

# Use Tax in Vermont

Have you made a purchase on-line or through a catalog? If so, you may owe the Vermont use tax. Use tax is imposed on a buyer at the 6% rate when the sellers do not collect the sales tax or the items are purchased from a source where no tax is collected. Following are general guidelines for the application of use tax in the state of Vermont.

## What is use tax?

Use tax is paid by the purchaser of an item when no sales tax is collected at the time of the purchase. Sales tax and use tax work together to create the same tax result, whether a vendor collects sales tax or not. In some cases, use tax may still be due even when sales tax was collected at the time of the purchase. For example, if the tax paid to another state is 3% and sales tax in Vermont is 6%, then the purchaser is responsible for paying 3% use tax on the difference. However, if the other state's tax is higher, Vermont will not refund the difference.



Sales tax is destination-based, meaning the tax is applied based on the location where the buyer takes possession of the item or where it's delivered.

Use tax is paid in the following situations when purchases are made of tangible personal property subject to sales tax:

- You make a purchase from a vendor and the amount of sales tax, if any, is less than Vermont's sales tax.
- You use property you normally manufacture for sale; **Example:** When you use something from your own inventory.
- You use property in the operation of your business or for personal use that you originally purchased for resale with an exemption certificate; **Example:** As a retailer you use an item that you originally purchased at wholesale and did not pay sales tax on.

## What is taxable?

Because sales tax and use tax work together, it is important to know when sales tax should be applied. Some transactions subject to tax are:

- Purchase of tangible personal property
- Internet purchases
- Digital downloads and prewritten software
- Delivery charges, even if stated separately on invoice.

**Note:** Use tax is only due when sales tax would normally be due, but there is a difference between the Vermont rate and the amount actually paid. Therefore, there is no use tax due on purchases that are excluded from sales tax such as food and medical supplies.

## BUSINESSES AND USE TAX

### How do you pay use tax?

Businesses and self-employed individuals purchasing property subject to sales and use tax, should apply for a business tax account and sales and use tax license. Use tax is reported on the sales and use tax return, Form SU-451. This form is filed online using VTBizFile, after your account with the state has been set up.

**IMPORTANT:** When reporting and paying these taxes, be sure to report and remit the tax for every required filing date, even when no tax is owed.

There are three ways to calculate use tax:

1. For items purchased at retail, the tax is on the purchase price.
2. For items you manufacture that you use in the operation of your business or for personal use, the tax is on your "best customer" price for which you normally sell the items.
3. For items that have been fabricated, printed, or imprinted, the tax is on the amount paid for the property plus the fabrication labor or service charge.

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Remember, business owners are expected to be familiar with state tax laws and regulations applicable to their businesses.

## Vermont Self-Audit Program

If you are a business that has not been paying use tax and think that you may be liable, Vermont business owners are able to participate in a self-audit program offered by the Department of Taxes.

The self-audit allows for:

- Self-reporting of the tax owed
- Waives all penalties
- Limits the taxes due to three-year look back period

Referred to as the voluntary disclosure program (VDP), the Vermont Department of Taxes has adopted this as a standard policy.

In order to qualify for the VDP the business must not have been previously approached by the Department of Taxes or audited within the past three years. Please note that interest will be due on any taxes owed.

## How We Can Assist

Davis & Hodgdon Associates has several years of experience representing clients with tax authorities and we can act as a liaison with the Department of Taxes during your self-audit. We are able to:

- Assist in setting up your account
- Assist in preparing the worksheet
- Calculate the amount owed to the state

## Business Taxes—Local Option

The following Vermont municipalities have a 1% local option sales tax:

Burlington	South Burlington
Dover	St. Albans
Killington	Stratton
Manchester	Williston
Middlebury	Winhall
Rutland Town	Wilmington

## INDIVIDUALS AND USE TAX

### Use tax for individuals

The difference in use tax for individuals compared to businesses is how it is calculated and reported. An individual may keep track of purchases in which sales tax was warranted but not collected. The tax would be determined by multiplying it by 6%. As an alternative, if you do not have accurate records you may use the Use Tax Reporting Table (below) to calculate use tax based on your adjusted gross income.

**IMPORTANT:** For each purchase with a total invoice amount of \$1,000 or more, the use tax must be calculated exactly. If you are also using the use tax reporting table for amounts less than \$1,000, add the amount listed in the table to the calculated amount.

You may report and pay any use tax owed when you file your Vermont Income Tax Return (Form IN-111) by completing line 27 on the return. If you do not enter an amount on line 27, you must “certify” that you have no use tax liability by checking the box.

### USE TAX REPORTING TABLE

AGI on Form IN-111, Line 10 is:	Then, your Use Tax is:
\$ 10,000 - \$ 24,999	\$10
\$ 25,000 - \$ 34,999	\$20
\$ 35,000 - \$ 49,999	\$28
\$ 50,000 - \$ 64,999	\$40
\$ 65,000 - \$ 79,999	\$52
\$ 80,000 - \$ 99,999	\$65
Over \$ 99,999	Multiply by 0.08%

Davis & Hodgdon Associates CPAs provide tax planning and compliance services for individuals, businesses, nonprofit organizations, trusts and estates that are seeking effective strategies to keep more of what they've earned.

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