

**Issue Paper on  
Simplified Exemption Administration Process  
(Approved on April 16, 2005)**

**Member States shall comply with the provisions of the amendments to the Agreement approved on April 16, 2005, that relate to Simplified Exemption Administration before January 1, 2008.**

**Background**

One of the key uniformity and simplification features of the Streamlined Sales Tax System is a simplified exemption administration process. Currently, sellers must obtain a “state approved” certificate (or substitute information) from purchasers who claim an entity-based or use-based exemption from tax on their purchases of taxable products and services. In addition, each state or taxing jurisdiction has its own rules for administering its exemption administration processes. Creating a more uniform and simplified exemption administration process that all member states adopt will reduce sellers’ administrative burden and costs.

A number of provisions relating to a simplified exemption administration process were approved by the Streamlined Sales Tax Project and included in the Streamlined Sales and Use Tax Agreement (SSUTA) approved by the Implementing States on November 12, 2002 and amended on November 19, 2003, November 16, 2004, and April 16, 2005. This Issue Paper makes recommendations for implementing the provisions in the SSUTA relating to a simplified exemption administration process. The recommendations address the following four areas:

1. Administrative issues
2. Policy and operational issues
3. Systems related issues
4. Audit issues

**Recommendations for addressing the administrative issues:**

- Purchasers who claim exemption from tax will be required to provide their name, address, type of business (**see Appendix A**), reason for exemption (**see Appendix B**), ID number, state and country issuing ID number and signature (only required for paper form). **Rule 317.1.A1.**

- A uniform paper exemption certificate form will be developed and adopted by all member states. **(see Appendix C) Rule 317.1.A5.**
- States will not be allowed to customize the uniform form except to gray out exemption reason types not authorized by a particular state law. **Rule 317.1.A5a.**
- States will be required to accept the uniform form for all exemptions. **Rule 317.1.A5b.**
- Purchasers and sellers will be allowed to use substitute forms if they contain the same information as the uniform exemption certificate form. **Rule 317.1.A5c.**
- Each state will be able to choose whether or not to require an ID number. **Rule 317.1.A6a.**
- Acceptable ID numbers that states may require for purchasers to claim exemption from tax will be a state-issued business number, state-issued exemption number, United States federal ID number or state-issued driver's license number. **Rule 317.1.A6b. The use of an ID number issued by a foreign government is only acceptable when claiming a resale exemption for purchases of services, other than services to real or tangible personal property. Rule 317.1.A6c.** Social security numbers will not be requested. **Rule 317.1.A6d.**
- Member states will be required to advise the Governing Board and general public whether or not they require purchasers to provide an ID number to claim exemption from tax, and if required, which ID number is required to claim a particular exemption. **Rule 317.1.A6e.** Sellers will not be required to verify the purchaser provided the correct number to claim exemption from tax. **Rule 317.1.A6f.**
- States will be encouraged to provide a state issued business or exemption number to any person eligible to claim an exemption. **Not picked up in either the SSUTA or Rule.**
- Sellers often have multiple ways of capturing transactions for their company such as web order entry, order management system and point of sale register. For this reason a standard electronic form will not be developed. Instead, the standard form for claiming an exemption electronically will be a standard set of data elements, which correspond to the information that would otherwise be provided in the uniform exemption certificate form that the seller needs to obtain from the purchaser at the time of purchase. Once the standard set of data elements are captured, a

seller has received a proper electronic exemption certificate. **Rule 317.1.A7.**

- It is not necessary for the Governing Board to adopt separate uniform exemption forms for purchasers claiming exemption from tax for the following reasons: direct pay authority, multiple points of use (MPU) or direct mail. Only one uniform exemption form is needed. Direct pay authority, MPU and direct mail are reasons for claiming exemption. Reason codes will be established for these purposes and listed on the uniform exemption certificate form in the “reason for exemption” section of the form. **Rule 317.1.A8.**

### **Recommendations for addressing the policy and operational issues:**

- States will be required to complete the Taxability Matrix approved by the governing board to indicate how they treat the definitions in the SSUTA Agreement’s Library of Definitions. **Rule 317.1.B1.**
- States will also be expected to complete the forms titled: Member State Information on Product-Based Exemptions, Member State Information on Taxable Services, and Member State Information on Other Exemptions. **Rule 317.1.B2.**
- The Project does not need to develop uniform definitions for all exemptions allowed by the states. We should strive to reduce the number of exemptions that must be defined by the Project. **Not picked up in either the SSUTA or Rule.**
- A high level (rather than a detailed) exemption reason coding system will be developed since sellers will be relieved of the good faith requirement. **(see Appendix B) Not picked up in either the SSUTA or Rule.**
- All sellers will be required to adopt the exemption reason coding system developed by the Project to assist states in verifying purchasers’ eligibility for claiming exemptions. **Rule 317.1.A3.**
- States will be required to accept blanket certificates. A blanket certificate is an exemption certificate (either the uniform paper exemption certificate form or a substitute form containing the same information or data elements) which is filed for a particular reason and applies to a current transaction and subsequent similar transactions. For example, a purchaser may file a blanket exemption certificate with a seller to claim exemption on purchases of taxable items that will be resold. The reason for the exemption is resale. Since a blanket exemption has been filed by the purchaser, the purchaser does not

need to provide another exemption certificate when purchasing more taxable items that are for resale. **Rule 317.1.B3.**

- States will be required to allow blanket certificates for all purposes. (In the past some states only allowed blanket certificates on purchases of taxable items for resale.) **Rule 317.1.B4.**
- Nothing in this section shall affect the ability of Member States to require purchasers to update exemption certificate information or to reapply with the state to claim certain exemptions. **Rule 317.1.B5a.**
- Notwithstanding the aforementioned, each member state shall relieve a seller of any tax otherwise applicable if it obtains a blanket exemption certificate for a purchaser with which the seller has a recurring business relationship. States may not request from the seller renewal of blanket certificates or updates of exemption certificate information or data elements when there is a recurring business relationship between the buyer and seller. For purposes of this section "a recurring business relationship" is defined as at least one sale transaction within a period of twelve consecutive months. **Rule 317.1.B5b.**
- For purposes of the provision in Section 317 that requires an exemption certificate be taken "at the time of purchase", sellers will be relieved of the tax otherwise applicable if they obtain the fully completed exemption certificate or capture the required data elements within 90 days subsequent to the date of sale. **SSUTA § 317.C.**
- If a seller has not obtained an exemption certificate or all relevant data elements as provided in the preceding sentence, the seller may, within 120 days subsequent to a request for substantiation by a member state, either prove that the transaction was not subject to tax by other means or obtain a fully completed exemption certificate from the purchaser, taken in good faith. For purposes of this section, Member States may continue to apply their own standards of good faith until such time as a uniform standard for good faith is defined in the Agreement. **SSUTA § 317.C.1.**
- Member states will be required to honor an exemption certificate filed by any purchaser even if the purchaser is not a resident, resident organization or registered business in a state. **Rule 317.1.B6.**
- Sellers will be held harmless for the tax on a sale if they obtain the required completed exemption certificate from the purchaser during the time period previously specified with four exceptions. The first exception is when the seller fraudulently fails to collect tax. The second exception is when a seller solicits purchasers to participate in the unlawful claim of an exemption. The third exception is when a seller accepts an exemption certificate when the

purchaser claims an entity-based exemption when (1) the subject of the transaction sought to be covered by the exemption certificate is actually received by the purchaser at a location operated by the seller and (2) the state in which that location resides provides an exemption certificate that clearly and affirmatively indicates (graying out exemption reason types on the uniform form and posting it on a state's web site is an indicator) that the claimed exemption is not available in that state. The fourth exception is when a seller accepts an exemption certificate claiming multiple points of use for tangible personal property other than computer software for which an MPU is acceptable under Section 312. **SSUTA § 317.B. effective 1/1/08.**

- Sellers must obtain an exemption certificate from the purchaser on all sales of taxable products and services unless a state waives the requirement for the exemption certificate on a sale. For example, some states may choose to waive the requirement for an exemption certificate on prescribed medical equipment. **Rule 317.1.B7.**
- Contingent on approval by the Implementing States, after ~~June 30, 2007~~ **12/31/07**, member states must allow third party suppliers to accept resale exemption certificates from a seller regardless of whether or not the seller is registered to collect and remit tax in the state where the sale is sourced. **SSUTA § 317.A.8.**

#### **Recommendations made to address the systems-related issues:**

- A universal product coding system is not required for simplifying exemption administration since it would be too costly and time consuming to develop and keep current and would require all sellers to convert to such a system. **Rule 317.1.C1.**
- Sellers or certified service providers will not be required to verify exemption numbers. **Rule 317.1.C3.**

#### **Recommendations made to address these audit issues:**

- Sellers will be expected to collect the required information on an exempt sale at the time of purchase. However, each state shall relieve a seller of the tax otherwise applicable if the seller obtains a fully completed exemption certificate or captures the relevant data elements required under the Agreement within 90 days subsequent to the date of sale. **SSUTA § 317.C.**
- If a seller has not obtained an exemption certificate or all relevant data elements as provided in the preceding sentence, the seller may, within 120 days subsequent to a request for substantiation by a member state, either

prove that the transaction was not subject to tax by other means or obtain a fully completed exemption certificate from the purchaser, taken in good faith. For purposes of this section, Member States may continue to apply their own standards of good faith until such time as a uniform standard for good faith is defined in the Agreement. **SSUTA § 317.C.1.**

- States will continue to work to establish a uniform standard for meeting the good faith requirement. **Assigned to the Audit Committee.**
- Sellers will not be relieved of the good faith requirement if they allow exemption on a multiple-item invoice if the purchaser only claims exemption from tax on some of the items purchased. However, when sellers have mechanisms in place on multiple-item invoices to accurately account for items that are exempt and those that are not, sellers will be relieved of the good faith acceptance requirement. **Rule 317.1.D1.**
- Sellers will be expected to retain records of exemption certificate or the same data elements for the same number of years that other sales and use tax business records must be retained. **Rule 317.1.D2.**
- The standard data elements are the same as the fields of information required on the standard uniform exemption form. **Rule 317.1.A10b.**
- Certified service providers (CSP) and certified automated software (CAS) will be required to collect and provide to member states on a periodic basis, sufficient aggregated information on purchasers claiming exemption from tax so member states can verify their eligibility to claim exemption from tax. The information on purchasers claiming exemption from tax will be provided to states in a standardized format to facilitate data-extraction and data-mining by member states to identify the purchasers that a member state may want to audit to verify their eligibility to claim exemption from tax. The requirements for the standardized format for reporting information on purchasers claiming exemption from tax are still being developed but must be sufficient enough, as determined by the states, to allow states to efficiently determine which purchasers should be asked to verify their eligibility to claim exemption from tax. **Rule 317.1.D3.**
- The governing board will continue working with other sellers to determine the requirements for collecting and providing information on purchasers claiming exemption from tax to the member states as required by Section 317A(6) of the SSUTA Agreement. **Not picked up in either the SSUTA or Rule.**
- Rules and administrative practices will be established for joint state auditing of exempt transactions. **Rule 317.1.D4.**

**Appendix A**  
**Business Types**  
**For**  
**Simplified Exemption Administration and Processing**

It has been decided that purchasers claiming exemption from tax on their purchases will need to provide certain identifying information, including “type of business.”

Ideally, we would want purchasers to provide their NAICS code to identify their type of business, but many purchasers will not know their NAICS code at the time of purchase. Requiring a purchaser to review a long list of NAICS codes to find the appropriate code for their business will slow down the order-taking process, prompt questions about the codes and could negatively impact on seller/purchaser relationships.

In lieu of providing a NAICS code to identify the type of business, it is recommended that purchasers select one of the following business types:

1. Accommodation and food services
2. Agricultural, forestry, fishing and hunting
3. Construction
4. Finance and insurance
5. Information, publishing and communications
6. Manufacturing
7. Mining
8. Real estate
9. Rental and leasing
10. Retail trade
11. Transportation and warehousing
12. Utilities
13. Wholesale trade
14. Business services
15. Professional services
16. Educations and health-care services
17. Nonprofit organization
18. Government
19. Not a business
20. Other \_\_\_\_\_

**Rule 317.1.A2.**

## Appendix B

### Recommendation For The Streamlined Sales Tax Project's Exemption Reason Coding System

#### Decisions made:

- A high-level exemption reason coding system will be used
- All sellers and governing states will be required to adopt the exemption reason coding system **Rule 317.1.A3.**
- The exemption reason coding system will facilitate multi-state joint auditing of exempt sales

#### Recommended Reason Coding System:

- A. Federal government
- B. State or local government
- C. Tribal government
- D. Foreign diplomat
- E. Charitable organization
- F. Religious or educational organization
- G. Resale
- H. Agricultural production
- I. Industrial production/manufacturing
- J. Direct pay permit
- K. Multiple points of use
- L. Direct mail
- M. Other \_\_\_\_\_

#### **Rule 317.1.A4.**

## **Appendix C**

**See attached pdf file**

## Appendix D

### Action Steps to Comply with the Requirements For the Simplified Exemption Administration Process

#### Governing States:

1. Classify exemptions and exclusions as product-based, use-based and entity-based using the definitions in the Uniform Sales and Use Tax Agreement.
2. Complete the Taxability Matrix.
3. Complete the forms titled: Member State Information on Product-Based Exemptions, Member State Information on Taxable Services, and Member State Information on Other Exemptions.
4. Decide if an ID number will be required for purchasers to claim exemption from tax on purchases sourced to the state.
5. Adopt the uniform exemption certificate form for all exemptions. Governing States can not modify or customize the uniform Exemption Certificate form.
6. Allow sellers sufficient time, which shall be no less than six months from the time a state becomes a member state, to update their exemption certificate files (but only if necessary to obtain any missing data elements) and to begin accepting the new uniform exemption certificate form.

#### Sellers:

1. Code taxability of products/services offered for sale using information in member states' Taxability Matrixes and other information from member states. (The default rule used to code the taxability of tangible personal property and services differs when the taxability of the item being sold is not clear. **See Appendix E**)
2. If any data element is missing from the information previously provided by a purchaser, update exemption certificate files to obtain new exemption certificates from purchasers.
3. Review and revise seller's customized exemption certificate to ensure all required fields of information are requested.
4. Ensure seller's internal procedures are effective so mandatory fields of information are collected at the time of sale when a purchaser claims exemption on a sale.

**Not picked up in SSUTA or Rule.**

## Appendix E

### Default Rules For Coding the Taxability of Products

#### Tangible Personal Property:

Taxable unless specifically exempted or excluded **Rule 317.1.C2a.**

#### Services:

- Exempt unless specifically taxed for states that enumerate taxable services, **Rule 317.1.C2b.** or
- Taxable unless specifically exempted for states that tax all services except those specifically exempted **Rule 317.1.C2c.**