



Sales Tax Exemption

501(c) status may exempt organizations from paying federal income tax, in full or on specific types of income, but there are a variety of other taxes nonprofit organizations may need to be concerned about. These include unemployment, sales, income/franchise, payroll, and a variety of other tax types. This document is for those wishing to apply for sales tax exemption. Sales tax exemption means your organization will not need to pay sales tax on purchases made.

This guide was made with 501(c)(3) organizations in mind. Some states offer exemptions to other types of tax-exempt organizations. To the extent that it is offered, these instructions should still be applicable. If you need help determining if an exemption is available for your organization, contact RENOSI or a nonprofit accountant or attorney.

Before going further, a basic understanding of sales tax is required. Types of taxable activity may generally be classified into one of three categories:

1. **Purchasing supplies for the 501(c) purpose**

Many states provide exemptions to paying sales tax on purchases made by 501(c) organizations. These exemptions often require an application or some form of documentation, and they typically apply only to the purchase of tangible goods. Common exceptions to sales tax exemption are hotel costs, gas, vehicle purchases, and other specially taxed goods.

2. **Purchasing supplies for resale**

Some states may require a resale certificate for the purchase of goods you intend to sell. You may not need to pay sales tax to the vendor at the time of purchase, but it is likely you will still need to collect sales tax from your consumers.

3. **Collecting sales tax on goods sold**

If your nonprofit sells something, it will likely need to collect sales tax. Filing requirements and frequency may vary with the amount of revenue. Check with your state for up-to-date rules.

Practice tip: Some states may allow nonprofit organizations to have a certain number of days per year where they can hold an event and not collect sales tax.

The exact rules may differ between states. This document provides you with the tools you need to identify and navigate them. If you need help with this or anything else, please reach out, we are happy to assist.

Regardless of the state, if there is an exemption available, you will likely need some combination of the following documents:

- › EIN (Employer Identification Number)
- › Approved Articles of Incorporation
- › IRS determination letter
- › Financial statement or proposed budget
- › Bylaws
- › Most recent 990 filing

Practice tip: Depending on the state, there may be either a "blanket" certificate that should be filled out and given to each vendor at the time of purchase, a card you carry around and show to vendors, or a certificate that is shown to vendors.

Step 1. Find the correct form or website.

The simplest thing to do is run a search for "[state] nonprofit sales tax exemption" in your preferred search engine. Ensure you are looking at the information for 501(c) organizations.

Practice tip: The state department that handles sales tax is usually the Department of Revenue or Department of Taxation.

Step 2. Determine how the form should be completed.

There is usually a section in the website with specific instructions detailing whether the form should be submitted through mail, fax, email, online form, or other method.

Practice tip: Some states (such as Ohio) have a "blanket" form meant to be filled out and given to the vendor with each purchase.

Step 3. Proceed through the form.

Most sales tax exemption applications are divided into sections. These typically include a basic information section (address, EIN, state ID), a list of officers (may include compensation), and a financial section (may require a financial statement, proposed budget, or recent 990 filing).

Practice tip: There is usually a section of the form that will indicate the type of IRS designation you are. If your 501(c) is not one of the options, feel free to contact RENOSI, or a nonprofit attorney or accountant. The other option is to call the state directly. They are usually very helpful.

Step 4. Attach all required documents.

The application may ask for various documents to be submitted. The most commonly required attachments are those mentioned in the list at the top of the second page.

Step 5. Submit the application.

Refer to the application itself or the application instructions for the correct submission method. If there is a filing fee, write a check or pay online.

Congratulations! You have completed the sales tax exemption application!

Disclaimer: This guide is for general information and is not intended to provide legal or accounting advice specific to your organization. If you or your organization need legal or accounting advice, please engage a licensed professional by written agreement and have them review your organization's situation in detail.



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