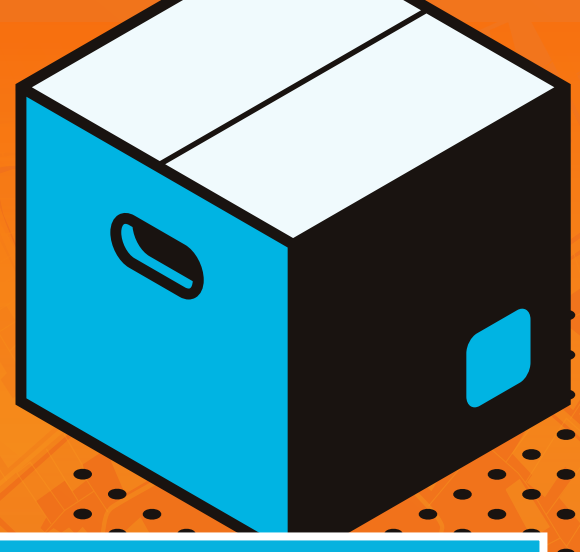
What creates a *use tax* obligation for a business?



Most businesses know to account for sales tax, but often overlook its more complicated cousin, ***use tax***. While sales tax is charged at the point of purchase, use tax can be assessed at multiple points after purchase and in a variety of circumstances. So what creates a use tax obligation for businesses?

At point of purchase

1 Vendor errors

When a vendor overcharges sales tax, a business can seek a credit. When a vendor undercharges sales tax, the business is responsible for the difference in the form of use tax.

2 Out-of-state

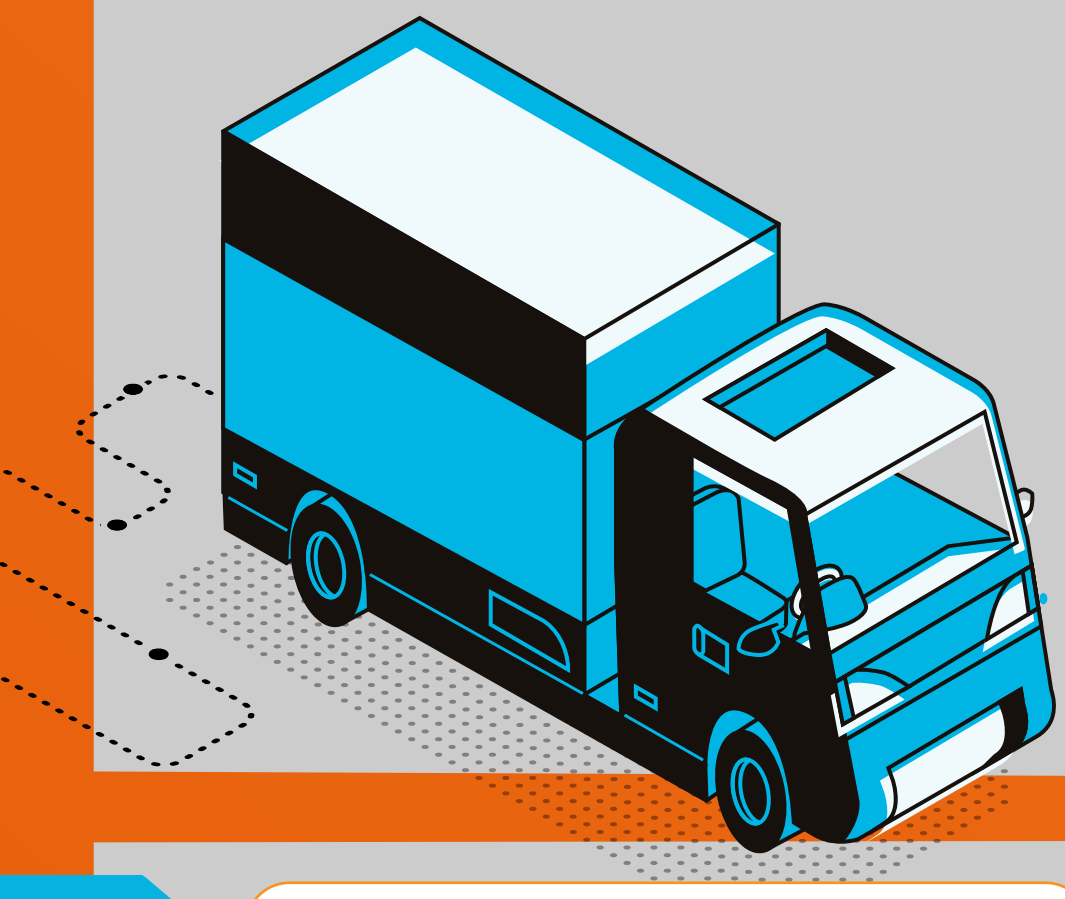
For purchases made out of state, businesses are required to report and pay use tax to the state where the item purchased will be used.

3 Non-collecting seller

If a vendor doesn't charge because they aren't required to collect sales tax, the buyer is required to pay use tax.

4 Procurement or employee purchases

When procurement departments or employees make purchases, the business is required to maintain proof the appropriate sales tax was paid, or use tax may be assessed during an audit.



5 Software as a service

Taxability rules on software services vary significantly across states. When software is purchased in one state and used in other states, businesses are obligated to reconcile the sales and use taxes paid.

After the sale

6 Central purchasing

When equipment is purchased in one location but later moved and used in another, the business has to reconcile the original sales tax paid and the use tax now owed in the new location.

7 Inventory movements

Items from untaxed inventory that are repurposed to use internally, for demonstrations, promotions, or even as a donation become taxable.

Don't risk it.

State auditors often cite use tax errors as the number one audit risk, with the bulk of assessments coming from use tax non-compliance. In fact, use tax ranks in the top five for costliest compliance mistakes for businesses, according to accounting and tax consulting experts Peisner Johnson.

Avalara Consumer Use automates use tax compliance, so you can reduce risk without overburdening your finance department.

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