



INFORMATIONAL BULLETIN

Use Tax for Nontitled Personal Property Construction Contractors

The purpose of this bulletin is to provide construction contractors with information regarding their obligation to pay the Chicago Use Tax for Nontitled Personal Property ("Use Tax"), chapter 3-27 of the Municipal Code of Chicago.

General Information

The Use Tax is imposed upon the privilege of using nontitled tangible personal property in the city which is purchased at retail from a retailer located outside the city. The Use Tax is one percent of the property's purchase or cost price. The Use Tax is imposed, and the obligation to pay is upon the purchaser or end user of nontitled tangible personal property.

When a construction contractor permanently affixes tangible personal property to real property, the contractor is deemed the end user of that tangible personal property. As the end user, the contractor incurs Use Tax on the cost price of that tangible personal property.

Tools, equipment, fuel and lumber for forms purchased outside the city and used in the city are subject to the Use Tax.

The term construction contractor includes general contractors, subcontractors, and specialized contractors including but not limited to landscape, electrical, masonry, and plumbing contractors. (*Regulation 130.1940 promulgated under the Retailers' Occupation Tax, 35 ILCS 120/1 et seq.*)

Annual Tax Credit

Every taxpayer is entitled to an annual credit of \$25 to be applied against the taxpayer's aggregate Use Tax liability for each taxable year.

Other Credits

To prevent multiple taxation, a taxpayer who purchases nontitled tangible personal property for use in the city from a retailer located outside the city may take a credit equal to any **municipal tax actually paid that was properly due** to another municipality in any state with respect purchase or use of the property. If such tax is rebated, no credit is allowed.

Depreciation for Out-of-City Use

If nontitled tangible personal property is used outside the city before being used in the city, for purposes of computing Use Tax, its purchase price may be reduced by an amount representing a reasonable allowance for depreciation attributable to the period of out-of-city use. Depreciation shall be determined by using the straight line method of depreciation, and an item's useful life shall be as provided in the U.S. Internal Revenue Code, as amended. Depreciation shall be calculated on a monthly basis with no adjustment for fractions of a month.

Exempt Uses

Temporary storage of nontitled tangible personal property in the city that is acquired outside the city and subsequently used solely outside the city is exempt.

Purchases of materials for incorporation into real estate owned by charitable, religious, or educational institutions or organizations or by governmental bodies are exempt.

Note: Purchases of items that are not incorporated into real estate such as tools, fuel and lumber for forms are taxable purchases regardless of the exempt status of the contractor's customer.

How is the tax calculated?

The Use Tax is 1% of the purchase price for all items of nontitled tangible personal property purchased at retail from a retailer located outside the city and used in the city.

How do I register for the tax?

Applications can be found at www.cityofchicago.org/finance in the Tax Collection and Enforcement section.

When are payments due?

Use Tax due should be remitted on or before the fifteenth day following the end of the monthly tax period in which the liability was incurred.

When is the tax return due?

The tax return for the fiscal year, July 1st through June 30th, is filed annually and is due by August 15th of each year.

Contractor Use Tax Examples

Example 1

A construction contractor purchases steel and lumber from a supplier located in Indiana to be used to construct an office building in the city. The construction contractor is liable for Use Tax on the purchase price of the steel and lumber.

Example 2

A plumbing contractor purchases cast iron pipe from a supplier in Bedford Park to be used on a job for the Chicago Transit Authority. At the same time, the contractor also purchases a propane torch and a pipe wrench to use on the job. The contractor does not owe Use Tax on the purchase price of the cast iron pipe because the purchase will be incorporated into real estate owned by an exempt governmental entity. However, the contractor does owe Use Tax on the purchase price of the tools that he will use on the job.

Example 3

An electrical contractor purchases wiring, pliers, and a voltage detector from a retailer in the city to use on a job in the city. The contractor does not owe Use Tax on this purchase because the purchase was made from a retailer located in the city, and the retailer should charge tax on the purchase price.

Additional Questions?

Additional tax information and forms can be found at www.cityofchicago.org/finance.

You may also contact us by email at taxpolicy@cityofchicago.org or by phone at 312-747-4747.