

■ Manufacturer's Purchase Credit - Requirements for Retailers

TO: Retailers and Servicepersons Who Sell Products to Manufacturers

You may have customers who will inform you that they have earned a manufacturer's purchase credit from us. You should be aware of special procedures you will be required to follow when selling any item in your inventory to these customers.

These customers earned the credit by purchasing exempted manufacturing machinery and equipment on or after January 1, 1995. They may apply the credit against their Illinois Sales Tax (Use Tax or Service Use Tax) liability on purchases of "production-related tangible personal property" that do not qualify for the manufacturing machinery and equipment exemption.

As a retailer or serviceperson, how does this credit affect me?

If any of your customers wish to use this credit when purchasing items from you, you must account for the credit at the time of purchase, keep a record of the use of the credit, and report the use of the credit.

Do I have to determine whether an item I am selling is "production-related tangible personal property"?

No. It is your customers' responsibility to use the credit only on the purchase of qualifying items.

If you need more information about the use of this credit as it applies to your customers, see our Informational Bulletin FY 95-3, Manufacturer's Purchase Credit.

How may the buyer use the credit?

Your customers may apply this credit towards only their Illinois Sales Tax obligations when they purchase qualifying production-related tangible personal property. They must pay any additional locally imposed sales and use taxes, such as home rule taxes and mass transit taxes, directly to you at the time of purchase.

For example, the state rate for general merchandise is 6.25 percent. Your rate (preprinted on Line 4a of Form ST-1) may be a combined rate that includes certain locally imposed taxes. Your customer may not apply the credit to more than the 6.25 percent rate. If your rate is 7 percent, for example,

your customer must pay the difference (0.75 percent) directly to you.

What must I do when I sell "production-related tangible personal property" to a customer who is using the credit?

You will receive the upper portion of Form ST-16-C, Manufacturer's Purchase Credit Certificate, from the buyer at the time of purchase. You must keep this form in your books and records. Do not send this form to us.

Your portion of the form will contain

- the name of your customer's business,
- the date of purchase,
- your customer's Illinois Business Tax (IBT) number,
- the total amount of the purchase,
- the tax due,
- the amount of credit being used,
- the remaining tax due, if any, and
- your customer's signature, certifying that your customer has a Manufacturer's Purchase Credit sufficient to cover all or part of the 6.25 percent Illinois Sales Tax

liability against which your customer is applying the credit.

Using the information on Form ST-16-C, you must complete and file Form ST-18, Retailer's Credit Report, as an attachment to Form ST-1, Sales and Use Tax Return.

The amount on Line 16 of Form ST-1 must be reduced by the total credit amount in Line E of Form ST-18.

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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INFORMATION...**

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1 800 544-5304 TDD teletype device **for hearing impaired only**

WRITE: Illinois Department of Revenue, 101 W. Jefferson St., P.O. Box 19044, Springfield, IL 62794-9044
