
COMPLIANCE ALERT



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Compliance Problem

Provisions in Section 3-70 of the Service Use Tax Act (35 ILCS 110) that authorized taxpayers to earn MPC on certain service transactions were repealed in 2003 and were not included when MPC was later reinstated in 2004. Taxpayers have erroneously continued to report the earning of MPC on these types of service transactions.

Solution

Service customers can earn MPC only when service work is performed by servicemen who are registered under either the Retailers' Occupation Tax Act or Service Occupation Tax Act. MPC cannot be earned on purchases from unregistered servicemen that handle their tax liability by paying Use Tax to their suppliers or self assessing Use Tax to the Department if their suppliers are not registered to collect Use Tax. To earn MPC, you will need to confirm that the service work was purchased from a serviceman that is registered as provided above. We recommend that you obtain the serviceman's Retailers' Occupation Tax /Service Occupation tax registration number and record it on the invoice. A reseller number or a number issued by the Department for self-assessment of Use Tax is different than a Retailers' Occupation Tax/Service Occupation Tax number and cannot be used to document the earning of MPC.

MPC incorrectly earned and used to offset your tax liability will be disallowed and you will be liable for any tax, penalties, and interest incurred.

Background

MPC can only be earned on purchases that qualify for the manufacturing machinery and equipment (MME) and graphic arts machinery and equipment exemptions. It is earned based on a fixed percentage of tax that would have been paid on qualifying equipment had it not been exempt. Under the sales tax laws, a service customer does not incur any tax liability when making purchases from unregistered servicemen who have elected to handle their tax liability by paying Use Tax to their suppliers. As a result, no MPC is earned because the service customer did not have a tax liability in the transaction upon which to earn MPC. Prior to July 1, 2003, a service customer was authorized by statute to earn MPC in this situation. However, those statutory provisions were repealed.