



## **SALES AND USE TAX BULLETIN 2019-04**

### **The Proper Use of Direct Pay Permits**

**Issued: December 3, 2019**  
**Effective Date: Immediately**

The Department of Revenue (“Department”) issues this Sales and Use Tax Bulletin to inform persons responsible for charging, collecting and remitting Sales Tax, of requirements relating to the proper use of Direct Pay Permits.

#### **I. General Overview**

Section 237(d) of the Tax Reform Code of 1971 (“TRC”), 72 P.S. § 7237(d), allows the Department to issue a Direct Pay Permit, at the Department’s discretion, to a taxpayer where the taxpayer “acquires tangible personal property or services under circumstances which make it impossible at the time of acquisition to determine the manner in which the tangible personal property or service will be used....” Holders of a Direct Pay Permit are given the privilege of purchasing tangible personal property or services without the need to pay tax to their vendors, and, are instead allowed to remit tax directly to the Commonwealth. 61 Pa. Code § 34.4(a).

The Department’s regulations at 61 Pa. Code § 34.4(b) provide that a taxpayer meet the following five requirements before the Department issues a Direct Pay Permit:

- (1) Application for direct payment permit shall be filed with the Department by each taxpayer on a special form provided by the Department.
- (2) The taxpayer’s business activities shall include, in a substantial amount, purchases or other acquisitions of tangible personal property or services, the use of which is impossible to determine at the time of acquisition.
- (3) The taxpayer shall substantiate to the Department the adequacy of its recordkeeping system with respect to the accumulation, recordation, reporting of purchases and remittance of tax incurred.
- (4) Taxpayer’s business classification shall be of such nature and size that the issuance of a Direct Payment Permit is prerequisite to economical and efficient accounting for tax incurred.
- (5) Direct Payment Permit holders are required, as a condition of the issuance of the permission, to provide the Department access to all records maintained to account for the tax due.



## II. The Use of Direct Pay Permits

A Direct Pay Permit must be used in conjunction with a properly completed Exemption Certificate (REV-1220). In order to complete the Exemption Certificate properly, the taxpayer holding the Direct Pay Permit must complete all appropriate lines on the form. This includes checking the box indicating that the Exemption Certificate applies to state and local Sales and Use Tax, checking whether the Exemption Certificate is a Unit or Blanket exemption, listing the name and address of the vendor, and the taxpayer's name and address. The Exemption Certificate must be dated, and it must be in the possession of the vendor, and available for Departmental inspection, on or before the 60th day following the date of the sale to which the certificate relates. In addition to these general instructions, the holder of the Direct Pay Permit must check box number 4 on the certificate and insert the phrase "Direct Pay Permit" and the Direct Pay Permit number in the appropriate boxes.

Only the holder of a Direct Pay Permit can use the permit. A vendor cannot invoke the fact that its customer possesses a Direct Pay Permit as a justification for not charging and remitting the proper amount of sales tax on a transaction. In addition, a Direct Pay Permit must be used in conjunction with an exemption certificate. 61 Pa. Code § 34.4(c). The taxpayer holding the Direct Pay Permit must present its vendor with a properly completed Exemption Certificate (REV-1220) in order for the vendor to not charge tax on the transaction.