

# Wisconsin is Sending Out Tax Notices on Out-of-State and Internet Purchases

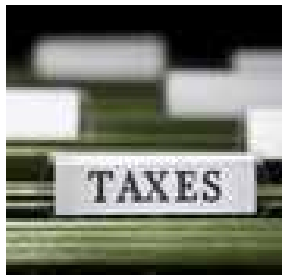
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By: Stephen Bjork



The Wisconsin Department of Revenue (WDR) recently issued notices to hundreds of Wisconsin residents requesting that they review their purchases over the past 4 years to determine if they owe tax on purchases for which they did not pay sales tax. This is not the first targeted initiative by the WDR as Wisconsin and nearly every other state looks to increase tax revenue without raising tax rates, and it certainly will not be the last.

The Wisconsin use tax is a tax imposed on the buyer. It follows the same rules and requirements as the Wisconsin *sales* tax. It is imposed when sales tax is not charged on an otherwise taxable transaction. Businesses are required to remit use tax and do so using the sales tax returns that they file. Meanwhile, individuals generally do not file separate use tax returns and must therefore report use tax on their Wisconsin individual tax return. New for 2011, if you do not report any use tax on your individual tax return, you must check a box certifying that you made no out-of-state purchases where sales tax was not charged.

## **How to Comply with Use Tax Laws**

Use tax is owed when you purchase merchandise or services for which sales tax would have been charged if you purchased it from a Wisconsin retailer. There are three common instances where a use tax obligation can occur:

1. Ordering from a mail-order catalog
2. Buying over the internet
3. Buying goods in another state but having the merchant ship the goods to you in Wisconsin as opposed to you taking possession of them in the store.

In all of these circumstances, if sales tax is not charged and the goods are shipped to you in Wisconsin, you owe use tax to Wisconsin. Use tax is not owed if you pay another state's sales tax on the purchase.

Since most of your purchases, especially over the internet, are made using a credit card or Paypal account, an examination of those records can give you most of the information you need. Remember though that not all internet and mail-order catalog purchases are subject to use tax as you may have already been charged and paid sales tax on the purchase. This commonly happens when the internet retailer is based in Wisconsin, has a physical Wisconsin location (think major national retailers that also operate a website allowing online shopping), or have an agreement with the state to charge sales tax on their sales (iTunes has entered into one of these agreements where they charge Wisconsin sales tax on their downloads of digital books, movies, and songs)



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## **What to do if You Receive a Letter from the State Regarding Use Tax**

Do not ignore the Wisconsin request for information on purchases subject to use tax. The last time the WDR sent out targeted letters about use tax obligation, Wisconsin obtained records from online retailers regarding their sales to Wisconsin customers. This current letter also allows you to pay your use tax obligation without being charged a penalty (interest will be charged as it must be per the Wisconsin statutes; it can never be waived). Follow-up collection efforts may not waive the penalty.

Compliance with the notice consists of completing a summary schedule of purchases subject to use tax (generally from 2007-2010), calculating the tax and interest due, and remitting payment. Furthermore, we recommend that you report use tax on future year Wisconsin income tax returns.

Please contact our office if you receive a notice and need assistance with your response or have any other questions.

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