

Arkansas Compensating Use Tax Fact Sheet

Frequently Asked Questions

Does my business owe Arkansas Use Tax?

If you answer “yes” to the following questions, you may owe Arkansas Consumer Use Tax.

- Do you purchase tangible personal property or services for use in Arkansas?
- Are such purchases taxable in Arkansas (i.e., you are not able to claim an exemption)?

What is Arkansas Use Tax?

“Use” means the exercise by any person of any right or power over general merchandise incident to the ownership of that property. Consumer Use Tax is imposed on the privilege of storing, using, consuming or distributing tangible personal property or taxable services in this state that are purchased at retail from a retailer/vendor/supplier located outside Arkansas. Generally, Sales/Use tax is paid to a retailer registered to collect the tax. If Sales/Use Tax is not paid to the retailer, the purchaser must self-assess Consumer Use Tax at the rate of 6 percent for state Consumer Use Tax plus any City and County Consumer Use taxes that are due and remit the tax to this department.

What are the Arkansas Use Tax rates?

Arkansas Consumer Use Tax “state tax” rate is 6.5 percent of the purchase price of general merchandise and taxable services plus any applicable City and County Consumer Use Tax.

Who must pay Arkansas Use Tax?

Your business owes Arkansas Consumer Use Tax if you purchase tangible personal property or taxable services for storage, use, consumption or distribution in Arkansas and you were not charged Arkansas Sales/Use Tax and you would normally be subject to sales tax if you purchased the item or service from a retailer in Arkansas.

Examples include:

- Internet and catalog purchases when Arkansas Sales/Use Tax is not collected, or
- Purchases from out-of-state vendors that are not required to be registered to collect Arkansas Sales/Use Tax

Why should my business voluntarily pay Arkansas Use Tax?

Your business should voluntarily pay Arkansas Consumer Use Tax because if you fail to pay and you are audited by the department, you will not only be liable for unpaid Consumer Use Tax but will also be liable for any penalties and interest.

If you purchase tangible personal property from an out-of-state retailer for use in Arkansas, you are required to pay tax to the retailer, if charged, or self-assess Consumer Use Tax if tax is not charged and remit the tax to this department.

By participating in this program and timely paying all of the Arkansas Consumer Use Tax you owe, you will be eligible for a shorter review period and will avoid a longer review period.

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What are some common types of business purchases on which Arkansas Consumer Use Tax is due?

There are three (3) main types of business purchases that are examined for potential use tax liability.

1. **Consumable Supplies:** These are items that are consumed by the purchaser. Common examples of these types of purchases are office supplies, repair parts and other items that are consumed or used by the purchaser.

Examples:

A dentist buys toothbrushes from an out-of-state supplier to give away to patients during their annual exam. The supplier does not charge sales tax. The dentist owes Consumer Use Tax on the cost of the toothbrushes.

A restaurant purchases tablecloths from an internet company. The internet company does not charge sales tax. The restaurant owes Consumer Use Tax on the cost of the tablecloths.

A manufacturing company purchases repair parts for "Machine A" from an out-of-state vendor and the vendor does not charge tax. Arkansas Consumer Use Tax is due on the cost of the repair parts including any freight charges that are billed by the vendor to the purchaser.

A company purchases 50 pairs of wool gloves from a catalog company to give to employees as part of their holiday bonus. The catalog company does not charge tax. The manufacturer owes Consumer Use Tax on the cost of the gloves.

2. **Fixed Assets:** These are items that are normally capitalized and depreciated for federal income tax purposes and are items that are not directly used in the manufacturing process.

Common examples of these types of purchases are computers, office furniture, tools, machinery and equipment that are not used directly in the manufacturing process and all other fixed assets where an exemption from Consumer Use Tax is not applicable.

Examples:

A company purchases a desk from an office supply company over the internet. The internet company does not charge sales/use tax. The company owes Consumer Use Tax on the cost of the desk.

A landscaper buys a lawn mower from an out-of-state supplier. The supplier does not charge tax on the purchase. The landscaper owes Consumer Use Tax on the cost of the lawn mower.

A manufacturing company purchases a lathe that is used in their repair shop to work on other machines when they break down or need to be repaired. This machine is not used directly in the manufacturing process. The vendor did not charge tax at the time of sale. The manufacturing company owes Consumer Use Tax on this purchase.

3. **Taxable Services:** These are services designated in Arkansas law as being subject to tax. The service is performed at a location outside the State of Arkansas and the vendor does not charge Arkansas sales tax.

Examples:

A company located in Arkansas sends a motor to a repair shop in Tulsa, Oklahoma. The vendor repairs the motor and ships it back to the company in Arkansas. The vendor does not charge Arkansas tax. This type of service is nominated in Arkansas law as being taxable. Both the parts and labor charged for the repair are subject to the Arkansas Compensating Use Tax.

Registration Note – If a business makes purchases subject to Consumer Use Tax on a frequent and recurring basis, the business will need to register as a Consumer Use Tax filer, report the Consumer Use Tax on Form ET-1 and remit the Consumer Use Tax owed to the State.