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## Direct Payment Permits

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### Introduction

A direct payment permit allows eligible businesses that are unable to determine at the time of a purchase how otherwise taxable property or services will be used to pay sales tax directly to the Tax Department instead of paying tax to a seller. This bulletin explains:

- eligibility rules for a direct payment permit;
- how to apply for a permit;
- the proper use of a permit; and
- how to report and pay taxes on purchases made using a permit.

**Note:** A direct payment permit is not the same as a sales tax exemption certificate. An exemption certificate allows a purchaser to make tax-free purchases that would otherwise be subject to sales tax. See Tax Bulletin [Exemption Certificates for Sales Tax \(TB-ST-240\)](#), for additional information.

### Eligibility

To be eligible for a direct payment permit, a business must:

- be registered for sales tax purposes;
- maintain a place of business in New York State;
- have filed all required returns and paid all taxes due on time for the four preceding sales tax quarters immediately prior to applying for a direct payment permit (an exception applies to a new vendor that has not yet filed returns); and
- be unable to determine at the time of a purchase how otherwise taxable property or services will be used.

### Applying for and receiving a direct payment permit

A business must file [Form AU-298, Application for a Direct Payment Permit](#), and attach a statement that describes:

- the specific reasons the direct payment permit is needed;
- the types of transactions for which the permit will be used; and
- how the business will account for any taxes due, including the types of records that will be kept.

The Tax Department will issue a specifically numbered direct payment permit to approved applicants for use when making qualifying purchases. If an application is not approved, the business will be notified by mail.

### Proper use of a direct payment permit

A direct payment permit may **only** be used:

- by the business to which it has been issued; and

- when the business is unable to determine at the time of a purchase how otherwise taxable property or services will be used.

A business that has received a direct payment permit must provide a seller with a copy of the permit when first making a qualifying purchase of tangible personal property or services.

A direct payment permit **cannot** be used to:

- defer payment of the sales tax on purchases;
- substitute for a resale or other exemption certificate; or
- transfer the permit holder's privileges to someone else.

*Example: A business with a direct payment permit purchases display cases for use in its showroom. Since it is known at the time of the transaction that the purchase is taxable, the business cannot give its supplier a copy of its direct payment permit to defer payment of the tax due.*

*Example: A business has a direct payment permit. It hires a contractor to construct an addition to its showroom. The contractor may not use the business's direct payment permit to defer the contractor's payment of tax on its purchases for the construction of the addition.*

Misuse of a permit or the failure to pay any taxes due will result in the assessment of penalty and interest. The business remains liable for the taxes due, and its permit is subject to revocation. For more information on penalties and interest, see [Sales and Use Tax Penalties \(TB-ST-805\)](#).

## Reporting and paying tax

Once property or services that have been purchased under a direct payment permit are actually used, the permit holder must:

- determine whether or not that use is taxable;
- maintain records detailing all purchases and how and where they are used; and
- report and remit any taxes due with the sales tax return covering the period when the taxable use occurs.

Follow these rules to compute and report taxes due:

- Purchases originally made and delivered in a jurisdiction having a **higher** tax rate than the eventual jurisdiction of use are subject to tax and must be reported for the jurisdiction having the **higher** rate.
- Purchases originally made and delivered in a jurisdiction having a **lower** tax rate than the eventual jurisdiction of use must be reported for the jurisdiction of delivery at the lower tax rate and are also subject to **additional use tax** for the jurisdiction with the **higher** rate.
- Purchases made **in bulk** and later used in jurisdictions having different tax rates are subject to tax based on the rate in the **jurisdiction of use**.

*Example: A direct payment permit holder purchases and takes delivery of a fork lift in County X (8% tax rate) for use in its plant located in County Y (7% tax rate). The permit holder does not know at the time of purchase whether the fork lift's use will qualify it as exempt production equipment. If the fork lift is not used for an exempt purpose, the permit holder must report the purchase on its next sales tax return on the line for County X and remit 8% tax based upon the point of delivery.*

*Example: A direct payment permit holder purchases and takes delivery of a fork lift in County A (7% tax rate) for use in its plant located in County B (8% tax rate). The permit holder does not know at the time of purchase whether the fork lift's use will qualify it as exempt production equipment. If the fork lift is not used for an exempt purpose, the permit holder must report the purchase on its next sales tax return on the line for County A and remit 7% tax based upon the point of delivery. The purchase is also subject to an additional use tax of 1% for use of the fork lift in County B.*

*Example: A direct payment holder has its main office in County L where the tax rate is 7%. It also has branch offices in County M (8% tax rate) and County N (8¼% tax rate). The business purchases various office and merchandising supplies, such as invoice books, stationery, and catalogs, in bulk. The supplies are for use throughout New York State in all of the business's offices. At the time of purchase the business does not know at which office location any of the supplies will ultimately be used. The supplies are delivered to the business's main office in County L. The business stores the supplies at its warehouse in County L and periodically distributes these supplies to its branch offices as needed. During a reporting period the business withdraws these supplies for use as follows:*

County L office	\$2,000
County M office	\$1,000
County N office	\$1,000

*On its sales tax return for the period, the business must report the tax due on the supplies as follows:*

<i>Jurisdiction</i>	<i>Purchases subject to tax</i>	<i>Tax rate</i>	<i>Sales and use tax</i>
<i>County L</i>	<i>\$2,000</i>	<i>7%</i>	<i>\$140.00</i>
<i>County M</i>	<i>1,000</i>	<i>8%</i>	<i>80.00</i>
<i>County N</i>	<i>1,000</i>	<i>8¼%</i>	<i>87.50</i>

**Changes in business information**

A business must return its direct payment permit to the Tax Department if it:

- closes or suspends operations, or
- changes its business's name or legal form (e.g., a corporation reorganizes as an LLC).

A business that changes its business's name or legal form must apply for a new *Certificate of Authority* and a new direct payment permit.

Note: A Tax Bulletin is an informational document designed to provide general guidance in simplified language on a topic of interest to taxpayers. It is accurate as of the date issued. However, taxpayers should be aware that subsequent changes in the Tax Law or its interpretation may affect the accuracy of a Tax Bulletin. The information provided in this document does not cover every situation and is not intended to replace the law or change its meaning.

**References and other useful information**

**Tax Law:** Sections 1119(a) and 1132(c)

**Regulations:** Sections 532.5 and 541.5

**Publications:** [Publication 862](#), *Sales and Use Tax Classifications of Capital Improvements and Repairs to Real Property*

**Bulletins:** [Sales and Use Tax Penalties \(TB-ST-805\)](#)