together, the sales and use taxes act to tax Connecticut purchasers equally, whether they purchase goods and services within or without Connecticut.

2. Who must pay use tax?

Anyone who purchases goods or services for use in Connecticut and does not pay Connecticut sales tax must pay the use tax. If you do not comply with the use tax provisions, you may owe tax plus penalties and interest.

3. What is the use tax rate?

The use tax rates for purchases of taxable goods or services are identical to the sales tax rates:

- 6.35% for most goods and services;
- 7.75% for luxury items including most motor vehicles with a sales price of more than \$50,000; **and**
- 9.35% for the rental or leasing of a passenger motor vehicle for 30 consecutive days or less.

However, the tax on computer and data processing services is 1%.

4. On what kinds of goods or services must a business pay use tax?

As explained above, you must pay use tax on taxable goods, whether purchased or leased, and services. Examples of taxable tangible personal property include equipment, machines, furniture, instruments, appliances, computers, and computer software. Use tax also applies to the purchase of goods such as office supplies, paper, stationery items, certain publications, and books used by the business. Some taxable services include repair services to a motor vehicle or computer; janitorial services; telephone answering services; business analysis services; and charges for access to on-line computer services. For a complete list of taxable services, see Conn. Gen. Stat. §12-407(a)(2) and (37).

5. What if a Connecticut retailer does not collect tax on a sale of taxable goods or services?

If a Connecticut retailer does not collect tax on a sale of taxable goods and services, the business customer must report and pay the use tax. Businesses report use tax on **Form OS-114, Sales and Use Tax Return**.

6. What if the business buys taxable goods or services in another state and the retailer charges sales tax for the other state?

If the goods or services were purchased for use in Connecticut and the tax correctly paid to the other state is less than the Connecticut tax, the business must report and pay the difference between the Connecticut tax and the tax paid to the other state. There is no credit given for tax paid to another state when that state's tax rate exceeds Connecticut's tax rate or if the tax was incorrectly paid to another state.

Example: A business purchased a \$1,000 computer in another state, and paid \$50 (\$1,000 x 5%) tax to that state. If the business bought the computer for use in Connecticut, it owes Connecticut use tax. The Connecticut tax of \$63.50 (\$1,000 x 6.35%) is reduced to \$13.50, after allowing \$50 credit for the tax paid to the other state. If no tax was paid to the other state, the Connecticut use tax is \$63.50.

7. What if a business buys taxable goods or services for its own use from a television-shopping channel, an out-of-state mail-order company, or a computerized shopping service, and the retailer does not charge Connecticut tax?

If the business buys goods or services for use in Connecticut, it must report the use tax liability on **Form OS-114** for purchases made during the period.

8. Are there exemptions from the use tax?

Yes. Generally, any purchase or lease of goods or services not subject to Connecticut sales tax if purchased in Connecticut is not subject to use tax.

9. Can a business register just for business use tax?

Yes. A business not required to register to collect sales or use tax should still register to pay business use tax. If purchases are made in connection with a trade, occupation, business or profession, use **Form REG-1, Business Taxes Registration Application**, to register for business use tax. Report taxable purchases on **Form OS-114** for the reporting period in which the taxable purchase was made.

10. Can a Connecticut business use a resale certificate to purchase goods and services for use by the business?

No. A business can only use a resale certificate to purchase goods or services intended for resale in the regular course of business. Goods and services used in carrying on a business are consumed by the business and the tax must be reported and paid on them.

11. When may the use of a resale certificate result in a use tax liability for the business later?

Use of a resale certificate leads to a use tax liability later if:

- A. A business purchases inventory for resale and subsequently consumes or uses it in the business. For example, a computer distributor may take a computer from inventory to do billing for the business. The business owes use tax on the price it paid for the computer.
- B. A business takes items purchased for resale and subsequently gives them away in a promotion. For example, a distributor of office supplies may send out pens and pencils as part of its advertising. The business owes use tax on the price it paid for the pens and pencils.

Any tangible personal property a retailer purchases for resale is exempt from use tax if the retailer takes the property out of inventory and donates it to:

- The United States or its agencies;
 - Connecticut, its political subdivisions or their agencies; **or**
 - Any I.R.C. §501(c)(3) exempt organization.
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12. What common mistakes by a business leads to use tax liability?

The improper use of exemption certificates can lead to use tax liability. For example, non-manufacturing companies may **not** use manufacturer's exemption certificates to purchase machinery, materials, fuel, and tools. Likewise, nonprofit organizations may not purchase goods or services exempt from tax unless the goods or services are for the exclusive use of the organization.

In general, a contractor may not use a resale certificate to purchase goods and services used in fulfilling a construction contract. The lease of trucks, heavy equipment, and scaffolding, or the purchase of lumber, nails, tools, or security services are taxable to the contractor and may not be purchased with a resale certificate. The contractor owes use tax on the purchases and leases if no Connecticut sales tax was paid.

13. How does a business that owes use tax remit the tax to the Department of Revenue Services (DRS)?

Businesses that make taxable purchases of goods, such as office furniture, computers, and supplies or services in connection with a trade, occupation, business or profession must report taxable purchases on **Form OS-114** for the monthly, quarterly, or annual period in which it made the taxable purchase.

14. What are the penalties and interest for not paying the use tax or for late payment of the use tax?

Penalties for late electronic funds transfer (EFT) payments are:

- 2% of the tax due for EFT payments not more than 5 days late;
- 5% for EFT payments more than 5 days but not more than 15 days late; **and**
- 10% for EFT payments more than 15 days late.

Penalty for nonpayment of tax or late payment by check: 15% of the tax due or \$50, whichever is greater.

Interest is charged at the rate of 1% per month from the due date of the tax return. There are also criminal sanctions for willful failure to file a tax return.

15. How does DRS find use tax liabilities?

DRS periodically audits businesses. In addition, Connecticut has reciprocal agreements with numerous states. These agreements enable Connecticut to get information on purchases subject to use tax and to share information with other states.

Effect of This Document: An Informational Publication issued by the Department of Revenue Services (DRS) addresses frequently-asked questions about a current position, policy, or practice, usually in a less technical question and answer format.

For Further Information: Call DRS during business hours, Monday through Friday:

- **1-800-382-9463** (Connecticut calls outside the Greater Hartford calling area only); **or**
- **860-297-5962** (from anywhere).

TTY, TDD, and Text Telephone users only may transmit inquiries anytime by calling 860-297-4911.

Forms and Publications: Visit the DRS website at www.ct.gov/DRS to download and print Connecticut tax forms and publications.

Paperless Filing/Payment Methods (fast, easy, free, and confidential): Business and individual taxpayers can use the **Taxpayer Service Center (TSC)** at www.ct.gov/TSC to file a variety of tax returns, update account information, and make payments online.

File Electronically: You can choose first-time filer information and filing assistance or log directly into the **TSC** to file returns and pay taxes.

Pay Electronically: You can pay taxes for tax returns that cannot be filed through the **TSC**. Log in and select the *Make Payment Only* option. Designate a payment date up to the due date of the tax and mail a paper return to complete the filing process.

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