

**HOLT CAT**

**GUIDE TO PROPER ADMINISTRATION & APPLICATION**

**OF**

**TEXAS SALES AND USE TAXES**

**Revised April 2003**

## **PREFACE:**

The purpose of this bulletin is to help you to better understand who requires us to collect taxes from our customers, and also, which customers, by the very nature of their organization, are always exempt from taxation.

Once we have established which customers are normally taxable, then we will attempt to show under which circumstances even those taxable customers might not be taxable, and what kind of documentation we must secure from our customers to support their claim of exemption.

This report is not intended to be all-inclusive. As is the case with most laws, the Texas Sales and Use Tax law is too broad and complicated for us to try and cover every circumstance that might arise in our everyday application of sales tax. We have selected only that portion of the law that pertains to Holt CAT products and services, and will hopefully have up to 95% or more of our day-to-day tax circumstances covered. When circumstances do arise which are not covered by this report, or you are unclear of, do not hesitate to call me.

Lee Perovich  
Internal Auditor  
(210) 648-8311

## SALES AND USE TAXES

- I. Taxing Authorities
  - A. State
  - B. City
  - C. MTA/SPD
  - D. County

Each of our locations has at least one of these taxing authorities to account to. Some have two, and some have three. At present, only Laredo has all four, but that is not to say that in the future some of our locations could be required to collect for all four authorities.

- II. Entities That Are Always Tax Exempt
  - A. Religious organizations
  - B. Government agencies (Federal, State, City, MTA Districts, County)
  - C. School Districts
  - D. Non-profit organizations

There are possibly other types of exempt organizations, but the above list should cover at least 99% of those with whom we do business. Any exceptions to the above should be reviewed on an individual basis.

- III. What is taxable? Almost everything. It is much easier to list the few items that we know to be exempt from tax. They are as follows:
  - A. The trade-in value of machines and equipment traded-in, and tied to a specific sale. This exemption would not apply if the trade-in were for credit to be applied to future, unspecified purchases.
  - B. Repair services to repair, remodel, maintenance, etc.:
    - \*1. Aircraft
    - \*2. Ship, boat or other vessel, other than a sports fishing boat or pleasure craft.
    - \*3. A commercial motor vehicle.(\* further detailed in Section V)

There are other products and services that are exempt from tax, but none, except the above, are items that we, as Holt Company of Texas, offer for sale.

- IV. Who is taxable? Every customer who purchases our products and services, except for those listed in Section II.
- V. When are normally taxable customers not taxable? When they can furnish us a valid:

BLANKET RESALE A. "Blanket Resale Certificate" (i.e., a statement that all goods and services purchased or rented will be for resale). Also included in the certificate must be the customer's "Taxpayer Permit Number". (11-digit number). The certificate must also state what type of business the purchaser is in and what general type of items they are purchasing.

DIRECT PAY B. "Direct Pay Permit" statement (i.e., an arrangement by which a customer reports all purchases to the State, and is responsible for remitting sales tax on these purchases directly to the State). Included in this statement must be the customer's "Direct Payment Permit Number". (11-digit number)

MANUFACTURING EXEMPTIONS C. A certificate stating that machines and/or equipment purchased are to be used in manufacturing, processing and/or fabricating. The exemption for property used in the manufacturing process is limited to property used directly in the process and that makes or causes a chemical or physical change in the product being manufactured for sale. The law specifically excludes from exemption intraplant transportation equipment such as forklifts and front-end loaders and other equipment not used directly in the manufacturing process.

AGRICULTURE D. An exemption certificate which states that "all purchases will be used exclusively on farms or ranches in the production of food for human consumption, feed for animals, or other agricultural products". If all

purchases by a customer are not for agriculture, then each purchase that is for agriculture has to be identified by invoice number and/or serial number on an exemption certificate.

MARINE VESSELS E. An exemption certificate, which states, "all purchases will be used on marine motor vessels (used exclusively in a commercial enterprise) which have 8 or more tons displacement". The name of the motor vessel must be on the certificate and on our invoice.

TRUCK ENGINES

(Labor Only) F. An exemption certificate which states that "the engine being repaired is in a truck engaged in a commercial enterprise".

MAQUILADORAS G. "Maquiladora" exemption certificate and a copy of their Maquiladora export permit issued by the Texas Comptroller of Public Accounts.

OUT OF STATE H. A Bill of Lading issued by a licensed carrier showing a delivery point outside the State of Texas, or freight bill issued by the freight carrier showing the machine or equipment was shipped out of state for use out of state. Serial numbers must be listed on the Bill of Lading or freight bill and must agree with serial numbers listed on the invoice to the customer. Invoice must show out of state destination as well.

\*NOTE: The "Specific Exempt Job" section has been deleted. There are no longer any exempt jobs for contractors.

VI. Import/Export - The U.S. Government prohibits any state taxation of goods imported or exported to or from a foreign country. Texas law provides proof of export to be shown by any one of the following methods:

A. A "Bill of Lading" issued by a licensed and certificated carrier of persons or property showing the seller as consignor, the buyer as consignee, and a delivery point outside the territorial limits of the United States.

B. Documentation provided by a licensed United States Customs Broker certifying that delivery was made to a point outside the territorial limits of the United States. (Note: this includes Canada as well as other foreign countries.) Also, the date of exportation on this

document cannot be more than 30 days from the date customer picks up the goods from our store.

- C. Import documents from the country of destination showing that the property was imported into a country other than the United States.
- D. An original airway, oceans, or railroad "Bill of Lading" and a forwarder's receipt if an air, ocean, or rail freight forwarder takes possession of the property.

In as much as the purchaser cannot provide "proof of export" prior to being invoiced, sales tax must be charged at the time of shipping and invoicing. Once we have secured the proper proof of export documents, credit can be issued for the sales tax.