Arts, Crafts and the New Jersey Sales Tax

Tax Tips
New Jersey Division of Taxation
Sidney Glaser, Director
November, 1980

Artists, Craftspersons, Hobbyists . . .

Do you sell products in New Jersey which you make yourself?

Yes? Did you know that **New Jersey law requires you to collect sales tax?**

Whether you sell your products from your own shop, at flea markets, by mail, or from your home, you are "doing business" in New Jersey and, therefore, you must comply with the State's tax laws.

"WHY ME?"

"Wait a minute!" you may say. "I'm not really in business, I just make things for fun and a little profit. Why should I have to get involved with collecting sales tax?"

Remember, when it comes to the sales tax, the size of your business and whether or not your business makes a profit is unimportant. New Jersey imposes a 5% tax on the sale of most merchandise (excluding clothing and footwear) and, because you're doing business in New Jersey, it is your responsibility to collect sales tax and remit it to the State.

However, **before you collect sales tax, you must register with the New Jersey Division of Taxation.**

"WHY SHOULD I REGISTER?"

You must register because you are required by law to do so.

Registration is a simple procedure and, after you're registered, you will be able to make certain purchases without paying sales tax. (See "Buying Materials", next page.)

"HOW DO I REGISTER?"

You may obtain an Application for Registration (Form CIS-1) from Taxpayer Services. Our phone number and address are on the back of this brochure.

Of course, there is no fee for registering with the Division. A week or two after you mail in the application, you should receive a Sales Tax Temporary Certificate of Authority by mail. A few weeks later you will receive sales and use tax returns and a permanent Certificate of Authority. You must display your Certificate of Authority at your place of business.

Now That You're Registered . . .

Buying The Things You Need For Your Business

BUYING MATERIALS

When you buy **materials** which will eventually become a part of the product you sell, such as yarn, paint, clay, wood or glass, you may give your supplier a **New Jersey Resale Certificate (Form ST-3)** instead of paying sales tax. In New Jersey, only the ultimate consumer—the final buyer—is required to pay sales tax.

Example: Joan is a calligrapher living in Madison, New Jersey. She embellishes cards and stationery and sells them at local flea markets.

May Joan use a resale certificate when she buys blank paper and ink?

Yes. If Joan is properly registered with the Division of Taxation (see previous page), she should use an ST-3 when she buys ink and paper.

NOTE: You may not use a resale certificate to buy materials for your personal use.

If you buy materials with a resale certificate and then choose not to resell them, you must remit to the State a 5% **use tax** on the purchase price of those materials.

BUYING SUPPLIES

When you buy **supplies** which become your personal property, such as scissors, knives, brushes, needles or easels, you must pay sales tax. Supplies are different from materials; supplies do not become part of the final product, materials do.

Example: Richard, a New Jersey artist who sells his work through a small gallery in Lambertville, buys oil paint and paintbrushes to complete a painting.

Must he pay sales tax on these purchases?

Because the oil paint becomes part of the painting, Richard need not pay sales tax on it. Instead, he should give his supplier a resale certificate. He must pay sales tax on the purchase of the brushes, which are supplies.

BUYING EQUIPMENT

When you buy mechanical or electrical **equipment** which you use directly in the actual production or manufacturing of your product, you may give your supplier a **New Jersey Exempt Use Certificate (Form ST-4)** and pay no sales tax. Lathes, kilns, radial arm saws, looms and printing presses are examples of production equipment.

Example: Drew makes wooden toys and sells them at art and craft shows. He needs a new band saw.

May he give his supplier an ST-4 instead of paying sales tax?

Yes. Because the band saw will be used directly and primarily in the production of Drew's product, he may use an exempt use certificate.

NOTE: The difference between production equipment and supplies may not always be clear to you. For example, **hand tools (including electric hand tools) are supplies and do not qualify for this exemption.** Before you buy equipment, why not give Taxpayer Services a call?

Selling Your Product

SELLING TO CUSTOMERS

When you sell your product (unless it is clothing or footwear), you must collect sales tax.

SELLING TO OTHER SALESPERSONS

If you sell your product to other vendors for resale, they will issue you a resale certificate. If the certificate is properly completed, you should accept it and collect no sales tax.

SELLING TO EXEMPT ORGANIZATIONS

When you sell your product to a registered exempt organization, you should charge no sales tax. Many churches, hospitals, volunteer fire departments and other nonprofit organizations are exempt from paying sales tax in New Jersey. Also exempt are the Federal government and the State of New Jersey and any of their agencies.

The exempt organization must give you a photocopy of its **New Jersey Exempt Organization Certificate (Form ST-5).** You should keep this in your records to show why you collected no sales tax.

In transactions with governmental agencies, you should obtain a purchase order on the letterhead of the agency, signed by an authorized official.

A FEW EXAMPLES OF TAXABLE PRODUCTS

quilting	*weaving
wall hangings	wood burnings
candles	*knitting
decorated cakes	*crocheting
ceramics	needlepoint
paintings	lapidary
drawings	*leather work
sculpture	lithographs
toys	enamel work
hooked rugs	metal work
macrame	baskets
jewelry	furniture
silk screens	photographs

*clothing and footwear are not taxable

GIVING LESSONS, PROVIDING INSTRUCTION

Fees for lessons and instructions are not subject to sales tax.

When you purchase materials which you will sell to your students, you may give your supplier a resale certificate and pay no sales tax.

When you sell materials and/or supplies to your students, you must collect sales tax on the price of the materials.

NOTE: You should list taxable and nontaxable charges separately on your bill. If you choose not to itemize, you must collect sales tax on the entire bill.

OUT-OF-STATE PURCHASES AND SALES

Surrounding states have sales tax laws similar to New Jersey's. If you intend to buy materials or to sell your product in another state, we suggest you contact the taxing authorities in that state.

NOTE: When you buy **supplies** (which become your personal property) outside of New Jersey for use in this State, you must remit a 5% use tax to New Jersey if you paid no sales tax to the state in which you made the purchase. If you paid a lesser tax in the state of purchase (4% for example), you must remit the difference to the State of New Jersey.

FILING RETURNS AND KEEPING RECORDS

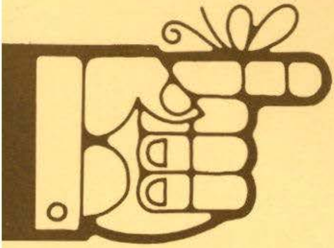
Whether your business is large or small, it's good business sense to keep accurate records. For example, the State requires you to retain resale and exemption certificates for a least 3 years in case of an audit.

You must keep good records in order to file accurate sales and use tax returns. Every 3 months, you must file a **New Jersey Sales and Use Tax Quarterly Return (Form ST-50),** even if in that particular quarter you have collected no sales tax.

In addition, if you collect $100 or more in sales tax during the first or second month of the quarter, you must file **Monthly Remittance Statements.**

NOTE: If you intend to make seasonal sales only, list on your Application for Registration the months in which you will be doing business. You should file sales and use tax returns only for the months for which you are registered.

For forms and information on employer responsibilities, the New Jersey income tax, or other State taxes, call or write Taxpayer Services.



REMEMBER . . .

Taxpayer Services is here to help.

This brochure has been designed as a guide for New Jersey artists, craftspersons and hobbyists who sell their products. In your business, you'll probably run into situations which aren't explained in this brochure.

For assistance with any questions that come up, please call us at your nearest Division of Taxation office listed below:

Cherry Hill
(609) 795-5970

Newark
(201) 648-3690

Sea Girt
(201) 449-0200

Somerville
(201) 526-7665

Vineland
(609) 691-9020

Paramus
(201) 265-8610

Trenton
(609) 292-6400

or write to us:

TAXPAYER SERVICES
DIVISION OF TAXATION
WEST STATE AND WILLOW STREETS
TRENTON, NEW JERSEY 08646