
State of South Carolina
Department of Revenue
301 Gervais Street, P.O. Box 125, Columbia, South Carolina 29214

SC REVENUE ADVISORY BULLETIN #00-6

- SUBJECT:** Procurement Card Transactions
(Sales and Use Tax)
- EFFECTIVE DATE:** Applies to all periods open under the statute.
- SUPERSEDES:** All previous advisory opinions and any oral directives in conflict herewith.
- REFERENCE:** SC Regulation 117-7 (Supp. 1999)
S. C. Code Ann. Section 12-36-2570(E) (Supp. 1999)
- AUTHORITY:** S. C. Code Ann. Section 12-4-320 (Supp. 1999)
S. C. Code Ann. Section 1-23-10(4) (Supp. 1999)
SC Revenue Procedure #99-4
- SCOPE:** The purpose of a Revenue Advisory Bulletin is to provide guidance to the public and to Department personnel. It is a written statement issued to apply principles of tax law to a specific set of facts or a general category of taxpayers. A Revenue Advisory Bulletin does not have the force or effect of law, and is not binding on the public. It is, however, the Department's position and is binding on agency personnel until superseded or modified by a change in statute, regulation, court decision, or advisory opinion

INTRODUCTION:

Many businesses are now using "procurement cards" in purchasing tangible personal property for their own use or consumption.

Procurement cards are corporate charge cards issued to specific employees. The company authorizes specific employees to use the cards and sets various restrictions on the use of the cards, depending on the employee and his or her duties. A procurement card replaces the various steps of the typical purchasing process of a business. The typical purchasing process includes a requisition, followed by a purchase order, followed by an invoice, followed by approval of the invoice, and completed with the payment to the vendor.

At the point of sale, the procurement card operates the same as the traditional charge or credit card. In an "over-the-counter" transaction, the card user presents the card and then signs and receives some form of documentation. Transaction are also handled over the telephone in which the employee provides the card number to the vendor and the goods are shipped in accordance with the employee's instructions (along with applicable documentation).

The vendor is paid by the card issuer or merchant processor. The card issuer receives payment from the company that purchased the goods with the procurement card. The card issuer bills the company on a periodic basis and provides the company periodic information statements in paper or electronic form.

While the use of these cards is designed to reduce costs, their use also raises questions concerning proper record keeping.

Note: For more detailed information concerning procurement cards, see “Procurement Cards and Tax Compliance: Bridging the Gap” - A Report of the Steering Committee Task Force on EDI Audit and Legal Issues for Tax Administration. Federation of Tax Administrators, June 1997.

ISSUE:

The primary question with respect to procurement cards concerns whether the information provided by the card issuer on the periodic statements is sufficient to document that the correct amount of sales or use tax (state and local) is paid.

LAW AND REGULATIONS:

In determining what information is required to verify that the proper sales and use taxes are paid, we must review Regulation 117-7 - Model Recordkeeping and Retention. Subsection C(1) of the regulation states:

Pursuant to Code Section 12-54-210, a taxpayer shall maintain all records that are necessary to a determination of the correct tax liability under laws administered by the department. All required records must be made available on request by the department or its authorized representatives as provided for in Code Sections 12-54-100 and 12-4-330(A).

Subsection (L)(3) states:

Hardcopy records generated at the time of a transaction using a credit or debit card must be retained unless all the details necessary to determine correct tax liability relating to the transaction are subsequently received and retained by the taxpayer in accordance with this regulation. Such details include those listed in subsection (E)(1).

Subsection (E)(1) states:

Where a taxpayer uses electronic data interchange processes and technology, the level of record detail, in combination with other records related to the transactions, must be equivalent to that contained in an acceptable paper record. For example, the retained records should contain such information as vendor name, invoice date, product description, quantity purchased, price, amount of tax, indication of tax status, shipping detail, etc. Codes may be used to identify some or all of the data elements, provided that the taxpayer provides a method which allows the department to interpret the coded information. (Emphasis added.)

Code Section 12-36-2570(E) states:

The commission may enter into an agreement with a taxpayer which allows the taxpayer to remit the tax on statistical factors as set forth in the agreement. This method of reporting only applies to purchases by the taxpayer for its use, storage, or consumption, and not to purchases by the taxpayer for resale.

CONCLUSION:

Periodic statements provided by procurement card issuers to card users are acceptable as appropriate documentation under Regulation 117-7 (in lieu of retaining and providing invoices or individual charge card receipts) provided the statements contain the requisite transaction level information required by Regulation 117-7 and as discussed above.

The type of documentation needed will depend on the nature of the transaction. And while all of the information listed below may not be necessary for each transaction, the periodic statements provided by the card issuer, in order to determine the correct tax due with respect to procurement card purchases, should generally include:

- Seller's Name and Location
- Purchaser's Name and Location
- Transaction Date
- Ship to Location (with specificity) or FOB Point
- Item or Product Description and Quantity Purchased
- Unit and Total Price of Item or Product Purchased
- Indicator of Taxability or Non-taxability of Item
- Description of any Associated Services (e.g. Freight, Shipping, Handling, Warranty, Installation, Maintenance, Etc.)
- Charges for Associated Services
- Amounts of any Discounts
- Amount of Tax Paid or Accrued
- Certificate (Resale or Exemption) on File (Type, Number and Effective Date)
- Link to Purchaser's Accounting Records
- Any other information needed to properly determine the tax due (if any)

In addition, under Code Section 12-36-2570(E), taxpayers may remit the sales or use tax based on statistical factors if the taxpayer has entered into an agreement with the department to do so. Allowing the use of statistical factors is at the discretion of the department and, if allowed, only applies to purchases by the taxpayer for its use, storage, or consumption, and not to purchases by the taxpayer for resale.

Requests for using statistical factors as set forth in Code Section 12-36-2570(E) should be submitted to:

SC Department of Revenue
Audit Services Administrator
P.O. Box 125
Columbia, South Carolina 29214

Note: A copy of Regulation 117-7 is attached as a reference to this advisory opinion.

117-7. Model Recordkeeping and Retention.

(A) The purpose of this regulation is to define the requirements imposed on taxpayers for the maintenance and retention of books, records, and other sources of information under Code Section 12-54-210. It is also the purpose of this regulation to address these requirements where all or a part of the taxpayer's records are received, created, maintained, or generated through various computer, electronic, and imaging processes and systems.

(B) For the purposes of this regulation, these terms shall be defined as follows:

- (1) "Database management system" means a software system that controls, relates, retrieves, and provides accessibility to data stored in a database.
- (2) "Electronic data interchange" or "EDI technology" means the computer-to-computer exchange of business transactions in a standardized structured electronic format.
- (3) "Hardcopy" means any documents, records, reports, or other data printed on paper.
- (4) "Machine-sensible record" means a collection of related information in an electronic format. Machine-sensible records do not include hardcopy records that are created or recorded on paper or stored in or by an imaging system such as microfilm, microfiche, or storage-only imaging systems.
- (5) "Storage-only imaging system" means a system of computer hardware and software that provides for the storage, retention, and retrieval of documents originally created on paper. It does not include any system, or part of a system, that manipulates or processes any information or data contained on the document in any manner other than to reproduce the document in hardcopy or as an optical image.
- (6) "Taxpayer" as used in this regulation means a person who is liable for a tax or who is responsible for collecting and remitting a tax. "Taxpayer" includes any licensee and any applicant for a license, issued by or administered by the department.
- (7) "department" means the Department of Revenue.

(C)(1) Pursuant to Code Section 12-54-210, a taxpayer shall maintain all records that are necessary to a determination of the correct tax liability under laws administered by the department. All required records must be made available on request by the department or its authorized representatives as provided for in Code Sections 12-54-100 and 12-4-330(A).

(2) If a taxpayer retains records required to be retained under this regulation in both machine-sensible and hardcopy formats, the taxpayer shall make the records available to the department in machine-sensible format upon request of the department pursuant to Code Sections 12-54-100 and 12-4-330(A).

(3) Nothing in this regulation shall be construed to prohibit a taxpayer from demonstrating tax compliance with traditional hardcopy documents or reproductions thereof, in whole or in part, whether or not such taxpayer also has retained or has the capability to retain records on electronic or other storage media in accordance with this regulation. However, this provision shall not relieve the taxpayer of the obligation to comply with this subsection.

(D)(1) Machine-sensible records used to establish tax compliance shall contain sufficient transaction-level detail information so that the details underlying the machine-sensible records can be identified and made available to the department upon request. A taxpayer has discretion to discard duplicated records and redundant information provided its responsibilities under the law are met.

(2) At the time of an examination, the retained records must be capable of being retrieved and converted to a standard record format.

(3) Taxpayers are not required to construct machine-sensible records other than those created in the ordinary course of business. A taxpayer who does not create the electronic equivalent of a traditional paper document in the ordinary course of business is not required to construct such a record for tax purposes.

(E)(1) Where a taxpayer uses electronic data interchange processes and technology, the level of record detail, in combination with other records related to the transactions, must be equivalent to that contained in an acceptable paper record. For example, the retained records should contain such information as vendor name, invoice date, product description, quantity purchased, price, amount of tax, indication of tax status, shipping detail, etc. Codes may be used to identify some or all of the data elements, provided that the taxpayer provides a method which allows the department to interpret the coded information.

(2) The taxpayer may capture the information necessary to satisfy section (E)(1) at any level within the accounting system and need not retain the original EDI transaction records provided the audit trail, authenticity, and integrity of the retained records can be established. For example, a taxpayer using electronic data interchange technology receives electronic invoices from its suppliers. The taxpayer decides to retain the invoice data from completed and verified EDI transactions in its accounts payable system rather than to retain the EDI transactions themselves.

Since neither the EDI transaction nor the accounts payable system captures information from the invoice pertaining to product description and vendor name (i.e., they contain only codes for that information), the taxpayer also retains other records, such as its vendor master file and product code description lists and makes them available to the department. In this example, the taxpayer need not retain its EDI transaction for tax purposes.

(F) The requirements for an electronic data processing accounting system should be similar to that of a manual accounting system, in that an adequately designed accounting system should incorporate methods and records that will satisfy the requirements of this law.

(G)(1) Upon the request of the department, the taxpayer shall provide a description of the business process that created the retained records. Such description shall include the relationship between the records and the tax documents prepared by the taxpayer and the measures employed to ensure the integrity of the records.

(2) The taxpayer shall be capable of demonstrating:

- (a) the functions being performed as they relate to the flow of data through the system;
- (b) the internal controls used to ensure accurate and reliable processing; and,
- (c) the internal controls used to prevent unauthorized addition, alteration, or deletion of retained records

(3) The following specific documentation is required for machine-sensible records retained pursuant to this regulation:

- (a) record formats or layouts;
- (b) field definitions (including the meaning of all codes used to represent information);
- (c) file descriptions (e.g., data set name);
- (d) detailed charts of accounts and account descriptions.

(H)(1) It is recommended but not required that taxpayers refer to the National Archives and Record Administration's (NARA) standards for guidance on the maintenance and storage of electronic records, such as the labeling of records, the location and security of the storage environment, the creation of back-up copies, and the use of periodic testing to confirm the continued integrity of the records. [The NARA standards may be found at 36 Code of Federal Regulations, Part 1234, July 1, 1995 edition.]

(2) The taxpayer's computer hardware or software shall accommodate the extraction and conversion of retained machine-sensible records.

(I)(1) The manner in which the department is provided access to machine-sensible records as required in subsection (C)(2) of this regulation may be satisfied through a variety of means that shall take into account a taxpayer's facts and circumstances through consultation with the taxpayer.

(2) Such access will be provided in one or more of the following ways:

- (a) The taxpayer may arrange to provide the department with the hardware, software, and personnel resources to access the machine-sensible records;
- (b) The taxpayer may arrange for a third party to provide the hardware, software, and personnel resources necessary to access the machine-sensible records;
- (c) The taxpayer may convert the machine-sensible records, including copies of files, to a standard record format specified by the department on a magnetic medium that is agreed to by the department;
- (d) The taxpayer and the department may agree on other means of providing access to the machine-sensible records.

(J)(1) In conjunction with meeting requirements of subsection (D), the taxpayer may create files solely for the use of the department. For example, if a database management system is used, it is consistent with this regulation for the taxpayer to create and retain a file that contains the transaction-level detail from the data-base management system and that meets the requirements of subsection (D). The taxpayer should document the process that created the separate file to show the relationship between that file and the original records.

(2) A taxpayer may contract with a third party to provide custodial or management services of the records. Such a contract shall not relieve the taxpayer of its responsibilities under the law or this regulation.

(K)(1) For purposes of storage and retention, taxpayers may convert hardcopy documents received or produced in the normal course of business and required to be retained under this regulation to microfilm, microfiche or other storage-only imaging systems and may discard the original hardcopy documents provided the conditions of this regulation are met. Documents that may be stored on these media include, but are not limited to, general books of account, journals, voucher registers, general and subsidiary ledgers, and supporting records of details such as sales invoices, purchase invoices, exemption certificates, and credit memoranda.

(2) Microfilm, microfiche, and other storage-only imaging systems shall meet the following requirements:

- (a) Documentation establishing the procedures for converting the hardcopy documents to microfilm, microfiche, or other storage-only imaging systems must be maintained and made available on request. Such documentation shall, at a minimum, contain a sufficient description to allow an original document to be followed through the conversion system as well as internal procedures established for inspection and quality assurance.
- (b) Procedures must be established for the effective identification, processing, storage, and preservation of the stored documents and for making them available for the period they are required to be retained.

(c) Upon request by the department, a taxpayer must provide facilities and equipment for reading, locating, and reproducing any documents maintained on microfilm, microfiche, or other storage-only imaging systems.

(d) When displayed on such equipment or reproduced on paper, the documents must exhibit a high degree of legibility and readability. For this purpose, legibility is defined as the quality of a letter or numeral that enables the observer to identify it positively and quickly to the exclusion of all other letters or numerals. Readability is defined as the quality of a group of letters or numerals being recognizable as words or complete numbers.

(e) All data sorted on microfilm, microfiche, or other storage-only imaging systems must be maintained and arranged in a manner that permits the location of any particular record.

(f) There is no substantial evidence that the microfilm, microfiche, or other storage-only imaging system lacks authenticity or integrity.

(L)(1) Except as otherwise provided in this regulation, the provisions of this regulation do not relieve taxpayers of the responsibility to retain hardcopy records that are created or received in the ordinary course of business as required by existing law and regulations. Hardcopy records may be retained on a recordkeeping medium as provided in subsection (K) of this regulation.

(2) If hardcopy records are not produced or received in the ordinary course of transacting business (e.g., when the taxpayer uses electronic data interchange technology), such hardcopy records need not be created.

(3) Hardcopy records generated at the time of a transaction using a credit or debit card must be retained unless all the details necessary to determine correct tax liability relating to the transaction are subsequently received and retained by the taxpayer in accordance with this regulation. Such details include those listed in subsection (E)(1).

(4) Computer printouts that are created for validation, control, or other temporary purposes need not be retained.

(5) Nothing in this regulation shall prevent the department from requesting hardcopy printouts in lieu of retained machine-sensible records at the time of examination.

(M) The department may allow a taxpayer to use other methods of maintaining and providing records that are received, created, maintained, or generated through various computer, electronic, and imaging processes and systems where such is in the best interest of the state.

Added by State Register Volume 22, Issue No. 6, Part 3, eff June 26, 1998.

SOUTH CAROLINA DEPARTMENT OF REVENUE

s/Elizabeth Carpentier
Elizabeth Carpentier/Director

August 7 _____, 2000
Columbia, South Carolina