

FYI – For Your Information

Sales Tax Exemptions for Government Purchases

GENERAL INFORMATION

Colorado statute exempts from state and state-collected sales tax all sales to the United States government and the State of Colorado, its departments and institutions, and its political subdivisions (county and local governments, school districts and special districts) in their governmental capacities only. [§39-26-114(1)(a)(I) C.R.S.] Home-rule jurisdictions may have different rules regarding government tax exemptions, and should be contacted individually. A listing of home-rule city sales tax rates may be obtained from the Department of Revenue, by calling (303) 238-FAST (3278), or visit our Web site at www.taxcolorado.com and download “Colorado Sales/Use Tax Rates” (DRP 1002). This publication is updated each January and July.

(NOTE: The term “state and state-collected” sales tax, for the purpose of this FYI, refers to: state sales tax; state-collected local sales tax; state-collected county lodging tax; and state-collected special district sales tax. For further information on state-collected sales taxes, request FYI Sales 62 “Guidelines for Determining When to Collect State-Collected Local Sales Taxes.”)

In order for a government entity to take advantage of the tax exemption, the

purchase **must** be made with a prescribed government form or purchase order, and paid for **directly** to the seller by warrant or check drawn on governmental funds, or via credit card in the name of the exempt governmental agency. [Reg. 39-26-114.1 (a) (I)] When using a credit card, verification that the purchase is for governmental purposes and will be paid for by the governmental agency may be required. A letter on the governmental entity’s letterhead is acceptable for this purpose. In cases where the seller invoices on a delayed basis for a purchase, the billing must be made directly to the governmental agency, **not** to the individual making the purchase.

Some governmental entities have a Colorado-issued tax-exemption number, although they are not required to have one (tax-exemption numbers all begin with “98”). It is not necessary for governmental entities to present a tax-exemption number in order to make a tax-exempt purchase. A purchase by a governmental agent who is making the purchase with personal funds — even if the employee presents a tax-exemption number and plans to be reimbursed — is **not** tax-exempt.

Construction contractors making purchases on behalf of governmental entities have certain exemptions from the above



Colorado Department of Revenue
Taxpayer Service Division
1375 Sherman St.
Denver, Colorado 80261

Forms and other services:
(303) 238-FAST (3278)
Assistance:
(303) 238-SERV (7378)
Fuel Tax: (303) 205-5602
www.taxcolorado.com

guidelines. For details on contractors' exemptions, please consult the following sources: FYI Sales 6 "Contractors;" the special regulation for contractors found in the sales and use tax regulations; and §39-26-114(1)(a)(XIX) C.R.S. (The first two are available from the Department of Revenue. Copies of Colorado statutes may be obtained from the Colorado Office of Legislative Legal Services or your local library or on the state homepage at www.state.co.us.)

GOVERNMENT CREDIT CARDS

State government and federal government use a variety of credit cards to facilitate government purchases and travel by their employees. Probably the best known of these is the Diners Club card which is used to pay for work-related travel, meals and lodging.

State of Colorado Credit Cards

Since 1997 state agencies, including the Department of Revenue, have been issuing MasterCard credit cards to employees for government purchases. The **Purchasing Card**, intended for official state business only, allows qualifying and authorized purchases to be exempt from tax.

The Purchasing Card, presented to vendors by any state agency employee, is recognizable by several characteristics. The purchasing card displays the words "State of Colorado" along with the state seal. The card states "For Official State Business Use Only" and includes the agency's tax exempt number that begins with the numbers "98" followed by five digits. The bottom of the card displays the name of the employee to whom the card is issued (authorized to purchase on behalf of the state) and the government agency or division where that employee works.

The state also issues several Diners Club cards.

The Diners Club Group Event System card, primarily used for meetings, displays the employee name and reads "State Tax Exempt" followed by the agency's tax exemption number (which begins with "98" followed by five digits) allowing qualified purchases to be exempt from tax.

All of this information serves as confirmation to vendors that purchases made on the purchasing card and the Diners Club Group Event System card should be accepted and considered exempt from state and state-collected sales tax. The billing for tax exempt government credit card purchases is sent directly to the state agency which then makes the payment directly to the credit card company.

There is also a Diners Club Travel card issued by the state. This card includes the employee name and displays "State of Colorado." However, this card does not show a "98" tax exempt number and does not allow for tax exempt purchases.

Local Government Credit Cards

Some local governments issue credit cards in both the government employee's and agency's name. In many instances the bill is directly paid by the local government agency. Purchases are then tax exempt. Local government credit cards must have the city or county name on it and the words "Purchasing Card" to be considered exempt.

It can be difficult for vendors to determine the tax exempt status of these cards. The government agency can present a letter on government letterhead to the vendor as a way to verify that the purchase is for government purposes and will be paid by the government agency. This would help vendors determine the taxability of the transaction. Also, vendors should make a copy of the credit cards in the event a local government auditor requests to see the copy.

Any vendor with questions regarding local government credit cards should contact that particular county or municipality.

Federal Government Credit Cards

The federal government's credit card program is called "GSA SmartPay" (General Services Administration).

Nontaxable Purchases

Purchases made with cards billed directly to the government agency are **not** taxable. These cards are the **Fleet Card** (which has a picture of cars on it) and the **Purchasing Card** (which has a picture of the U.S. Capitol on it). Purchase cards issued by the Department of Commerce will list an eight-digit exemption number below the cardholders name.

Taxable Purchases

Cards that are billed **both** directly to the agency or to individuals are the **Integrated Card** (which has the U.S. flag in the background) and the **Travel Card** (which has a picture of an airplane on it).

The **sixth** digit of these cards indicates whether the purchase should be taxed.

- If the sixth digit is 0,6,7,8 or 9, the purchase should not be taxed (billed directly to the government agency).
- If the sixth digit is 1,2,3 or 4, the purchase is taxable (billed to individual).

Refer to the chart provided at the end of this publication.

NOTE: The Department of the Interior uses a MasterCard issued by NationsBank. The card is used for **both** direct billed purchases and individual billed purchases. The bank sorts the purchases during the billing process. The account numbers begin with "5586-16." Purchases of office supplies and other goods will be direct billed to the agency (tax-exempt). Purchases for lodging and restaurant food will be individually billed (taxable). Hotel and restaurant operators may have difficulty determining whether a transaction by the Department of the Interior is taxable or tax-exempt. These cards have the Department of Interior federal tax exempt identification number (14-0001849) on the card.

Additionally, the Bureau of Reclamation (under the Department of the Interior) uses a card that is billed directly to the agency for **all** purchases, including hotel and restaurant charges. **Hotel and restaurant charges for this agency are tax-exempt.**

For additional information about federal government credit cards, see the "GSA SmartPay" Web site at <http://pub.fss.gsa.gov/services/gsa-smartpay>

DIPLOMATIC TAX EXEMPTION

Foreign diplomats and agents of foreign governments are exempt from paying state and state-collected sales tax **if** they present special sales tax exemption cards. These cards, issued by the U.S. Department of State, are color coded. The color coding represents varying degrees of tax exemption. The cards bear the name and photograph of the authorized bearer, and are nontransferable. If the vendor has any questions regarding the identity of the bearer, the vendor may ask for additional forms of identification, such as a diplomatic ID, drivers license, etc. There are two types of diplomatic tax exemption cards:

1) Individual Cards

Cards with a **blue** band across the bottom exempt the bearer from **all** state and state-collected sales taxes, including taxes on hotel rooms. Cards with a **yellow** band list all restrictions on tax exemption. A card with a stripe other than blue should always be examined carefully.

2) Mission Cards

These tax-exemption cards are to be used for official purposes **only**, and **not** for individual, personal purchases. Mission cards, like the individual cards, carry the name and photograph of the authorized bearer, are nontransferable, are issued with the same blue and yellow bands across the bottom. In addition, there are still some cards with **green and red** in circulation. Cards with **green or red** bands or shading exempt the bearer from all sales taxes **excluding** restricted categories (such as hotel room taxes).

Eventually these cards will be replaced by the yellow band card. Expiration dates are printed on the cards. All cards are subject to the same restrictions as the individual cards (see above).

Questions regarding these diplomatic tax-exemption cards may be directed to:

Office of Foreign Missions
U.S. Department of State
10920 Wilshire Boulevard, Suite
1820
Los Angeles, CA 90024

(310) 235-6292

WHEN IN DOUBT, COLLECT THE TAX

If a vendor and a purchaser should disagree on the application of a tax, the vendor must collect the tax.

[§39-26-102(22) C.R.S.] The vendor should give the purchaser a receipt for the purchase showing how much sales tax was collected. Advise the purchaser to file a "Claim For Refund" (DR 0137) which is available from the Department of Revenue. The vendor is ultimately responsible for the collection of sales taxes.

FURTHER INFORMATION

For more information on related topics, consult the following DOR publications:

- FYI General 1 "Department of Revenue Publications";
- FYI General 8 "The FYI Program-Index and General Information";
- FYI Sales 1 "How to Document Sales to Retailers and Tax-Exempt Organizations";
- FYI Sales 3 "Out-of-State Tax-Exempt Organizations Doing Business in Colorado."

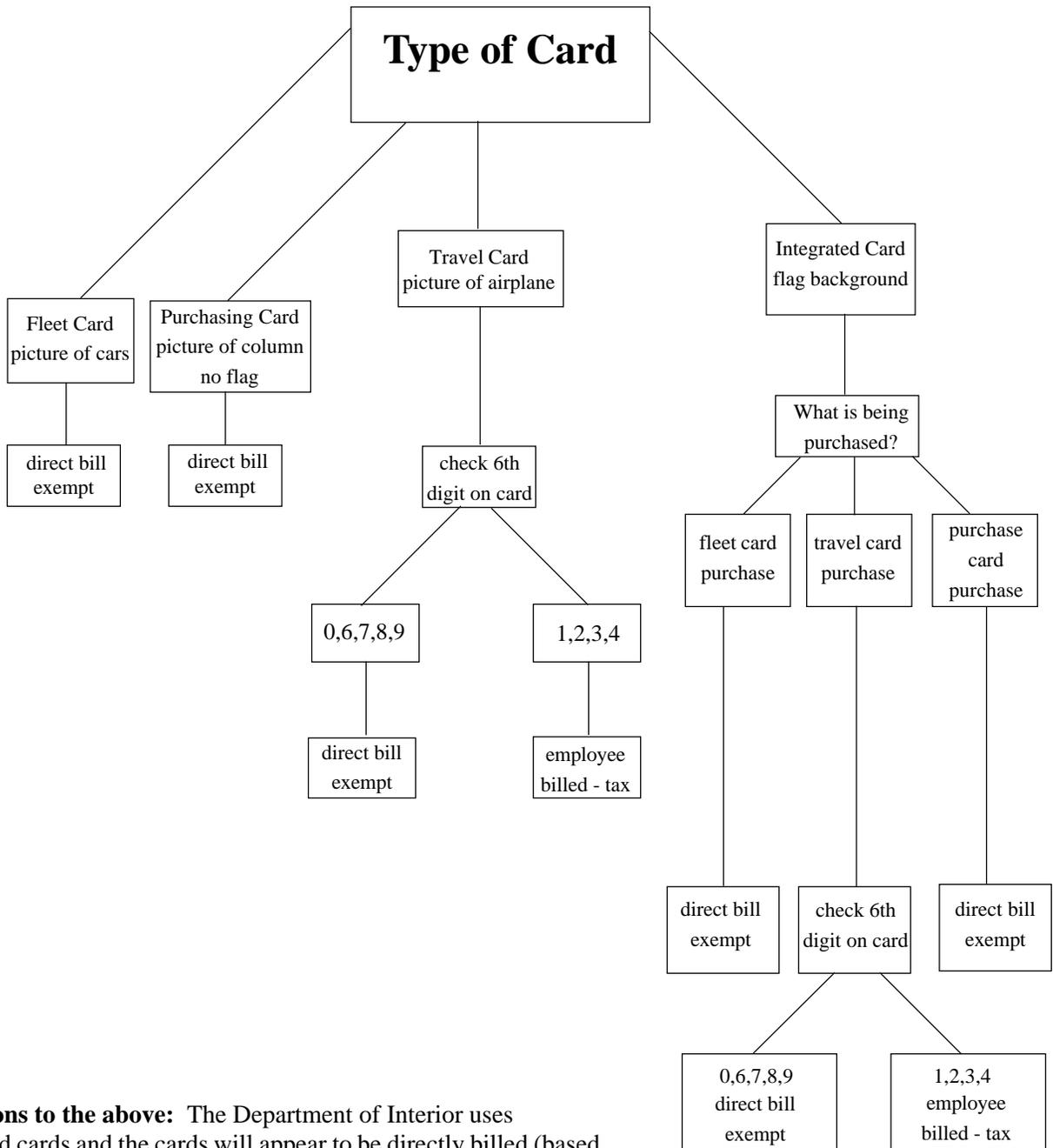
FYIs and commonly used forms are available on the Web at www.taxcolorado.com

For additional tax information visit our "Customer Support Site" site also located on our Web site for "*Frequently Asked Questions.*"

The department also provides automated sales tax information for and about businesses at www.taxview.state.co.us
This system includes:

- Colorado Sales Tax Rates - finds specific city, county and special district rates.
- Verification of Sales Tax License Exemption Numbers - determines whether a Colorado sales tax license or exemption certificate is valid.
- Tax Rates by Account Number - finds sales tax rates and locations for specific sales tax accounts.

Federal Government “GSA SmartPay” Card Program



Exceptions to the above: The Department of Interior uses integrated cards and the cards will appear to be directly billed (based on the 6th digit). However, they are directly billed for only purchasing and fleet card purchases, the employees are billed for travel purchases. Another exception is the Bureau of Reclamation, which is part of the Department of Interior. All Bureau of Reclamation purchases are directly billed, including travel.

When presented with an integrated card from the Department of Interior, request to see the employee's ID. If the employee is in the Bureau of Reclamation, the purchase, including travel is exempt. If the employee is in any other bureau within the Department of Interior, travel purchases will be taxable, but purchasing and fleet purchases are exempt.