

Sales/Use Tax Information Session

Sales and Use Tax Information Session

By A/P & Tax



Sales/Use Tax Information Session

For 2014, UCD collected and remitted sales and use tax in the amount of ? to the State Board of Equalization.

1. \$25,365
2. \$505,582
3. \$3,745,073
4. \$2,184,523

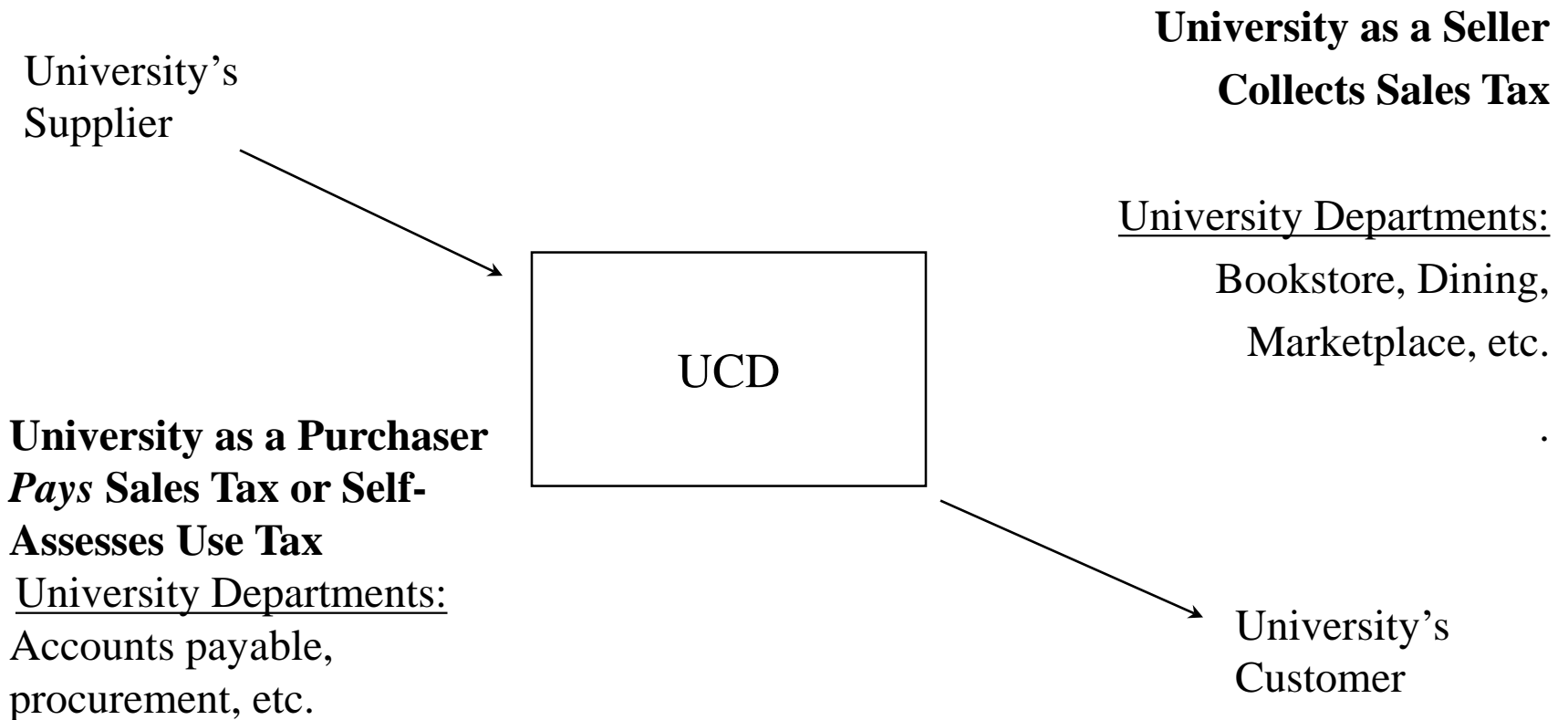
Agenda

Part One:

1. Sales Tax vs Use Tax
2. Use Tax in KFS
3. Item Type and Commodity Codes
4. Pcards and Use Tax
5. Exemptions
6. Current tax rates
7. Noncompliance
8. Case Study
9. Questions and Answers



Sales & Use Tax Overview



→ Indicates the flow of tangible personal property

Sales vs Use Tax

California sales tax

- Imposed on sellers
- For the sale of tangible personal property at retail in California

California use tax

- Imposed on purchasers
- For the use, storage or consumption of tangible personal property in California



Sales vs Use Tax

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?



Sales vs Use Tax

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



Sales vs Use Tax

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 vs 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 vs Use Tax

Use tax is

- Accrued by the UC and remitted to the State of California
- Usually applicable when taxable goods are purchased from vendors outside of California, for use within the state of California, and no sales tax was charged
- Charged to the department on the PO and PREQ documents

Use Tax in KFS

When is Use tax appropriate?

1. On Requisition, PO, and Payment Request

Why is Use tax appropriate?

1. Vendor is out of state, or
2. Vendor does NOT have “Collects Sales Tax” checked

And that's it. Otherwise, the system codes as Sales tax

Use Tax in KFS

1) Use Tax Indicator:

Receiving Required:	Yes
Use Tax Indicator:	Yes
Account Distribution Method:	Proportional

Yes = USE tax

No = SALES tax



Use Tax in KFS

2) [Vendor Remit Amount]

[Vendor Remit Amount] Grand Total Prior to Tax:	211.59	
Grand Total Tax:	15.87	
Grand Total:	227.46	

If Vendor Remit is on top → USE tax

Grand Total Prior to Tax:	454.25	
Grand Total Tax:	38.89	
[Vendor Remit Amount] Grand Total:	493.14	

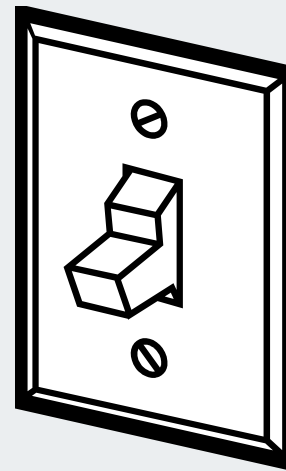
If Vendor Remit is on bottom → SALES tax

Use Tax in KFS

Switch the Indicator:

Receiving Required:	No
Use Tax Indicator:	No <input type="button" value="change to use tax"/>
Account Distribution Method:	Proportional

This is possible on the
Payment Request only



Item Type and Commodity Codes


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.

Item Type and Commodity Codes

Items ▼ hide

Add Item ?

Item Line #	* Item Type	Quantity	UOM:	Catalog #
	<div style="border: 1px solid black; padding: 2px;"><p>Qty</p><p>Qty</p><p>Qty (nontaxable)</p><p>No quantity (taxable)</p><p>No quantity (nontaxable)</p></div>	<input type="text"/>	<input type="text"/> 	<input type="text"/>
is more than 50% of the time for the next year?: <input type="checkbox"/>				
Dept Fld #1: <input type="text"/>				

















Current Items

Item Type and Commodity Codes

Commodity Codes

1. Commodity Codes drive whether or not something is taxable
2. They do not drive Sales versus Use Tax (remember the Use Tax Indicator?)
3. They can only be changed on the Requisition, PO, and PO amendment. So if the Payment Request is incorrect, a PO amendment is usually required

Item Type and Commodity Codes

Commodity Code:	<input type="text"/>
Commodity Description:	<input type="text"/>
Sales Tax:	<input type="radio"/> Yes <input type="radio"/> No <input checked="" type="radio"/> Both
Restricted Item?:	<input type="radio"/> Yes <input type="radio"/> No <input checked="" type="radio"/> Both
Published Material:	<input type="radio"/> Yes <input type="radio"/> No <input checked="" type="radio"/> Both
UNSPSC Segment Code:	<input type="text"/>  
UCSPSC Segment Name:	<input type="text"/>
UNSPSC Family Code:	<input type="text"/>  
UCSPSC Family Name:	<input type="text"/>
UNSPSC Class Code:	<input type="text"/>  
UCSPSC Class Name:	<input type="text"/>
Default Chart:	<input type="text"/>  
Default Object Code:	<input type="text"/>  
Asset Type:	<input type="text"/>  
Capital Asset Chart:	<input type="text"/>  
Capital Asset Object Code:	<input type="text"/>  
Buyer Lead:	<input type="text"/> ▼
Active?:	<input checked="" type="radio"/> Yes <input type="radio"/> No <input type="radio"/> Both
<input type="button" value="search"/> <input type="button" value="clear"/> <input type="button" value="cancel"/>	

Pcard Use Tax

The PCDO will not accrue Use Tax if:

- Merchant includes Sales Tax amount in their feed data
- Merchant is on the Merchant Tax Exempt table in KFS
- Reviewer or Fiscal Officer enters a Vendor-Charged Sales Tax amount on the PCDO
- Reviewer or Fiscal Officer checks Tax Exempt on the PCDO
- Merchant state code in their feed data is CA
- Postal Code is not in California

If any of the above are true → No Use Tax

Pcard Use Tax

If Use Tax was accrued incorrectly:

<http://afs.ucdavis.edu/cas-forms/tax-acct-forms/tax-accrual-form.cfm>

Contact Name:*	Michael Kuhner
E-mail:*	mjkuhner@ucdavis.edu
Phone Number:*	+1 530 757 8505
Tax form:	KFS Use Tax Accrual Correction ▼
KFS Doc Number:*	<input type="text"/> *
Was this a Taxable Item?:*	<input checked="" type="radio"/> Yes <input type="radio"/> No
Amount of Tax Incorrectly Accrued:*	\$ <input type="text"/>
Additional Information (Please explain why the transaction qualifies for a Use tax correction):	<input type="text"/>
<input type="button" value="Submit Request"/> <input type="button" value="Clear Form"/>	

Exemptions

- Most services and labor charges
- Items purchased for resale
- Computer software delivered electronically where no tangible personal property is transferred
- Property shipped outside of California
- Freight/shipping, delivery, postage (note that freight-in, handling charges, & delivery via vendor's vehicle is taxable)



Applicable Tax Rates

- *Effective October 1, 2014*
 - City of Davis is now 8.5%
 - Yolo County is at 7.5% (on campus)
 - City of Sacramento is at 8.5%



Current sales tax account

- ❑ For UCD's taxable sales:
 - On campus (7.5%)
 - City of Davis (8.5%)
 - Sacramento (8.5%)



Current use tax accounts

- UC Davis campus (7.5%)
- Sacramento (8.5%)
- City of Davis (8.5%)
- 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

Case Study

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:

Software	\$ 800	
Maintenance (1/1/11 – 12/31/11)		200
Shipping		<u>10</u>
Total	\$ 1,010	

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?

Case Study Solution

1. The total non-taxable amount (before shipping and handling) is \$0
2. No exemption applies to the software since it was delivered via media (CD). Although the maintenance is delivered electronically, **no exemption applies because the original software is taxable** (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)
3. The taxable amount is \$1,000 (\$800 + \$200) and the use tax due is \$75.00 (\$1,000 X 7.50%)
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.

Q/A

