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SALES TAX EXEMPTIONS: COMPARISONS WITH OTHER STATES AND REVENUE LOSS

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You asked questions about certain sales tax exemptions in Connecticut and other states. The questions and answers are listed separately below.

MOTOR VEHICLE AND BOAT TRADE-INS

Connecticut sales tax applies only to the difference between the sale price of a new motor vehicle or boat and the value of any trade-in, and not to the full cost of the new vehicle or boat ([CGS § 12-430 \(4\)](#)).

Do surrounding states have the same exemption?

A search of state tax department websites found that seven surrounding states (Maine, Massachusetts, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont) have a similar exemption for the trade-in allowance applied towards the sales price of a motor vehicle or boat. Rhode Island exempts the sale of new or used boats or vessels from its sales tax entirely.

What was the revenue loss from the exemption in the past three years?

The state lost approximately \$124 million in total revenue from FY 08 to FY 10. The revenue loss was approximately \$49.9 million in FY 08, \$33.3 million in FY 09, and \$40.9 million in FY 10.

The Department of Revenue Services (DRS) collects data on this tax exemption claim through the Sales and Use Tax Return form. This estimate is based on summaries of this data, provided in the DRS Annual Reports for 2007-08, 2008-09, 2009-10 for each respective fiscal year.

BOAT OWNERS

Connecticut exempts winter boat storage and boat maintenance and repair services from sales and use tax ([CGS §§ 12-407 \(2\)\(m\), 12-408 \(1\)\(D\), and 12-411\(1\)\(D\)](#)). The boat storage exemption applies from November 1 through April 30, while boat repair and maintenance are exempt year-round.

What would the increase in the tax be to owners if the tax exemption ends?

If the legislature eliminated the exemptions, boat owners would be subject to a 6% sales and use tax for all boat storage, repair, and maintenance services.

Do Rhode Island and New York have similar exemptions?

Rhode Island exempts boat storage, maintenance, and repair services from sales tax. Unlike Connecticut, Rhode Island exempts boat storage services year-round.

New York does not exempt winter boat storage. It taxes most marina services, including storage, repair, and maintenance services. But it exempts charges for mooring, using a slip, dockage, and wharfage from the tax (Federation of Tax Administrators, *2007 Services Taxation Survey*). It also exempts any maintenance and repairs performed on commercial and fishing vessels (N.Y. Tax Law § 1105(c)(3) (iv), (vii)).

What was the revenue loss from these exemptions in the past three years?

In total, the state lost an estimated \$11.2 million in total revenue from FY 08 to FY 10 due to the winter boat storage and the boat repair and maintenance services tax exemptions.

Winter Boat Storage. The state lost an estimated \$1.1 million in total revenue from FY 08 to FY 10 from this exemption. The loss is an estimated \$370,000 for each fiscal year. This assumes that

approximately 10,000 boats were stored for the winter at an average cost of \$620 per boat for the season. This estimate was developed with information from the City of Stamford, the Marine Trades Association, and a 2007 marina study conducted by Miner & Silverstein, LLP (Pawcatuck River Marina Market Study – August 2007).

Repair and Maintenance Services. The state lost approximately \$10.1 million in total revenue from FY 08 to FY 10 from this exemption. The revenue loss was approximately \$3.8 million in FY 08, \$3.3 million in FY 09, and \$3.0 million in FY 10. This estimate is based on the DRS Annual Reports for 2007-08, 2008-09, 2009-10.

RESOURCE RECOVERY FACILITIES

Resource recovery facilities have a sales tax exemption on materials they buy that go into processing trash to energy ([CGS § 12-412 \(35\)](#)).

What was the revenue loss from this exemption in the past three years?

The revenue loss associated with this tax exemption is \$1.85 million from FY 08 to FY 10. The loss was approximately \$630,000 in FY 08, \$1,010,000 in FY 09, and \$210,000 in FY 10. This estimate was developed using data on machinery and equipment purchases provided by the Connecticut Resources Recovery Authority.

NONPROFIT ORGANIZATIONS

Nonprofit organizations are exempt from paying sales tax on items they buy and, in some cases, from collecting tax on items they sell. The exemption for nonprofit purchases applies to items purchased exclusively for the purposes for which the nonprofit organization was established ([CGS § 12-412 \(8\)](#)). Nonprofit organizations that sell goods or services are generally required to collect sales tax on those sales. But state law allows nonprofits to sell items at up to five one-day fundraising events per year without collecting sales tax ([CGS § 12-412 \(94\)](#)).

The law also exempts from the sales tax certain purchases and sales by specific types of nonprofit organizations, including:

1. sales of items and services to and by nonprofit charitable hospitals, nursing homes, rest homes, and residential care homes ([CGS § 12-412 \(5\)](#));

2. sales of items costing \$100 or less made through gift shops in nonprofit nursing homes, convalescent homes, or adult day care centers, as long as the profits are retained for the benefit of the facility's patients or users ([CGS § 12-412 \(56\)](#));
3. sales of items costing up to \$20 by nonprofit youth and school support groups ([CGS § 12-412\(26\)](#)); and
4. property used for operating, or incorporated into, low- and moderate-income housing (1) built under the sponsorship of, and owned and operated by, nonprofit housing organizations or housing authorities or (2) owned or sponsored by a mutual housing association at a location conveyed to it by the Department of Housing and Urban Development before September 1, 1995 ([CGS § 12-412 \(29\) and \(100\)](#)).

Which other states exempt nonprofit purchases and sales from sales tax?

States vary widely in the extent to which they exempt nonprofit purchases and sales from sales tax. Attachment 1 describes how states treat nonprofit purchases, including whether they allow the nonprofit sales tax-exemption to pass through to other entities purchasing materials and supplies on behalf of the organizations (i.e., contractors hired by a nonprofit for a construction project). Attachment 2 describes how states treat sales by nonprofit organizations for sales tax purposes.

Nonprofit Purchases. Generally, states fall into three groups based on how they treat nonprofit purchases: broad, limited, or no sales tax exemption. Table 1 lists the states in each category. Most states (26, including Connecticut) provide a broad sales tax exemption for nonprofit purchases. The next largest group of states (15) exempts certain types of nonprofits or specific organizations from the tax. The third and smallest group – Hawaii, South Carolina, and Washington – does not exempt nonprofit purchases.

Table 1: Summary of State Sales Tax Exemption of Purchases by Nonprofit Organizations

Broad Exemption		Limited Exemption	No General Exemption
Colorado	New Mexico	Alabama	Hawaii
Connecticut	New York	Arizona	South Carolina
Florida	Ohio	Arkansas	Washington
Illinois	Pennsylvania	California	
Indiana	Rhode Island	Idaho	
Kentucky	South Dakota	Iowa	
Maryland	Tennessee	Kansas	
Massachusetts	Texas	Louisiana	
Michigan	Utah	Maine	
Minnesota	Vermont	Mississippi	
Missouri	Virginia	Nebraska	
Nevada	Wisconsin	North Carolina*	
New Jersey	Wyoming	North Dakota	
		Oklahoma	
		West Virginia	

*North Carolina semiannually refunds sales tax paid on direct purchases by certain types of nonprofits organizations
 Source: Mikesell, John L. "State Retail Sales Tax Treatment of Nonprofits." *State Tax Notes*, June 1, 2009.

Nonprofit Sales. Table 2 summarizes how states treat nonprofit sales using the categories in Table 1. Eight states provide a broad exemption for nonprofit sales, while eight other states provide no general exemption. The largest group of states (28, including Connecticut) specifically limit the types of organizations that are exempt from collecting sales tax on their sales or the activities that qualify these organizations for an exemption. Most states do this by limiting the (1) number of permitted days per year for tax-exempt sales, (2) proceeds from the sales, (3) types of items eligible, or (4) the price per item in the exempt sales.

Table 2: Summary of State Sales Tax Exemption of Sales by Nonprofit Organizations

Broad Exemption	Limited Exemption		No General Exemption
Arizona	Colorado	New Jersey	Alabama
Arkansas	Connecticut	New York	California*
Iowa	Florida	North Carolina	Hawaii
Missouri	Georgia	North Dakota	Idaho
Nevada	Illinois	Ohio	Kansas
New Mexico	Indiana	Rhode Island	Nebraska*
South Carolina	Kentucky	Tennessee	Pennsylvania*
Utah	Louisiana	Texas	South Dakota*
	Maine	Vermont	
	Maryland	Virginia	
	Massachusetts	Washington	
	Michigan	West Virginia	
	Minnesota	Wisconsin	
	Mississippi	Wyoming	

* State exempts isolated sales by specific organizations.

Source: Mikesell, John L. "State Retail Sales Tax Treatment of Nonprofits." *State Tax Notes*, June 1, 2009.

Attachment 1: State Sales Tax Exemption of Purchases by Nonprofit Organizations

<i>State</i>	<i>Exempt Entities</i>	<i>Pass Through</i>
Alabama	No general exemption, some specific and usually by name (e.g., Boy Scouts of America).	N.A.
Arizona	No general exemption, but exemption for qualified hospital and healthcare organizations, organizations serving free meals to the needy and organizations providing training to mentally or physically handicapped.	N.A.
Arkansas	No general exemption, but exempt purchases by certain named entities (Poets Round Table, Girl Scouts, etc.) and nonprofit hospitals.	Some refund of tax paid on new plant or facilities
California	No general exemption, but entity may not be taxed on items purchased for resale, art and museum pieces for public display, and health information materials for distribution.	N.A.
Colorado	Sales to charitable organizations in conduct of regular charitable activities are exempt. Organizations exempt under IRC 501(c)(3) will be exempt unless the Department of Revenue makes its own determination about the organization's charitable status.	Yes
Connecticut	Exemption references IRC 501(c)(3).	Building material for nonprofit housing
Florida	Exemption references IRC 501 (c)(3) plus other nonprofits.	No
Hawaii	No exemption.	N.A.
Idaho	No general exemption, but state exempts purchases by hospitals, specifically named health-related entities (e.g., American Cancer Society and American Red Cross), museums, senior citizen centers, and some others.	No
Illinois	Exempts charitable, religious, educational, and cultural or arts organizations (need IRC 501 (c)(3) designation).	Limited to entity providing certain services to persons over age 55
Indiana	Exempts charitable, civic, educational, literary, religious, scientific, hospitals, and others. Not as broad as IRC 501 (c)(3).	Yes
Iowa	No general exemption, but some types of entities are exempt (e.g., American Red Cross, hospitals, museums, and residential facilities for mentally handicapped children)	Exempt materials purchased for museums, Habitat for Humanity, and educational institutions
Kansas	No general exemption, but many named organizations (e.g., American Lung Association) and some types are exempt (e.g., hospitals, museums).	Yes
Kentucky	Exempts all charitable, educational, or religious institutions or historical sites (Must have IRS 501(c)(3) designation).	No
Louisiana	No general exemption. Limited specific exemptions (for example,	No

Attachment 1 (continued)

State	Exempt Entities	Pass Through
	organization providing training for the blind, limited charity, toys for donation to minors).	
Maine	No general exemption, but specific exemption for certain healthcare, educational, religious, child-related, and other organizations (purchases by purchase order only).	Yes
Maryland	Exempts charitable, educational, religious, volunteer fire, and veterans organizations (usually requires IRC 501 (c)(3) determination; designation creates presumption of exemption).	Yes
Massachusetts	Exempts religious, charitable, education, or scientific (any IRC 501(c)(3)).	Yes
Michigan	Exempts hospital, church, IRC 510(c)(3), and IRC 501(c)(4). (Automatic)	No (except hospitals and qualified housing)
Minnesota	Exempts charitable (including hospitals), religious, educational (including youth groups), and senior citizen and veterans groups. (Linked to property tax exemption).	Yes, but not on lump sum contracts
Mississippi	No general exemption, but hospitals and some specific categories exempt.	Yes
Missouri	Exempts charitable, religious, civic, social, service, and fraternal (charitable functions).	Yes
Nebraska	No general exemption; exempts certain entities, including religious organizations, those serving the blind, hospitals and related child care, child-placing agencies, and organizations serving persons with developmental disabilities.	Yes
Nevada	Exempts religious, charitable, and educational entities (including hospitals) (not linked to IRC 501(c)(3)).	No
New Jersey	Exempts religious, charitable, educational, scientific, literary, veterans, volunteer fire department, and PTA/PTO organizations (IRS 501(c)(3) not referenced).	Yes
New Mexico	Exempts IRC 501(c)(3) organizations on tangible personal property only (not services or construction materials).	No
New York	Exempts religious, charitable, educational, scientific, literary, and other select nonprofit organizations. (IRC 501(c)(3) not referenced but uses same list).	Yes
North Carolina	Purchases not exempt, but sales tax paid on direct purchases by nonprofit hospitals, educational institutions, churches, orphanages, and other charitable or religious institutions and qualified retirement facilities are subject to semiannual refund.	Yes (refund)
North Dakota	No general exemption; exempts hospitals and nonprofit health and meal delivery groups.	No
Ohio	Exempts sales to churches and certain other nonprofit organizations (IRC 501(c)(3) status).	Yes
Oklahoma	No general exemption; exempts churches, nonprofit schools, cultural organizations, and some others.	Limited
Pennsylvania	Exempts charitable, religious, and educational organizations and volunteers (purchase of \$200 or more).	Limited

Attachment 1 (continued)

State	Exempt Entities	Pass Through
Rhode Island	Exempts nonprofit hospitals, educational institutions, churches, and others by listed type.	Yes
South Carolina	No exemption for purchases (except for resale).	N.A.
South Dakota	Exempts nonprofit hospitals, religious educational institutions, charitable relief agencies, and nonprofit private educational institutes.	No
Tennessee	Exempts churches, orphanages, hospitals, and others, including some by name (e.g., Boys Club); No general exemption for items to be resold (references IRC 501(c)(3) and more).	No
Texas	Exempts charitable, educational, and religious organizations; some others by type (references IRC 501(c)(3)).	No
Utah	Exempts sales to religious or charitable institutions (must have IRC 501(c)(3) exemption); sales less than \$1,000 by refund.	Yes
Vermont	Exempts organizations that qualify under IRC 501(c)(3).	Yes
Virginia	Exempts IRC 501(c)(3) and IRC 501(c)(4) organizations. Separate legislative actions no longer required.	No
Washington	No exemption for purchases.	N.A.
West Virginia	Exempts purchases by IRC 501(c)(3) organizations, subject to requirement that entity be a church, elementary or secondary school financed by contributors, or a youth organization (public support test).	No
Wisconsin	Exempts purchases by religious, charitable, scientific, or educational organizations and those devoted to prevention of cruelty to children or animals.	No
Wyoming	Exempts purchases by religious or charitable organizations and nonprofit organizations providing meals or service to senior citizens.	No

Source: Mikesell, John L. "State Retail Sales Tax Treatment of Nonprofits." *State Tax Notes*, June 1, 2009.

Attachment 2: State Sales Tax Exemption of Sales by Nonprofit Organizations

State	Status
Alabama	Not exempt.
Arizona	Broadly exempt.
Arkansas	Exempts sales by churches and charitable organizations.
California	Generally taxed, limited exemption for particular sales (for example, pets by animal welfare organizations). Special provisions when fundraising firm used.
Colorado	Exemption for fundraising activities (12 days or less, net proceeds not exceeding \$25,000).
Connecticut	Exemption for up to five one-day fundraising events per year. (purchases for resale are exempt).
Florida	Exempts sales of donated property by organizations benefiting minors and sales by religious institutions.
Georgia	Exempts religious institution fundraiser sales (no more than 30 days), sales by organizations raising funds for public libraries, and food and beverage sales by Girl and Boy Scouts.
Hawaii	Not exempt.
Idaho	Not exempt (exempt purchases for resale are reimbursed from the amount collected when sold). Exempts fees charged at shooting ranges or shooting competitions.
Illinois	Not exempt, except for sales exclusively to members, students, patients, and inmates, occasional public dinners no more than twice per year, and sales not in direct competition with business.
Indiana	Exempts fundraising sales for not more than 20 days per year. Sale of periodicals, books, or other property for educational, cultural, or religious purposes or for improvement of member job skills or professional qualifications is exempt.
Iowa	Exempts sales by educational, religious, or charitable organizations if profits are used for exempt purpose.
Kansas	Not exempt.
Kentucky	Exempts first \$1,000 of sales by nonprofit organizations not in the business of selling.
Louisiana	Exempt at events when proceeds used for organization's purposes (by application for the event).
Maine	Fundraiser sales exempt as casual sales (taxable when items purchased by organization). Other sales are not exempt.
Maryland	Exempts sales by religious organizations, certain food sales, and hospital thrift shop sales.
Massachusetts	Exempts casual and isolated sales for fundraising (not in regular course of business). Museum gift shop sales are taxable.
Michigan	Exempts sales if less than \$5,000 in calendar year. All sales taxed if sales

Attachment 2 (continued)

State	Status
	exceed \$5,000. (items purchased for resale are exempt)
Minnesota	Fundraising sales exempt (not more than 24 days per year).
Mississippi	Exempts Girl Scout cookies and sales by nonprofit and schools. Isolated, casual, and occasional sales also exempt.
Missouri	Exempt.
Nebraska	Not exempt, except for the sale of meals by and one annual sale at religious organizations
Nevada	Exempt.
New Jersey	Exempts occasional fundraising sales and qualifying thrift store sales.
New Mexico	Exempt.
New York	Exempt (certain exceptions).
North Carolina	Not exempt, except for one fundraiser per year and food sales by religious institutions. Resale exemption for purchase of taxable items.
North Dakota	No exemption for ongoing sales in competition with private businesses or for limited events in publicly owned facilities; exempts other sales. Exempts annual church supper or bazaar in public facility.
Ohio	Exempts sales for up to six days in calendar year.
Oklahoma	Not general exemption, but exempts sales by churches and a list of other organizations.
Pennsylvania	No exemption, except isolated sales and food and beverages sold by church.
Rhode Island	Exempts organizations supporting youth activities or items sold for up to \$20.
South Carolina	Exemption for sale by churches, charitable, educational, and literacy organizations, and some named entities (e.g., Girl Scouts).
South Dakota	No general exemption; certain admissions exempt.
Tennessee	Exemption up to two sales per calendar year for periods of 30 days or less. Organizations over that limit but selling no more than \$400 per month may pay tax on items purchased for sale in lieu of collecting tax on sales. Larger organizations must collect tax and may purchase without paying tax. Sales of used clothing are exempt.
Texas	No general exemption. Limited exemption for certain meat and food sales, banquets, auctions, and rummage sales (two, one day per year, items not sold for more than \$5,000), senior citizen groups (self-made items, no more than four 20-day sales per year), and periodicals published by certain organizations.
Utah	Exempts sales by religious or charitable institutions.
Vermont	Exempts sales by organization if its sales did not exceed \$5,000 in the prior year.
Virginia	Exempts occasional sales (up to three occasions in calendar year, each started and finished within 30 days), but sales at fairs, flea markets, festivals, or carnivals are always taxable.

Attachment 2 (continued)

State	Status
Washington	Exempts fundraising activities (not regular business activities).
West Virginia	Exempts fundraising events for churches and nonprofit organizations (up to six events lasting no more than 84 hours in 12-month period).
Wisconsin	Exempts occasional sales by nonprofit organizations (20 days or less, total receipts of \$25,000 or less).
Wyoming	Exempts occasional sales by religious or charitable organizations for fundraising and not in course of regular business (single event occurring four or fewer times in a year).

Source: Mikesell, John L. "State Retail Sales Tax Treatment of Nonprofits." *State Tax Notes*, June 1, 2009.