

TAX EXEMPTION CERTIFICATES

What are tax exemption certificates?

Sales tax exemption certificates are forms that buyers provide to sellers. They prove that the buyer doesn't have to pay sales tax for certain reasons, such as purchasing products for resale or purchases made by a nonprofit organization.

There are different types of exemption certificates. Not all states have each kind, but throughout the United States, these are the types of certificates that may be encountered:

- ***Resale Certificates:*** Used by businesses to purchase goods for sale to an end user. In the United States, sales tax is paid only on the final retail sale, in most cases.
- ***Nonprofit Exemption Certificates:*** Given by charitable or educational organizations to avoid paying sales tax on items for use by the organization.
- ***Other Exemptions:*** Depending on the state, other exemptions might include agricultural, industrial, or governmental.

Why is there no sales tax on wholesale sales?

In the United States, sales tax is charged at the point of sale to the end user (this is part of why sales tax is sometimes referred to as "sales and use tax").

Wholesalers are not required to charge sales tax to retailers because when a wholesaler sells to a retailer, that retailer is not the products end user. Therefore, the wholesaler does not have to collect sales tax on the transaction when selling to retailers.

Sales tax when buying and selling wholesale

While there are no sales taxes on wholesale sales, sales tax still needs to be addressed when purchasing or selling items wholesale. Retailers who purchase products for resale without paying sales tax must provide a "resale certificate" to the wholesaler.

Many wholesalers only sell to retailers, so if a retailer can't show a valid resale certificate, they may be refused service.

What is a resale certificate?

A resale certificate is documentation that identifies someone as a legal reseller and enables them to buy wholesale items for resale without paying sales tax.

The certificate includes information like the purchaser's name and address and an explicit statement confirming that any goods purchased are being used for resale only.

Depending on which state you are in, there might be different names for the same certificate. You may come across these terms: *reseller license*, *resale certificate*, *Sales and Use Tax Agreement Certificate of Exemption*, *resale permit license*, and *resellers permit*.

Resale certificates are usually provided in a "blanket" form. This means that the resale certificate applies to all items purchased from the vendor.

States that allow for resales exemptions either accept a state-issued resale certificate or, in some cases, a multi-state certificate (wholesalers in Illinois can accept both).

Below are the elements required by the state of Illinois for a resale certificate to be valid:

- Name and address of purchaser
- Name and address of seller
- Registration number of purchaser
- Description of property purchased for resale
- Reason for exemption
- Statement that if the property is put to use in a taxable manner that the purchaser will remit the consumer's use tax
- Date and signature and title of authorized individual of the purchaser

The difference between a resale certificate and seller permit

Be careful not to confuse a resale certificate and a seller's permit. A seller's permit allows someone to make sales and collect sales tax from their customers, while a resale certificate allows them (acting on behalf of the business) to purchase from a wholesaler tax-free with the promise that the business will collect the sales tax from their end-user customers. That's why having a sales permit (which facilitates tax collection) is a prerequisite for obtaining a resale certificate. In other words, a seller's permit empowers someone to sell, while a resale certificate allows someone to buy.

Why is a resale certificate important?

A resale certificate legitimizes retail businesses and proves they can legally purchase wholesale goods, indicating they'll be reselling those goods and collecting applicable sales tax at a later date from consumers. Additionally, a retail certificate can be thought of as a cost-saving measure for retailers as it exempts them from paying sales tax on wholesale purchases. It ensures that they aren't being double-taxed on products they buy to sell.

