



Sales and Use Tax Notice

Notice #15-16

June 2015

Nonprofit Exemption

Purchases by Qualified Nonprofit Entities of Property and Services Are Tax Exempt

Generally, nonprofit entities are exempt from paying sales or use tax on their purchases of property and services. A nonprofit entity must apply for and receive the Sales and Use Tax Certificate of Exemption from the Department of Revenue before making tax-exempt purchases. The application is available on the Department's website. An out-of-state 501(c)(3) organization may use its federal authorization to make tax-free purchases in Tennessee.

New Exemption Certificates Issued

Every four years the Department reviews all registered nonprofit entities to determine their continued eligibility for the Sales and Use Tax Certificate of Exemption. Eligible nonprofit entities have received their new Certificates of Exemption with an effective date of July 1, 2015.

Any dealer who makes a tax-exempt sale of property or services to a nonprofit entity on or after July 1, 2015, must obtain the new Certificate of Exemption to document the tax-exempt sale. Dealers should maintain exemption certificates dated prior to July 1, 2015, to verify previous tax exempt sales.

The Nonprofit Exemption Does Not Extend to Taxable Sales the Nonprofit Makes

The exemption applies to all property or services that the nonprofit entity will use, consume or give away. The exemption does not extend to sales of

property or services made by a nonprofit entity to consumers.

Nonprofits Making Regular Sales May Use a Resale Certificate to Buy Merchandise for Resale without Paying Tax

If the entity regularly makes sales of merchandise, it must register with the Department to collect and pay sales tax on its sales. In addition to the Tennessee Certificate of Registration, the entity will receive a resale certificate that can be used to make tax-exempt purchases of merchandise that it resells.

A Nonprofit Entity Must Provide a Copy of Its Certificate of Exemption to the Vendor When Making a Tax-Exempt Purchase

A nonprofit entity must provide a copy of its certificate of exemption, with the bottom portion of the certificate filled in, to a vendor when making purchases. A nonprofit entity also may use a fully completed streamlined sales tax certificate, which must include the exemption authorization number. The exemption number is located on the new exemption certificate.

Nonprofit Employees' or Contractors' Purchases Made with Personal Checks or Personal Debit/Credit Cards Still Taxable

The exemption only applies to sales made directly to the nonprofit entity. This means that the property or service must be purchased with the nonprofit entity's funds (cash, the entity's check, or the entity's debit/credit card). A purchase made with a personal

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check or personal debit/credit card is not exempt, even if the purchaser is an employee or contractor of the exempt entity and will be reimbursed by the entity. Sellers should not accept the nonprofit exemption certificate when payment is made using funds not belonging to the nonprofit entity.

An Entity Must Continue to Qualify for the Exemption in Order to Use the Exemption Certificate

Qualifications for an exemption are subject to review and verification upon audit. Misuse of an exemption certificate can result in not only a tax assessment, but also potential revocation of the exemption certificate and the entity's sales tax license.

A Nonprofit Making Sales during Two or Fewer Temporary Sales Periods May Use Its Exemption Certificate to Buy Merchandise for Resale without Tax

If the entity only sells merchandise or services during two or fewer temporary selling periods per year, with each period lasting 30 days or less, then it is not required to register to collect sales tax on its sales. However, if more than two temporary selling periods take place during a year, or if a sales period extends beyond 30 consecutive days, then all sales for the year are subject to sales tax. The nonprofit entity may use its Certificate of Exemption to make

tax-exempt purchases of merchandise that it will sell during two or fewer temporary sales periods.

K-12 Schools and School Support Groups Pay Tax on Purchases and Do Not Collect Tax on Sales

Schools (kindergarten through 12th grade) and school support groups must pay sales or use tax on all purchases of property and services that are intended for resale, except for food for school meals, textbooks and workbooks. They are not allowed to make tax-exempt purchases for resale by using a resale certificate or a Certificate of Exemption. However, the schools and school support groups are not required to register to collect the sales tax on any of their sales.

For More Information

Visit www.tn.gov/revenue. Click on Revenue Help to search for answers or to submit an information request to one of our agents.

References

Tenn. Code Ann. § 67-6-322; Tenn. Code Ann. § 67-6-409; Tenn. Code Ann. § 67-6-102; Tenn. Code Ann. § 67-6-229; TENN. COMP. R. & REGS. 1320-5-1-.09; TENN. COMP. R. & REGS. 1320-5-1-.51