

William E. Hesch CPAs, LLC

Certified Public Accountants



Ohio is Cracking Down on Unpaid Use Tax

The State of Ohio is aggressively looking for businesses that may owe Ohio Use taxes. In addition to pursuing out-of-state businesses who should be collecting and remitting Use Tax to the State of Ohio, the Department of Taxation is now looking for **Ohio** businesses that may not have paid use tax on purchases of property used in Ohio.

Use Tax is a tax on the storage, use or other consumption of tangible personal property in Ohio. The tax is a compliment to the Ohio Sales Tax. In general if you have paid Ohio Sales Tax on a purchase you would not owe Use Tax on the purchase. If you have not paid Ohio Sales Tax on an item then you have a responsibility to remit Ohio Use Tax directly to the state. The Ohio Use Tax is nothing new, it was first enacted in 1936 in order to create an even playing field for in-state and out-of-state vendors. It has come into play much more in recent years, however, due to the dramatic increase in purchases from out of state vendors through the internet.

Ohio businesses may have substantial Use Tax liabilities if they make purchases of taxable goods through out of state vendors such as through mail order or the internet and the vendor does not collect Ohio Sales Tax. Use tax would also be due on any purchase from an Ohio vendor which failed to collect Ohio Sales Tax. In addition many taxpayers are unaware that transactions between related companies such as inter-company sales or rentals of tangible personal property are generally subject to Use Tax.

The types of personal property that are subject to use tax include office equipment, office supplies, furniture and cleaning supplies. In addition in the case of construction contractors purchases of construction materials, construction equipment, tools and supplies are subject to Use Tax.

The following services are also subject to use tax:

- Installation
- Repair
- Temporary labor and employment placing
- Lawn care, landscaping, snow removal
- Exterminating
- Janitorial, maintenance, maintenance contracts
- Motor vehicle towing

Businesses should review their invoices for the above goods and services to determine to what extent, if any they have not been paying appropriate sales taxes on their purchases. The State of Ohio is currently rolling out a Use Tax Education Program (UTEP) and is offering an amnesty program through May 1, 2013 for businesses that were unaware of

their use tax obligations. In the second half of 2011 the Department of Taxation began to audit larger businesses it suspects may have Use Tax Liabilities. As a result it was discovered that over 96% of companies contacted had unreported Use Tax liabilities. The Department of Taxation plans to contact approximately 300,000 Ohio businesses regarding Use Tax over the next few years.

If you determine that your business has an Ohio Use Tax liability you may want to enter into the amnesty program with the state. Under this program:

- The business agrees to register and remit all future Use Tax obligations
- The business agrees to pay all Use Tax due on all purchases since January 1, 2009
- Businesses may enter into a no interest payment plan over up to 7 years with payments of \$500 per month over up to 7 years (84 months)
- Monthly payments will be the lesser of \$500 per month or the use tax liability divided by 84 months
- The State of Ohio agrees to waive the use tax liability for all years before January 1, 2009 (the look back period is 7 years outside the amnesty program)
- The State of Ohio agrees not to apply the 15% penalty and any interest applicable to the unpaid Use Tax.

Further information on Use Tax and tools to calculate your use tax liability are available on the Ohio Department of Taxation website at: www.tax.ohio.gov. The application for Use Tax amnesty and registration for Use Tax is done through the Ohio Business Gateway.

The Ohio Department of Taxation will likely contact you sooner or later about unpaid use tax. The Use Tax amnesty program is an excellent way to limit your Use Tax liability and pay the tax due under very favorable terms.

If you suspect that you may have unpaid Use Tax liabilities Contact the office of William E. Hesch at (513) 731-6612 to for assistance with the registration and amnesty process.

William E. Hesch Esq., CPA, PFS and Scott A. Champion CPA, ABV, CFF provide business consulting and tax advisory services including Use Tax. Contact us at www.heschcpa.com or www.heschlaw.com.