

Revenue Ruling No. 07-008
October 15, 2007
Sales Tax

Federal Credit Card Purchases

The purpose of this Revenue Ruling is to determine the taxability of certain purchases made by employees of the federal government using a federal credit card.

Facts

Federal credit cards are issued by a variety of banks under a contract with the United States General Services Administration (GSA). The federal government issues credit cards to its employees for purchases of a wide range of goods and services, including office supplies, fuel, transportation, accommodations and food. These credit cards are part of the GSA's SmartPay program and are commonly referred to as SmartPay Cards. The current GSA SmartPay plan has been in effect since November 30, 1998, has been renewed annually since 2003, and is expected to remain in effect until 2008. SmartPay Cards have unique prefixes and account numbers, government-designed artwork, and wording that denote the card is for use by the United States of America. There are four basic lines of federal credit cards: purchase, fleet, travel and integrated.

Purchase and fleet cards are always billed directly to the government (centrally billed) and purchases made with them are not subject to sales tax. These cards can only be used for purchases from specific types of merchants, such as office supply stores and gas stations. Purchase cards are blue with a red stripe across the top and contain the imprinted phrase, "For Official Government Purchases Only." The cards also say "US Government Tax Exempt." Fleet cards are blue with a faint graphic of the flag across the top and cars faintly represented in the middle of the card. The card says "For Official Government Fleet Use Only."

Travel cards can be used at hotels, restaurants and similar travel-related venues. The cards are beige in color and feature a design of the U.S Capitol and a large jet. They contain the imprinted phrase, "For Official Government Travel Only." Travel cards may be centrally billed or individually billed. Individually billed charges are billed to and paid by the federal employee, and then reimbursed by the federal government. Purchases using individually billed cards are usually taxable. Centrally billed charges are billed directly to and paid directly by the federal government and are not subject to sales tax. The sixth digit of the account number denotes whether the travel card is centrally or individually billed. Travel cards with a sixth digit of 0, 6, 7, 8 and 9 are centrally billed. Travel cards with a sixth digit of 1, 2, 3 and 4 are individually billed.

Integrated or combined cards include fleet, travel, and/or purchase functionality and offer the federal government a single card for all its purchases. Integrated cards feature a blue sky with clouds, the U.S. Capitol, and a flag. There is a small picture of a jet in flight in the middle. It says "For Official Government Use Only."

All fleet and purchase type transactions on integrated cards are centrally billed. Travel charges may be centrally billed or individually billed. For travel charges only, the sixth digit of the account number denotes whether the travel card is centrally or individually billed. The sixth digit does not impact fleet or purchase charges in any way; fleet and purchase type transactions are always centrally billed.

The sixth digit of the account number determines the billing method for travel cards and travel related activity of integrated cards. The billing method can be determined as follows:

Prefix (1st four digits)	Sixth Digit	Credit Card Type	Billing type
4486, 4716 & 5568	0, 6, 7, 8 & 9	Visa & MasterCard	Centrally Billed
4486, 4716 & 5568	1, 2, 3 & 4	Visa & MasterCard	Individually Billed

Issue

Can federal government employees purchase goods and services exempt from sales tax without providing a tax exemption certificate if the purchase is made with a centrally billed government credit card?

Analysis

Historically, merchants have been required to obtain an exemption certificate from customers to substantiate tax-exempt sales. However, states are prohibited from taxing the federal government by the Supremacy Clause of the United States Constitution, U.S. Const. Art. VI, § 2, which declares that the United States Constitution and laws are the supreme law of the land. In *McCulloch v. Maryland (1819) 17 US 316*, the United States Supreme Court ruled that a state tax imposed directly on a federal instrumentality violated the Supremacy Clause. Therefore, purchases made by and billed directly to the United States Government cannot be taxed, regardless of the lack of an exemption certificate.

Since government credit cards that are paid directly by the federal government can be identified by their type and account numbering sequence, the centrally billed federal credit card can be used to verify the exempt status of a purchase. Charges paid with individually billed government credit cards will generally represent taxable transactions.

Conclusion

The United States Government is exempt from the payment of Louisiana sales or use tax under the Supremacy Clause of the United States Constitution. Therefore, merchants will be allowed to accept a federal credit card that is billed directly to the federal government in lieu of a sales tax exemption certificate. Credit cards billed directly to the federal government can be identified by the type of SmartPay Card issued and the account numbering sequence as previously stated. Federal credit card transactions that are billed to the government employee are generally not exempt from the sales tax.

In order to verify that an authorized person is using the SmartPay card, a vendor must require identification establishing the person's identity and status as a U.S. Government employee, such as an employee photo identification card. The vendor must note the government employee's identification number and agency on the merchant copy of the sales receipt and retain the receipt for its records. Retailers failing to follow the verification guidelines set forth for authorized GSA SmartPay card users may be held liable for sales and use taxes on purchases in question.

For more information regarding this topic, taxpayers should contact the Taxpayer Services Division at (225) 219-7356.

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