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

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

You must pay Connecticut use tax to the Department of Revenue Services (DRS) 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 for use in Connecticut from an out-of-state merchant not registered to collect Connecticut use tax.

Effective Date: Upon issuance.

Statutory Authority: Conn. Gen. Stat. § 12-411; Conn. Gen. Stat. § 12-414.

1. What is use tax?

Use tax is the tax you are required to pay when you use a taxable good or service in Connecticut on which you did not pay sales tax to a retailer. The use tax is complementary to the sales tax. Together, the sales and use taxes treat purchases of taxable goods and services that are used in Connecticut equally, whether the goods and services are purchased within or outside Connecticut.

2. Who must pay use tax?

Anyone who purchases taxable 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 penalties and interest in addition to the tax.

If you paid no tax because the purchase was made from an out-of-state Internet or mail order company that did not collect tax, the use tax due is equal to the Connecticut sales tax due on the sale as if it occurred in Connecticut.

If another state's tax was properly paid on purchases made in that state, the use tax due is limited to the amount, if any, by which the Connecticut tax exceeds the tax already paid.

Goods or services that are not subject to Connecticut sales tax are not subject to use tax.

3. How and when does a business report a use tax liability?

Businesses that are required to have a sales tax permit, must report business purchases on which sales tax has not been paid on **Form OS-114**, *Connecticut Sales and Use Tax Return*, for the reporting period in which the taxable purchase was made.

Businesses that are not required to have a sales tax permit, must report taxable business purchases on which sales tax was not paid on **Form OS-114BUT**, *Connecticut Business Use Tax Return*, for the reporting period in which the taxable purchase was made.

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

You must pay use tax on taxable goods, whether purchased, leased, or rented, and taxable services.

Examples of taxable goods 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.

Examples of taxable services include repair services to a motor vehicle or computer; janitorial services; telephone answering services; business analysis services; and charges for computer services. For a complete list of taxable services, see Conn. Gen. Stat. § 12-407(a)(2) and (37).

5. What are the use tax rates?

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

- 1% for computer and data processing services;
- 2.99% for vessels, motors for vessels and trailers used for transporting a vessel;
- 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.

6. 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.

7. 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** or **Form OS-114BUT**. See *Question 3*.

8. 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. If the sales tax correctly paid to the other state is equal to or more than the Connecticut tax, the business owes no use tax to Connecticut. There is no credit given for tax paid to another state 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%) sales 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 a \$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.

9. What if a business buys taxable goods or services for its own use over the Internet, from a television-shopping channel, or an out-of-state mail-order company, 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** or **Form OS-114BUT** for purchases made during the period. See *Question 3*.

10. Can a business register with DRS 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-114BUT** for the reporting period in which the taxable purchase was made.

11. 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.

12. 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 IRC § 501(c)(3) exempt organization.
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13. What common mistakes by a business lead to use tax liability assessments?

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, tools, and fuel. 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.

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 on Other Documents: Informational Publication 2015(16), *Q & A on the Connecticut Use Tax for Businesses and Professions*, is modified and superseded and may not be relied upon on or after the date of issuance of this Informational Publication.

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Individual Use tax
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Effect of This Document: An Informational Publication issued by 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:

- **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 portal.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 portal.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. Choose a payment date up to the due date of the tax and mail a paper return to complete the filing process.