

## Sales Tax Exemption

### Proving an Exemption - The Purchaser's Responsibility:

In order to qualify for a tax exemption, it is the purchaser's responsibility to adequately prove that they meet the exemption requirements for that purchase -generally in the form of an exemption certificate which meets that state's requirements. The retailer must retain (and file) a copy of the purchaser's exemption documentation to substantiate the exemption as without the documentation, the sale is deemed taxable.

**Type of Purchaser:** Goods that are sold to the federal government cannot be taxed. Similar exemptions are also often available to state and local governments and agencies - as well as non-profit organizations or other recognized charitable, religious or educational groups.

Sales can be exempt for many reasons including:

1. The nature of the use—how or where the goods will be used by the buyer (i.e., resale).
2. The nature of the goods or services sold—some states do not tax services and labor. Others do.
3. The nature of the buyer—some states exempt nonprofits and government agencies from collecting sales tax. Others do not.

### Exemption Documentation Requirements:

Generally, assuming that the purchaser has provided acceptable documentation, the seller is relieved of their legal obligation to collect sales tax on the transaction - assuming that the documentation is accepted in good faith and with the belief that the purchaser is entitled to the exemption. However, it is important to note that states having differing requirements regarding exemption documentation. Some states provide specific forms while others may simply require that certain information be included in the submitted exemption document. Regardless of the state and its particular requirements, it is recommended that the retailer always ensure that the following information is included in the exemption documentation:

- the type of exemption being claimed
- the names and addresses of both the purchaser and seller involved in the transaction
- a description of the goods being purchased
- the purchaser's tax registration number or business license (as appropriate)
- a statement that if the purchaser uses the items in a taxable manner that they will be responsible for the use tax
- a signature of the purchaser (or their agent or employee) and the date signed

An exemption certificate is issued either because the entity qualifies for an exemption or the use of the item qualifies for an exemption. For example, in many states, hospitals are considered exempt organizations. If an exemption exists for these types of organizations in a given state, they are issued an exemption status and will need to issue an exemption certificate to their suppliers to exempt the sales tax.