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February 16, 2000

ROSEMARIE DUNN
CONTRACT SPECIALIST
SERVICES ACQUISITION CENTER
GENERAL SERVICES ADMINISTRATION
FEDERAL SUPPLY SERVICE
WASHINGTON, DC 20406

RE: Your December fax

Dear Ms. Dunn:

Thank you for your fax that we received in December. I have enclosed a Question and Answer that is published in our Policy Information Library and is available at our web site. You may republish it.

Please be advised that there is legislation before the Kansas legislature that concerns collection of sales taxes by Kansas hotels. I will notify you if there are any legislation that requires the Question and Answer to be modified.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom Hatten", written in a cursive style.

Thomas E. Hatten
Attorney/Policy & Research

Enclosure

Questions and Answers

Identifying Information: Federal Credit Cards
Tax Type: Kansas Retailers' Sales Tax
Brief Description: Q & A addressing when purchases made by a federal employee who uses a federally-issued credit card are taxable and when they are exempt.
Keywords:
Approval Date: 01/19/2000

Body:

Kansas Department of Revenue
Office of Policy & Research

SUBJECT: FEDERAL CREDIT CARDS

QUESTION: When are purchases made by a federal employee who use federally-issued credit card taxable and when are such purchases exempt?

ANSWER: Recently, the General Services Administration implemented a new credit card program for federal employees called "GSA SmartPay." This program provides employees with credit cards to pay for their travel-related business expenses. The program replaces the IMPAC purchase cards, American Express/Discovery travel cards, and Wright Express fleet cards that federal employees used in the past. It will be in place for five to ten years.

A GSA SmartPay credit card is a VISA, MasterCard, or Voyager card that is embossed with the name of the federal employee who holds the card and an account number. Each card contains unique artwork and the words "United States of America" and "SmartPay." Charges made with these credit cards may be billed to the cardholder personally or to the Federal government's central account. Federal employees often describe these two types of cards as being "individually billed," when the card charges are billed to the cardholder personally, and as being "centrally billed," when the card charges are billed to the Federal government. Card designs may be viewed on the General Services Administration web site at <http://pub.fss.gsa.gov/services/gsa-smartpay>.

How the credit card charges are billed determines whether the purchases made with the card are subject to Kansas sales tax or are exempt. When

charges are billed to the cardholder personally, the sale is considered to be made to the cardholder and is taxable. When charges are centrally billed to the federal government, the sale is considered to be a direct sale to the Federal government and is exempt under the Supremacy Clause of the Constitution. This means that Kansas retailers must know whether the credit card charges are being billed to the individual cardholder or to the Federal government to know whether or not to charge Kansas tax on the purchases.

Purchases made by a federal employee with a "Fleet" or "Purchase" SmartPay card are always exempt since these cards are all centrally billed. Purchases paid for with an "Integrated (Use)" card will be presumed to be exempt. The taxability of purchases made using SmartPay "Travel" are determined based on the coded account number on the face of the card. The following list summarizes that treatment that should be accorded to the cards.

- **Travel Cards** -The sixth digit of the account number on these cards determines whether purchases made with these cards are taxable or exempt. Travel cards are VISA, prefix 4486 or 4716, or MasterCard, prefix 5568, which state "For Official Government Travel Only."
 - If the sixth digit of the account number is 0, 6, 7, 8, or 9, the charges are centrally billed and are exempt.
 - If the sixth digit of the account number is 1, 2, 3, or 4, the charges are billed to the cardholder and are taxable.

These are the rules that apply for hotel room accommodation rentals. Travel cards may only be used to purchase lodging, meals, airfare, car rentals, etc.

- **Fleet Cards and Purchase Cards** - Always exempt. Purchases paid for using these cards are always exempt. Fleet cards are Voyager (VISA), prefix 8699, or MasterCard, prefix 5568, which state "For Official Government Fleet Use Only." Fleet cards may only be used to purchase fuel, repair services and other items related to vehicles, airplanes and boats. Purchase cards are VISA, prefix 4486 or 4716, or MasterCard, prefix 5568, which states "For Official Government Purchases Only." Purchase cards may only be used to purchase tangible personal property.
- **Integrated (Use) Cards** - Always exempt. The Department of the Interior will use an integrated MasterCard issued by NationsBank. These cards state "For Official Government Use Only." Individually billed integrated (Use) cards are being phased out. Accordingly, purchases made with such cards will be presumed to be centrally billed and exempt.