

TAX REPORT

Sales/Use Tax

SEPTEMBER 1987

2-87

I. NEW SALES AND USE TAX LAWS

The budget bill (1987 Wisconsin Act 27) signed by the Governor on July 31, 1987 contains new sales and use tax provisions which may affect you. This report explains these provisions, with the effective date shown in parenthesis after the title.

1. Exempt Certain Personal Property Brought Into Wisconsin by New Residents (effective August 1, 1987)

Use tax does not apply to aircraft, boats, snowmobiles, mobile homes, trailers, semitrailers and all-terrain vehicles for an individual's personal use, purchased by a nonresident outside this state 90 days or more before bringing the item into Wisconsin, in connection with a change of residence to this state.

2. Exempt Sales of Wood Residue to Businesses (effective September 1, 1987)

An exemption is provided for sales of any wood residue that is used as fuel in a business activity and that results from the harvesting of timber or the production of wood products, including slash, sawdust, shavings, edgings, slabs, leaves, wood chips and bark. Also exempt are wood pellets manufactured primarily from wood or primarily from wood residue and used as a fuel in a business activity.

3. Exempt Telephone System "911" Revenues (effective August 1, 1987)

Gross receipts from telecommunication revenues collected under s. 146.70(3), Wis. Stats., which relates to establishing the emergency "911" number, are exempt from sales/use tax.

4. Tax Repairs of Nonresidents' Motor Vehicles (effective September 1, 1987)

The repair, service and maintenance of nonresidents' motor vehicles and truck bodies by Wisconsin retailers are subject to the sales/use tax, except where some other exemption might apply, such as trucks and trailers used exclusively in common or contract carriage.

Prior to September 1, 1987, repair work performed in Wisconsin by a Wisconsin retailer on a nonresident's motor vehicle or truck body was exempt in certain situations, such as private carriers' motor vehicles or truck bodies which were brought into Wisconsin solely to be repaired and not otherwise used in the state. Under the new law, the repair or servicing of private carriers' motor vehicles and truck bodies is taxable even though they are not used in Wisconsin after the repair or servicing.

5. Tax Occasional Sales of All-terrain Vehicles (effective September 1, 1987)

Occasional sales of all-terrain vehicles are subject to the state sales/use tax beginning September 1, 1987. No all-terrain vehicle can be registered or titled with the Department of Natural Resources unless the 5% state sales/use tax has been paid. These occasional sales were previously only subject to the 1/2% county sales/use tax.

6. "Nonsale" Includes Section 368 Transfers (effective August 1, 1987)

The transfer of property in a reorganization as defined in section 368 of the internal revenue code, in which no gain or loss is recognized for

franchise or income tax purposes, is not a "sale" for Wisconsin sales/use tax purposes. Previously the reference was to s. 71.368, Wis. Stats.

7. **County Use Tax: Allow Credit for Local Taxes Paid in Other States (effective April 1, 1986)**

Under prior and new law, a county use tax is imposed upon a contractor engaged in construction activities in a taxable county, on the sales price of tangible personal property that is used in constructing, altering, repairing or improving real property in a taxable county. There is no county use tax if the contractor pays a Wisconsin county sales tax on the purchase of the tangible personal property. However under prior law, no credit was allowed for county taxes paid to a county of another state. The new law provides that retroactive to April 1, 1986, a credit will be allowed to the contractor for a county tax or similar local tax paid in another state.

II. DISCOUNT COUPONS

Customers love coupons, but they complicate things at the cash register when determining the amount of sales tax due. In the examples which follow, it is presumed that taxable items, such as soaps or detergents, are being sold.

A. **Vendor Coupons.** Retailers often include coupons in their newspaper ads or distribute them in coupon books. When a retailer honors one of its own coupons, it is reducing its price of the product being sold. Therefore, the coupon is subtracted from the shelf price of the item to determine the amount on which sales tax is computed.

Example:	Shelf price of soap	\$3.00
	Retailer's coupon	<u>.60</u>
	Net price (before tax)	\$2.40

(The 5% state sales tax is computed on \$2.40, equaling 12¢.)

B. **Manufacturers' Coupons.** If the manufacturer is reimbursing the retailer for the coupon value, then the retailer's taxable gross receipts include the amount received from both the manufacturer and the customer.

Example:	Shelf price of soap	\$3.00
	Manufacturer's coupon	<u>.60</u>
	Customer pays (before tax)	\$2.40

(The 5% state sales tax is computed on \$ 3.00, equaling 15¢.)

Double Coupons: If the retailer gives customers double credit for manufacturers' coupons on certain days and the retailer is reimbursed by the manufacturer for only the face value of the coupon, the computation of sales tax by the retailer should be as follows.

Example:	Shelf price of soap	\$3.00
	Manufacturer's coupon (retailer's double credit)	<u>.60</u>
	Retailer's price (taxable)	\$2.40
	Manufacturer's coupon	<u>.60</u>
	Amount the customer pays (before tax)	\$1.80

(Subtract the face value of the coupon from the shelf price and figure sales tax on the remainder. The 5% state sales tax is computed on \$2.40, equaling 12¢.)

Free Items. When a coupon for a "free" item states that the manufacturer will reimburse the retailer for the retail selling price of the item, plus all applicable sales taxes, the retailer should not collect sales tax from the customer. One method of handling this type of sale is to ring up the sale as a taxable sale on the cash register, and credit the customer for the amount of the shelf price plus tax. The retailer will be reimbursed by the manufacturer for the shelf price plus tax when the coupon is submitted for redemption. However, most coupons state that the customer must pay the applicable sales tax. In such cases, the customer pays the sales tax on the retailer's normal selling price of the item.

III. MAIL RETURN TO CORRECT ADDRESS

Be sure to mail your sales tax return on time to:

Wisconsin Department of Revenue
 Drawer 389
 Milwaukee, WI 53293

IV. QUESTIONS

If you have questions about the new laws or your sales tax return, call or visit any local office of the Department of Revenue or write to: Wisconsin Department of Revenue, P.O. Box 8902, Madison, WI 53708; or call our Madison office at (608) 266-2776.