



Department Source: City Manager

To: City Council

From: City Manager & Staff

Council Meeting Date: August 7, 2017

Re: Proposed Use Tax for November 2017 Ballot

Executive Summary

Voter approval is required to enact a local use tax on out-of-state purchases.

Discussion

Staff has prepared an ordinance to ask voters to impose a use tax on the out-of-state purchases of taxable items that will be used, stored, or consumed in the City of Columbia and on which no tax was collected in the state of the purchase. The City of Columbia use tax rate on out-of-state purchases would be at the same rate as the total local sales tax rate, currently two percent (2%), provided that if the local sales tax rate is reduced or raised by voter approval, the local use tax rate shall also be reduced or raised by the same action. A use tax is imposed directly on the purchaser and is subject to all use tax rates in effect (local and state). The filing of a use tax return is required if the cumulative purchases subject to the use tax exceed two thousand dollars in any calendar year.¹

The purpose of the use tax is to protect Columbia vendors from unfair competition with out-of-state vendors that are not required to collect taxes. For example, under the current system if a person residing in Columbia purchases an item at a retail store located in Columbia then state and local sales tax is added to the purchase price. If the same person purchased the same item from an out-of-state internet-based vendor, that vendor is not required to collect state and local sales tax. Therefore, out-of-state internet-based vendors are at a competitive advantage compared to Columbia vendors because they do not have to charge state and local sales tax. A use tax would ensure that purchases from out-of-state vendors are subject to the same state and local tax rates as those purchases made from Columbia vendors. A use tax would also make sure that all of the City's residents help fund state and local programs and services, regardless of where they make their purchases.²

Fiscal Impact

The Missouri Department of Revenue³ issues public information reports for use tax taxable sales and purchases by locality. From 2007 to 2016, the City of Columbia averaged \$45,849,893.95 per year in use tax taxable sales and purchases. Using the two percent (2%) local tax rate, the average yearly use tax revenue for the City of Columbia from 2007 to 2016 could have been approximately \$916,997.88.

¹ Missouri Department of Revenue. "Sales/ Use Tax." <http://dor.mo.gov/business/sales/#sales>.

² Fontinelle, Amy. *Investopedia*. "Use Tax." <http://www.investopedia.com/terms/u/use-tax.asp>.

³ Missouri Department of Revenue. Public Information Reports: Public Taxable Sales Reports. Years: 2007-2016. Sort Sequence: City. Tax Type: Use. <http://dor.mo.gov/publicreports/>.



Vision & Strategic Plan Impact

[Vision Impacts:](#)

Primary Impact: Not Applicable, Secondary Impact: Not Applicable, Tertiary Impact: Not Applicable

[Strategic Plan Impacts:](#)

Primary Impact: Not Applicable, Secondary Impact: Not Applicable, Tertiary Impact: Not Applicable

[Comprehensive Plan Impacts:](#)

Primary Impact: Not Applicable, Secondary Impact: Not applicable, Tertiary Impact: Not Applicable

Legislative History

None.

Suggested Council Action

Approval of the Ordinance placing the question of whether to enact a local use tax on out-of-state purchases on the November 7, 2017 ballot.