

What is a Use Tax?

A use tax is imposed on purchases outside Missouri which, if bought in Missouri, would ordinarily be subject to sales tax – but escape taxation because they are purchased out-of-state.

In order to enact a use tax, the Mayor and City Council have placed Prop 1 on the August 4th ballot for consideration by voters.

By law, the use tax rate mirrors the sales tax rate – 2.25% - and is not a “double tax”. The use tax would only apply on out-of-state purchases where no sales tax was charged. If you pay the sales tax, you don’t pay the use tax, and visa-versa. A consumer never pays both.

For the individual citizen, use tax only applies to purchases of \$2,000 or more annually from out-of-state vendors - such as catalogue purchases, or those who travel out-of-state to make tax-free purchases and have goods shipped back to Florissant. If the out-of-state purchase is charged sales tax (which most out-of-state purchases are), then no use taxes are paid.

Today, Florissant businesses are at a competitive disadvantage with out-of-state businesses who don’t charge sales tax. Out-of-state businesses don’t create local jobs or reinvest in our community like Florissant’s brick and mortar businesses. Use taxes level the playing field for local businesses, who otherwise find themselves at a disadvantage against out-of-state competitors. While any consumer is welcome to shop across state lines at any time, no tax system should provide *an incentive* for consumer mass-exodus to shop in other states.

The problem is prevalent-enough that many Missouri cities and counties have enacted uses taxes to close this loophole. The use tax is fairly common; particularly in this age where commerce is becoming more worldwide, increasing the number of purchases not subject to local tax. Cumulatively, this tax loophole increasingly hurts the local economy, local businesses, and local jobs.

Passage of a use tax would close a significant tax loophole, level the playing-field for local businesses, eliminate an unfair incentive to buy tax-free goods and services outside Missouri, and help retain jobs. This is why the Mayor and City Council placed the use tax – Prop 1 on the August 4th ballot.

Why is a Use Tax Important to a Community?

A use tax levels the playing field by eliminating an unfair tax advantage enjoyed by out-of-state businesses over local businesses. Use tax requires goods purchased outside Missouri, without sales taxes paid, to instead pay a use tax – in the same amount as sales tax. Without the use tax, consumers can purchase many goods outside Missouri, tax-free. Sounds good until you consider the eventual effect to Florissant's local businesses.

Florissant's close proximity to Illinois only accentuates this problem. While any Missourian is at-liberty to shop anywhere - in any state - they shouldn't receive a tax-advantage for doing so. This is poor State tax policy, particularly for border communities like Florissant, where local businesses are much more vulnerable.

In 2012, the Missouri Supreme Court ruled that motor vehicles, boats, trailers, campers, and RVs purchased outside Missouri are no longer subject to sales tax. This reversed 66 years of stable tax law in Missouri, and created a dangerous economic vacuum in Missouri and Florissant.

The State Legislature's temporary measure (closing the tax loophole) has been subject to court challenges in Missouri, and the city is advised of further court challenges to occur. Therefore, the city has placed Prop 1 on the August 4th ballot as well, to enact a use tax. The use tax is bulletproof against any court ruling, and will protect local business regardless of court action anywhere in Missouri. The city's goal is to take care of our community by removing this issue from further legislative action or court rulings.

Mechanics of a Use Tax

Use tax in Missouri is only charged on out-of-state purchases where (i) no sales tax is charged and (ii) sales tax *would have been charged* if the goods had been bought in Missouri. Essentially, it's a mechanism to replace sales tax on non-Missouri purchases that escape taxation, designed to prevent this tax loophole from artificially drawing thousands of consumers across state lines to shop, which hurts local businesses and jobs.

The following are some examples of where use tax would, and would not apply:

- A Florissant resident purchases a microwave oven (or hamburger, or refrigerator, etc.) in Alton, IL. Since the resident pays sales tax at the cash register, use tax doesn't apply.
- A Florissant resident has a doctor's appointment in Collinsville, IL, and that medical bill omits sales tax. Since a doctor's appointment in Missouri wouldn't require payment of sales tax, the Collinsville appointment isn't subject to use tax.
- A Florissant resident purchases new countertop from a manufacturer in Fort Madison, IA and pays no sales tax. Here, the resident would be required to pay use tax, because the same purchase, if made in Missouri, would require a sales tax.

Use taxes are only paid for out-of-state purchases if BOTH the following requirements are met: (i) sales tax is not charged and (ii) sales tax would have been charged if the goods had been bought in Missouri. A use tax is designed to close a tax loophole that provides an unfair tax advantage to non-Missouri businesses over local businesses. If the non-Missouri business doesn't require sales tax, but the local business does, who would shop at the local business? By plugging this loophole with a use tax, the playing field is leveled for local businesses.

Prop 1 would plug these loopholes and create a level playing field for Florissant businesses. For these reasons, the Mayor and the Florissant City Council has placed this measure on the August 4th ballot.

Use Tax 101: Facts about this Ballot Measure

A use tax eliminates an unfair competitive advantage enjoyed by non-Missouri businesses over local businesses. If one can purchase a product out-of-state and not pay sales tax, who would shop at a local business? The use tax – applied only to out-of-state purchases where sales tax isn't charged – eliminates that disparity.

The use tax doesn't say, "You can't shop out of state". People may shop where they please. But the use tax does eliminate the competitive disadvantage experienced by local businesses. Many Missouri cities have enacted a use tax to prevent their local businesses and jobs from being undercut.

Use tax is designed to provide local businesses the same advantage as out-of-state businesses – nothing more and nothing less. Ultimately, the use tax helps local businesses remain profitable, which also supports local jobs.

The use tax does not apply to purchases of raw materials used in manufacturing, nor to churches, nor to not-for-profit organizations. Data suggests the average consumer making out-of-state internet or catalog purchases will pay relatively little, if any use tax, because it doesn't apply until you've purchased \$2,000 of tax-free goods outside Missouri. A consumer never pays use tax AND sales tax; its one or the other, but never both.

Many goods and services bought outside Missouri already require payment of sales tax at the register, so those purchases are not subject to use tax. It only applies to non-Missouri purchases of products where sales tax isn't paid.

Without a use tax, local businesses are faced with a competitive disadvantage because they must charge taxes that many out-of-state businesses do not. The use tax only eliminates the unfair advantage; it does not tell people where they must shop.

The Use Tax: What Applies? What is Exempt?

Today, sales taxes must be paid on products bought in Missouri, yet some of the same products bought outside Missouri have no sales tax. The use tax would eliminate that tax loophole. If approved by voters, use tax would apply to those out-of-state purchases escaping taxation, eliminating the artificial advantage non-Missouri sellers have over Florissant businesses.

This problem is not applicable to most out-of-state purchases - like restaurants, dishware, clothing, appliances, toothpaste, bath towels, auto parts, etc. For most products we may purchase outside Missouri, sales tax is already paid at the cash register. However, for a number of goods – generally non-household products – sales taxes are not paid when buying in other states (including motor vehicles, boats, RVs, and campers). The use tax would close that loophole. In those instances, a use tax - rather than sales tax – would be paid for the purchase, and the use tax rate would mirror the sales tax rate. This eliminates a great advantage non-Missouri business have over Florissant businesses, protecting local jobs in the process.

Several questions may arise about “which” out-of-state purchases are subject to use tax. First, state law annually exempts the first \$2,000 spent out-of-state by private individuals (the first \$2,000 is not subject to use tax).

Second, use tax only applies to out-of-state purchases where sales tax would normally apply if the product had been purchased in Missouri. For instance, there is no sales tax charged when you buy car insurance in Florissant. Therefore, no use tax is charged if you buy car insurance from an Illinois insurance agent. This basic logic represents the determining factor in whether or not use tax applies to any out-of-state purchase.

Third, use tax does not apply to purchases of raw materials used in a production process. State law exempts those products/purchases.

Fourth, churches, school districts, not-for-profit companies, and other tax-exempt organizations (like water districts, for example) are exempt from paying use taxes – just like they’re exempt from paying sales taxes.

Together, the purpose of this measure is to eliminate an unfair business advantage sellers in other states have over Florissant businesses. There are over 200 other Missouri Cities and Towns that have passed a use tax. And more will be approving a use tax on upcoming ballots