



Special Notice

WASHINGTON STATE DEPARTMENT OF REVENUE

JULY 27, 2015

Machinery and Equipment Used in Developing Software

The Sales and Use Tax Exemptions

Effective August 1, 2015, Revised Code of Washington (RCW) [82.08.02565](#) and RCW [82.12.02565](#) are amended to provide that certain software developers are eligible for the sales tax and use tax exemptions for manufacturing machinery and equipment. See Engrossed Substitute Senate Bill (ESSB) 6138, Part III. See also RCW [82.63.010](#).

RCWs 82.08.02565 and 82.12.02565 provide sales tax and use tax exemptions, respectively, for purchases of qualifying machinery and equipment used directly in a manufacturing, research and development, or testing operation. These are often referred to as the M&E exemptions. ESSB 6138, Part III explains that software manufacturing businesses that either deliver prewritten software to customers electronically (i.e., not via tangible storage media like compact discs) or that provide remote access software also qualify for these sales and use tax exemptions. Note: Equipment primarily used in developing software for a digital automated service does not qualify for these exemptions.

Eligible Businesses

ESSB 6138, Part III explains that the definition of “manufacturer” includes businesses that are engaged in the development of prewritten computer software that is not transferred to purchasers by means of tangible storage media. Therefore a software manufacturer that delivers the final product to their customers electronically (e.g., via digital download) or by remote access is a “manufacturer” for purposes of the M&E exemption.

Note: An “ineligible person” (see below) is not allowed to use the sales tax and use tax exemptions.

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Ineligible Businesses

Businesses that *are not* eligible to use the sales and use tax exemptions are defined as follows:

“Ineligible person” means all members of an affiliated group when all the following apply:

1. At least one member of the affiliated group was registered with the Department of Revenue to do business in Washington State on or before July 1, 1981, and
2. As of August 1, 2015, the combined employment in Washington of the affiliated group exceeds forty thousand full-time and part-time employees, based on data reported to the Employment Security Department, and
3. The business activities of the affiliated group primarily include development, sales, and licensing of computer software and services.

Documentation Requirements

The purchaser must provide the seller with a [Manufacturer’s Sales and Use Tax Exemption Certificate](#). The exemption certificate must be completed in its entirety. The seller must retain a copy of the certificate as a part of its records. This certificate may be issued for each purchase, or in blanket form certifying all future purchases as being exempt from sales tax. Blanket certificates are valid for as long as the buyer and seller have a recurring business relationship. A “recurring business relationship” means at least one sale transaction within a period of twelve consecutive months.

Questions?

Call the Telephone Information Center at 360-705-6705.