Sales and Use Tax Information Session
By A/P & Tax
Quick Quiz:

In 2013, how much sales and use tax did UCD collect and remit to the State Board of Equalization?

1. $25,365
2. $505,582
3. $2,184,523
4. $3,722,822
Agenda

1. Sales Tax or Use Tax – General information
2. When Use tax is applied in KFS
3. How to identify and change taxes in KFS
4. Item Types
5. Exemptions
6. Current tax rates
7. Noncompliance
8. Case Study
9. Questions and Answers
Sales Tax or Use Tax

University as a Seller
Collects Sales Tax

University Departments:
Bookstore, Dining, Marketplace, etc.

University’s Supplier

University as a Purchaser
*Pays* Sales Tax or Self-Assesses Use Tax
University Departments:
Accounts payable, procurement, etc.

UCD

Indicates the flow of tangible personal property

University’s Customer
<table>
<thead>
<tr>
<th><strong>Sales Tax or Use Tax</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>California sales tax</strong></td>
</tr>
<tr>
<td>- Imposed on sellers</td>
</tr>
<tr>
<td>- For the sale of tangible personal property at retail in California</td>
</tr>
<tr>
<td><strong>California use tax</strong></td>
</tr>
<tr>
<td>- Imposed on purchasers</td>
</tr>
<tr>
<td>- For the use, storage or consumption of tangible personal property in California</td>
</tr>
</tbody>
</table>
Tax Compliance as a Purchaser

 Essentials for good tax decisions

 What is UC Davis’ sales and use tax obligation?
 What are the available exemptions?
 What is the item being purchased and for what use (e.g. resale)?
 Does the purchase include services (e.g. installation or repair?)
 Where is the item being shipped to?
Obligation for Collecting Tax

- **As a seller**
  - Charge sales tax
    - On sales to California customers
    - Sales to other campuses are exempt
    - Remit tax collected to State Board of Equalization
Obligation for Collecting Tax

- **Purchase from California vendor**
  - Sales tax
    - Generally vendor’s responsibility
    - Included in vendor's invoice
    - Resale items are exempt

- **Purchases from Out-of-state vendor**
  - Sales tax
    - Vendor not required to collect
    - We must accrue correct amount of **use tax** and remit to the Board of Equalization
## Sales Tax or Use Tax

**Sales Tax is:**

- PAID by the UC directly to a vendor
- Usually applicable when goods are purchased for use within the state of California and sales tax was charged by the vendor
- Is complicated when shipping to the Campus due to the different tax rate from City
Sales Tax or Use Tax

Use Tax is:
• Accrued by the UC and remitted to the State of California
• Typically applicable when goods are purchased for use within the state of California and no sales tax was charged by the vendor.
• Charged to the department on the PO, PREQ, and PCDO documents
<table>
<thead>
<tr>
<th>When and Why Use tax</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>When is Use tax appropriate?</strong></td>
<td></td>
</tr>
<tr>
<td>1. On Requisition, PO, and Payment Request</td>
<td></td>
</tr>
<tr>
<td><strong>Why is Use tax appropriate?</strong></td>
<td></td>
</tr>
<tr>
<td>1. Vendor is out of state, or</td>
<td></td>
</tr>
<tr>
<td>2. Vendor does NOT have “Collects Sales Tax” checked</td>
<td></td>
</tr>
<tr>
<td>And that’s it. Otherwise, the system codes as Sales tax</td>
<td></td>
</tr>
</tbody>
</table>
How to differentiate:

Use TaxIndicator:

<table>
<thead>
<tr>
<th>Receiving Required:</th>
<th>Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use Tax Indicator:</td>
<td>Yes</td>
</tr>
<tr>
<td>Account Distribution Method:</td>
<td>Proportional</td>
</tr>
</tbody>
</table>

Yes = USE tax
No  = SALES tax
How to differentiate:

**[Vendor Remit Amount]**

<table>
<thead>
<tr>
<th>[Vendor Remit Amount]</th>
<th>Grand Total Prior to Tax:</th>
<th>211.59</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Grand Total Tax:</td>
<td>15.87</td>
</tr>
<tr>
<td></td>
<td>Grand Total:</td>
<td>227.46</td>
</tr>
</tbody>
</table>

(Use tax)

<table>
<thead>
<tr>
<th>Grand Total Prior to Tax:</th>
<th>454.25</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grand Total Tax:</td>
<td>38.89</td>
</tr>
<tr>
<td>[Vendor Remit Amount] Grand Total:</td>
<td>493.14</td>
</tr>
</tbody>
</table>

(Sales tax)
Switching the Indicator

Switch the Indicator:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Receiving Required:</td>
<td>No</td>
</tr>
<tr>
<td>Use Tax Indicator:</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>change to use tax</td>
</tr>
<tr>
<td>Account Distribution Method:</td>
<td>Proportional</td>
</tr>
</tbody>
</table>

This is only possible on the Payment Request (PREQ)
Item Type

**Item Types (Qty, No Qty, and the nontaxables)**

1. Item types should be changed only if there is a specific reason to change them

2. (nontaxable) is used for either Qty or No Qty item types, ONLY if you specifically want to force no tax

3. Forcing no tax is NOT necessary for a service or other item that is normally not taxed anyway. Let commodity codes do their job.

4. Don’t set Item Type to nontaxable because the vendor didn’t charge sales tax.
## Exemptions

### What is tax exempt?
- Most services and labor charges
- Items purchased for resale
- Computer software delivered electronically where no tangible personal property is transferred
- Occasional sales (rare/consult with Tax)
- Property shipped outside of California
- Freight/shipping
<table>
<thead>
<tr>
<th>Applicable Tax Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Effective January 1, 2013</strong></td>
</tr>
<tr>
<td>➢ State-wide sales and use tax rate increased .25%</td>
</tr>
<tr>
<td>➢ City of Davis is now 8.0%</td>
</tr>
<tr>
<td>➢ Yolo County is at 7.5% (on campus)</td>
</tr>
<tr>
<td>➢ Sacramento is at 8.0%</td>
</tr>
</tbody>
</table>
For UCD’s taxable sales:

- On campus (7.5%)
- City of Davis (8.0%)
- Sacramento (8.0%)
Current use tax accounts

- UC Davis campus (7.5%)
- Sacramento (8.0%)
- City of Davis (8.0%)
- Alameda
- San Mateo
- Sonoma
- Tulare
- Monterey
- San Joaquin
- Salinas
- Santa Rosa
- Approximately 50 use tax accounts
## Non-compliance can result in:

- Risk of audit
- Heavy penalties
  - Up to 50% of amount due
  - Fines up to $5,000 per incident
  - Possible imprisonment (up to one year)
  - Loss of reputation
- Loss of privileges to do business in the State of California
To minimize risk:

- Designate central delivery locations
- Ensure proper use tax accruals
- Contact Tax if delivery location not currently offered as a selection in KFS
- Help UCD Tax services identify other locations where we would have an obligation to report sales or use tax
The IT Department on Campus purchased canned (off-the-shelf) software from a vendor in Texas. The software was delivered via CD and installed on the Department’s server. The purchase includes mandatory maintenance (i.e. upgrades, updates and fixes) to be delivered electronically over the period of the contract. The following invoice was received:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Software</td>
<td>$800</td>
</tr>
<tr>
<td>Maintenance (1/1/11 – 12/31/11)</td>
<td>200</td>
</tr>
<tr>
<td>Shipping</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,010</strong></td>
</tr>
</tbody>
</table>

1. What is the total non-taxable amount (before shipping and handling)?
2. Does an exemption apply? If so, which one?
3. What is the tax due on this invoice?
4. How would your answers to questions 1-3 change if the software was delivered electronically?
<table>
<thead>
<tr>
<th>Case Study Solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The total non-taxable amount (before shipping and handling) is $0</td>
</tr>
<tr>
<td>2. No exemption applies to the software since it was delivered via media (CD). Although the maintenance is delivered electronically, <strong>no exemption applies because the original software is taxable</strong> (mandatory maintenance is considered to be a part of the sale of the original software. If the software is taxable, the mandatory maintenance is taxable)</td>
</tr>
<tr>
<td>3. The taxable amount is $1,000 ($800 + $200) and the use tax due is $75.00 ($1,000 X 7.50%)</td>
</tr>
<tr>
<td>4. If both the software and the mandatory maintenance are delivered electronically, both are exempt. The total non-taxable amount (before shipping and handling) would be $1,000. No tax would be due.</td>
</tr>
</tbody>
</table>
Additional Topics

For discussion:
1. Commodity code taxability
2. Object code taxability
3. Changing tax rules
4. Use tax reversal requests