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## Transitional Provisions for Sales Tax Rate Changes

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### Introduction

Local sales tax jurisdictions are generally allowed to increase or decrease their local sales and use tax (sales tax) rate effective on March 1, June 1, September 1, or December 1 of each year. This bulletin describes how sales tax is applied when the sales tax rate in a locality changes.

### Transactions subject to special transitional provisions

In general, all taxable sales and uses occurring on or after the effective date of a local sales tax rate change are taxed at the new rate of sales tax. However, the following special transitional provisions describe certain transactions where the sales tax is collected at the rate in effect prior to the rate change.

#### Layaway sales

Some businesses will temporarily hold merchandise for customers and allow them to make periodic payments until the merchandise is paid for in full. The customer places a deposit on the items, which are then labeled and stored at the store. Layaway sales involve a transfer of title to the merchandise to the purchaser without a physical transfer of possession.

When a local sales tax rate **increase** occurs while items are being held at a store, the sales tax is due at the prior **lower rate** only if the following conditions are met:

- at least 4 months prior to the rate increase, a written agreement for the sale is made and the items sold are segregated from other similar inventory in possession of the seller; and
- before the effective date of the rate increase, the purchaser paid at least 10% of the sales price.

If these conditions are not met, tax is due at the rate in effect when the customer makes final payment and takes delivery of the merchandise.

If a sales tax rate **decrease** occurs while an item is on layaway, the sales tax is due at the new **lower rate** in effect when the customer takes delivery of the merchandise.

#### Utility bills based on meter readings

If a sales tax rate change occurs during a billing period, the rate of sales tax to be charged depends on the number of days during the period before and after the effective date of the rate change. The previous tax rate will be due if more than half of the days in the billing period are prior to the rate change. If more than half of the days in the billing period are after the date of the rate change, the tax due is computed using the new rate.

*Example: A nonresidential customer's utility bill covers the period of August 10 through September 10 (the date on which the meter is read). The combined state and local sales tax rate in the locality increases from 7% to 8% effective on September 1.*

*Because more than half of the days in the billing cycle occurred prior to the date of the rate increase, sales tax is due at the lower rate of 7%.*

*Example: A homeowner's residential utility bill covers the period May 25 through June 25 (the date on which the meter is read). Charges for residential utilities are exempt from the statewide sales tax. The locality where the homeowner lives eliminates its 4% local tax on residential utilities effective on June 1.*

*Because more than half the days in the billing cycle occur after the local rate of tax on residential utilities is eliminated, the charge is fully exempt from sales tax.*

### **Telephone bills**

Charges for services provided **on or after** the date of the first bill issued to the customer after a rate change takes effect should be calculated at the **new** tax rate.

Charges for services furnished **before** the date of the first bill issued to the customer after a rate change should be calculated at the **prior** rate, even though the service may have been provided after the effective date of the rate change.

*Example: On September 1, the combined state and local sales tax rate in County A increases from 7½% to 8%. Company X issues a bill dated September 10, 2012, for service provided from September 1 through September 30.*

*The telephone company will collect sales tax at the old rate of 7½% for the portion of the service received between September 1 and September 10. The remainder of the service received between the date of the bill (September 10) and the end of the billing cycle (September 30) will be taxed at the new rate of 8%.*

### **Telephone answering services**

Charges for telephone answering services that cover a period beginning before and ending after the date of a sales tax rate change are prorated.

### **Social and athletic club dues**

Dues covering any period that begins **before** a sales tax rate change are taxed at the prior rate, regardless of the date of the bill.

Dues that cover a period that begins **on or after** a rate change are taxed at the new rate, regardless of the date the bill is mailed to the club member.

### **Admissions**

Admission charges to an event occurring **on or after** the effective date of a rate change are taxed at the **new** rate, unless the ticket to the event was sold and delivered to the purchaser prior to the effective date of the rate change.

### **Hotel occupancy**

Hotel occupancy charges for daily rentals are taxed at the rate in effect on the day of the occupancy. If a new sales tax rate takes effect during a guest's stay, the sales tax rate will vary based on the tax rate in effect on each day of the stay.

If the rental is on other than a daily basis, the overall charge can be prorated and taxed accordingly at the rate in effect before and after the date of the tax rate change. The portion of the stay prior to the effective date of a rate change will be taxed at the old rate, and the remaining time of the stay will be taxed at the new rate.

Note: A Tax Bulletin is an informational document designed to provide general guidance in simplified language on a topic of interest to taxpayers. It is accurate as of the date issued. However, taxpayers should be aware that subsequent changes in the Tax Law or its interpretation may affect the accuracy of a Tax Bulletin. The information provided in this document does not cover every situation and is not intended to replace the law or change its meaning.

**References and other useful information**

**Tax Law:** Sections 1106 and 1217

**Regulations:** Section 527.13