

State Sales Tax Exemptions and Information at your Fingertips

Randall B. Ellis, CPA
Assistant Director of Tax Services
University of Virginia

Del A. Kolberg, Jr.
Web Designer/Technical Writer
University of Virginia

Jane Johansen, CPA
Director of Investment and Tax Services
University of Virginia

Abstract

Questions or concerns regarding the payment of sales tax to states other than Virginia were being researched and addressed on an ad hoc basis. Our goal was to replace this ad hoc, reactive method with a proactive, informative approach to providing sales tax information. To achieve our goal, we established an accessible, informative database which schools, departments, and procurement services can access to obtain information about the University's sales tax status for each state.

The Results:

A well-designed, easy-to-access web page describing the University of Virginia's sales tax exemption status in all states.

<http://www.virginia.edu/finance/its/salestaxexempt/mainpage.html>)

Determination of sales tax requirements prior to or at the time of the purchase resulting in improved budgeting and cash savings for University departments. Our projection is that this will result in savings of at least \$50,000 in the first year of implementation.

Introduction to the University of Virginia

Founded by Thomas Jefferson in 1819, the University of Virginia sustains the ideal of developing, through education, leaders who are well-prepared to help shape the future of the nation. The University remains public, supported by the Commonwealth of Virginia while also nourished by the strong support of its alumni. The University consists of three divisions: The Academic Division, the University of Virginia's College at Wise Division and the Medical Center Division.

The 2004-2005 operating budgets for all divisions of the University of Virginia total \$1.7 billion. Approximately 30% or \$.5 billion of the budget is allocated for the purchase of supplies and services.

Statement of the Problem / Initiative

With goods and service expenditures of approximately \$.5 billion a year, the University of Virginia purchases products from numerous states and foreign countries every year. Increasingly, states are searching for additional revenue opportunities, including the enforcement on the collection of sales tax and requiring organizations to provide valid documentation when claiming an exemption. Merely having a 501(c) (3) tax exempt status with the Internal Revenue Service does not exempt organizations from many state and local taxes.

Previously, when the University received an invoice from a vendor in a state other than Virginia and the invoice included state sales (or use) tax, the University would not pay the tax, instead notifying the vendor that the University is a tax-exempt 501(c) (3) organization. In several cases vendors would insist on the payment of the sales tax or documentation of the University of Virginia's exemption from sales tax in the vendor's state. The University would research that particular vendor's state sales tax laws, complete any necessary application for sales tax exemption forms and submit those forms or other organizational documentation such as bylaws to the state in question. This "ad hoc" approach caused interruption in the procurement and payment process.

More states will require organizations (such as the University of Virginia) to provide appropriate documentation (as required by each state) before allowing an exemption for sales tax. Often this documentation includes registering with the state, providing organizational documentation (bylaws, articles of incorporation, etc.) and completing a sales tax exemption request form for approval by a state official or agency.

Rather than continuing with the ad hoc approach to obtaining sales tax exemption in other states, the tax department at the University of Virginia determined a better procedure needed to be established to deal with out-of-state sales tax issues. With over 1,700 purchasers of goods and services throughout the University community, an emphasis was needed on making this new procedure both user-friendly and easily accessible. Purchasers needed to have a data resource to answer sales tax questions quickly and easily. Purchasers also needed easy access to the forms required by the states with all relevant information completed.

Design

In developing a solution to this sales tax issue, the University's tax department addressed the crucial element that will allow any new system to succeed: accessibility. Utilizing the internet was an instant solution. In developing this database, research was performed on the other 49 states, and the District of Columbia, to ascertain which states have a sales tax, which states offer exemptions and what requirements are involved in applying for and receiving an exemption. Each state's sales tax regulations were researched and documented and whenever an exemption was offered, the appropriate paper work was filed and an exemption was received. Some exemptions were in the form of a letter, some were certificates, while others merely assigned an exempt number.

Over half of the states offer a sales tax exemption with proper documentation, several states do not impose a sales tax, and other states offer no exemption to out-of-state organizations. The following is a breakdown of the results of our research (these numbers include Virginia and the District of Columbia):

- 2 states require sales tax to be paid, and refunds requested
- 6 states do not impose a sales or use tax
- 16 states do not offer out-of-state organizations an exemption
- 27 states require a certificate or other form of exemption to be issued by the state

As part of the University of Virginia's new tax services website (<http://www.virginia.edu/finance/its/salestaxexempt/mainpage.html>), the sales tax exemption link allows purchasers to select a specific state from a pull-down menu, or view all the states. Once a state is selected, the purchaser will have a brief description of the sales tax rules and regulations of that particular state. For the states that offer exemptions, and require a certificate of exemption, letter or form to be completed at the time of purchase, we provide a link to the necessary forms (PDF files) with each state. These forms were obtained from the various states, and have been completed with all of the information required by the state except for the information that the purchaser must complete (items being purchased, date, etc.). The fields that were completed by the tax department (state id numbers, certificate numbers, the University's contact person, etc.), have been "locked" and the purchaser cannot change this information. This will assist the purchase process and direct any and all questions that the states may have back to the University's tax department.

Once the purchaser has accessed the appropriate form for the state that they are purchasing from, they will complete the required information and print out the form. All forms that require a signature have been electronically signed by an authorized signatory from the University, and

this electronic signature is embedded on the forms themselves. For security purposes, the embedded signature is not visible on the screen but appears on the printed form. To further assist the purchaser in completing the forms, information required to be completed by the purchaser has been highlighted in green. After the purchaser has completed the form, the form is then printed and given to the vendor and the University is exempt from paying sales tax to that vendor. A single form per vendor, as opposed to filing the form multiple times with the same vendor, is all that is required.

With this new system, the University's purchasers will have several options at their fingertips. A purchaser can click on the state from which the purchase is being made, print the appropriate sales tax exemption form and give it to the vendor at the time of purchase. This will save the University additional processing time as opposed to attempting to rectify the issue at the time the invoice is being processed.

Also, the University's procurement department can provide the vendor with a copy of the exempt information at the time the vendor is being established in the procurement system. This option will eliminate the need for the purchaser to file an exemption form with the vendor at the time of purchase. Either way, the purchase process will be streamlined and the

University will be proactive in handling the sales tax issue with non-resident states.

Implementation

The sales tax exemption web site was completed in April 2005 and went "live" on April 22, 2005. Several small training sessions were given to employees in Procurement and Accounts Payable to familiarize them to this new data resource. Other training sessions will be given on an as needed basis as the number of purchasers increase. A presentation to the University's academic fiscal administrators will be given in September 2005.

Benefits

The University of Virginia is on the forefront of an issue that will likely affect numerous higher education institutions and other tax exempt organizations in the near future. With states searching for additional revenue sources, states will become more vigilant in seeking the payment of sales tax and insisting vendors provide documentation that transactions are exempt from sales tax. Tax-exempt organizations will no longer be granted state sales tax exemptions based on their federal tax exempt status alone.

In addition to being on the forefront of an issue for all tax-exempt organizations, the ability to access information on the sales tax exempt status of the University of Virginia at the initiation of a transaction or in the process of establishing new vendors is a major benefit to the University. Knowing the sales tax consequences of a transaction enables improved budgeting of a project and allows purchasers to have access to exemption information at their fingertips. Improved budgeting on projects and reduced efforts at the completion of the transaction will save the University both time and money.

In the couple of weeks of implementation, this new process saved the University over \$5,000 in sales tax that would have otherwise been paid. We anticipate that savings in this first year of implementation will be at least \$50,000. This web site is an extremely effective purchasing and budgeting tool and can be a model for other institutions to follow.