JASPER COUNTY REGIONAL AREA

USE TAX

MOTOR VEHICLE SALES TAX

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<u>Issue</u>

- Prior to January 2012 court ruling, sales taxes collected by local governments for purchases of such items as motor vehicles, boats, trailers (titled property) based on physical address of person purchasing item, even if purchase made out-of-state
- So, residents paid local sales tax on *all* vehicles and titled property bought when the vehicle was licensed, no matter where it was purchased

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Ruling

- Missouri Supreme Court ruling (January 2012)

Craig A. Street vs. Director of Revenue

- Sales taxes can't be collected by local governments on out-of-state purchases of such items as motor vehicles, boats, trailers, etc., unless a local use tax has been imposed
- Court ruling eliminated local sales taxes on vehicles purchased out-of-state or from an individual
- Local cities and counties are losing tax revenues that were being collected prior to court ruling

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<u>What is the impact of this ruling?</u>

- Due to the region's proximity to three neighboring states, ruling could have significant impact on local businesses, as well as local governments
- Local businesses could lose business as area Missouri residents cross state lines to make these large-ticket purchases to save sales tax dollars
- Local/County governments losing sales tax revenue which could impact services provided to citizens, such as police & fire protection, street maintenance, parks services
- State sales tax not impacted because of Missouri's existing use tax

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How does it work after recent court ruling, before recent temporary fix?

- Resident purchases motor vehicle at Missouri dealership, resident pays sales tax based on where they reside
- Resident purchases motor vehicle at an out-of-state dealership, resident only pays local taxes if taxing jurisdiction has use tax in place; if no use tax in effect by local taxing entity, resident pays state use tax only

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How does it work after recent court ruling, before recent temporary fix?

- Resident purchases motor vehicle from an individual either inside or outside the state, resident pays local taxes based on where they reside, if local jurisdiction has use tax; otherwise, resident pays state use tax only
- So, resident still paying local sales taxes if vehicle purchased from Missouri car dealer, but no local sales taxes paid if vehicle purchased out-of-state

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<u>Projected Impact of Ruling</u>

- State of Missouri estimated lost sales tax for each governmental entity at 21% of the total sales tax remitted for vehicle & marine sales
- Due to proximity of this region to other states, lost sales tax revenue could be higher than State estimate

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Projected Impact of Ruling

Missouri Department of Revenue Estimated Lost Sales Tax for municipalities from Vehicle & Marine Sales in 2011:

- Carl Junction $47,241
- Joplin $431,601
- Webb City $74,535
- Jasper County $500,000

Estimated Annual Lost Sales Tax Grand Total $1.2 million

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What is a ***Sales*** Tax?

- Sales tax requires a sale at retail in Missouri
- Imposed on the retail sale of tangible personal property (TPP) and taxable services
- Sales tax is charged based on the ***location of the seller***

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What is a ***Use*** Tax?

- Imposed on the storage, use or consumption of tangible personal property (TPP) in the state
- Use tax applies to purchases made out-of-state & brought back for use in Missouri (including internet sales)
- Doesn't apply if the purchase is subject to sales tax
- Therefore, there can never be a Sales tax and a Use tax assessed on the same purchase-not a "double tax"

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How does a use tax apply to a ***purchaser***?

- Not a typical "consumer tax"
- If an out-of-state seller doesn't collect the use tax or the sale is made by a seller not engaged in business, the purchaser is responsible for remitting the use tax to Missouri
- Purchasers are excluded from reporting tax until cumulative purchases made out-of-state equal $2,000 or more in a calendar year

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How does a use tax apply to a ***purchaser***?

- Thus, residents won't pay this tax, unless they purchase items from out-of-state for which the use tax is not collected by the seller and totals over $2,000 in a calendar year
- State currently charges a use tax
- If a resident isn't aware of the state use tax in effect, a local use tax shouldn't impact the purchaser

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How does a use tax apply to a ***seller***?

- Use tax is charged based on the first use in the state, generally the location of the purchaser
- Sellers must have "nexus" with Missouri to be required to collect and report use tax

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How does a use tax apply to a ***seller***?

- Missouri can't require out-of-state companies that don't have a "nexus" or direct connection with the state to collect and remit use tax
- If use tax in place, Department of Revenue would collect the use tax on titled property purchases, such as motor vehicles and boats

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What is "Nexus"?

- Office, distribution house, sales house, warehouse, service enterprise or other place of business within Missouri
- Maintain stock of goods in Missouri
- Regularly leases property located in Missouri
- Basically, "nexus" is the same as a "location" in Missouri

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<u>Local Use Tax Option</u>

- Authorized in Section 144.757 – 144.761 RSMo
- Use tax rate must equal local sales tax rate currently in effect and imposed by governmental entity
- Imposition or expiration of a local ***sales*** tax automatically increases or decreases the local ***use*** tax
- For items purchased within a city's boundaries, residents currently see separate sales tax rates for State, County, and City

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<u>Regional Comparison</u>

- 56 Missouri counties have “use” tax in place
- 105 Missouri cities have “use” tax in place
- Nearly half of all Missouri cities with populations of 2,000 or more already have a “use” tax in place

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Why is a Use Tax Important?

- Levels playing field between hometown merchants and out-of-state sellers
- Helps retain local businesses, in turn keeping local jobs in the area
- Helps to ensure the support of local businesses for the entire community, instead of the dollars flowing out of the region

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Why is a Use Tax Important?

- Preserves local economy
- Helps to ensure local area governments have the resources to continue to provide same level of services to citizens such as police & fire protection, streets, parks, etc.
- Not new “tax” in traditional terms, instead a more efficient method of collecting sales tax owed to state and local governments

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Why is a Use Tax Important?

- Removes pressure to raise local sales taxes to make up for tax revenue lost to other states
- Local use tax replaces the local sales tax that used to be charged on titled property
- Local use tax applies only on transactions where no sales tax is assessed

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<u>How can the impact of this court ruling be addressed?</u>

- SB 99 and SB 23 passed in 2013, which includes ***temporary*** legislative "fix" for taxing out-of-state titled property purchases, but short-term fix only until November 2016
- Permanent solution is the passage of a use tax
- Carl Junction, Joplin, Webb City, and Jasper County have placed the use tax question on November 5, 2013 ballot

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<u>Election</u>

- November 5, 2013
- Each jurisdiction (State, County & City) has their own ***sales tax rate***
- Each jurisdiction (State, County & City) must also establish their own ***use tax***
- Thus, voters who reside in "city" boundary will see two questions on ballot-one from the County and one from the local City

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Current Tax Rate Table:

LOCATION	CURRENT SALES TAX (SAME AS PROPOSED USE TAX RATE)
Jasper County	.975%
Carl Junction	2.50%
Joplin	2.625%
Webb City	2.50%

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<u>Ballot Language</u>

- Use Tax Question is set by State Statute

<u>County Question:</u>

- "Shall the County impose a local use tax at the same rate as the total local sales tax rate, currently .975%, provided that if the local sales tax rate is reduced or raised by voter approval, the local use tax rate shall also be reduced or raised by the same action? A use tax return shall not be required to be filed by persons whose purchases from out-of-state vendors do not in total exceed two thousand dollars in any calendar year."

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City Question:

- "Shall the County impose a local use tax at the same rate as the total local sales tax rate, currently XXXX, provided that if the local sales tax rate is reduced or raised by voter approval, the local use tax rate shall also be reduced or raised by the same action? A use tax return shall not be required to be filed by persons whose purchases from out-of-state vendors do not in total exceed two thousand dollars in any calendar year."

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QUESTIONS?

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