

# Sales and Use Tax FAQs

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On January 1, 2008, changes to Arkansas' state and local sales tax laws were for purposes of compliance with the Streamlined Sales Tax Agreement. Including Arkansas, the sales tax laws of nineteen states have been amended to be in conformity with the agreement which provides for uniformity among the states in tax administration processes, definitions of sales tax terms and equal application of tax laws to both in-state and out-of-state sellers registered to collect the sales tax.

## **Sourcing of Sales When Collecting Local Sales Taxes I only sell merchandise and perform services at my store location. I do not deliver or ship any merchandise to my customers. Which local sales taxes do I collect?**

Continue to collect local taxes based on your store location in the same manner as you have in the past. The delivery of merchandise and services occurs at the store.

## **I perform landscaping services and commercial lawncare services with customers located in many cities and counties in Arkansas. Which local sales taxes do I collect?**

You should continue to collect local sales taxes for the jurisdictions in which you perform the taxable services. This is not a change from previous requirements.

## **Why is the local sales tax based on delivery location of the merchandise?**

After January 1, 2008, local sales tax collections changed to be based on the "point of delivery" of the merchandise. If possession of the merchandise does not occur at the store location, tax will be based on the "delivery address" to which the merchandise is being delivered, shipped or mailed.

## **How do I find out the local tax rates for the locations where I deliver my merchandise?**

The rates for all cities and counties are included in the Sales Tax reporting forms packets that you receive at 6 month intervals. The listings are also available at any time upon request by contacting the Sales and Use Tax Section at (501) 682-7105 or by accessing DFA's website. DFA also mails listings of city and county tax rate changes to all registered taxpayers on a quarterly basis.

## **I am not sure if my customer is in the city limits. How do I know which taxes to collect?**

At time of sale, this information may be acquired by asking the customer. DFA's web site also provides resources for taxpayers to use to assist in local tax collection. A local tax rate lookup function is provided where upon entry of an Arkansas address, the program indicates the local tax rates that are in effect. The tax rate look up is provided at no charge to all taxpayers and is available at the Sales Tax website. For taxpayers maintaining their own computer systems, downloads of the address and tax rate information are available for use in the taxpayer's computer system.

A complete listing of all cities and counties which levy a local sales and use tax with information listing the code for the jurisdiction, effective date of the tax, tax rate, county location for a particular city, and the most recent tax rate change is also available on the website.

## **I deliver merchandise to another state. Do I have to collect their taxes?**

There has been no change in the treatment of deliveries or shipments to another state. Nothing in Arkansas law requires an Arkansas seller to collect sales and use taxes for another state. You are encouraged to contact the other states tax department to determine if you have the requirement to collect their taxes.

## **My business performs taxable repairs to equipment. In some cases, the customer brings the equipment to my shop and returns to pick it up when the repair is finished. In some cases, the customer asks me to pick up the equipment and deliver it back when I have finished the repair. I also do some repairs at the customer's location of the equipment. Which local taxes do I collect on my repair services?**

Prior to January 1, 2008, taxable repair services performed at the dealers store location were subject to local taxes for the jurisdiction of the store. For services performed at the customer's remote location, the dealer was required to collect sales tax based on where the repair service occurred.

The changes effective January 1, 2008 do not change the taxation for repair services performed at the customer's location or for repair service occurring at the dealer's store location where the property was brought to the store location by the customer and picked-up by the customer after the repair was completed. Taxation of repair services performed at the dealer location with the repaired property delivered or shipped by the dealer back to the customer at a location other than the store location is changed and is subject to tax at the point of receipt or delivery to the customer of the repaired property.

## **Local Tax Cap Changes**

### **What happened to the cap on local taxes? Why does full local sales tax apply to purchases?**

As of January 1, 2008, local tax caps on single transactions no longer apply except for sales of motor vehicles licensed for highway use, aircraft, watercraft and manufactured housing. Sellers will collect state, city and county taxes at their full rate on the invoice total for all other types of merchandise and sales of services.

### **Do I still cap the local sales tax when I sell an ATV?**

No. ATVs and other off-road vehicles and off-road motorcycles are not motor vehicles registered for highway use and are not eligible for the tax cap. As

a seller, you collect the local sales tax on the total invoice amount for these items.

**Travel trailers and boat trailers. Are they capped?**

No. These items are not motor vehicles and the seller collects the sales tax on the total invoice amount.

**ACT 941 of 2009** adds **travel trailers** required to be licensed for highway use to the single transaction definition and allows the purchaser to claim the rebate at the time of registration effective October 1, 2009.

**Watercraft? What are examples of types of watercraft that get the cap?**

“Watercraft” means boats, canoes, kayaks, sailboats, party barges, rafts, jet skis, houseboats, and amphibious vehicles. Sellers will apply the local tax cap when selling these items and collect the local city and county tax on the maximum of \$2,500.00. State sales tax continues to apply to the total invoice amount for watercraft. The seller does not apply the local tax cap to sales of boat trailers or boat motors.

**Rebates to Businesses of Additional Local Tax Paid on Purchases**

**What are the local tax rebates? Are businesses eligible for a rebate or refund of the additional local tax paid on their own business purchases?**

Yes. Businesses are eligible for a rebate or refund of the additional local sales tax paid to their suppliers on business purchases where the purchase invoice exceeds \$2,500.00. The purchase must be a “business expense”.

**Who is eligible to claim a local tax rebate for the additional local tax paid on purchase invoices that exceed \$2,500.00?**

All businesses are eligible to claim rebates on eligible business purchases, including those businesses that are not registered to collect sales tax. In addition, governmental agencies, schools, colleges and universities, churches, and non-profit organizations may apply for rebates/refunds of additional local taxes paid.

**Do I claim my rebate from the seller who collected the sales tax?**

No. The purchaser will not claim the rebate from the seller. The purchaser, if filling tax reports with the Sales and Use Tax Section, will claim their rebates directly on their monthly report. For businesses not filling monthly sales tax reports, claims for rebate are to be filed directly with DFA.

**I have a sales tax permit and collect and remit sales tax to the State of Arkansas on my sales. Can I take credit on my monthly return for the additional local taxes I paid on my purchase invoices that exceed \$2,500.00?**

Yes. Businesses that hold active Arkansas sales and use tax permits and file Excise Tax reports with DFA may deduct the amount of additional city and county tax paid on business purchases on which the full amount of local tax has been collected by the seller. The total amount of the additional tax for a qualifying rebate for each city and county for which the tax was paid must be listed on the form. When completing the form, a credit for any additional tax paid on purchases will be deducted from the local sales tax being remitted for the reporting period. Your forms instruction packet contains information on how to claim your credit.

**My business is not required to collect sales taxes and file monthly reports. How do I receive reimbursement for additional local taxes paid on my business purchases?**

Businesses not holding active sales and use tax permits may use the Claim for Local Cap Rebate Form Number ET-179A and provide the necessary supporting documentation for their claim. The form may be obtained by contacting the Sales and Use Tax Section by telephone at (501) 682-7105 or may be downloaded from the Sales Tax website at [www.dfa.ark.gov](#) and selecting Sales and Use Tax Forms.

**How much time do I have to request my rebates of additional local taxes paid on my eligible business purchases?**

Rebate requests for qualifying business purchases made prior to October 1, 2015 must be submitted no later than six months from the date of the purchase or the date of payment of the tax to the seller, whichever is later. Rebate requests for qualifying business purchases made on or after October 1, 2015 must be submitted no later than one year from the date of the purchase or the date of payment of the tax to the seller, whichever is later.

**I am a registered direct pay taxpayer. I purchase everything for my business tax free and remit taxes due on the taxable items on my monthly direct pay reports. Do I calculate and pay the local sales tax on the total of the purchase invoices and then submit a claim for refund for the additional local tax paid resulting from the cap removal?**

No. Direct pay taxpayers and taxpayers self-accruing and reporting use tax on their business purchases are to limit the reporting of local taxes for each invoice to a taxable amount of \$2,500.00. This procedure will allow the direct pay and use tax taxpayers to “self-rebate” the additional local tax at time of tax payment to DFA and avoid the necessity of subsequently requesting rebates and refunds.

**Other**

**I understand that the farm machinery exemption has changed. What are the changes?**

The sales of farm machinery and equipment subject to the sales tax exemption has not changed. Sellers of eligible farm machinery and equipment continue to determine eligibility and apply the exemption as before.

**When is a business allowed to write off bad debts on their sales tax report? I understand there is a change.**

Since January 1, 2008, bad debts may be deducted on the Excise Tax report for the tax period during which the bad debt is written-off as uncollectible on your books and eligible to be deducted for federal income tax purposes. The bad debt deduction is eligible for sales on which the tax has previously been reported and paid to DFA. The bad debt must have resulted from a sale that has occurred within the last three years. The deduction is available for

taxpayers even though the business may not be required to file an income tax return.

#### **Are sales to federal employees tax exempt?**

Sales to federal employees are tax exempt only when paid for by the U.S. Government with a Treasury Department warrant. They are not exempt in situations where the employee pays with a federal credit card for which they are responsible for the payment of the bill.

#### **Are sales of equipment and supplies to doctor and dentist offices exempt?**

The sales of equipment and supplies to doctor and dentist offices are taxable. These items are consumed by them in the performance of their professional service.

#### **Are freight charges taxable?**

All freight, shipping, or transportation charges are part of the gross receipts or invoice total on which sales and use tax must be collected and remitted by the seller if the products being shipped are subject to sales and use tax. If freight charges are billed directly to the purchaser by a common carrier, they will not be subject to sales and use tax. If the products being shipped are non-taxable, then the freight charges for shipping those non-taxable goods is not subject to sales and use tax. (GR-18A) Click [here\(PDF needs to go here\)](#) for Gross Receipts Rules.

#### **Is the repair of farm machinery and equipment taxable?**

Yes, the repair (parts and labor) of farm machinery and equipment is taxable.

#### **Is used property taxable?**

Yes, the sale of used tangible personal property is taxable except as noted in Arkansas Gross Receipts Tax Rules GR-18 and GR-50. Click [here \(PDF needs to go here\)](#) for Gross Receipts Rules.

#### **Can a taxpayer report on a cash basis?**

Yes, any taxpayer who does business wholly or partly on a credit basis may apply to the Commissioner for permission to prepare returns on the basis of cash actually received. No taxpayer may report on the cash basis unless permission has been expressly granted by the Commissioner.

#### **Can the permits be transferred to or used by someone other than the business to which it is issued?**

No. Once permits have been issued to a business, only that business can use them. They cannot be transferred to or used by someone else. For example, a contractor performing a job for a direct pay permit holder cannot use the direct pay permit holder's permit to purchase materials tax exempt. The contractor must pay the tax on the materials and may pass the tax on as part of the cost of the contract.

#### **Do I owe Use Tax?**

You should pay Use Tax if you:

- Purchased items outside Arkansas that would be taxable if purchased in Arkansas (including items from catalogues, TV advertisements, magazines, the Internet, etc.)
- Use, store, consume, or distribute these items in Arkansas, and
- Have not paid Arkansas sales tax or an equivalent amount to another state (excludes motor vehicles).

#### **What if I do pay tax to the other state?**

If you legally paid sales tax on the items in the other state, you may be entitled to a reduction in tax for the tax paid to the other state against the tax due Arkansas. If you pay less than the Arkansas tax rate to the other state, you must pay Arkansas the difference (excludes motor vehicles).

#### **What are some items on which I would owe Use Tax?**

Examples of items subject to Use Tax include records, CD's, books, furniture, jewelry, clothing, food, hunting and fishing gear, etc. These are only a few examples; all tangible personal property purchased out of state is subject to the Use Tax.

#### **How and when do I report and pay Use Tax?**

Businesses registered with Arkansas to remit Sales Tax should remit any Use Tax due in Column B on their monthly (quarterly or annual) reporting form.

Individual Consumer Use Tax should be reported on a monthly basis if the total tax amount due is greater than \$100 per month, on a quarterly basis if the amount due is \$25 - \$100 per month, and on an annual basis if the amount due is less than \$25 per month.

#### **What is the Use Tax rate?**

Effective July 1, 2013. The state Use Tax rate is the same as the Sales Tax rate, 6.500%. In addition, you are required to remit the city and/or county tax where the items are first delivered in Arkansas. A list of tax rates for cities and counties may be obtained from the Sales Tax and Use Tax Section or downloaded from our website.

#### **What if I do not pay Use Tax?**

Arkansas shares sales information with other states and bills Arkansas residents for unpaid use tax, plus penalty and interest. Arkansas also encourages out-of-state businesses to register and collect the tax voluntarily as a convenience to their customers. If they do not we can bill their Arkansas customers directly.

## What if I have questions?

If you have any other questions regarding Use Tax, you may call the Sales and Use Tax Office at (501) 682-7104. Office hours are 8:00 am to 4:30 pm.

- [Excise Tax \(https://www.dfa.arkansas.gov/excise-tax/\)](https://www.dfa.arkansas.gov/excise-tax/)
- [Consumer Use Tax Project \(/excise-tax/consumer-use-tax-project1/\)](/excise-tax/consumer-use-tax-project1/)
- [Miscellaneous Tax \(/excise-tax/miscellaneous-tax/\)](/excise-tax/miscellaneous-tax/)
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  - [AR-20/40 | Close or Update Account\(s\) \(/excise-tax/sales-and-use-tax/ar-20-40-close-or-update-accounts/\)](/excise-tax/sales-and-use-tax/ar-20-40-close-or-update-accounts/)
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