



Excise Tax Advisory

Excise Tax Advisories are interpretive statements authorized by RCW 34.05.230.

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Manufacturers' Machinery and Equipment Exemption — Computers

The Department has issued a series of excise tax advisories (ETAs) to address questions regarding the retail sales and use tax exemption provided by RCW 82.08.02565 and 82.12.02565, commonly referred to as the manufacturers' machinery and equipment exemption (M&E exemption). This ETA is issued to address the application of the M&E exemption to computers. Please refer to ETA 3117.2009 for a current list of the issues covered by this series.

In addition to the issues discussed in this ETA series, machinery and equipment must also meet the other requirements of the statutes to be eligible for the exemption. For example, some of the requirements include:

- Purchaser/User must be a manufacturer, processor for hire, or a tester for a manufacturer or processor for hire,
- Must purchase machinery or equipment (devices, industrial fixtures, support facilities, pollution control equipment),
- The machinery or equipment must be used directly in a manufacturing, research and development, or testing operation,
- The machinery or equipment must have a useful life of one year or more, and
- The machinery or equipment must be used more than 50% of the time on an eligible activity.

Therefore, readers are advised that RCW 82.08.02565, RCW 82.12.02565, and WAC 458-20-13601 should also be referenced when making determinations about taxability.

The Department has been asked to provide guidance on the eligibility of computer systems, and hardware and peripherals.

Computer hardware and peripherals qualify for the M&E exemption if used directly in a qualifying operation. Peripherals include keyboards, monitors, mouse devices, and other accessories that operate outside of the computer.

All ETAs were cancelled on February 2, 2009 and those which had a continued use were rewritten and reissued using a new numbering system. The new ETAs are numbered using the following format 3nnn.yyyy. The Department of Revenue issued ETA 3001.2009 which includes a cross reference table showing the old and new ETA numbers for those ETAs that were rewritten.

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Rule 13601 provides that computers qualify if they “direct or control machinery or equipment that acts upon or interacts with tangible personal property” or “if they act upon or interact with an item of tangible personal property.” Computers also qualify if they meet any of the other “used directly” tests. These additional tests are:

- Conveys, transports, handles, or temporarily stores an item of tangible personal property at the manufacturing site or testing site;
- Controls, guides, measures, verifies, aligns, regulates, or tests tangible personal property at the site or away from the site;
- Provides physical support for or access to tangible personal property;
- Produces power for, or lubricates machinery and equipment;
- Produces another item of tangible personal property for use in the manufacturing operation, testing operation, or research and development operation;
- Places tangible personal property in the container, package, or wrapping in which the tangible personal property is normally sold or transported; or
- Is integral to research and development as defined in RCW 82.63.010.

Computer systems and networks

“Computer systems” is not a term that has any special meaning in the M&E statute. However, if it can be shown that an assemblage of computers acts as an integrated unit, with the various components acting upon each other and interacting together, the system itself qualifies as machinery and equipment if used directly in a qualifying operation. System components include fiber optic or copper cables and wires that distribute data throughout a system. To be viewed as an integrated unit it must be shown that the components are linked through steps and processes and that all of the components contribute to the overall process and are used in the manufacturing operation. An integrated computer system functions as a whole, and requires the various components to complete its work.

A network should be examined separately from an integrated computer system. A network is not necessarily an “integrated system. Generally a computer network is considered to be a combination of computers connected electronically. The term “network” is used to denote communication capabilities. Parts of a network might use the integrated system, but are not needed to make the integrated system operate. Workstations are examples of this. Each workstation must be individually examined to determine whether it is “used directly” in a qualifying operation.

Manufacturing operation issues

Some computer equipment and systems are used for both qualifying and nonqualifying purposes. For example, writing a story for a book or a newspaper is an activity that takes place outside of the manufacturing operation – it is product development. Product development is not a qualifying activity under the M&E exemption because it is not part of the manufacturing operation. The M&E statute provides that “[m]anufacturing operation” means the manufacturing of articles, substances, or commodities for sale as tangible personal property. A manufacturing operation begins at the point where the raw materials enter the manufacturing site....” The bright line is that manufacturing does not begin until the product itself is developed and production can begin.

Taking the completed manuscript or the finished story and preparing it for printing is an activity that falls within the manufacturing operation. For example, using a computer system to take a manuscript and prepare it for printing or using a computer system to layout a newspaper is part of the manufacturing operation, provided the final product is tangible personal property. The essential questions are whether the final product, e.g., a book or a printed newspaper, is a manufactured product, and whether the use of the computer equipment or system meets a used directly test. See ETA 3122.2009 for more information on design and a discussion of activities considered part of the manufacturing operation.

While machinery and equipment primarily used in design and product development does not qualify for the M&E exemption, a sales and use tax exemption is available for computer equipment used by a printer or publisher primarily in the printing or publishing of any printed material. This exemption is effective June 10, 2004, and it also includes repair parts and replacement parts for such equipment, as well as sales of or charges made for labor and services rendered in respect to installing, repairing, cleaning, altering, or improving such equipment. Refer to RCW 82.08.806 and 82.12.806 for additional information about this exemption.

Also, refer to RCW 82.08.975 and 82.12.975 for additional information about the commercial aerospace manufacturing industry computer equipment exemption on development, design, and engineering activities.

Majority use

Qualifying and nonqualifying uses of computers will be weighed against the majority use test. Computer equipment and computer systems that are used in a manner that satisfies the majority use test qualify for the exemption, provided they meet the other requirements of the exemption.
