

DEPARTMENT OF STATE REVENUE

Information Bulletin #40
Sales Tax
April 2022
(Replaces Information Bulletin #40 dated August 1991)
Effective Date: Upon Publication

SUBJECT: Prizes and Other Free Merchandise

REFERENCE: [IC 6-2.5-2-1](#); [IC 6-2.5-3-1](#); [IC 6-1.5-3-2](#).

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SUMMARY OF CHANGES

Aside from nonsubstantive, technical changes, this bulletin has been edited to update references to newer technology and situations that may arise with prizes or free merchandise.

I. INTRODUCTION

Tangible personal property, such as a mobile phone, automobiles, or apparel, that is given away as a gift or a contest prize is subject to either Indiana sales or use tax. The person or organization liable for the tax is the person who purchases property to give it away and not the person who receives the prize or gift.

II. PRIZES AND OTHER FREE MERCHANDISE

Anyone purchasing tangible personal property to be given as a gift or prize should pay sales tax for the property at the time of purchase. However, if the buyer is exempt from sales or use tax for the purchase of the item, no tax would be due.

Example #1: Qualified nonprofit organizations are exempt from sales tax on the purchase of property for the purpose of raising money to carry on its not-for-profit purpose and use the money exclusively to further its not-for-profit purpose. (Please see Sales Tax Information Bulletin #10 for discussion of sales tax as it applies to nonprofit organizations, available online at in.gov/dor/legal-resources/tax-library/information-bulletins/).

NOTE: A for-profit entity cannot purchase tangible personal property exempt from sales tax to donate to a nonprofit to use as a prize or auction item for fundraising and furthering their not-for-profit purpose. The nonprofit has to purchase the item directly in order for the property to be exempt.

If the purchaser is not tax exempt for the purchase of the property, and does not pay sales tax, the purchaser must pay use tax on the purchase price of the property. If the purchaser is registered as a retail merchant, the use tax may be reported on the merchant's sales and use tax return (Form ST-103). Otherwise, the use tax must be reported on either the annual income tax return filed by the purchaser or a Consumer's Use Tax Return (Form ST-115), which can be filed using department's online e-services portal, called the Indiana Taxpayer Information Management Engine (INTIME), accessible at intime.dor.in.gov.

Example #2: A for-profit radio station does not pay sales tax on a bicycle that it will be using as a prize item. As such, they must pay use tax on the purchase price of the property.

The fact that persons or organizations who buy property to be given as prizes are liable for the tax does not prevent them from requiring that the recipient pay the tax as a condition of accepting the prize or gift. The Department will not enforce the contract between the purchaser and recipient, but expects the purchaser to pay the tax.

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