



**NJ EXEMPTION
CERTIFICATES**

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Exempt Use Certificate

FORM ST-4

New Jersey State Library

Tax Tips

New Jersey Division of Taxation

Sidney Glaser, Director

Issuing And Accepting Exempt Use Certificates

Under New Jersey tax law, some items are exempt from tax regardless of who buys them or how they are used. Examples include clothing, most food items and prescription drugs. However, other items are exempt from sales tax only if they are purchased for certain uses and if a **New Jersey Exempt Use Certificate (Form ST-4)** is presented to the supplier.

“What Is A New Jersey Exempt Use Certificate?”

The exempt use certificate is one of several New Jersey Exemption Certificates. The exempt use certificate makes it possible for businesses to purchase production machinery, packaging supplies and other items without paying sales tax *if the way they intend to use these items has been specifically exempted by New Jersey law*. Commercial motor vehicle operators, registered commercial fishing boat owners and persons buying solar energy devices may also make limited use of the certificate. The exempt use certificate must be presented to your supplier at the time of purchase.

“Who May Use The Exempt Use Certificate?”

- New Jersey Businesses

If you own or operate a business in New Jersey, you must file an **Application for Registration (Form CIS-1)** with the New Jersey Division of Taxation. Once you've registered, you will receive a **New Jersey Sales Tax Certificate of Authority**. This certificate authorizes you to collect sales tax and permits you to issue and accept New Jersey Exemption Certificates.

After registering, you will also be assigned an identification number which usually corresponds to your Federal Identification number or your Social Security number. This identification number will appear on your Certificate of Authority and on any other pre-printed forms you receive from the Division. You must include your identification number on all exempt use certificates you issue.

- **Out-of-State Businesses**

If you sell taxable merchandise in New Jersey, you may be required to file an Application for Registration (Form CIS-1) with the New Jersey Division of Taxation. Registered out-of-State businesses are authorized to collect New Jersey sales tax and to issue and accept New Jersey Exemption Certificates, including the exempt use certificate.

- **Commercial Fishing Boat Operators**

You must be registered (see section above) with the New Jersey Division of Taxation to issue the exempt use certificate to purchase a commercial fishing vessel or a commercial sport fishing party boat (head boat) without paying sales tax. To be eligible, the vessel must be primarily engaged in commercial fishing or shellfishing and must be subject to annual inspection by the United States Coast Guard.

Exemption Certificates

A valid New Jersey Exemption Certificate allows qualified persons and businesses to purchase certain merchandise and services without paying sales tax. The New Jersey Division of Taxation has designed several exemption certificates, each having a specific use. For example, a registered business purchasing qualified production machinery may issue an exempt use certificate instead of paying sales tax. For information about other exemption certificates, contact Taxpayer Services, New Jersey Division of Taxation.

Registered owners may also issue the exempt use certificate and pay no sales tax on charges for repairs, alterations or conversions of these vessels. Fuel, provisions and supplies for the vessel may also be purchased with the exempt use certificate.

- **Commercial Motor Vehicle Operators**

You need not be registered to issue the exempt use certificate to buy, rent or lease a commercial motor vehicle which is registered in New Jersey for more than 18,000 pounds or a commercial motor vehicle registered in New Jersey and operating under an Interstate Commerce Commission permit. You may also issue an exempt use certificate to purchase *replacement parts* for this vehicle without paying sales tax. However, sales tax must be paid on *supplies*.

- **Individuals Purchasing Solar Energy Devices**

You need not be registered to issue the exempt use certificate to purchase solar heating or cooling devices without paying sales tax. These devices must be approved by the New Jersey Department of Energy for this exemption to apply.

“When May I Issue An Exempt Use Certificate?”

Listed below are some common purchases that may be made with an exempt use certificate:

- **Certain Chemicals and Catalysts** - Materials used to induce chemical or refining processes in which the materials are an essential part of the process but do not become an integral part of the finished product.
- **Production Machinery** - Machinery and equipment used directly and primarily in the production of merchandise for sale. This includes only equipment used directly in manufacturing, assembling, processing and refining.

Example: Jim purchases a turret lathe for use in his machinery business. He may issue his supplier a New Jersey Exempt Use Certificate instead of paying sales tax because the lathe will be used directly in the production of merchandise for sale. However, Jim may not use an exempt use certificate to purchase a forklift to use exclusively to transport his final product from the warehouse to the loading dock.

- **Production Machinery Parts** - Parts for machinery and equipment used directly and primarily in the production of merchandise for sale. An exempt use certificate may not be issued to purchase parts with a useful life of one year or less or to purchase tools and supplies used in connection with production machinery or equipment.
- **Public Utility Production Machinery** - Machinery and equipment used directly in the production of gas, electricity, refrigeration, steam or water for sale, or in the operation of sewage systems.
- **Research and Development** - Materials purchased for use or consumption directly and exclusively in research and development in the experimental or laboratory sense.
- **Solar Energy Devices** - Devices or systems specifically approved by the New Jersey Department of Energy and designed to provide heating or cooling or other energy by converting solar energy to some other usable energy source. (Note: For information about approved systems and devices, contact: New Jersey Department of Energy, Office of Alternative Technology, 101 Commerce Street, Newark, New Jersey, 07102.)

Example: Mary buys a solar energy collector to heat and cool her home. She may issue her supplier an exempt use certificate instead of paying sales tax on the collector. However, she may not use an exempt use certificate to purchase insulation used to reduce heat loss through her walls, roof, slab or foundation. Since insulation is not directly used in the gathering or

storing of solar energy, sales tax must be paid when it is purchased.

- **Commercial Fishing Boats** - Vessels primarily engaged in commercial fishing or shellfishing, including sport fishing party boats (head boats). Also exempt are charges for repairs, alterations, reoutfitting of boats, fuel, maintenance and charges for supplies. Equipment necessary for harvesting fish and shellfish may also be purchased with the use of an exempt use certificate.
- **Commercial Motor Vehicles** - Sales, rentals or leases of commercial vehicles registered in New Jersey for more than 18,000 pounds or registered in New Jersey and operating under an Interstate Commerce Commission permit. Replacement parts for these vehicles may also be purchased with the use of an exempt use certificate. Sales tax must always be paid on supplies. (Note: A parts list is available from Taxpayer Services. It lists exempt replacement parts and gives examples of supplies, which are always taxable.)

Example: Fred is a commercial trucker. He operates a vehicle which is registered in New Jersey for more than 18,000 pounds. When Fred has repairs made in New Jersey, he may give his mechanic an exempt use certificate instead of paying sales tax on the parts. (Sales tax must be paid on the charges for labor.) When Fred buys motor oil for his truck, he may not issue the exempt use certificate. Motor oil is a supply, and sales tax must be paid at the time of purchase.

- **Newspaper Advertising** - Advertising materials to be published in a newspaper, such as display or classified ads.
- **Newspaper Production Machinery** - Machinery and equipment used directly and primarily in the production of newspapers. This machinery and equipment must be located in the production department of a newspaper plant.
- **Packaging Materials** - This includes such

items as wrapping paper, bags, cartons, rope, twine, labels, non-returnable containers and all other packaging supplies when the use of the supplies is essential to the delivery of merchandise which has been sold. Storage containers are not considered to be packaging supplies.

Example: Joan, the merchandising manager for a department store, purchases shopping bags and twine for the store. She may issue an exempt use certificate instead of paying sales tax because the packaging materials are essential to the delivery of the product. However, if Joan purchases baskets to hold merchandise for display, she may not issue the exempt use certificate. Because the baskets are exclusively storage containers, she must pay sales tax on the purchase price of the baskets.

“What Information Must I Enter On The Exempt Use Certificate?”

- Registered Businesses -
 1. The name and address of your supplier
 2. The merchandise you are purchasing and the purpose for which it will be used
 3. The date of your purchase
 4. The name of your business
 5. Your Certificate of Authority number
 6. The signature of an authorized agent of your business

- Eligible Nonregistered Purchasers -
 1. The name and address of your supplier
 2. The merchandise you are purchasing and the purpose for which it will be used
 3. The date of purchase
 4. Your name and signature
 5. Your Federal Identification number or your Social Security number.

NOTE: Commercial Motor Vehicle Operators - Your I.C.C. permit number may be used for qualifying commercial motor vehicle transactions if your vehicle is registered in New Jersey.

“When May I Accept New Jersey Exempt Use Certificates?”

Once your business is registered, you are authorized to collect New Jersey sales tax and to accept all New Jersey Exemption Certificates, including the exempt use certificate. When you are not presented with a New Jersey Exempt Use Certificate, you are required by law to collect a 5% sales tax on taxable items and to remit it to the New Jersey Division of Taxation. If you accept a New Jersey Exempt Use Certificate in “good faith”, you should not charge sales tax.

“What Is ‘Good Faith’?”

“Good faith” is the reasonable belief that the purchaser has the right to make a tax exempt purchase. In order for “good faith” to be established, the following conditions must be met:

- The certificate must be an official form or proper reproduction;
- The certificate must be dated and include the purchaser's identification number, I.C.C. permit number or Social Security number - whichever applies;
- The certificate must be completed fully, truthfully and accurately; and
- The merchandise purchased must be one that is ordinarily used in the purchaser's business (in the case of a business).

NOTE: If all of these conditions are not met, you may not accept the exempt use certificate, but must collect sales tax instead.

“Which Exempt Use Certificates May I Accept?”

You may accept New Jersey Exempt Use Certif-

icates only. Exempt use certificates from other states are not valid in New Jersey.

“Do I Need A New Exempt Use Certificate For Each Transaction?”

No. Additional purchases by the same business may be covered by one exempt use certificate - provided the merchandise purchased is of the same general type or will be used for the same purpose. You should keep the original certificate in your files and record each subsequent sale by stating the purchaser's name, address and identification number on the sales slip.

Likewise, when you purchase merchandise for your business with an exempt use certificate, you may make similar purchases without issuing another exempt use certificate.

“How Long Should I Keep Exempt Use Certificates After Accepting Them?”

You should keep all certificates in your files for three years in case of an audit by the New Jersey Division of Taxation.

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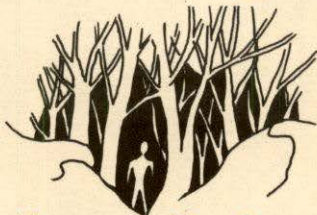
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Lost In New Jersey Taxes?



Taxpayer Services Can Show You the Way

If you have questions about anything in this brochure - or questions about any New Jersey taxes - we can help. We offer a wide range of services including small business seminars, walk-in tax assistance and a taxpayer information telephone center for your convenience.

Call our telephone information center through your nearest Division of Taxation office listed below:

Cherry Hill Office

(Serving Burlington &
Camden Counties)
(609)795-5970

Somerville Office

(Serving Warren,
Hunterdon, Mercer,
Morris, Somerset &
Sussex Counties)
(201)526-7665

Newark Office

(Serving Essex, Hudson
& Union Counties)
(201)648-3690

Vineland Office

(Serving Atlantic,
Cape May, Cumberland
Gloucester &
Salem Counties)
(609)691-9020

Sea Girt Office

(Serving Middlesex,
Monmouth & Ocean
Counties)
(609)449-0200

Fair Lawn Office

(Serving Bergen &
Passaic Counties)
(201)265-8610

Trenton

Main Office
(609)292-6400

or write to us:

Taxpayer Services

**New Jersey Division of Taxation
West State and Willow Streets
Trenton, New Jersey 08646**

Need Forms? The forms mentioned in this brochure are available from Taxpayer Services.