Tax Exemption Certification

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 attach a completed Tax Exemption Certification form for each qualifying equipment item to the Department Requisition submitted to Purchasing Services (BPPM 70.10).

NOTE: Tax exemptions cannot be taken on equipment, parts, or services purchased with Department Orders or purchasing cards.

Signatures
The following personnel must sign the form to certify that the equipment and its applied use meet the mandatory and usage criteria, as indicated:

• Principal investigator or departmental researcher
• Director or chair
• Dean or chancellor

The dean or chancellor may delegate authority to sign Tax Exemption Certifications to other departmental personnel by sending a memorandum to the University Controller.

The signatures must be applied personally by the indicated individuals. Facsimile or substitute signatures, e.g., signature stamps, are not acceptable. A printed or typed name and title must follow each signature.
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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
The 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.

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.
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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 vendor (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.

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 21CFR, as amended.