



## ***HOW TO DOCUMENT TAX-EXEMPT SALES***

### **GENERAL INFORMATION**

This informational document is for vendors who must determine whether a customer is eligible to purchase goods without paying City of Grand Junction sales tax.

*In general*, the circumstances in which a customer is not required to pay sales tax are:

1. Businesses purchasing goods for resale (page 2);
2. Charitable or religious organizations that use the goods in the course of their regular, charitable or religious functions (page 3);
3. Federal, state and local governmental agencies that use the goods in the course of their regular governmental functions (page 5);
4. Tax-exempt construction projects (page 6);
5. Goods shipped out of the City limits (page 6); and
6. Manufacturers purchasing goods component parts, manufacturing equipment and consumable manufacturing supplies (page 7).

If there is a dispute between the buyer and the seller as to whether a transaction is exempt from taxation, the seller must collect the sales tax from the buyer. The buyer may then apply to the City of Grand Junction for a refund of the taxes in dispute (City Claim for Tax Refund - Form GJ900). Any claim for refund of disputed tax must be submitted to the City within 60 days from the date of the purchase. [*Sec 3.12.570 Grand Junction Code*]

### ***FURTHER INFORMATION***

This *Sales Tax FYI* covers the most common tax-exemption situations. It is not intended to cover all possible tax-exempt transactions. A detailed listing of items considered exempt from City sales tax can be found in the **City of Grand Junction Sales and Use Tax Code**, copies of which are available at [www.GJCity.org](http://www.GJCity.org).

## **1. PURCHASES FOR RESALE**

Purchases where the buyer is a licensed retailer and will resell the goods as part of the retailer's regular business activity are exempt from sales tax. Sales taxes must be paid on all purchases for business and/or personal use.

*Criteria for determining resale qualification include the following*

- The purchaser provides a current State resale/sales tax number (XX-XXXXXX)
- AND**
- The product purchased is for the purpose of taxable resale.
- OR**
- The product will be incorporated in a final product that will be resold.

*Documentation of resale sales:*

1. The State and/or City sales tax number should be indicated on each sales invoice, and
2. Copies of sales tax licenses (resale licenses) should be kept in the vendors' files.

If the buyer has a business outside Colorado and does not have a business location in Colorado, the seller may accept a license from the buyer's home state. The buyer must meet the requirements for sales tax exemption outlined above.

It is the seller's responsibility to collect sales tax in questionable situations. For example, if the buyer is purchasing office supplies and the buyer's business does not sell office supplies, the seller should collect the sales tax and not permit use of the buyer's resale tax account number to purchase tax-free.

## **2. PURCHASES BY CHARITABLE AND RELIGIOUS ORGANIZATIONS**

### *Criteria for determining exempt organization qualification*

Not all purchases made by tax-exempt organizations are nontaxable. Vendors are relieved of their liability for collecting sales tax on the sale of tangible personal property or taxable services tax free only if **ALL** of the following requirements are met:

- The purchaser provides proof of exempt status in the form of a Colorado tax exemption number which will be a 98-xxxxxx number;

**AND**

- The purchaser completes and signs the Standard Municipal Home Rule Affidavit of Exempt Sale verifying that:
  - The organization will not be reimbursed by any person(s) for the use or consumption of the item or service;
  - The purchase is included under, and is part of, the regular, religious or charitable functions and activities of the organization; and
  - Written confirmation from the retailer's staff on the Standard Municipal Home Rule Affidavit of Exempt Sale that the purchase was made with the exempt organization's Purchasing Card bearing the organizations name or organizational check drawn on funds from the exempt organization. It can be paid with a commercial card, but not a personal credit card. If paid by cash, it must be accompanied by a purchase order from the exempt organization.

For example, a church that has tax-exempt status would have to pay applicable sales and lodging taxes to a hotel or motel if church members are on a ski vacation, even if the lodging services are paid with a church check. If, however, the church members are attending a religious seminar, the lodging would be tax-exempt if paid with a church check or **Purchasing** credit card bearing the church's name, the individuals are not reimbursing the church, and the purchaser completes and signs the Standard Municipal Home Rule Affidavit of Exempt Sale.

If you, the vendor, have any doubts about whether a sale meets the above criteria, collect tax on the sale and advise the purchaser to file a City Claim for Tax Refund (GJ900).

### ***Documentation of Charitable or Religious Tax-Exempt Sales***

If the vendor determines the sale is nontaxable, the vendor needs to keep on file the following documentation:

1. A copy of the 98-xxxxxx exemption certificate. Indicate the applicable exemption number on each sales invoice.
2. A signed Standard Municipal Home Rule Affidavit of Exempt Sale to Tax Exempt Organizations from the individual purchasing the items.
3. Written confirmation from the retailer's staff on the Standard Municipal Home Rule Affidavit of Exempt Sale that the purchase was made with the exempt organization's Purchasing Card or organizational check.

### ***Sales to Out-of-State Tax-Exempt Organizations***

Such organizations will not have a Colorado tax exemption number and may or may not have a tax exemption number from their home state. Determine whether the sale meets the eligibility criteria for a nontaxable sale, as explained above. If it does, the following documentation needs to be kept on file:

1. A copy of the exemption certification from the state of issuance.
2. A signed Standard Municipal Home Rule Affidavit of Exempt Sale from the individual purchasing the items.
3. Written confirmation from the retailer's staff on the Standard Municipal Home Rule Affidavit of Exempt Sale that the purchase was made with the exempt organization's Purchasing Card or organizational check.

### **3. PURCHASES BY GOVERNMENT AGENCIES**

Sales to the United States government and to the State of Colorado, its departments and institutions, and its political subdivisions (cities, counties, school districts, state higher education institutions and special taxing districts) are exempt from sales tax. Governmental agencies need not have a 98-xxxxxx exemption number. Sales to federal credit unions are exempt under federal government rules.

#### ***Criteria for determining government exempt purchases***

- Purchases must be made for use within the agency's governmental functions.
- Purchases must be made by warrant or check drawn on governmental funds or by a government credit card/purchasing card. Only those government credit cards that meet the following criteria are acceptable:

- For the United States Government:
  - The card will indicate for use by the United States of America
  - See detailed description of GSA SmartPaycards on the Standard Municipal Home Rule Affidavit of Exempt Sale.
  - A purchase by a United States government employee using cash, a personal check or a credit card that does not meet the above criteria, even if the employee presents a tax exemption number and plans to be reimbursed, is **not tax-exempt.**
- For the State of Colorado, its departments and institutions, and its political subdivisions (cities, counties, school districts, state higher education institutions and special taxing districts):
  - The credit card must indicate Purchasing and must be have the governmental organization's name on it. (It may also have the individual's name as long as Purchasing and the governmental organization's name are also on the card.)

#### ***Documentation of government tax-exempt purchases***

Government tax-exempt purchases need to have the following documentation on file:

1. A copy of the 98-xxxxx exemption certificate. Indicate the applicable exemption number on each sales invoice.
2. A signed Standard Municipal Home Rule Affidavit of Exempt Sale from the individual purchasing the items.
3. Written confirmation from the retailer's staff on the Standard Municipal Home Rule Affidavit of Exempt Sale that the purchase was made with the exempt organization's Purchasing Card or organizational check.

#### **4. TAX-EXEMPT CONSTRUCTION PROJECTS**

Sales of construction and building materials to contractors and subcontractors for use in tax-exempt projects such as projects for charitable, religious or governmental organizations in the conduct of their regular functions and activities are tax-exempt. To be able to receive this tax exemption, the contractor or subcontractor must provide proof of issuance of a State of Colorado tax-exempt project identification (89-xxxxx) certificate.

#### ***Documentation of tax-exempt construction projects***

1. A copy of the 89-xxxxx tax exempt project identification certificate must be kept on file by the vendor.

2. Indicate this 89-xxxxx number on each invoice.

## **5. PURCHASES DELIVERED OR SHIPPED OUTSIDE THE CITY LIMITS:**

Tangible personal property delivered or shipped to an address located outside the City limits is not subject to City sales tax if all of the following conditions apply:

- The sale is to an individual who resides, or to a business which is located, outside the City;

**AND**

- The tangible personal property purchased are delivered to the purchaser outside the City by common carrier or by the conveyance of the seller or by mail;

**AND**

- The tangible personal property delivered are used outside the City.

To assist in determining if an address is outside the City limits, refer to “online search” on the *City of Grand Junction Sales and Use Tax webpage* available at [www.GJCity.org](http://www.GJCity.org).

### ***Documentation of purchases delivered or shipped outside of City limits:***

1. Clearly state on the invoice a notation that the item was “Shipped” or “Delivered.”
2. Proof that the tangible personal property was shipped by an employee of the company or common carrier at the conveyance of the company (receipt from common carrier, signed shipping or delivery invoice, or Affidavit of Delivery in instances where the first two forms of documentation are not available).
3. A complete address where shipped or delivered must also be on the invoice.

## **6. PURCHASES BY MANUFACTURERS**

Purchases of component parts, manufacturing equipment and consumable manufacturing supplies if the buyer is a manufacturer (person engaged in the business of manufacturing or compounding) are exempt from sales tax under the following conditions. Manufacturing means the operation of producing a new product, article, substance or commodity different from and having a distinctive name, character or use from raw or prepared materials.

### ***Criteria for determining exemption of COMPONENT PARTS:***

- The purchaser must be engaged in the business of manufacturing or compounding for profit or sale and have a state issued manufacturing or wholesaler license; (XX-XXXXX)

**AND**

- The product is transformed by the process of manufacturing and becomes a necessary and recognizable ingredient, component and constituent part of the finished product;

**AND**

- The product's physical presence in the finished product is essential for the use of the final product.

***Criteria for determining exemption of CONSUMABLE MANUFACTURING MATERIALS:***

- The purchaser must be engaged in the business of manufacturing or compounding for profit or sale and have a state issued manufacturing or wholesaler license; (XX-XXXXX)

**AND**

- The consumable manufacturing material is used directly and exclusively in manufacturing (If the consumable manufacturing material is purchased for any purpose outside the beginning and ending points of manufacturing, it is not exempt from use tax).

***The following are NOT direct uses in manufacturing:***

- \* Tangible personal property used for moving raw materials to a plant prior to their entrance into the manufacturing process.
- \* Tangible personal property used for moving finished goods from a plant after manufacture. This includes vehicles used both to carry manufacturing equipment and to move goods after they are finished. Machinery added to a vehicle, which does not itself qualify for exemption, may qualify for the exemption providing it is used directly and exclusively in the manufacture of tangible personal property.
- \* Tangible personal property used to transport work in process or semi-finished materials to or from storage.
- \* Tangible personal property used in normal repair and maintenance.
- \* Tangible personal property used to test and inspect the product.
- \* Tangible personal property used in managerial, sales research and development, or other non-operational activities.

***Documentation of COMPONENT PARTS & CONSUMABLE MANUFACTURING MATERIALS:***

1. A state issued wholesaler or manufacturer license.
2. It is the seller's responsibility to collect sales tax in questionable situations. For example, if the buyer is purchasing a television and the buyer is a manufacturer, the seller should collect the sales tax.

***Criteria for determining exemption of MANUFACTURING EQUIPMENT:***

- The purchaser must be engaged in the business of manufacturing or compounding for profit or sale and have a state issued manufacturing or wholesaler license; (XX-XXXXX)

**AND**

- The equipment must be used directly and exclusively in manufacturing (If the equipment is purchased for any purpose outside the beginning and ending points of manufacturing, it is not exempt from use tax.);

**AND**

- The purchase price must be in excess of \$500.

***The following are NOT direct uses in manufacturing:***

- \* Tangible personal property used for moving raw materials to a plant prior to their entrance into the manufacturing process;
- \* Tangible personal property used for moving finished goods from a plant after manufacture. This includes vehicles used both to carry manufacturing equipment and to move goods after they are finished. Machinery added to a vehicle, which does not itself qualify for exemption, may qualify for the exemption providing it is used directly and exclusively in the manufacture of tangible personal property;
- \* Tangible personal property used to transport work in process or semi-finished materials to or from storage;
- \* Equipment used in normal repair and maintenance;
- \* Equipment used to test and inspect the product; and
- \* Equipment used in managerial, sales research and development, or other non-operational activities.

***Documentation of MANUFACTURING EQUIPMENT:***

1. A state issued wholesaler or manufacturer license; and
2. A declaration of entitlement (Colorado Department of Revenue form DR1191) must be filed out by the purchaser and kept on file by the vendor. A copy must also be kept by the purchaser.