



PURCHASING POLICY 15

DATE: June 22, 2016
TO: State Agencies Heads and Certified Purchasers
FROM: Betsy Hayes, Director
SUBJECT: Instructions for Taxes Paid Directly to Vendor as an Exception to Direct Pay

POLICY OBJECTIVES:

To provide guidance and direction for sales tax paid directly to the vendor as an exception to our Direct Pay Permit.

BACKGROUND

Sales tax requirements are established by the Department of Revenue. The State of Minnesota has been issued a Direct Pay Authorization by the Department of Revenue effective as of 7/1/1995. The direct pay authorization allows the State to report and pay the applicable Minnesota state, local use and transit taxes directly to the Department of Revenue instead of paying the taxes to the vendor.

POLICY

This policy applies to all cases where the item(s) being purchased is listed as an exception to the direct pay authorization on the Minnesota Sales and Use Tax – Direct Pay Authorization memo dated March 17, 2015, from the Minnesota Department of Revenue, <http://www.mmd.admin.state.mn.us/pdf/directpaypermit.pdf>. It is not dependent on any one document type. Guidance is also given for determining when a freight charge is taxable, and how to correct over and/or underpayments of taxes.

PROCEDURES

1. ORDERING FROM A STATE CONTRACT

Contracts in SWIFT do not contain settings for sales and use taxes. The buyer must determine the correct sales and use tax settings on the purchase order that is created from the referenced contract. When a purchase order is created as a release off the contract, the buyer must determine the correct tax settings on the Purchase Order. In those cases where the purchase requires sales tax to be paid to the vendor, the Ultimate Use Code must be updated to DIRPAYEX (Excluded from Direct Pay Permit). When this setting is selected, the Tax Applicability value will update to Sales Tax Applicable and the Purchase Order document will show the sales tax amount alerting the vendor that it must bill and collect the tax from the State.

2. DEPARTMENTAL PURCHASE ORDER/ONE TIME PURCHASES

When a buyer is preparing a purchase order, the category code selected on the order line defaults the tax status of the category, taxable or non-taxable. This is a default setting and may not always be correct. The buyer must determine what the correct tax setting is for the item(s) and change each line on the Purchase Order as necessary. For those lines where the Direct Pay Permit cannot be used, the Ultimate Use Code must be updated to DIRPAYEX (Excluded from Direct Pay Permit). When this setting is selected the Tax Applicability value will update to Sales Tax Applicable and the Purchase Order document will show the sales tax amount alerting the vendor to bill and collect the tax from the State.

3. REQUISITIONS AND SOLICITATIONS

As with contracts, there are no sales tax settings on the requisition or solicitation. The buyer must determine the correct sales and use tax settings on the purchase order that is created from the referenced requisition and/or solicitation.

4. PROCUREMENT CATEGORY FILE

The category is kept up-to-date with changes in the sales tax laws and requirements through coordination with the Department of Revenue, but the category is used very broadly in SWIFT and the default tax settings may not be correct for a particular purchase. If you discover a problem in the commodity file about taxes, or have a question about the tax status of a certain category, you should call the SWIFT Help Desk at 651.201.8100, Option 2.

5. FREIGHT AND MISCELLANEOUS CHARGES

Freight and any miscellaneous charges can be taxable or non-taxable. The tax status of freight or miscellaneous charges is determined by the tax status of the category being purchased with the taxability following that of the category.

6. SALES AND LOCAL TAX PAYMENT CORRECTION

If you find that your document did not calculate sales and/or local taxes correctly or was marked as taxable or non-taxable in error, you can manually pay the sales and/or local tax to the Department of Revenue or request a refund from Minnesota Management and Budget (MMB), as necessary.

See: [MMB Statewide Operating Policy Number 0807-01.2, Processing a Payment for Sales Tax Due](#)

[MMB Operating Policy Number 0807-01.1, Requesting a Refund of Sales Tax Paid.](#)

Questions concerning this policy may be directed to the SWIFT Help Desk at 651.201.8100, Option 2.