

UNDERSTANDING THE CHICAGO USE TAX

The Chicago Use Tax, which is officially known as the Chicago Use Tax for Nontitled Personal Property, is a tax imposed on nontitled personal property purchased from a retailer outside of Chicago and used in Chicago (“Taxable Property”). Taxable Property includes not just materials, but also tools, equipment and fuel. There are exemptions to the Tax. These exemptions include nontitled personal property purchased outside of Chicago and used in Chicago by a company that relocates to Chicago, so long as the property was used for at least three months outside of Chicago before being moved into Chicago. Additionally, materials purchased outside of Chicago that are installed on projects in Chicago that are owned by charitable, religious, educational or governmental entities are exempt from the Tax. However, if the tools, equipment and fuel used to install those exempt materials on the charitable, religious, educational or governmental projects were purchased outside of Chicago, those tools, equipment and fuel are still subject to the Tax.

Under the Chicago Use Tax, Taxable Property is taxed at one percent of the aggregate purchase price of all the Taxable Property purchased by a taxpayer during a taxable year. A taxable year runs from July 1 through June 30. However, as every taxpayer is entitled to an annual credit of \$25.00 against its annual Tax liability, there is no Tax liability on the first \$2,500.00 of Taxable Property purchased by a taxpayer each taxable year. Further, otherwise Taxable Property that was purchased in a municipality, other than Chicago, that has its own use tax is not subject to the Tax, so long as the taxpayer actually paid the other municipality’s use tax. The Tax also allows for depreciation for out-of-city use of Taxable Property. To that end, for tools and equipment that are purchased and used outside of Chicago before being used on a project in Chicago, for purposes of calculating the Tax, the purchase price of those tools and equipment may be reduced by an amount representing a reasonable allowance for depreciation attributable to the period of out-of-city use.

The Chicago Use Tax is enforced and collected by the City of Chicago. In order to enforce the Tax, all taxpayers are required to keep accurate records, including original source documents and books entries denoting all transactions that gave rise to any Tax liability or exemptions. Trade contractors, who primarily purchase Taxable Property in order to install it into real estate, that have liability under the Tax are required to pay their Tax liability monthly and to file annual tax returns with the City of Chicago. The Tax payments are due by the fifteenth day of the month following the month that the Tax liability is incurred. So if a contractor incurs liability under the Tax in January, the Tax payment is due by February 15. The tax returns must be filed by August 15 and must be filed online through the Chicago Department of Finance (www.cityofchicago.org/fiance).

While the Chicago Use Tax can be difficult to understand, keeping accurate records and receipts is the first step to being able to comply with the Tax requirements. If kept properly, those records and receipts can become the source of the answers to many of your Tax questions.

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