FY 2005-13

January 2005

Illinois Department of Revenue

Informational Bulletin

Brian Hamer
Director of Revenue

Exemption Change

To:
All dealers who file Form ST-556, Sales Tax Transaction Return

For information or forms...

- Call us at:
  1 800 732-8866 or
  217 782-3336
- Call our TDD (telecommunications device for the deaf) at:
  1 800 544-5304
- Write us at:
  Illinois Department of Revenue
  P.O. Box 19044
  Springfield, IL 62794-9044
- Visit our Web site at:
  www.ILtax.com
- Call our 24-hour Forms Order Line at:
  1 800 356-6302

This bulletin is written to inform you of recent changes; it does not replace statutes, rules and regulations, or court decisions.

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Effective **February 1, 2005**, certain nonresidents may **not** claim the "out-of-state buyer" exemption (Section 5, Box A of Form ST-556, Sales Tax Transaction Return) on purchases of motor vehicles or trailers.

Nonresidents may not claim the "out-of-state buyer" exemption if the motor vehicle or trailer will be titled in a state that does not give Illinois residents an "out-of-state buyer" exemption on their purchases in that state of motor vehicles or trailers that will be titled in Illinois (*i.e.,* there is no reciprocal exemption).

The rate that you must use to compute the tax due may be different from the rate that is preprinted on your Form ST-556.

What is the tax rate?

The tax rate is the nonresident's state sales tax rate, but is limited to 6.25 percent if the nonresident's state sales tax rate is higher than 6.25 percent.

Which states do not give Illinois residents an "out-of-state buyer" exemption?

The chart below is only a partial list of states. It shows whether or not you must collect tax and, if so, the rate that you must use to compute the tax due. Visit our web site if you have an out-of-state buyer from a state not shown below.

A State	B Must I collect tax ?	C Tax rate
Arizona	**Yes**	**5.6%**
Florida	**Yes**	**6.0%**
Indiana	**Yes**	**6.0%**
Iowa	No	exempt
Kentucky	No	exempt
Massachusetts	**Yes**	**5.0%**
Michigan	**Yes**	**6.0%**
Missouri	No	exempt
South Carolina	**Yes**	**5.0%** **(up to $300)**
Wisconsin	No	exempt

As of February 1, 2005

We will review which states do not have a reciprocal "out-of-state buyer" exemption and their sales tax rates two times each year. Rates are subject to change. We will inform you of any changes so that, beginning each January 1 and July 1, you will collect the correct amount of tax. We also will publish this information on our web site.

How do I report these types of transactions on Form ST-556?

Follow the instructions shown below to complete your return correctly.

- Mark Section 5, Box A, "Out-of-state buyer" and write the drive-away permit number or license plate number (whichever applies) on the line provided. **Also, write the two-letter state abbreviation** ("IN", "MI", *etc.*).
- Complete Section 6, Lines 1, 2, and 3.
- Cross through the preprinted tax rate on Line 4 and write the nonresident's state sales tax rate. **Multiply Line 3 by the nonresident's state sales tax rate.** (See Page 1 of this bulletin or visit our web site for updated information.)
- Do not write any amounts on Line 5.
- Complete the rest of Section 6. **Note:** If you are located in the MED portion of St. Clair County, write "$0" on preprinted Line 7a, MED fee. (No MED fee is imposed on these types of transactions.)
- Have all out-of-state buyers sign the return. Give the buyer a copy and keep a copy in your records.

If you sell a boat and a trailer as part of a package to a nonresident of a state that does not give Illinois residents an "out-of-state buyer" exemption, you must continue to determine the price of each item and report them on separate returns (Form ST-556).

- **Trailers** — Report the trailer transaction as described above.
- **Boats** — You must collect tax at the rate preprinted on Form ST-556. Sales to nonresidents who purchase boats in Illinois are not exempt.

Note: If you use a computer to print information on your ST-556 forms, you may need to adjust your software programs or contact your software vendor so that, beginning February 1, you will report, collect, and pay the correct amount of tax.

What must I do if the buyer is a resident of a state that *does* give Illinois residents an "out-of-state buyer" exemption?

Continue to report the exemption as you would normally. Mark Section 5, Box A, "Out-of-state buyer" and write the drive-away permit number or license plate number (whichever applies) on the line provided. Also write the two-letter state abbreviation and complete Lines 1 and 2 of Section 6.

Does this change apply to all items reported on Form ST-556?

No. This change only applies to sales of motor vehicles and trailers.

Illinois does not have an "out-of-state buyer" exemption for sales of watercraft, aircraft, mobile homes, or all-terrain vehicles (ATVs) when a nonresident takes possession or delivery of these items in Illinois. These receipts are taxable at the rate printed on your return unless the buyer is an out-of-state retailer of these items making a purchase for resale.

Questions?

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