Tax Exemption Certification

NOTE: The website URL for Workday reference guides that are referenced in this section is: https://jira.esg.wsu.edu/plugins/servlet/desk/portal/91

OVERVIEW

Machinery and equipment costing in excess of $2,500 which are purchased for University research and development activities may qualify for exemption of state sales and use tax. (RCW 82.08.02565) This state statute is known as the Machinery and Equipment Tax Exemption or the M&E Exemption.

The M&E Exemption applies to the following:

- Qualified equipment
- Allowable parts for qualified equipment
- Allowable labor and services rendered for qualified equipment

NOTE: For purposes of this section, machinery and equipment will be referred to as equipment.

See Qualifying Criteria.

REQUESTING TAX EXEMPTION

The department is to complete the Tax Exemption Questionnaire in Workday when creating the Requisition for each qualifying equipment item. (See BPPM 70.10 and the Workday Create Requisition reference guide.)

NOTE: Tax exemptions cannot be taken on equipment, parts, or services purchased with department Purchase Orders in Workday or procurement cards.

Penalties

Penalties for fraud and tax evasion, if assessed, are charged back to the department.

QUALIFYING CRITERIA

In order to qualify for tax exemption, the equipment must meet the mandatory and usage criteria described below.

Mandatory Criteria

The equipment must meet all of the following criteria.

Equipment

- Must cost in excess of $2,500.
- Must have a useful life of more than one year.
- Is not a consumable item, i.e., a good or supply used in departmental operations.
- Is not a hand-powered tool.
- If a building fixture, must be integral to research and development activity.
Tax Exemption Certification

Prohibited Use

The equipment must not be directly used for the following purposes:

- Adaptation or duplication of existing products not substantially improved by application of technology
- Surveys and studies
- Social science and humanities research
- Market research or testing
- Quality control
- Sale promotion or service
- Development of computer software for internal department use
- Research in areas such as improved style, taste, and seasonal design

Usage Criteria

The equipment must meet one or more of the following description criteria and one or more of the following applied use criteria.

Description Criteria

The goods and/or services to be certified as tax exempt must be described as one or more of the following:

- Equipment to be directly used more than 50 percent of the time in a research and development operation.
- Equipment to be directly used more than 50 percent of the time in testing operations.
- Equipment to be directly used more than 50 percent of the time in an approved manufacturing operation where more than half of the sales are to an outside supplier (e.g., cheese manufacturing).
- Labor and services rendered to install, repair, clean, alter, or improve qualified equipment.
- Parts that increase productivity, improve efficiency, or extend useful life of qualified equipment.
Tax Exemption Certification

Applied Use Criteria

In order for the applied use of the equipment to qualify as research and development, the item must be used for one or more of the following purposes:

- Activities performed to discover technological information, and technical and nonroutine activities concerned with translating technological information into new or improved products, processes, techniques, formulas, inventions, or software.

- Exploration of a new use for an existing drug, device, or biological product if the new use requires separate licensing by the Federal Food and Drug Administration under 21 CFR, as amended.