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NOTICE TO TAXPAYERS WITH DIRECT PAY AUTHORIZATION AND NONPROFIT ENTITIES CLAIMING EXEMPTION FROM SALES OR USE TAX

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Direct Pay Authorization Letters

Direct payment authorization, also known as a “direct pay permit,” is a discretionary authorization granted by the Department that permits a taxpayer to self-accrue and directly remit to the Department use tax due on purchases or leases of tangible personal property or services.¹ Approved taxpayers receive an authorization letter from the Department. A corresponding provision in the General Sales Tax Act exempts a seller from sales tax on a sale to a direct pay permit holder.²

In order to make a claim under a direct pay authorization, at the time of purchase or lease, a direct pay permit holder has historically been required to provide a copy of its authorization letter to a seller or lessor in addition to an exemption certificate³ and its account number.⁴ Pursuant to this notice, **a direct pay permit holder is no longer required to provide a copy of its authorization letter to a seller or lessor.** All other applicable exemption requirements apply,⁵ and all other conditions set forth in an authorization letter must continue to be honored.

The Sales and Use Tax Frequently Asked Question that asks, “*Can a customer instruct a seller not to charge sales or use tax because they will pay it directly to Michigan?*” has been revised to reflect the guidance in this Notice.

Nonprofit Entity Letters

Various exemptions from sales and use tax may be available when selling or leasing to nonprofit entities.⁶ Some nonprofit entities were issued an exemption letter ruling from the Department prior to 1999 to verify their exempt status. Most nonprofit entities qualifying under Internal

¹ MCL 205.98. Generally excluded from direct pay authorizations are: 1) Materials furnished by, or supplied to, construction contractors in the performance of a contract to construct, alter, repair or improve real estate; 2) Vehicles purchased, leased or rented for highway use and requiring a license and title; 3) Aircraft; 4) Watercraft; 5) Services subject to use tax, including communication services and motel rentals; 6) Petty cash purchases made by company employees on behalf of the company; 7) Prepayment of sales tax on gasoline or diesel; 8) Tangible personal property consumed by a person performing any service activity on behalf of the company. Exceptions apply to a contractor with a direct pay permit.

² MCL 205.54a(1)(n).

³ Treasury Form 3372 may be used but is not required. See MCL 205.62, MCL 205.104b, and RAB 2016-14, *Sales and Use Tax Exemption Claim Procedures and Formats*.

⁴ RAB 2000-3, *Sales and Use Tax Direct Pay Requirements*.

⁵ For example, the seller must obtain the purchaser’s identifying information and reason for claiming exemption. See RAB 2016-14.

⁶ MCL 205.54a(1)(a) or (b), 205.54d(c), 205.54q, 205.94(1)(h) or (i), 205.94(1)(w).

Revenue Code 501(c)(3) or 501(c)(4) are issued a federal exemption letter by the Internal Revenue Service. For certain exemptions, a nonprofit purchaser or lessee has historically been required to provide a seller or lessor with a copy of its exemption letter.⁷ Pursuant to this notice, **a nonprofit entity is no longer required to provide a copy of an exemption letter ruling or IRS exemption letter to a seller or lessor.** All other applicable exemption requirements apply.⁸

Notwithstanding the preceding change in policy, a contractor purchasing on behalf of certain organizations may still request letters or certificates along with a *Michigan Sales and Use Tax Contractor Eligibility Statement* (Form 3520) in order to verify a property owner's eligibility for an exemption.⁹ The contractor, however, does not need to provide those letters or certificates to its suppliers.

For questions about this notice, please contact Treasury at (517) 636-4357.

⁷ MCL 205.54q; MCL 205.94(1)(w).

⁸ See footnote 5.

⁹ The following may still be requested by a contractor: i) for tangible personal property that will be affixed to or made a structural part of a church sanctuary, a 501(c)(3) exemption letter from a religious organization; ii) an exemption certificate granted by the Michigan State Tax Commission from a Qualified Air or Water Pollution Control Facility; or, iii) a ruling from the Michigan Housing Development Authority from a Qualified Nonprofit Housing entity. MCL 205.54p, 205.94m, 205.54a(1)(l), 205.94(1)(s); MCL 205.54w(1), 205.94s(1). See also RAB 2016-18.