

Sales and Use Tax on Out-of-State Purchases

Many states are now asking their taxpayers to report “sales and use tax” (they are one and the same) on their state tax returns that was not paid because the purchases were made from out of state vendors via mail or the internet. We know it is difficult to determine how much was purchased from out of state vendors and we doubt that the states will bother to pursue small purchases even if the information is available to them. However, we are aware of information sharing agreements between states sales tax auditors.

For example, if you purchased a large computer system that is being shipped to you from North Dakota and on which no sales tax was charged, you are required to pay sales (use) tax to your state. Now, if the North Dakota sales tax auditor has information sharing agreement with the sales tax auditor of your state, it is conceivable that when the computer vendor is being audited by the North Dakota auditor, he/she could pass the information regarding your purchase of the large computer system to your state sales tax auditor. In this situation, your state sales tax auditor may decide to pursue this issue further. We have heard of three instances involving New York State, New Jersey and Connecticut, in which the auditors sent a tax bill, including penalties, for non payment of the use tax. In two instances it involved purchases of approximately \$20,000 of furniture and other household goods which were shipped to the purchaser’s home from a vendor in another state. The third instance involved an expensive fur coat which was shipped to the purchaser’s home from a store in another state.

Because many states are now including the “sales and use tax” item on their state income tax returns, it is important that you consider this item when working on your tax information.