FACT OR FICTION?

WE’RE TAX EXEMPT SO WE DON’T HAVE TO PAY TAXES!

FICTION
IU Tax Status

• Exempt Organization
  Nonprofit organization – Sec. 501(c)(3)
• Instrumentality of the State of Indiana
  • Governmental Entity – Sec. 115
  • Established by the State Legislature
• Primary purpose is teaching, research, and public service
Sales Tax Exemption on Purchases by IU

- Three things to consider
  - Does nexus exist?
  - Does the purchase meet the requirements of the universities exempt purpose?
  - Does a sales tax exemption certificate need to be supplied to be tax exempt?
How does Nexus relate to sales tax?

- **Definition**
  
  There must be a substantial connection between the taxpayer (IU) and the state.

- IU has nexus in Indiana

- Talk about other states later
Items exempt from tax in Indiana

• Grocery items

• Service

• Purchase for resale
Purchase must meet exemption rules

- Purchase by Nonprofit Organizations
  - For a nonprofit to qualify for exemption the purchase must be used for the purpose for what the organization is being exempted.
  - Purchase for the private benefit of any member of the organization or for individuals, such as meals and lodging, are not eligible for the exemption.
Purchase must meet exemption rules

• IU is recognized as a governmental agency and qualifies for additional exemptions.
  - Purchase of food and beverages in performance of governmental function such as recruiting students and faculty if:
    - Invoiced to IU, paid via IU funds, meets governmental function
Other examples of governmental function exemptions

• Teaching – food purchased for course of study.

• Food or beverages purchased for research
Examples of sales not exempt

- Food purchased for students with IU funds not related to IU course
  - Pizza for graduate assistance
- Internally billed food for meetings (IU sale to IU)
- Equipment for catering function (not exempt function)
- Reimbursement of sales tax to employee for purchases they made on behalf of IU
Exemption Certificate

- Form ST105
- Sales tax exemption link
- Check box for resale
- If asked, location code is 900
- Might have to complete description of items to be purchased.
Review Sales Tax on Purchase

• Purpose Matters
  Exempt
    • Purchase for resale
    • To further our exempt purpose
  Not Exempt
    • Personal benefit
    • Purchased with personal funds
## Sales Tax Application to Purchases by IU in Indiana

<table>
<thead>
<tr>
<th>Basic Description</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Not Taxable</strong></td>
<td></td>
</tr>
<tr>
<td>Grocery items</td>
<td>- Raw chicken</td>
</tr>
<tr>
<td>Services</td>
<td>- Parking</td>
</tr>
<tr>
<td>Purchases for resale</td>
<td>- T-shirts, mugs for resale</td>
</tr>
<tr>
<td><strong>Subject to tax</strong></td>
<td></td>
</tr>
<tr>
<td>Items of personal benefit</td>
<td>- Lodging</td>
</tr>
<tr>
<td>Items used in generation of income in proprietary activities</td>
<td>- Prizes</td>
</tr>
<tr>
<td></td>
<td>- Rocking chair for retiring faculty member (IUF funds)</td>
</tr>
<tr>
<td></td>
<td>- Prepared food unless it is for governmental function such as recruiting students</td>
</tr>
<tr>
<td></td>
<td>- Purchase of fax machine for Catering operations</td>
</tr>
<tr>
<td><strong>Exempt from tax</strong></td>
<td></td>
</tr>
<tr>
<td>Primarily uses the property to carry on, or to raise money to carry on, our exempt purpose. Purpose is teaching, research, public service</td>
<td>- Rental of copier for administrative office</td>
</tr>
<tr>
<td></td>
<td>- Purchase of fax machine for academic office</td>
</tr>
<tr>
<td>Governmental function – recruiting students/faculty</td>
<td>- Prepared food for student recruiting event</td>
</tr>
</tbody>
</table>
Other States

- Nexus
  - Examples
  - If no nexus ask for sales tax to be removed from invoice
Other State Exemption Certificates

- Florida
- Illinois
- Kentucky
- Michigan
- Wisconsin
<table>
<thead>
<tr>
<th>STATE</th>
<th>GENERAL PURCHASES &amp; SERVICES</th>
<th>MEALS</th>
<th>LODGING</th>
<th>EXPIRATION DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Florida</td>
<td>Exempt</td>
<td>Exempt</td>
<td>Exempt</td>
<td>3/31/2013</td>
</tr>
<tr>
<td>Illinois</td>
<td>Exempt</td>
<td>Exempt</td>
<td>Taxable</td>
<td>12/1/2013</td>
</tr>
<tr>
<td>Indiana</td>
<td>Exempt</td>
<td>Taxable</td>
<td>Taxable</td>
<td>No Exp Date</td>
</tr>
<tr>
<td>Kentucky</td>
<td>Exempt</td>
<td>Taxable</td>
<td>Taxable</td>
<td>No Exp Date</td>
</tr>
<tr>
<td>Michigan</td>
<td>Exempt</td>
<td>Exempt</td>
<td>Exempt</td>
<td>See Attachment</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>Exempt</td>
<td>Exempt</td>
<td>Exempt</td>
<td>No Exp Date</td>
</tr>
</tbody>
</table>
Other States

Have no sales tax
• Alaska
• Delaware
• Montana
• New Hampshire
• Oregon

No IU exemption exist
• Alabama
• California
• Georgia
• Hawaii*
• Oklahoma
• Maryland
• Nebraska
• New Mexico*
References

- FMS Tax Sales Tax Web home page
- Link to ST105 sales tax exemption certificate
- Exemption certificates for other states
- Indiana Department of Revenue:
  - Bulletin 10 Applications of Sale Tax to Nonprofit Organizations
  - Bulletin 68 Sales Tax for State Educational Institutions
CONTACT INFORMATION

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Tax Compliance Officer
(812) 855-7100

1098-T Tuition Payment Statement - Reporting and Questions
1099-MISC Miscellaneous Income Reporting
Independent Contractor/Employee Worker Classification
Indiana Sales Tax Payment and Reporting
Sales Tax Exemption

QUESTIONS?