

# CHAPTER ONE

## OVERVIEW OF GROSS RECEIPTS AND COMPENSATING USE TAXES

The primary difference between the Gross Receipts and Compensating Use taxes (for an in-state, registered taxpayer) is that Gross Receipts is a tax charged by the seller of taxable goods, and Compensating Use tax is a tax accrued by the purchaser of taxable goods.

### Gross Receipts Tax

When an in-state, registered taxpayer makes a sale of taxable tangible personal property or services to an in-state purchaser, it is assumed that the sale is taxable and the Gross Receipts tax is to be charged and remitted to Arkansas.

#### Special Considerations

If an in-state purchaser gives a seller an Exemption Certificate, and that certificate is accepted in good faith by the seller of goods, then the seller is relieved of the liability to charge Gross Receipts tax.

### Compensating Use Tax

When an in-state taxpayer makes a purchase of taxable tangible personal property from an unregistered, out-of-state company, it is assumed that the in-state purchaser made the purchase for storage, use, distribution or consumption and the in-state taxpayer must self-assess and remit the Compensating Use tax.

#### Special Considerations

**Do not accrue Compensating Use tax on purchases from any in-state vendors unless you have given them an Exemption Certificate.** It is the responsibility of the in-state vendor to register for and collect the Gross Receipts tax on taxable sales.

If the purchaser has given an Exemption Certificate to the in-state seller of goods, and subsequently purchases taxable goods from the seller, the purchaser needs to self-assess the tax as a withdrawal from stock and report it in the Gross Receipts section of the Excise Tax Report.

### Tangible Personal Property vs. Services

Generally, all sales of tangible personal property are taxable unless a specific exemption applies. Sales of services are exempt unless that service is specifically enumerated (specified) in the law.

### Taxing Jurisdictions

The State currently levies a 5.125% Gross Receipts and Compensating Use Tax. Each county and city is also allowed to levy their own taxes. The State administers the collection and distribution of those taxes. For example, if you are purchasing goods in Fayetteville you should be charged the State rate of 5.125%, the Washington County rate of 1.5% and the Fayetteville rate of 1.75% for a total tax rate of 8.375%.

A list of the current local tax rates is included in this chapter.