



■ Changes in Sales and Use Tax

TO: Registered Servicepersons

The following changes are effective January 1, 1993:

If you are reporting and paying use tax on Form ST-1, Sales and Use Tax Return, on your cost price of items you purchased to transfer to your customers as part of your sales of service, you need to be aware of a change in the law. For transactions on or after January 1, 1993, instead of paying **use tax** on your cost for these items, you must collect and pay **sales tax** (Service Occupation Tax) on your cost.

Am I affected?

If the average annual cost of the items you transfer to your customers as part of your service is less than **35 percent** of your average annual gross receipts (the amount you charge for materials and service), then you may be affected.

If you sell prescription drugs and printing services, then you may be affected if the average annual cost of items you transfer to customers is less than **75 percent** of your average annual gross receipts.

How should I report the tax?

You are accustomed to paying use tax by reporting costs on Lines 12a, 13a, or 14a of Form ST-1.

Beginning with transactions you make on or after January 1, 1993, you must

- include receipts from your services on Line 1 of the return,
- report the tax portion on Line 1B or 1D of the ST-1 Worksheet for Line 2,
- report the non-taxable portion (service charges and labor) on Line 9 of the worksheet, and
- report your cost for general merchandise or food on Lines 4a, 5a, 6a, 7a, or 8a of the return using the appropriate preprinted rates.

If the lines you will use to report these costs are preprinted with the words "NOT APPLICABLE," call us at either of the telephone numbers given below to correct your registration.

What's new for hospitals and nursing homes?

When figuring the tax due on your cost price of food items that you prepare and serve to patients (when tax was not already paid to your supplier), you must no longer report these amounts on Line 13a of Form ST-1.

Instead, you must

- include receipts from these services on Line 1 of the return,
- report the tax portion on Line 1D of the ST-1 Worksheet for Line 2,
- report any amounts in excess of your cost on Line 9 of the worksheet, and
- report your cost for the food on Line 5a of the return.

The tax is payable at the rate preprinted on Line 5b of the return.

What's changed in the way I determine my filing status under Service Occupation Tax?

As before, each January 1, you must determine whether you are required to collect and pay sales tax (Service Occupation Tax) on the selling price of items you transfer to your customers as part of your sales of service.

You must base your determination upon the ratio of

- your aggregate cost price of items transferred to your customers

to

- your annual gross receipts from all sales of service for your calendar year. See the discussion under "Am I affected?"

However, you no longer have the option of paying Service Occupation Tax on a transaction-by-transaction basis. If you are required--or you choose--to pay us (and charge your customers) sales tax on the selling price, then you must do so on **all** service transactions in which tangible personal property is transferred or sold.

What sales are unaffected?

Items you sell at retail (not transferred to your customers as part of service) are not affected.

If you sell maintenance agreements or service contracts, you must continue to pay **use tax** on your cost price of items you transfer to your customers under such agreements or contracts and for which you did not pay sales tax to your suppliers.

Must I pay sales or use tax on parts I use in repairing exempt manufacturing machinery and equipment?

Qualifying manufacturing machinery and equipment repair or replacement parts that you sell or transfer to your customers as part of your sales of service are not subject to either sales or use tax.

TO: ST-1 Filers

The following changes are effective January 1, 1993:

Do businesses which relocate into Illinois owe use tax if they bring titled or registered items into Illinois?

Businesses relocating into Illinois can no longer take the use tax exemption for titled or registered items (such as vehicles, boats, and aircraft) that have been used three or more months outside Illinois. (However, individuals still qualify for this exemption.)

Businesses bringing these items into Illinois for use in Illinois must pay use tax on these items by filing Form RUT-25, Motor Vehicle Use Tax Return.

Depreciation and credits for taxes paid to other states are still allowed.

When must I pay if I owe use tax of \$600 or less per year on purchases I have made?

If you are a registered business that is required to file returns with us as a retailer, then you must continue to pay use tax on Form ST-1, Sales and Use Tax Return, when you normally file that return.

However, if you are an individual who is not required to be registered with us to pay use tax, you may pay use tax annually on or before April 15 of the year following the year in which you make your purchases. For this purpose, you must file any of the following Illinois Use Tax returns: Form ST-44, Form ST-44-C, or Form ST-44-I.

This provision does not apply to automobiles and other titled items. For these types of purchases, you must file Form RUT-25, Motor Vehicle Use Tax Return.

How long does the Department of Revenue have to recover erroneous refunds or credits?

The Department of Revenue may recover erroneous refunds or credits up to three years after the refund or credit is issued (or five years when the refund or credit results from fraud or misrepresentation).

Questions?

If you have questions or need more information, please call or write us. Our telephone numbers and address are printed at the bottom of this bulletin.



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BY AUTHORITY OF THE STATE OF ILLINOIS
(254,000 copies - 12/92 - P.O. Number 46066)