



May 13, 2013

GSA SMARTPAY® SMART BULLETIN

**U.S. GENERAL SERVICES ADMINISTRATION
FEDERAL ACQUISITION SERVICE
SMART BULLETIN NO. 020**

GSA SmartPay2 – What You Need to Know About State Taxes

EFFECTIVE DATE:

This Smart Bulletin becomes effective upon issuance and shall remain in force until modified or rescinded.

INTRODUCTION:

The Supremacy Clause of the United States Constitution does not permit States to levy taxes directly upon the federal government. However, there are several instances where legal precedent has been set which allows states to tax individuals and entities that are not so closely tied to the federal government that they can be reasonably separated. As a result, the tax issue for federal government cardholders and agencies has become increasingly complex. In 2012, the Office of Charge Card Management launched a SmartTax educational campaign to address the complex and sometimes confusing tax issue and to inform both customer and vendor communities about various state tax exemption components.

BUSINESS LINE(S) AFFECTED:

Purchase, Travel, Fleet and Integrated

SUMMARY:

It is important for Federal employees, hotels, rental car companies, and other vendor communities to understand tax exemption requirements for each State and to know when it is appropriate to collect taxes on federal government transactions. This will help the Federal government preserve operating budgets for performing mission-critical activities. For hotels, rental car companies, and other vendors, this will help ensure accuracy of records, promote effective processes, and improve customer service to millions of Federal government travelers.

What are the Different Types of Federal Government Charge Cards?

Centrally Billed Accounts:

For Centrally Billed Accounts -- or CBAs -- the Federal government agency is billed directly for the purchase of goods and services using GSA SmartPay Charge Cards, and therefore is responsible for making the payment. As a result, consistent with the Supremacy Clause and legal precedent, CBAs are exempt from direct taxation in all 50 states and in U.S. territories. However, there are a few exceptions to this rule based on whom the taxes are levied, as described in the "Further Updates" section. CBA cards include the GSA SmartPay Purchase Card, Fleet Card, and Integrated Card, as well as CBA Travel Cards. They can be identified by the Federal government and GSA SmartPay logo on the card.

However in some cases, cards may not have government markings. More reliably, CBA cards can be identified by their Bank Identification Number, or BINs, shown below: 4486, 4614, 5565, 5568, 4716, and 8699.

For Travel Cards, if the sixth digit is a 0,6,7,8,or 9, with the 4486, 4614, 5565, or 5568 BIN number, then the card is a CBA and is tax exempt in every State and territory. However, if the 6th digit for the Travel Card is a 1, 2, 3, or 4, with those BIN numbers, then it is an Individually Billed Account (IBA).

For Purchase, Integrated, and Fleet cards, the sixth digit does not need to be analyzed, as the cards are identified by just the logo or the BIN number.

Individually Billed Accounts:

For Individually Billed Accounts -- or IBAs -- cardholders, and not the government, are directly billed for the purchase of goods and services using GSA SmartPay Charge Cards. Consequently, States are not obligated by the Supremacy Clause to exempt these cards. For agencies using split disbursement for IBAs, the cardholder is still responsible for the payment, and as such, transactions may still be subject to tax. Many GSA SmartPay Travel cards are IBA cards, with the BIN numbers shown below: 4486, 4614, 5565, and 5568. If the Travel card has one of those BIN numbers AND the sixth digit is a 1,2,3, or 4 with the above BIN numbers, the card is an IBA card.

State Tax Exemption Status

Currently 11 States and 1 U.S. territory have elected to exempt IBA cards. They are:

- Alaska, Delaware, Florida, Kansas, Massachusetts, Missouri, New York, Oregon, Pennsylvania, Texas, Wisconsin, and Puerto Rico.
- The following 5 states and 1 US Territory require tax exemption forms for IBA travel cards: Florida, New York, Pennsylvania, Texas, Wisconsin and Puerto Rico.

13 States currently require tax exemption forms for Purchase Card CBAs to accompany any transaction:

- Florida, Georgia, Louisiana, Michigan, Minnesota, Rhode Island, South Dakota, Tennessee, Texas, Utah, West Virginia, Wisconsin, and Wyoming.

2 states require forms to receive tax exemption for CBA Travel Cards:

- North Dakota requires a form for all CBA travel
- Pennsylvania requires a form for hotel travel only

Forms for both IBA and CBA cards can be downloaded from our tax-exemption map at:

- <https://smartpay.gsa.gov/about-gsa-smartpay/tax-information/state-response-letter>

Further Updates

Puerto Rico and US Virgin Islands

Puerto Rico has a tax exemption form for Individually Billed Accounts (IBA) travel cards during official government travel to Puerto Rico. In the US Virgin Islands you are automatically exempt from taxes when you use your IBA travel cards during official government travel. The US Virgin Islands currently does not have a tax exemption form for government employees but is working on creating one. The date it will become available is unknown at this time. We encourage cardholder to check the GSA SmartPay website for further updates.

Hawaii and Illinois

- Unlike most states, Hawaii doesn't have a sales tax. Instead it has a General Excise Tax (GET) which is levied on businesses selling tangible personal property (HRS 237-13(2)) or providing services (HRS 237-13(6)). Businesses are allowed to pass those taxes on to their customers, even though the actual tax falls on the vendor, not the purchaser.
- Hawaii had previously provided an exemption for sales to the Federal Government. However, Tax Information Release No. 2011-02 indicates that Hawaii has eliminated this exemption of taxes on Federal spending, through June 30, 2013, so businesses in this state may pass taxes on to government purchasers **regardless** of the card used (CBA or IBA).
- Similarly, Illinois also levies taxes on the merchant or vendor, which can then be passed on to the cardholder **regardless** of what type of charge card is used (CBA or IBA).

ACTION:

Cardholder Best Practices:

- First, please check our website before going on official government travel or making a purchase to determine tax exemption status, and if a form is required for exemption.
- Second, please contact the hotel where you will be staying, or the vendor or rental car company with whom you will be making a purchase to verify tax exemption status. Should there be any issues, you'll have time to find another hotel, rental car company or other vendor where you will receive the exemption.
- In accordance with Travel Transportation and Reform Act of 1998, please use your official government travel card when on official government travel in order to take advantage of any tax exemptions offered. States are not obligated to extend any tax exemption to a personal charge card that is used.
- Next, when appropriate, please present government identification or travel orders to vendors. If a hotel or vendor does not recognize tax exemption status in exempt States, please refer the representatives to the GSA SmartPay website or the State's taxation authority, which may be found on our website.
- If in doubt, please follow your agency's policy with regard to the payment of tax.
- Maintain a copy of all travel card receipts that are over \$75 for 6 years and 3 months, or in accordance with your agencies' policy. Additionally, please monitor your account on a regular basis to ensure no fraudulent activity has occurred. If you notice any instances of fraud, or have been charged an improper amount, please contact your bank to initiate the dispute process within 90 days.

Resources

- To access GSA SmartTax information and resources, please visit our website at: <https://smartpay.gsa.gov/smarttax>
- Customer Tax Exemption Brochure
- Vendor Tax Exemption Guide
- Quick Reference Guide for Vendors
- NEW On-Demand 10-minute Training Video
- Interactive map of states: exemption information, forms, and contact information
- Leading Practice Information

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If you have any questions or comments regarding this Smart Bulletin, please contact the Office of Charge Card Management at 703-605-2808 or at gsa_smartpay@gsa.gov.

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