
ILLINOIS USE TAX FACT SHEET

FOR ILLINOIS USE TAX VOLUNTARY DISCLOSURE PROGRAM



Does my business owe Illinois Use Tax?

If you answer "yes" to the following questions, you may owe Illinois Use Tax.

- Do you purchase general merchandise, food, drugs, or medical appliances for use in Illinois?
- Are such purchases taxable in Illinois (i.e., you are not able to claim an exemption)?

What is Illinois Use Tax?

"Use" means the exercise by any person of any right or power over general merchandise incident to the ownership of that property. Use Tax is imposed on the privilege of using, in this state, any kind of general merchandise, food, drugs, or medical appliances that are purchased anywhere at retail from a retailer. Generally, Use Tax is paid to a retailer registered to collect the tax. If Use Tax is not paid to the retailer, the purchaser must self-assess Use Tax at the rate of 6.25 percent on general merchandise and 1.00 percent on qualifying food, drugs, and medical appliances and remit it to the department.

What are the Illinois Use Tax rates?

Illinois Use Tax rate is 6.25 percent of the purchase price of general merchandise and 1.00 percent of the purchase price of qualifying food, drugs, and medical appliances.

The 1.00 percent applies to

- food that has not been prepared for immediate consumption (such as most food sold in grocery stores, excluding hot foods, alcoholic beverages, and soft drinks),
- nonprescription drugs that claim to have medicinal value (such as aspirin), and
- certain nonprescription medical appliances (such as wheelchairs and hearing aids).

Who must pay Illinois Use Tax?

Your business owes Illinois Use Tax if you purchase general merchandise, food, drugs, or medical appliances for use or consumption in Illinois and

- you are not charged Illinois Sales Tax or you are charged a rate less than the Illinois Use Tax rate of 6.25 percent,
- would normally be subject to sales tax if you purchased it from a retailer in Illinois, or
- you originally purchased general merchandise, food, drugs, or medical appliances tax free for resale and later removed them from your inventory for use or consumption in your business.

Examples include

- internet and catalog purchases when Illinois Sales Tax is not collected, or
- items purchased and picked up while in another state from a retailer who charges a sales tax rate less than the Illinois Use Tax rate of 6.25 percent; you will owe the difference.

Most Use Tax is due as a result of purchases from companies located outside Illinois; however, if you purchase an item for use or consumption in Illinois from an Illinois retailer, and you were not charged tax by the retailer, you owe Illinois Use Tax to the department.

Why should my business voluntarily pay Illinois Use Tax?

Your business should voluntarily pay Illinois Use Tax, because if you fail to pay and you are audited by the department, you will not only be liable for unpaid Use Tax but will also be liable for any penalties and interest. Illinois is aggressively focusing upon collecting this tax. Illinois shares sales information with other states and bills Illinois customers for unpaid tax, penalty and interest.

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If you purchase general merchandise, food, drugs, or medical appliances from an Illinois retailer or an out-of-state retailer for use in Illinois, you are required to pay tax to the retailer, if charged, or self-assess Use Tax and remit it to the department.

By participating in this program and timely paying all of the Illinois Use Tax you owe, you will avoid being billed for unpaid tax and additional penalty for a potential six year period.

What are some common types of business purchases on which Illinois Use Tax is incurred?

There are two main types of business purchases that are examined for potential use tax liability.

1. Consumable Supplies: These are end use items which are usually expensed for federal income tax purposes. These types of purchases are most commonly recorded in general ledger accounts, cash disbursement journals, purchases journals, and check registers. Common examples of these types of purchases are cleaning supplies and office supplies. Examples:
 - A dentist buys toothbrushes from an out-of-state supplier to give away to patients during their annual exam. The supplier does not charge sales tax. The dentist owes 6.25 percent Use Tax on the cost of the toothbrushes.
 - A restaurant purchases tablecloths from an internet company. The internet company does not charge sales tax. The restaurant owes 6.25 percent Use Tax on the cost of the tablecloths.
 - A manufacturing company purchases 50 turkeys from a catalog company to give to employees as part of their holiday bonus. The catalog company does not charge tax. The manufacturer owes 1.00 percent Use Tax on the cost of the turkeys.
2. Fixed Assets: These are items that are capitalized and depreciated for federal income tax purposes. These types of purchases are most commonly recorded in general ledger accounts, federal income tax depreciation schedules, Form US-4562, and cash disbursement journals. Common examples of these types of purchases are computers and office furniture. Examples:
 - An insurance company purchases a desk from an office supply company over the internet. The internet company does not charge sales tax. The insurance company owes 6.25 percent Use Tax on the cost of the desk.
 - A landscaper buys a lawn mower from an Illinois supplier. The supplier does not charge tax on the purchase. The landscaper owes 6.25 percent Use Tax on the cost of the lawn mower.
 - A wholesaler buys a forklift from an out-of-state supplier. The wholesaler sent his own truck to pick up the forklift in the other state. The wholesaler paid 5.00 percent sales tax to the supplier. The wholesaler owes an additional 1.25 percent Use Tax on the cost of the forklift to Illinois. The 1.25 percent is the difference between the Illinois Use Tax rate of 6.25 percent and the other state's sales tax rate of 5.00 percent.

In all of the above examples if the business makes purchases on a frequent and recurring basis, the business will need to be registered as a Use Tax filer, report the Use Tax on Form ST-1 and remit the Use Tax owed to the department.