

# Sales to the United States Government

Your sales and leases of merchandise to the United States government are generally exempt from California sales and use tax. This includes sales and leases to:

- The United States or its unincorporated agencies and instrumentalities. Examples include: the Postal Service, branches of the armed services, military exchanges, federal courts, and agencies such as the U.S. Forest Service and the Department of Housing and Urban Development.
- Any incorporated agency or instrumentality of the United States that is wholly owned either by the United States or by a corporation that is wholly owned by the United States. Examples include: the Resolution Trust Corporation and the Federal National Mortgage Association (Fannie Mae).
- The American National Red Cross, including its chapters and branches.
- Incorporated federal instrumentalities that are not wholly owned by the United States, unless federal law permits taxing them. Examples of the former include: federal reserve banks, federal credit unions, federal land banks, and federal home loan banks.

If you are unsure whether an agency, corporation or other organization fits into one of the categories listed here, please contact the Board of Equalization (BOE) for help.

*Please note:* Sales to individual members of the armed services do not qualify for this exemption even if the merchandise is billed through an exempt organization such as a service exchange or officers' mess. In addition, sales to State of California agencies and state political subdivisions—counties, cities, and special districts (such as irrigation, fire, and school districts)—are generally taxable. This holds true even if the purchase is made using federal funds.

## U.S. government bankcards

A new contract, GSA SmartPay2, was awarded to Citibank, JP Morgan Chase, and U.S. Bank effective November 30, 2008, to November 29, 2018. These banks will continue to issue both credit cards and debit cards.

All U.S. government debit and credit cards:

- Are issued to federal employees,
- Bear 16-digit account numbers with unique prefixes,
- Contain government designed artwork,
- Are imprinted with "United States of America" and for "Official Government Use Only," and
- Contain a "SmartPay" logo.

*Please note:* Purchases made with most cards are directly billed to the federal government and represent nontaxable sales to the U.S. government. Purchases using "Fleet Cards" and "Purchase Cards" are billed directly to the U.S. government and are exempt from tax.

Purchases directly billed to the *federal employee* are not considered sales to the U.S. government and are subject to sales tax.

## Sales and Use TAX FACTS

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For additional information you may download regulations, forms and publications from our website or you may call our Taxpayer Information Section to talk to a Board of Equalization representative.

BOE website and Board Member contact information:  
[www.boe.ca.gov](http://www.boe.ca.gov)

Taxpayer Information Section  
800-400-7115  
TDD/TTY 800-735-2929

Taxpayers' Rights Advocate  
888-324-2798



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Purchases using "Travel Cards" and "Integrated Cards" may be billed directly to the federal government or to the federal employee. For both "travel cards," and "integrated cards:"

- If the 6th digit of the account number on the card is 1, 2, 3, or 4, purchases are billed to the federal employee and are taxable.
- If the 6th digit is 0, 6, 7, 8, or 9, purchases are billed to the U.S. government and are not taxable.

If a card is used to make a purchase and that card does not cover that type of purchase, generally, purchases are automatically denied.

### **Sales to individuals insured under the Medicare program**

Your sales to individuals insured under Part A of the Medicare program are tax-exempt when Medicare pays you directly. However, your sales to individuals covered under Medicare Part B do not qualify for this exemption, even when the patient assigns the claim for reimbursement to you. Please see Regulation 1591, *Medicines and Medical Devices*, for additional information.

### **Sales to federal contractors**

Businesses working under contract to the federal government are usually not considered agents of the United States. Consequently, your sales to those contractors do not qualify as tax-exempt sales to the U.S. government. However, federal *supply* contractors may issue a resale certificate when they buy tools, equipment, direct consumable supplies, and overhead materials that they will use on a government contract, provided that title to the property passes to the U.S. government before the contractor uses it. For more information, see Regulation 1618, *United States Government Supply Contracts*.

U.S. government *construction* contractors are considered end users of materials and fixtures they furnish and install as part of their government construction contracts. Your sales of materials, fixtures, and supplies to such contractors are generally taxable. However, U.S. government contractors are considered retailers of machinery and equipment they furnish in fulfilling their government contracts. They may issue a resale certificate for the purchase of such an item, provided title to the machinery or equipment will pass to the United States before the contractor makes any use of it. For additional information, see Regulation 1521, *Construction Contractors*, and publication 9, *Construction and Building Contractors*, available at [www.boe.ca.gov](http://www.boe.ca.gov) or by calling our Taxpayer Information Section at 800-400-7115.

### **Documentation required for your records**

When you make a tax-exempt sale or lease, you should be sure to retain documentation that clearly shows that the transaction is tax-exempt. For sales to the U.S. government, documentation can include items such as:

- Purchase orders.
- Documents showing direct payment by the U.S. government.
- Shipping and related documents if there is a question that the merchandise might have been sold directly to an individual in the armed services rather than to the U.S. government.

### **For more information**

You may download the items below from [www.boe.ca.gov](http://www.boe.ca.gov) or request them by calling our Taxpayer Information Section at 800-400-7115.

#### **Regulations**

- 1521 *Construction Contractors*
- 1591 *Medicines and Medical Devices*
- 1614 *Sales to the United States and Its Instrumentalities*
- 1618 *United States Government Supply Contracts*

#### **Publication**

- 9 *Construction and Building Contractors*

*Note: This publication summarizes the law and applicable regulations in effect when the publication was written, as noted on the cover. However, changes in the law or in regulations may have occurred since that time. If there is a conflict between the text in this publication and the law, decisions will be based on the law and not on this publication.*