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Bulletin

David Harris, Director

Service Occupation Tax Changes

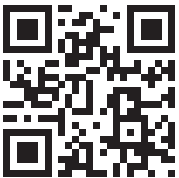
To: All Servicepersons and marketplace facilitators

This bulletin is written to inform you of recent changes; it does not replace statutes, rules and regulations, or court decisions.

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Effective January 1, 2026,

- The 200-transaction threshold will no longer apply to either out-of-State servicepersons who maintain a place of business in Illinois and make sales to Illinois purchasers, **or** to marketplace facilitators, that transfer tangible personal property (TPP) to Illinois purchasers as part of a sale of service.
- Servicepersons maintaining a place of business in this State are subject to destination-based sourcing on sales of service that would otherwise be sourced **outside** of this State.

Beginning January 1, 2026,

- For destination-based sales, if a taxpayer fails to provide sufficient information to determine the proper location:
 - The Illinois Department of Revenue (IDOR) will assess tax on the gross receipts of such sales to undetermined tax locations at the rate of 15%.
 - Unprocessable penalties will **not** apply to such sales.

See **Public Act 104-0006**.

Note: The service component of a sale of service remains nontaxable. The only part of a sale of service that is taxable is the transfer of tangible personal property as part of that sale of service.

What is “destination-based sales tax?”

When a taxable sale of service to an Illinois purchaser is sourced outside of Illinois, it is subject to destination-based sales tax on any TPP transferred during the sale of service. Destination-based sales tax describes the tax rate composed of the total State and local Service Occupation Tax (SOT) calculated for a sale of service using the rate in effect at the Illinois destination; that is, the location to which the TPP, transferred as part of a sale of service, is shipped or delivered or at which possession is taken by the purchaser. 35 ILCS 120/2-12.

All sales through a marketplace that has met the \$100,000 in gross receipts from sales of service threshold on behalf of marketplace servicepeople are subject to destination-based sourcing.

As a reminder, if a sale of service results in the transfer of TPP to an Illinois purchaser, the sale must be sourced within Illinois, and the serviceperson must remit State and local SOT, as well as any additionally required State or local taxes, on that sale of service using the rates in effect at that location.

For more information on physical presence and sourcing, see **PIO-125, Determining Physical Presence and Where a Sale is Sourced Help Guide**, available at tax.illinois.gov.

What is a "serviceperson?"

A serviceperson is any person who is engaged in the occupation of making sales of service.

Note: SOT is **only** imposed if a serviceperson transfers TPP as part of a sale of service.

How do servicepersons calculate their tax liability?

A serviceperson's liability may be calculated in one of four ways:

1. SOT on separately stated selling price of TPP transferred as part of a sale of service;
2. SOT on 50% of the serviceperson's entire bill;
3. SOT on the serviceperson's cost price if they are a de minimis serviceperson who is registered or otherwise required to be registered under Section 2a of the Retailers' Occupation Tax Act; or,
4. Use Tax on the serviceperson's cost price if they are a de minimis serviceperson not otherwise required to be registered under Section 2a of the Retailers' Occupation Tax Act.

Note: Any serviceperson whose only Illinois presence is a result of meeting the \$100,000 in gross receipts from sales of service threshold **cannot** elect the fourth calculation option above if the serviceperson makes any retail sales to purchasers in this State.

What is a "marketplace facilitator?"

"Marketplace facilitator" means a person who, pursuant to an agreement with an unrelated third-party marketplace serviceperson, directly or indirectly through one or more affiliates, facilitates sales of service by the unrelated third-party marketplace serviceperson through:

1. listing or advertising for sale by the marketplace serviceperson in a marketplace, sales of service that are subject to tax under the SOT Act; and
2. either itself or through agreements or arrangements with third parties, collecting payment from the customer and transmitting that payment to the marketplace serviceperson regardless of whether the marketplace facilitator receives compensation or other consideration in exchange for its services.

A marketplace facilitator that has met the \$100,000 in gross receipts from sales of service threshold is considered to be the serviceperson for each sale of service made through its marketplace to an Illinois purchaser and is liable for collecting and remitting the tax under the SOT Act on all such sales.

What is a "marketplace serviceperson?"

"Marketplace serviceperson" means a person who makes or offers to make a sale of service through a marketplace operated by an unrelated third-party marketplace facilitator.

As a marketplace facilitator, how do I determine if I am subject to State and local SOT?

Beginning January 1, 2026, marketplace facilitators who meet or exceed the threshold of \$100,000 in gross receipts from sales of service shall be liable for all applicable State and local SOT administered by IDOR on all transfers of TPP as part of sales of service to Illinois purchasers. SOT shall be imposed at 50% of the entire billing to the Illinois purchaser for all sales of service as a part of which TPP is transferred through the marketplace to Illinois purchasers. Marketplace facilitators are required to register with IDOR, file returns, and remit tax for all transfers of TPP as part of sales of service made over the marketplace to Illinois purchasers, including their own transfers and transfers made on behalf of marketplace servicepersons.

As a marketplace facilitator, how often must I review my sales of service to determine if I am subject to State and local SOT?

A marketplace facilitator shall determine on a quarterly basis, ending on the last day of March, June, September, and December, whether it meets or exceeds the threshold or has established other presence in Illinois for the preceding 12-month period. If the marketplace facilitator meets the threshold or has established presence in Illinois for a 12-month period, it is required to collect and remit all applicable State and locally imposed SOT administered by IDOR and to file all applicable returns for one year on its own sales. If the marketplace facilitator meets the threshold for a 12-month period, it is required to collect and remit all applicable State and locally imposed SOT and to file all applicable returns for one year on transfers made on behalf of marketplace servicepersons.

At the end of that one-year period, the marketplace facilitator shall determine whether it met or exceeded the threshold for the preceding 12-month period. If the marketplace facilitator

- met or exceeded the threshold for the year, it is required to remit all applicable State and local SOT and file returns for the subsequent year for its own sales **and** for sales made on behalf of its marketplace servicepersons.
- did not meet or exceed the threshold for the year, it must notify IDOR and marketplace servicepersons that it no longer is required to remit State and local SOT and discontinue remitting the taxes on behalf of its marketplace servicepersons. If IDOR is not notified, the marketplace facilitator will be considered to be actively registered with IDOR. If the marketplace facilitator has a physical presence but determines they have not met a threshold requiring them to remit tax on behalf of the marketplace servicepersons, they would still be required to remit tax on their own sales.

If a marketplace facilitator is no longer required to remit State and local SOT on behalf of marketplace servicepersons, it must redetermine, on a rolling quarterly basis, whether it is obligated to once more begin remitting State and local SOT.

What action must I take if I previously met the 200-transaction threshold but do not meet the \$100,000 threshold?

If you previously met the 200-transaction threshold but not the \$100,000 gross receipts from sales of service threshold during a prior lookback period, you must review your sales for the 12-month lookback period ending on December 31, 2025, to determine if you met the \$100,000 threshold. If you did not meet the threshold, **do not** begin to remit State and local SOT on January 1, 2026, on your transfers of TPP as part of sales of service on behalf of marketplace servicepersons. You must review and then determine, on a rolling quarterly basis, whether you have met the \$100,000 threshold and are obligated to begin remitting State and local SOT for sales on behalf of marketplace servicepersons.

For your own sales, if you are not otherwise considered a serviceperson maintaining a place of business in this State, as of January 1, 2026, IDOR will automatically change your registration status to "voluntary service use tax" if you previously met the 200-transaction threshold but not the \$100,000 in cumulative gross receipts threshold from sales of service to purchasers in Illinois. IDOR will notify you if your registration is updated. If, after reviewing all sales of service through your marketplace, you have questions or concerns regarding your registration status or if your registration status does not accurately reflect your filing requirements, contact IDOR's Central Registration Division for any necessary changes at 217 785-3707 or email rev.crd@illinois.gov for any necessary changes.

What must I file for transfers of TPP as part of sales of service that are subject to destination-based sourcing?

Transfers subject to destination-based sourcing must be included on Form ST-1, Sales and Use Tax and E911 Surcharge Return. These transfers must be reported separately on Form ST-2 for each local tax jurisdiction (e.g., city or county) where the customer is located.

What is the 15% tax rate assessment for undetermined tax locations from P.A. 104-0006?

Beginning January 1, 2026, for transfers of TPP as part of sales of service subject to destination-based sales tax, if the taxpayer fails to provide the information, schedules, or supporting documents necessary to determine their sales' locations, tax will be imposed at the rate of 15%. Taxpayer records must support figures filed on Form ST-1 and Form ST-2, Multiple Site Form.

Can I be assessed additional unprocessable penalties on returns where I am assessed the 15% undetermined location tax rate?

No. For transfers of TPP as part of sales of service made on or after January 1, 2026, the 15% tax will be imposed in lieu of imposing a penalty for an unprocessable return under the UPIA, when the location information is not provided.

However, standard penalties under the UPIA may still be assessed on returns where the 15% undetermined location tax is utilized, including unprocessable return penalties if the return is otherwise unprocessable. For more information on these penalties, see **Publication 103, Penalties and Interest for Illinois Taxes**, and **35 ILCS 735/**.

What books and records must I keep to avoid being assessed the 15% undetermined location tax rate and to ensure I can support the destination-based tax rates used?

For transfers of TPP as part of sales of service subject to destination-based sales tax, you must maintain records that include

- the name and address of the customer to whom the bill was issued,
- the customer name and exact address (street number, street address, city, county, state, zip code) to which the TPP is shipped or delivered or at which possession is taken by the purchaser, and
- documentation to support the location from which the TPP was shipped.

Failure to maintain proper books and records may cause delays in processing your returns and may result in IDOR assessing penalties and interest.

Where can I find additional information on SOT, marketplace facilitators, destination-based sales tax, and proper SOT filing practices?

For more information about SOT, marketplace facilitators, destination-based sales tax, and filing requirements, refer to the following pages, available at **tax.illinois.gov**:

- [Sales & Use Taxes information page](#)
- [Out-of-State Sales Resource Page](#)
- [Destination-Based Sales Tax Assistance](#)
- [Publication 113, Retailer's Overview of Sales and Use Tax, Prepaid Wireless E911 Surcharge, and Illinois Telecommunications Access Corporation \(ITAC\) Assessment](#)
- [PIO-125, Determining Physical Presence and Where a Sale is Sourced Help Guide](#)

Note: A publication for servicepersons is under development at the time of issuance of this bulletin.