



Intro to Sales and Use Tax

City of Wheat Ridge Basics

2017



This Class

- Briefing on licensing
- An overview of sales and use tax for those with little, no or rusty knowledge of them.
- Definition, history and rates
- Applicability
- Exemptions
- Basic use tax calculation and reporting
- Finish up with tax assistance resources



Licensing Is Required

- ▶ Business and Sales and Use Tax License
 - ▶ All persons or entities engaged in business in the City (having nexus) – Code Section 11-22
 - ▶ Reviews by other departments
 - ▶ Zoning
 - ▶ Police (higher risk to community)
 - ▶ \$20 each year
 - ▶ Certain businesses require additional licenses



What Is Sales Tax?

- ▶ Sales tax is...
 - ▶ An excise tax on a transaction or the privilege of making one: the sale of goods and some services to fund the operations of government.
 - ▶ Often also used to attempt to control consumer behavior.
 - ▶ Mandatory.
 - ▶ The major revenue source for Wheat Ridge.



More on Sales Tax

- ▶ Traditional: tax levied on exchange of title to goods and sometimes services
- ▶ Sometimes: transaction privilege or gross receipts tax
 - ▶ Arizona
 - ▶ New Mexico
- ▶ Difference: ultimate responsibility for tax
 - ▶ Buyer (traditional) v seller (transaction privilege)
 - ▶ Broader base, but that is changing.
 - ▶ Sales tax states still assess seller if they didn't collect tax.
 - ▶ Deductions still allowed; usually fewer.



History of Sales Taxes

- ▶ Have existed since at least 2000 B.C.
 - ▶ Cooking oil in Egypt!
 - ▶ Individual households audited
 - ▶ Scribes and pharaoh's guards
 - ▶ Ultimate downfall of Egyptian Empire (one scholar in the Oxford History of Ancient Egypt)
 - ▶ Greece: taxed specific goods for funding war, then refunded with the spoils of war.



History of Sales Taxes, 2

- ▶ Roaming Romans spread sales tax to Europe
 - ▶ Funded local operations and tithed to State
- ▶ Embedded in Europe
 - ▶ 18th century expansionist Spain was crushed by 10% to 15% rates!
 - ▶ Now value added taxes – less transparent

History of Sales Taxes, 3

➤ U.S.

- Started as excise taxes on specific commodities, usually to help fund wars
- Whiskey Rebellion of 1794: corn farmers
- Civil War: many commodities, close to a general sales tax
- Mercantile License Tax: Pennsylvania 1821
 - narrow base





History of Sales Taxes, 3

- ▶ General Sales Tax
 - ▶ Great Depression strained property tax as a funding source
 - ▶ Kentucky 1930, liability on retailers
 - ▶ Mississippi 1930 (effective 1932), liability on buyers, but collected by sellers
 - ▶ Colorado 1935
 - ▶ Wheat Ridge 1970, home rule 1976



Glossary of Sales and Use Tax Terms

- ▶ Specific terms

- ▶ **Base or basis:** the amount to which tax applies; may differ from the total of any given invoice.
- ▶ **Jurisdiction:** the legal geographic boundary of a tax collecting authority
- ▶ **Home-rule:** a city's or town's State-constitution-granted authority to make and enforce its own tax laws.



Glossary, continued

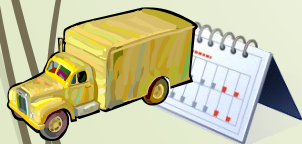
- ▶ **Nexus:** a business presence as prescribed by law and court cases; different for sales tax versus income tax
 - ▶ Presence of business property*
 - ▶ Employees or agents doing business*
 - ▶ Commissioned agents or subcontractors*
 - ▶ *Regular* delivery by own vehicles (Miller Bros. v Maryland)*

More on nexus

- ▶ Quill v North Dakota – regular solicitation of business without any physical presence minus all the other “*” factors isn’t nexus.

Nexus Yes

- Brick and mortar
- Agents, employees
- Regular delivery in own vehicles



No Nexus



- Remote internet sales only
- Mail order sales only
- Deliveries by common carrier only



Who Pays It?

- ▶ Buyer
- ▶ Unless valid, documented exemption
 - ▶ Unpaid sales tax = use tax of the buyer
 - ▶ Unpaid sales tax = sales tax due from the seller
 - ▶ One or the other, whichever is **first** collectible by the City.



Who Collects and Remits It?

- ▶ Seller: City Code Section 22-40
- ▶ Collects versus pays
 - ▶ Sales tax is never the seller's property, but money held in trust for the City. Code Section 22-40(d)
 - ▶ City: any lawful means to collect its property. 22-43(c)



City Tax Code

- Wheat Ridge Revised Municipal Code
- "The Code"
- "The City Code"
- Chapter 22
- www.municode.com



The Rate

Wheat Ridge	3.50%
State of Colorado	2.90%
RTD	1.00%
Scientific/Cultural Facilities District	0.10%
Jefferson County	<u>0.50%</u>
Total Rate	<u><u>8.00%</u></u>

The Rate Grid in Wheat Ridge

TOTAL RATE EFFECTIVE IN WHEAT RIDGE JANUARY 1, 2017						
Supplier's Location	City of Wheat Ridge	State of Colorado	Regional Transportation District	Cultural & Scientific District	Jefferson County Open Space	Combined Rate
In Wheat Ridge	3.5%	2.9%	1.0%	0.1%	0.5%	8.00%
Not in Wheat Ridge or Jeffco but has nexus	3.5%	2.9%	1.0%	0.1%		7.50%
Not in Wheat Ridge, in Jeffco		2.9%	1.0%	0.1%	0.5%	4.50%
Outside Jeffco		2.9%	1.0%	0.1%		4.00%

Nexus, for tax purposes, means a business presence in the form of employees, representatives or property (real or personal) for business purposes. Employees or representatives who live in the City, but do not conduct business such as sales, solicitation of sales, or fulfillment of sales orders or services do not create nexus. If a resident employee actively promotes the business (i.e., solicits sales) in the City, nexus exists and licensing and tax collection, on sales delivered or certain services rendered in the City, are required.



Other Taxes

Admissions tax 4.0%

- ▶ Applies to charges for entrance to amusement or entertainment events.
 - ▶ Suggested donations are admissions charges.
 - ▶ Church services and non-profit school classes exempt.
 - ▶ Add-on to transaction is preferred, but will accept gross receipts "rolling in."
- ▶ Replaces the City sales tax but may be additional to State collected taxes.



Other Taxes, too

Lodging tax
10.0%

- ▶ Applies to all charges for accommodation for less than 30 continuous days to the same occupant.
 - ▶ Rooms or suites
 - ▶ Houses or apartments
 - ▶ Camping spaces
 - ▶ Bunks in a dorm
- ▶ Replaces the City sales tax but may be additional to State collected taxes.

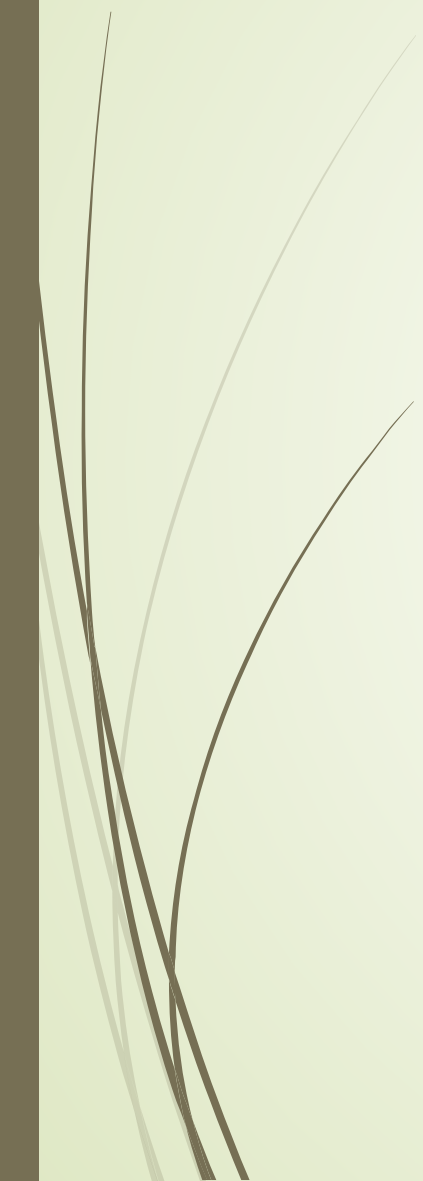


What Is Taxable in Wheat Ridge?

- Retail sales
 - All dry goods
 - All food
 - Manufacturing and farm equipment
 - Telecommunications and internet
 - Pay television and pay radio
 - Software including licensing and maintenance



More Sales Taxable Items

- ▶ Goods sold via vending machines
 - ▶ Medical supplies and medical equipment
 - ▶ Leases and rentals
 - ▶ Anything that could be bought
 - ▶ Storage lockers or units
 - ▶ Event facilities except mortuary viewing rooms if used for funerary purposes
 - ▶ Linens and uniforms
- 



A Few More

- ▶ Select services
 - ▶ Telecom subsets
 - ▶ Alarm monitoring
 - ▶ Sound system
 - ▶ Former tangibly conveyed items
 - ▶ Credit reporting services
 - ▶ Advertising services
 - ▶ Marketing/information agency services



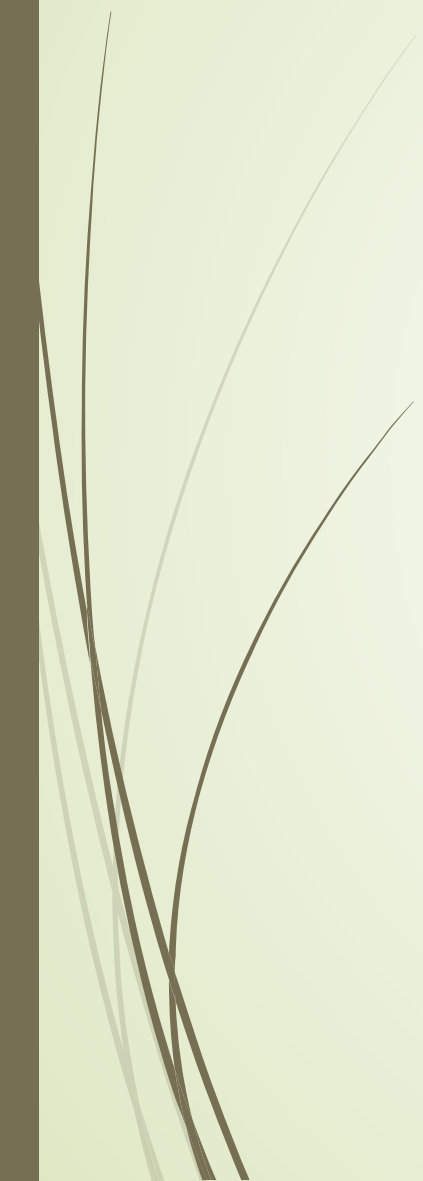
Exemptions

- ▶ Sales delivered outside the City
 - ▶ Proof on invoice and delivery ticket
- ▶ Resale, non-profit exemptions
 - ▶ Requirements:
 - ▶ Documentation such as Colorado form DR 0563
 - ▶ Any format which lists company, address, line of business and tax license numbers for State and Wheat Ridge if located here
 - ▶ Non-profit organizations MUST be licensed with the City to be exempt from City tax.

When in doubt, collect! Customers can seek a refund.



What is Use Tax?



Use tax is a substitute for sales tax. Use tax is imposed to minimize unfair competition between local and non-local sales. It also reduces the bleed-off of tax revenues in these times of mobility and internet buying by circumventing the shopping of tax rates for material business purchases.



When Did *That* Happen?

- ▶ About three years after the first general sales tax was instituted in the U.S. a use tax was also imposed.
 - ▶ Businesses were concerned because more affluent customers were going where there was no tax to make purchases.
 - ▶ Government was concerned because it needed the money!



Who Pays Use Tax?

- *Everyone* is supposed to pay it, but businesses are the only ones feasibly enforceable at this time.
- Stored in the City
- Used or consumed in the City
- Distributed in the City (promo items)

How Much Is It and What Does it Apply To?

The rate is 3.5%, the same as the sales tax.




Credit is allowed for local tax lawfully paid elsewhere.

It applies to the same items that are subject to sales tax.

Basic Use Tax Know-How

- ▶ You know you owe use tax when...
 - ▶ No tax was paid: internet sales, catalog sales
 - ▶ Only State collected taxes were paid
 - ▶ In Jefferson County, 4.0% or 4.5% (remember the
 - ▶ In other counties, more difficult to tell
 - ▶ Usually any rate less than 5.0%
 - ▶ Large ticket items? Call the vendor!





Very Simple Sample Worksheet

- ▶ This worksheet shows very basic examples to help you get started with use tax.
- ▶ More complex examples will be presented in the advanced class, but before then if you encounter one and need help, CALL!

Basic Use Tax Calculations

- When no local tax was paid it's simple!

No Local Tax Paid, Step 1

- ▶ Determine the taxable base for each untaxed invoice

Taxable Base

=

Price of goods or taxable service

+

Shipping/handling/delivery/fuel fees

No Local Tax Paid, Step 2

- ▶ Calculate the tax

Tax

=

Sum of All Taxable Bases

X

Tax Rate (3.5%)



Some Local Tax Paid

- More complex
- Need to determine how much local tax was paid and remit any extra owed to the City.
- This class: assuming local tax paid to a Jefferson County seller in a city with a lower rate (i.e., Lakeside).



Some Local Tax Paid, Step 1

Determine the rate paid:

$$\begin{array}{c} \text{Rate Paid} \\ = \\ \text{Tax Amount Paid} \\ \div \\ \text{Taxable Amount of Invoice} \\ \text{(as best you can tell)} \end{array}$$



Some Local Tax Paid, Step 2

Determine the makeup tax rate you need to pay:

$$\begin{array}{r} \text{Makeup Rate} \\ = \\ \text{Total City Rate (8.0\%)} \\ - \\ \text{Total Rate Paid} \end{array}$$



Some Local Tax Paid, Step 3

Determine the tax amount owed:

$$\begin{aligned} &\text{Tax Amount Owed} \\ &= \\ &\text{Makeup rate} \\ &\times \\ &\text{Taxable Base (goods plus s/h/d)} \end{aligned}$$

Some Local Tax Paid, Step 4

- ▶ That's not the end! If the regular taxable base is used, you'll pay too much! The adjusted taxable base is what you report:

Adjusted taxable base

=

Tax Amount Owed

÷

Tax Rate (3%)

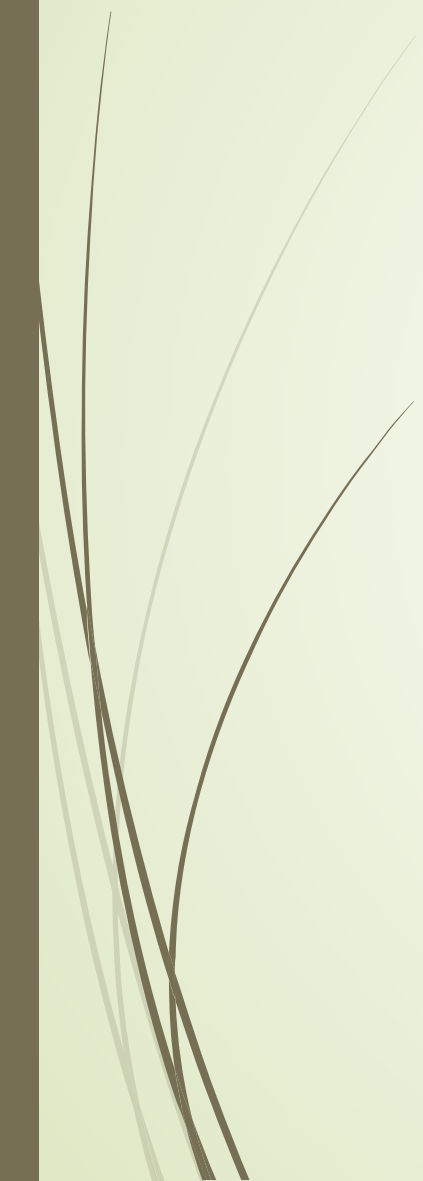


Reporting

- ▶ Place the total taxable amount on line 10 of the return.
- ▶ Recalculate the tax on line 11. If it agrees with your worksheet, you're in good shape. If not, troubleshoot! You can contact Tax staff for help. We can look at emailed materials and help you out. Give us a call!
- ▶ 303.235.2820



Keep It Simple to Start

- ▶ More detailed coverage of partial tax in the advanced class.
 - ▶ If you can initially catch the “no local tax paid” items, you’ll be making a bona fide effort at complying *and* save money on any possible future audit assessments.
- 



How Often to File

- ▶ Code Section 22-40(c)
- ▶ Average tax over \$100/month = monthly
- ▶ Average tax \$20 - \$100/month = quarterly
- ▶ Average tax less than \$20/month = yearly
- ▶ Due on the 20th of the month after period end



Summary



- ▶ Wheat Ridge *sales tax* applies to all sales of goods and some services.
- ▶ The total rate is 8.0%, but only 3.5% is the City's.
- ▶ The buyer pays sales tax, the seller collects and remits it.
- ▶ Use tax is sometimes owed on business supplies and equipment.
- ▶ Returns are due the 20th of the month.



Wheat Ridge Resources

- Website: www.ci.wheatridge.co.us/taxinfo
 - Go to Departments, Administrative Services, Tax and Licensing.
- Tax Info Line: (303)235-2820
- Auditor: (303)235-2818
- Sales Tax Supervisor: (303)235-2825



Other Resources

- ▶ State of Colorado: www.taxcolorado.com
(303)238-7378

- ▶ Address wizard for looking up city jurisdiction in Jefferson county

www.co.jefferson.co.us/awiz/

FOR BUSINESS PROPERTY OR REAL PROPERTY TAX QUESTIONS ONLY

- ▶ Jefferson County: www.co.jefferson.co.us

(303) 271-8333 General Property Tax

(303) 271-8341 Business Personal Property Tax

- ▶ **Other localities and counties** may be found in the phone book, via internet search or through the State's website.

- ▶ Internal Revenue Service: www.irs.gov (income tax questions)