

Tax Compliance Guide

Government Purchasing Cards Topic 344

(09/2009)

The *Westminster Municipal Code* provides an exemption for direct sales, except certain sales of construction materials, to the United States, the State of Colorado, its departments or institutions, and the political subdivisions thereof, in their governmental capacities only, provided the sale is billed directly to and paid directly by the funds of the governmental entity. These exemptions are granted for sales and use tax as well as accommodations and admissions taxes.

Many government agencies use credit cards as a means of simplifying and streamlining the purchasing process. Not all government credit cards are tax exempt. Some cards are issued on behalf of the government agency to a specific cardholder who is individually responsible for paying the bill and is subsequently reimbursed. Purchases made with individually billed government purchasing cards are not exempt from tax.

Purchases made by individuals on personal credit cards, which may be subsequently reimbursed by the government, are not exempt from tax.

The following guidelines are provided to assist retailers in determining whether or not a purchasing card qualifies for exemption. The retailer has the burden of proving that a transaction should be exempt from tax. As such, retailers are encouraged to maintain adequate records regarding the method of payment such as a letter on the agency's letterhead or other affidavit attesting to the fact that the card is billed directly to the government agency. Finally, retailers should collect tax in questionable situations.

Federal Cards

Through contracts with various banks, the General Services Administration (GSA) SmartPay 2 program issues four types of credit cards: Purchase Cards, Fleet Cards, Travel Cards and Integrated Cards.

Purchase Cards

Purchase cards are valid only for purchases from certain merchant types. They include the phrases "For Official US Government Purchases Only" and "US Government Tax

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Exempt" and are always billed directly to and paid directly for by the funds of the federal government (centrally billed). Purchases made with these cards are exempt from Westminster tax.

Sample Purchase Card:



Fleet Cards

Fleet cards are similar to purchase cards in that they are valid only for purchases from certain merchant types and are always centrally billed. Fleet cards say "For Official Government Fleet Use Only". Purchases made with these cards are exempt from Westminster tax.

Sample Fleet Card:



Travel Cards

Travel cards may or may not be tax exempt. Some travel cards are centrally billed, which would qualify for tax exemption. Some travel cards, however, are billed to the cardholder, who is subsequently reimbursed (individually billed). Purchases made with individually billed cards are not exempt. In determining whether or not a travel card holder should be taxed, the 6th digit of the card number should be examined.

6 th Digit	Taxable
1, 2, 3, or 4	YES
0, 6, 7, 8, or 9	NO

Sample Travel Card:



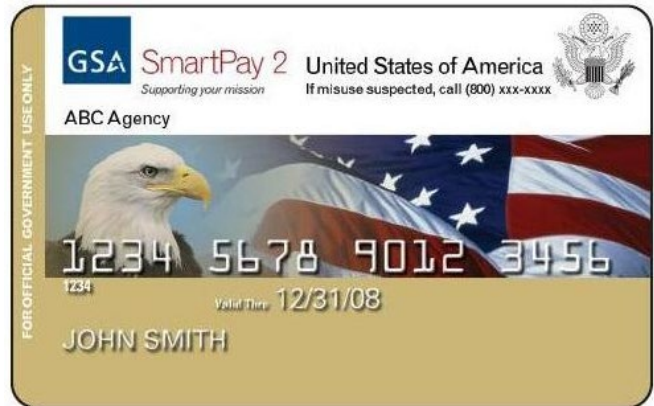
Integrated or Combined Cards

Integrated cards are currently used only by the Department of the Interior. They are called Integrated or Combined cards because they combine the features of travel cards and purchasing cards. Purchases may or may not be tax exempt depending on what is being purchased. Depending on the merchant’s code, the bank either routes the charge to central billing to be paid directly by the federal government or to the cardholder.

Travel related purchases, such as restaurant food and lodging, are billed to the cardholder and are not tax exempt. Purchases of office supplies and related tangible personal property are billed directly to and paid directly for by the funds of the federal government and are tax exempt. The account numbers on these cards begin with the numbers 5568-16.

One exception to the purchase routing rule exists with the Bureau of Reclamation. Purchases on Integrated cards made by this agency are always centrally billed and, therefore, tax exempt. A federal employee presenting an integrated card with an identification card from the Bureau of Reclamation should be exempt from Westminster tax even when making travel related purchases.

Sample Integrated Card (Account number on actual cards will be 5568 16...):



State of Colorado Cards

The State of Colorado issues three types of credit cards: Procurement Cards, Travel Cards, and Event Cards.

Procurement Cards

Procurement Cards are issued to State employees for the purchase of qualifying general merchandise and services. Procurement Cards are billed directly to and paid directly for by the funds of the State government; Therefore, Procurement Card purchases are exempt from Westminster tax.

Procurement Cards display the words “State of Colorado” and “For Official State Use Only”. Procurement Cards also include the cardholder’s name, the agency or division where the cardholder works, and the agency’s 7 digit tax exemption identification number beginning with the digits “98”.

Travel Cards

The Statewide Travel Management Program (www.colorado.gov/travel) issues individuals US Bank VISA cards for purposes of State travel. These cards include the cardholder’s name, the agency or division the cardholder works for, and the State seal. However, the card does not display a 7 digit tax exemption identification (“98”) number. Purchases made with these cards are billed to the cardholder who is subsequently reimbursed. As such, purchases made with these cards are not tax exempt.

Event Cards

Event cards are also US Bank VISA cards issued to individuals primarily for meetings. Event Cards are billed directly to and paid directly for by the funds of the State government, therefore, Event Card purchases are exempt from tax. Event Cards display the state seal and the words “Tax Exempt” in the upper right corner. Event Cards also include the cardholder’s name, the agency or

division where the cardholder works, and the agency's 7 digit tax exemption identification number beginning with the digits "98".

Local Government Purchasing Cards

Some local governments issue credit cards to approved employees. In determining whether a credit card presented by a local government employee is tax exempt, it will be important for the retailer to ascertain whether or not the card billing is paid directly by the governmental agency or by the cardholder, who is subsequently reimbursed. Purchases that are billed to the cardholder are not tax exempt. In most cases, exempt cards will display the words "Purchasing Card" and will include the agency's 7 digit tax exemption identification number beginning with the digits "98".

Some local governments also participate in the State of Colorado Travel Management program. A listing of governments participating in the program can be obtained under the *Political Subdivisions* section of the program's website (www.colorado.gov/travel). These cards will also display the State seal and should be taxed as outlined above.

Cards from Other States

Cards presented from out of state governments are subject to the same rules as Colorado government cards. If the purchase is billed directly to and paid directly for by the funds of the government agency, it is exempt from City tax. If the purchase is billed to the cardholder the purchase is not tax exempt.

Examples

1. A City of Westminster employee is purchasing office supplies from a local retailer. The employee presents the retailer a Westminster Purchasing Card. Because the purchase is billed directly to the City, the office supply purchase is Westminster City sales tax exempt.
2. A State of Colorado employee is checking in to a Westminster hotel. The employee presents a State Travel Card with the name of the State agency and the State seal printed on the face. Because this purchase is billed to the cardholder, who is subsequently reimbursed, the employee must pay Westminster accommodations tax on their room charges.
3. A teacher at a local school is buying supplies for a class project. The teacher pays for the supplies with her personal credit card and is reimbursed for the purchase by the school. Because the supplies are paid for directly by the teacher, the purchase is subject to Westminster tax.

Related Topics

Governments and Charitable Organizations
Disputed Tax & Burden of Proof

Citations

Westminster Municipal Code
§ 4-2-6. Exemptions from Sales Tax
§ 4-2-7. Exemptions from Use Tax
§ 4-3-4. Exempt Transactions
§ 4-4-3. Exempt Transactions

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