

Colorado allows certain sales and use tax exemptions for charitable organizations. Purchases made by charitable organizations in the conduct of their regular charitable functions and activities are exempt from sales and use tax. Additionally, although sales made by charitable organizations are generally subject to sales tax, if certain conditions are met, sales made by charitable organizations may be tax-exempt. An entity must satisfy the criteria prescribed by Colorado law to qualify as a charitable organization for sales and use tax purposes.

This publication is designed to provide general guidance regarding sales tax exemptions for charitable organizations and to supplement the guidance provided in the *Colorado Sales Tax Guide*. Nothing in this publication modifies or is intended to modify Colorado's statutes and regulations authorizing these exemptions. Taxpayers are encouraged to consult their tax advisors for guidance regarding specific situations.

The exemptions discussed in this publication apply to sales and use taxes imposed by the State of Colorado, the Regional Transportation District (RTD), and the Scientific and Cultural Facilities District (CD). However, applicability of certain exemptions varies for other state-administered local taxes. Please see Department publication *Colorado Sale/Use Tax Rates* (DR 1002) and the *Supplemental Instructions for Form DR 0100* for information about exemptions allowed for other state-administered local taxes.

The guidance in this publication does not apply to sales or use taxes administered by any home-rule city or to any state or federal income tax.

Charitable organizations

The sales and use tax exemptions described in this publication apply to charitable organizations that meet the qualifying criteria prescribed by Colorado law. These qualifying criteria are similar to those for 501(c)(3) organizations, and a charitable organization that holds a 501(c)(3) determination letter from the Internal Revenue Service (IRS) is provisionally presumed to qualify for Colorado sales and use tax exemption.

However, the Department of Revenue is not bound by any IRS determination regarding an organization's charitable status and the Department may independently evaluate whether the organization qualifies for exemption under Colorado law.

For Colorado sales and use tax purposes, an entity is considered a charitable organization only if all four of the following conditions are met:

- the entity must be organized and operated exclusively for tax-exempt purposes (listed below);
- none of the organization's net earnings may inure to any private shareholder or individual;
- the entity may not carry on propaganda or otherwise attempt to influence legislation as a substantial part of its activities; and
- the entity may not participate in, or intervene in, any political campaign on behalf of any candidate for public office.

Tax-exempt purposes

The tax-exempt purposes prescribed by Colorado sales tax law for charitable organizations are:

- religious,
- charitable,
- scientific,
- testing for public safety,
- literary,
- educational,
- fostering national or international amateur sports competition, and
- prevention of cruelty to children or animals.

Please see Department Rule 39-26-718 for additional information regarding tax-exempt purposes and charitable organizations' activities.



Veteran’s organizations

Any veteran’s organization registered with the Internal Revenue Service (IRS) under section 501(c)(19) of the Internal Revenue Code also qualifies as a charitable organization for Colorado sales and use tax purposes.

Other organizations

Organizations that are characterized as “nonprofits” or that are exempt from federal income tax under section 501 of the Internal Revenue Code do not qualify as charitable organizations for sales and use tax purposes if they do not meet the requirements in Colorado law. Examples of organizations that do not typically qualify as charitable organizations for Colorado sales and use tax purposes include:

- nonprofit country clubs,
- private clubs,
- employees or social clubs or organizations,
- nonprofit recreational organizations,
- lodges,
- patriotic organizations,
- fraternities and sororities,
- professional and trade associations,
- civic organizations,
- labor unions, and
- political organizations.

Application for exemption certificate

A charitable organization may file form DR 0715, *Application for Exempt Entity Certificate*, to request a certificate from the Department recognizing the organization’s eligibility for exemption. The organization must submit with the application all applicable attachments listed on form DR 0715.

Each organization must include with their application a copy of a letter from the Internal Revenue Service (IRS) regarding the organization’s federal tax-exempt status. For most organizations, this will be a copy of the IRS determination letter recognizing the organization’s tax-exempt status under section 501(c)(3) of the Internal Revenue Code.

Exemption certificates issued by other states

A charitable organization that holds an exemption certificate issued by the taxing authority of another state may present that certificate to retailers to make tax-exempt purchases in Colorado, so long as the organization meets the definition of a “charitable organization” established in Colorado statute and regulation for sales tax purposes. Charitable organizations are subject to all of the requirements discussed in this publication and prescribed by Colorado tax law and regulation, regardless of whether the organization holds an exemption certificate issued by the Colorado Department of Revenue or the taxing authority of any other state.



Sales to charitable organizations

All sales made to charitable organization, in the conduct of their regular charitable functions and activities, are exempt from Colorado sales and use taxes. Purchases must be made directly from the organization's funds. Additionally, any purchase over \$250 must be made with a check or credit card issued in the organization's name. Purchases not made with the funds of a charitable organization do not qualify for exemption, regardless of whether the charitable organization subsequently reimburses the purchaser.

Whenever a charitable organization purchases tangible personal property that is to be transferred to anyone else for personal use and all or part of the price of the goods is recouped from the user through direct payment, donation or games of chance, the organization's exempt status does not apply to the charitable organization's purchase of the item.

Any item purchased by an individual or business does not qualify for exemption, even if the individual or business subsequently donates the item to a charitable organization.

Retailer responsibilities

Retailers must exercise due diligence with respect to any sale made to a charitable organization that claims exemption from sales tax. The retailer must verify that the charitable organization holds a current exemption certificate issued by the Department, either through the Department's verification system online at Colorado.gov/RevenueOnline, or by inspecting a physical copy of the certificate for completeness and ensure the certificate has not expired. If the retailer relies on a physical copy of the exemption certificate, the retailer must maintain a copy of the certificate in their records.

Additionally, with respect to any sale over \$250, the seller must also verify that the purchase is made directly from the funds of the charitable organizations, with either check or credit card issued in the organization's name.

Retailers must also consider whether the goods or services sold could reasonably be used in the conduct of the organization's regular charitable functions and activities. If a retailer has reason to doubt that any sale qualifies as tax-exempt, and cannot resolve that doubt through the collection of additional information from the purchaser, the retailer must collect the tax and provide the purchaser with a receipt.



Sales by charitable organizations

Sales made by charitable organizations are generally not exempt from sales tax, unless the sale specifically qualifies for exemption under Colorado law. A charitable organization that regularly makes sales that do not qualify for exemption must have a sales tax license and collect and remit tax in the same manner as any other retailer. Please see the *Colorado Sales Tax Guide* for additional information about licensing, collection, filing, and remittance requirements.

Donations made to charitable organizations

A portion of a payment made to a charitable organization in exchange for goods or services sold by the organization may be considered a donation and therefore excluded from the taxable purchase price if certain conditions are met. A donation is made if a buyer knowingly pays an amount in excess of the fair market value of the goods or services purchased with the intent to donate that excess portion of the price to the charitable organization. In this case, the amount paid in excess of the fair market value is excluded from the taxable purchase price.

Exemption for low-volume sales

Sales made by a charitable organization are exempt from sales tax if all three of the following conditions are met:

- 1) the funds raised through the sales are retained by the organization to be used in the course of the organization's charitable service;
- 2) the net proceeds from the charitable organization's otherwise taxable sales in the preceding calendar year were less than \$45,000; and
- 3) the net proceeds from the charitable organization's otherwise taxable sales in the current calendar year are less than \$45,000.

If the first and second conditions are met, but net proceeds from the charitable organization's sales in the current year exceed \$45,000, all sales made by the charitable organization during the current calendar year prior to the date the net proceeds for the current calendar year exceed \$45,000 are exempt. All sales made by the charitable organization on or after the date the net proceeds for the current calendar year exceed \$45,000 are subject to sales tax.

If the net proceeds from the charitable organization's otherwise taxable sales in the preceding calendar year exceed \$45,000, all of its sales made during the current calendar year are subject to sales tax.

Net proceeds

For the purpose of the exemption, the net proceeds from a charitable organization's sales are the total gross receipts from sales made by the charitable organization minus expenses directly attributable to sales made by the charitable organization. Net proceeds do not include any amounts considered to be donations. Please see *Donations made to charitable organizations* to the left of this page for additional information.

Expenses are directly attributable to sales made by the charitable organization if those expenses would not have arisen but for the sales made by the organization. Expenses directly attributable to an organization's sales include any cost incurred by the charitable organization to acquire goods and services the charitable organization resells, but generally does not include any of the following:

- administrative staff wages;
- insurance;
- rent; or
- property taxes.

State-administered local taxes

The exemption for low-volume sale made by charitable organizations applies to sales taxes imposed by the Regional Transportation District (RTD) and the Scientific and Cultural Facilities District (CD), but does not apply to any city and county sales tax administered by the Department, unless the city or county has adopted the exemption by ordinance or resolution. Please see Department publication *Colorado Sale/Use Tax Rates* (DR 1002) and the *Supplemental Instructions for Form DR 0100* for additional information about exemptions allowed for state-administered local taxes.

Additional resources

The following is a list of statutes, regulations, forms, and guidance pertaining to sales and use tax exemptions for charitable organizations. This list is not, and is not intended to be, an exhaustive list of authorities that govern the tax treatment of every situation. Individuals and businesses with specific questions should consult their tax advisors.

Statutes and regulations

- § 39-26-102, C.R.S. Definitions.
- § 39-26-718, C.R.S. Charitable organizations.
- Rule 39-26-105-3. Documenting Exempt Sales.
- Rule 39-26-718. Charitable and Other Exempt Organizations.

Forms and guidance

- [Colorado.gov/Tax/sales-use-tax](https://colorado.gov/Tax/sales-use-tax)
- *Application for Exempt Entity Certificate* (DR 0715)
- irs.gov/charities-non-profits/charitable-organizations