

Topic: Purchases of Machinery and Equipment for Research and Development Exempt from Sales and Use Tax	Effective Date: 8/1/2024
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Purpose and scope

The purpose of this procedure is to set forth the background and procedures related to the purchase of machinery and equipment used primarily in research and development operations by Eastern Washington University.

Background

In 2011, the state of Washington began offering a sales and use tax exemption on sales of machinery and equipment that is used in research and development in the state of Washington by public research institutions. In order to best understand this incentive, it is important to define all of the terms being used, for that see the definitions section below.

Claiming the exemption removes Washington sales and use tax from qualified machinery and equipment. The exemption is claimed by providing the vendor with a certificate (form 27-0021) which states that purchase is exempt. The vendor does not need to file this form, only retain it for their records. For each year when the exemption is claimed, the University must file an Annual Tax Performance Report by May 31 of the following year, which contains information on the amount and types of exemptions claimed as well as payroll for Washington employees. These reports are public information and are published on the Department of Revenue website. EWU's account with the department of revenue requires that we call the department of revenue to enable the online filing of this report for each year where an exemption is claimed. When claiming an exemption, baseline years can be added to the reporting meaning that even in years where no benefit is claimed an Annual Tax Performance Report may be required.

In the event of an audit, it is imperative to have proper documentation to support the claimed exemptions.

Procedures

When a transaction has been identified as containing qualified machinery and equipment the following procedure will be followed. EWU will not review transactions for exempt purchases below \$2,000.

- The department applying for the exemption will complete the Sales Tax Exemption Certification Request Form and submit the form and relevant supporting documentation (ex. invoice or quote) to Procurement and Contracts at least 10 business days prior to any required determination.
 - The form must include the signature of an individual with significant authority – department chair, associate dean, or other individual of greater authority.
- Procurement will review the completed form for accuracy and whether it qualifies for the exemption.
 - If the transaction qualifies, Procurement will complete form 27-0021 for the transaction and send a copy to the vendor and requesting department.
 - Incomplete or nonqualifying requests should be returned to the requester.

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- At calendar year-end, Tax Compliance will request from Procurement a listing of all transactions where this exemption was claimed.
- If exemptions were claimed or a filing is required, the Tax Compliance Manager will complete the Annual Performance Report filing with the Washington Department of Revenue, which is due by May 31 of the year following the claiming of an exemption.
- In the event of penalties being assessed due to an improper claim of exemption, the penalties and related charges will be charged to the department that authorized the exemption.
- Procurement and the Tax Compliance Manager must retain adequate documentation to support the exemptions claimed for a minimum of 5 calendar years.

Definitions

- Machinery and Equipment - those fixtures, pieces of equipment, digital goods, and support facilities that are an integral and necessary part of a research and development operation, and tangible personal property that becomes an ingredient or component of such fixtures, equipment, and support facilities, including repair parts and replacement parts. "Machinery and equipment" may include, but is not limited to: Computers; software; data processing equipment; laboratory equipment, instrumentation, and other devices used in a process of experimentation to develop a new or improved pilot model, plant process, product, formula, or invention; vats, tanks, and fermenters; operating structures; and all equipment used to control, monitor, or operate the machinery and equipment.
 - Machinery and Equipment does not include:
 - Hand-powered tools
 - Property with a useful life of less than one year (including consumables)
 - Buildings, and
 - Building fixtures that are not integral and necessary to research and development and become a permanent part of the building.
- Primarily - means greater than fifty percent as measured by time. If machinery and equipment is used simultaneously in a research and development operation and also for other purposes, the use for other purposes must be disregarded during the period of simultaneous use for purposes of determining whether the machinery and equipment is used primarily in a research and development operation.
- Public Research Institution – Defined in RCW 28B.10.016, includes Eastern Washington University, Central Washington University, Western Washington University, Evergreen State College, University of Washington, and Washington State University.
- Qualified Research and Development - research and development performed within this state in the fields of advanced computing, advanced materials, biotechnology, electronic device technology, and environmental technology.
- Research and Development - 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. The term includes exploration of a new use for an existing drug, device, or biological product if the new

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use requires separate licensing by the federal food and drug administration under chapter 21, C.F.R., as amended. The term does not include adaptation or duplication of existing products where the products are not substantially improved by application of the technology, nor does the term include surveys and studies, social science and humanities research, market research or testing, quality control, sale promotion and service, computer software developed for internal use, and research in areas such as improved style, taste, and seasonal design.

Eastern Washington University is a public research institution as identified in RCW 28B.10.016. Machinery and equipment is identified in RCW 82.08.025651 as:

(3) For purposes of this section, the following definitions apply:

(a) "Machinery and equipment" means those fixtures, pieces of equipment, digital goods, and support facilities that are an integral and necessary part of a research and development operation, and tangible personal property that becomes an ingredient or component of such fixtures, equipment, and support facilities, including repair parts and replacement parts.

"Machinery and equipment" may include, but is not limited to: Computers; software; data processing equipment; laboratory equipment, instrumentation, and other devices used in a process of experimentation to develop a new or improved pilot model, plant process, product, formula, or invention; vats, tanks, and fermenters; operating structures; and all equipment used to control, monitor, or operate the machinery and equipment.

(b) "Machinery and equipment" does not include:

(i) Hand-powered tools;

(ii) Property with a useful life of less than one year;

(iii) Buildings; and

(iv) Those building fixtures that are not an integral and necessary part of a research and development operation and that are permanently affixed to and become a physical part of a building, such as utility systems for heating, ventilation, air conditioning, communications, plumbing, or electrical.

In order to qualify for exemption, the equipment must be primarily used in research in one of the following areas:

- Advanced computing - technologies used in the designing and developing of computing hardware and software, including innovations in designing the full spectrum of hardware from hand-held calculators to super computers, and peripheral equipment.
- Advanced materials - materials with engineered properties created through the development of specialized processing and synthesis technology, including ceramics, high value-added metals, electronic materials, composites, polymers, and biomaterials.
- Biotechnology – the application of technologies, such as recombinant DNA techniques, biochemistry, molecular and cellular biology, genetics and genetic engineering, cell fusion techniques, and new bioprocesses, using living organisms, or parts of organisms, to produce or modify products, to improve plants or animals, to develop microorganisms for specific uses, to

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identify targets for small molecule pharmaceutical development, or to transform biological systems into useful processes and products or to develop microorganisms for specific uses.

- Electronic device technology - technologies involving microelectronics; semiconductors; electronic equipment and instrumentation; radio frequency, microwave, and millimeter electronics; optical and optic-electrical devices; and data and digital communications and imaging devices.
- Environmental technology - assessment and prevention of threats or damage to human health or the environment, environmental cleanup, and the development of alternative energy sources.

Revision History

6/5/2024 Created by Carl Ingram, Tax Compliance Manager

7/29/2024 Carl Ingram, Tax Compliance Manager – Made final edits prior to effective date based on feedback from other departments