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January 10, 2000

VIA FACSIMILE (703) 305-6268

Ms. Rosemarie Dunn
General Services Administration

RE: Federal Credit Card Purchases Regulation

Dear Ms. Dunn:

This is in response to your facsimile of December 9, 1999, regarding the tax exempt status for the federal government's new credit card program, GSA SmartPay. Please find enclosed the regulation which the Arkansas Department of Finance and Administration has promulgated.

Please contact me if you have further questions.

Yours truly,

A handwritten signature in cursive script that reads "Beth B. Carson".

Beth B. Carson
Chief Counsel

BBC/wwc

GROSS RECEIPTS TAX REGULATION GR-28.1
EXEMPTIONS FROM TAX
FEDERAL CREDIT CARD PURCHASES

Pursuant to his authority under Ark. Code Ann. § § 26-18-301 and 26-19-108, the Director of the Arkansas Finance and Administration promulgates the following regulation. This regulation is to be read in conjunction with the previous regulations and laws of the Department and this State.

This regulation is promulgated to clarify that as of November 30, 1998, the federal government substantially changed its credit card program. The I.M.P.A.C. purchase cards, the American Express/Discover travel cards, and the Wright Express fleet cards are no longer in use. Instead, the General Services Administration (GSA) has entered into a series of contracts with a variety of card-issuing banks under a new program named GSA SmartPay. The GSA SmartPay program will be in effect for five to ten years.

The majority of these new cards will be direct-billed to the federal government and will thus represent tax-exempt purchases for sales and tourism tax purposes. However, there will be both a Visa and a MasterCard that will be billed to the federal employee (for later reimbursement). Purchases with these credit cards will continue to be subject to sales tax.

The Arkansas Gross Receipts Tax Regulations are hereby amended to add a new provision to read as follows:

GR 28.1 EXEMPTIONS FROM TAX – FEDERAL CREDIT CARD PURCHASES

- A. Sales tax is not due on credit card purchases which are direct-billed to and paid for by the federal government. Sales tax is due on credit card transactions where the purchases are billed to and paid for by federal employees, who are then reimbursed by the federal government. The following information is designed to assist you in determining whether or not tax applies to transactions paid for with GSA SmartPay cards.
- B. Cards which are always direct-billed to the federal government and are therefore exempt from sales or lodgings taxes begin with digits 8699 or 5568.
- C. Prefixes 4486, 4716, and 5568 are issued on cards which are both direct-billed and individually billed. To know the difference you must look at the sixth digit.
- D. If the sixth digit is 0, 6, 7, 8, or 9; the card is direct-billed and the transactions are tax-exempt. If the sixth digit is 1, 2, 3, or 4; the card is billed to the individual federal employee and the transactions are subject to tax. State sales and tourism taxes apply only against transactions made with federal Visa or MasterCard credit cards which begin with the prefix 4486, 4716, or 5568 and have the sixth digit as either 1, 2, 3, or 4.

E. The following are two exceptions to the above statements:

1. The Department of Interior will use an integrated MasterCard issued by NationsBank. The same card will be used for both direct-billed and individually-billed purchases. The bank will sort the purchases during the billing process depending on the merchant's code. Purchases for office supplies and other procurements will be direct-billed to the federal government and, therefore, tax-exempt. Purchases for lodgings and restaurant food will be individually-billed to the federal employee and, therefore, taxable. These cards will have the agency's federal tax exempt identification number (14-0001849) on the face of the card. The account numbers will begin "5568-16." Although it would appear that this number means the card is direct-billed to the federal government and all transactions would be tax-exempt; in fact, lodgings and restaurant charges will be individually billed to the federal employee and the transaction will be taxable.

2. The cards issued to the Bureau of Reclamation will be direct-billed for all purchases, including lodgings and restaurant charges. Accordingly, cashiers will have to recognize the Interior Department's federal tax exempt identification number to realize that purchases for lodgings and restaurant food are taxable (nothing on the card will tell the cashier that the card holder is with the Bureau of Reclamation, whose lodgings and restaurant charges are tax-exempt.) This system is expected to be in place for approximately one year at which time all purchases on this integrated card will be direct-billed and tax-exempt.

In witness whereof, we have hereunto set our hands this 1st day of June, 1999.



RICHARD A. WEISS
Director
Department of Finance
and Administration



TIM LEATHERS
Deputy Director/Commissioner of Revenues
Department of Finance
and Administration