Local Governments' Guide to Tax Allocations

Sales Taxes

What is sales tax?

"Sales tax" is an umbrella term that covers the various taxes imposed under the Retailers' Occupation Tax Act (ROT), the Service Occupation Tax Act (SOT), the Service Use Tax Act (SUT), and the Use Tax Act (UT).

Who pays the various types of sales tax?

ROT is imposed on Illinois businesses that make retail sales of tangible personal property for use or consumption. SOT is imposed on service persons who sell or transfer tangible personal property as an incident to performing their service. SUT is imposed on service persons who sell or transfer tangible personal property as an incident to performing their service and whose supplier is out-of-state. UT is imposed on the user of tangible personal property purchased at retail. Both individuals and businesses pay UT.

What share of sales tax do local governments receive?

Sixteen percent of the state collections from the 6.25 percent state rate for retail sales of general merchandise and 100 percent of the collections from the 1 percent state rate for sales of qualifying food, drugs, and medical appliances* is returned to the municipal or county government where the sale took place.

Four percent of the tax collected from general merchandise sales is disbursed to county governments (except Cook County) for sales that occurred anywhere within their county boundaries. For sales made in Cook County, the 4 percent share is returned to the Regional Transportation Authority.

Providing the item of tangible personal property is titled or registered by an Illinois agency and is purchased outside of Illinois from a retailer, 16 percent of the 6.25 percent state use tax paid is returned to your municipality or county when the address given for titling or registration purposes is within your jurisdiction. When items are titled or registered with a Cook County address, county governments, or the Regional Transportation Authority receive 4 percent of these collections.

How do you determine where a sale takes place?

For either an incorporated municipality or an unincorporated area of a county, a sale is considered to have taken place within your taxing jurisdiction if it meets either of the two following criteria:

1 The location where the sale takes place or where final acceptance of the order occurs is within your taxing jurisdiction.

   For example: A person who is visiting Marion purchases a coat at a local department store. After paying for the item, the customer leaves the store with the coat and returns home to Springfield. In this case, the sale took place in the city of Marion. The city of Marion and Williamson County will receive the local share of the tax paid on this sale.

*86 Ill.Adm.Code 130.310

How do you determine where a sale takes place? (cont.)

2 A purchase order is accepted outside Illinois but the tangible personal property sold is removed from an inventory maintained by the retailer in your taxing jurisdiction and is delivered to an Illinois location.

For example: An Effingham resident orders a ladder from ABC Company located in Jefferson City, Missouri. The order is accepted at ABC's Missouri location. The company maintains a building in Vandalia, Illinois where its inventory of ladders is maintained and from which the ladder is removed and delivered to the Effingham customer. The city of Vandalia and Fayette County will receive the local share of the tax paid on this sale.

Will you receive a share of the sales tax collected on orders solicited in your taxing jurisdiction?

If final acceptance of those orders, except for coal and other minerals, occurs within your municipality or county, then the answer is yes. However, the mere solicitation or receipt of an order does not determine final acceptance.

For example: A cabinet company maintains a show room in Jerome, Illinois. Many styles of cabinets are displayed, and a salesman is present to solicit orders. The company's corporate office and factory are located in Forsyth, Illinois. Although orders are solicited by the salesman in Jerome, the final acceptance of all orders occurs at the Forsyth location. Forsyth and Macon County will receive the local share of the tax paid on the sale of any cabinets.

Who determines where final acceptance of an order occurs?

The retailer determines where the final acceptance of an order takes place.

How do you determine taxing jurisdiction for sales of coal and other minerals?

A retail sale by a producer of coal or other minerals (such as oil, sand, gravel or stone taken from a quarry, and any other mineral extracted from the earth) mined in Illinois is deemed to be a sale at retail which has taken place in the local government unit where the coal or other mineral is extracted from the earth. The fact that the mining company may maintain an office within a different local taxing jurisdiction where final acceptance of the orders occurs is not a determining factor for sales of these items.

Sales of coal and other minerals, regardless of where they are mined, will generally be exempt if the mineral is shipped out of Illinois by the seller for use outside Illinois. Also, a sale by a producer to a wholesaler or retailer for resale is not a retail sale and would not generate sales tax for the benefit of the local government where the mining occurred.

** 86 Ill. Adm. Code 130.310

Are there other types of sales that have special circumstances which determine taxing jurisdiction?

We have listed below some of the common types of sales that have special circumstances surrounding the determination of taxing jurisdiction.

Long term or blanket contracts

If the contract is fulfilled by the purchaser placing specific orders when goods are wanted, it is the location of the seller's place of business where the specific orders are placed that determines which local governments will share in the sales tax. The location where the seller signed the master contract has no bearing on the taxing jurisdiction.

Sales from vehicles carrying uncommitted stock of goods

If a retailer is carrying stock, which is uncommitted (the stock has not previously been sold), the place where the sale occurs is the location of the vehicle and its goods at the time of the sale.

Vending machines

The location of a vending machine determines where a sale takes place.

What is included in our monthly distributions?

In most instances, the money you receive each month represents your share of the tax paid on current returns. By that, we mean returns that are filed and paid on time and in full. For a sales tax return to be paid on time, it must be filed on or before the twentieth of the month following the end of the reporting period. For titled and registered property, returns are due no later than 20 days after the buyer takes possession of the item.

In addition to the current returns, your distributions will include taxes paid on late filed returns, payments made for assessed liability (including penalty and interest charges or additional tax due resulting from a reporting error), and amended returns filed by taxpayers who are paying additional tax due.

Why does the amount of my sales tax distributions vary from month to month?

There are many reasons why the amount of sales tax distributions you receive varies from month to month.

Retail sales of certain items may cause your monthly distributions to fluctuate. Car sales and sales of building materials, for example, are known to increase with a strong economy and decline during difficult economic times. Businesses that make retail sales of big ticket items such as airplanes or mainframe computers pay large amounts of tax when they make sales, but these types of businesses do not maintain a consistent level of sales from month to month.

Most taxpayers file their returns on a monthly basis. However, some businesses qualify to file on a quarterly or annual basis. The distributions you receive in the months of June, September, and December will reflect your share of receipts reported by quarterly filers. The distributions you receive in March will reflect your share of receipts by both quarterly and annual filers.

Why does the amount of my sales tax distributions vary from month to month? (cont.)

Please keep in mind that not every taxpayer files on a timely basis. If a taxpayer's return is not received timely, the amount paid will not be included in a current distribution and may "double up" the amount of sales tax from their particular business for the following month.

Also, some taxpayers file using accounting periods that are other than monthly. Some accounting cycles are made up of 13 periods of time that cover one year. Prior to sales tax reform (January 1, 1990), taxpayers who used this accounting method filed 13 returns each year. Now, they file 12 returns with one of the returns reflecting two of their accounting periods. This single return which covers two accounting periods does not occur during the same calendar month each year causing these taxpayers to distort annual month-to-month comparisons. Frequently, the taxpayers who file using this accounting method are major sales tax contributors.

Audits completed on accounts, approved overpayments or claims for credit, and payments collected for additional liability also cause variance in distributions. In addition, a retailer may file amended returns either requesting a refund for overpayment of taxes, or paying additional liability. Either of these situations impact your monthly distribution.