



How to Document Sales to Retailers and Tax-Exempt Organizations

GENERAL INFORMATION

Who is eligible to purchase goods without paying taxes? Listed below are a few circumstances in which a customer is not required to pay sales tax.

- ◆ Businesses purchasing goods for resale.
- ◆ Charitable or religious organizations that use the goods in the course of their regular charitable or religious functions.
- ◆ Federal, state and local government agencies that use the goods in the course of their regular governmental functions.

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 and the buyer must pay it. The buyer may then apply for a [refund](#) with the City of Loveland.

It is the **vendor's** responsibility to collect sales tax.

PURCHASES FOR RESALE

Purchases where the buyer will re-sell the goods as a part of the buyer's regular business activity are exempt from sales tax. Sales taxes **must** be paid on all purchases for business or personal uses.

The seller must keep on record the wholesalers/ resale certificate issued by their state for all sales to vendors for resale. If the buyer has a business outside of Loveland and does not have a business location in Loveland, the seller may accept the license number from the buyer's municipality. 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.

PURCHASES BY CHARITABLE AND RELIGIOUS ORGANIZATIONS

The City of Loveland does not issue an exempt number; however, we will accept the State of Colorado tax exemption. If the Colorado Department of Revenue has granted an organization

exemption from paying sales tax, the organization will possess a Colorado tax exemption number. This number will begin with “98”. The purchaser must present this number to vendors when making tax-exempt purchases. For each sale, vendors must record this number, date of sale, item(s) or service(s) purchased, and name of the organization. This information must be kept in your permanent files for audit purposes.

Determining Exempt Purchases

Not all purchases made by tax-exempt organizations are non-taxable. You may sell tangible personal property or taxable services tax free **only** if **both** of the following requirements are met:

1. Payment for the item or service must be made with the organization’s check or credit card, and not via cash or an individual’s check or credit card, and the organization will not be reimbursed by any person(s) for the use or consumption of the item or service.
2. The item or service is used by the organization in conducting its **regular** religious, charitable, scientific, literary, or educational business. This may also include fundraising activities. See Tax Reg “Sales Tax Exempt Status for Charitable Organizations”

For example, a church that has tax-exempt status would have to pay applicable sales tax to a hotel or motel if the church members are on a ski vacation, even if the lodging services are paid for 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 credit card bearing the church’s name, and individuals are not reimbursing the church.

Sales to Out-of-State Tax-Exempt Organizations

Such organizations will not have a Colorado tax exempt number, and may or may not have a tax exempt number from their municipality. Determine whether the sale meets the eligibility requirements listed above. If it does, have a representative, sign a statement or affidavit (see last page of this Tax Regulation).

By having the vendor sign this affidavit it places the burden of proof on the organization’s representative and protects the vendor should the city discover that the organization falsely claimed tax-exempt status or that the item or service purchased did not meet all requirements for tax-exempt sales.

Because not all states issue tax exempt numbers, the vendor can accept the 501(c) (3) exemption letter and may want to request and record additional information, such as a driver’s license number, to positively identify the person who signs the affidavit.

You may also want to use the affidavit procedures for Colorado tax exempt organizations as an additional protection for your business.

PURCHASES BY GOVERNMENT AGENCIES

Sales to the United States government, City of Loveland, 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 by statute. [§39-26-704.1 C.R.S.] Governmental agencies need not obtain an exemption number from the state. Sales to federal credit unions are exempt under federal government rules.

Purchases must be made for use within the agency's governmental capacities and be paid for by warrant, check, or qualifying government credit cards drawn on governmental funds (For more information see Tax regulation "Government Purchases Exemptions." Evidence of this must be retained in the seller's records. A purchase by government employee using cash or a personal check, even if the employee presents a tax exemption number and plans to be reimbursed, is not tax-exempt.

TAX-EXEMPT CONSTRUCTION PROJECTS

Building materials for construction work on property owned by tax-exempt organizations (religious, charitable and governmental) may be purchased tax free. However, the purchaser must have an Exemption Certificate. To obtain the certificate, the contractor must submit an "Application for Exemption Certificate" this form is issued by the [Department of Revenue](#).

The sales and use tax exemption applies to materials that become part of the structure, highway, road, street or other public works owned and used by the tax-exempt organization. Also, electricity and most fuels consumed in the construction of exempt constructions projects are exempt. The purchase or rental of equipment, supplies and other materials by the contractor is taxable.

THE ABOVE INFORMATION IS A SUMMARY IN LAYMAN'S TERMS OF THE RELEVANT LOVELAND TAX LAW FOR THIS INDUSTRY OR BUSINESS SEGMENT. IT IS NOT INTENDED FOR LEGAL PURPOSES TO BE SUBSTITUTED FOR THE FULL TEXT OF THE LMTC (LOVELAND MUNICIPAL TAX CODE) AND APPLICABLE RULES AND REGULATIONS.