

## Seattle Rule 5-501 – Computer hardware

- (1) Introduction.** This rule explains the business license tax treatment of activities related to computer hardware. Such activities include, but are not limited to, selling, leasing, manufacturing, installing, repairing, and maintaining computer hardware.

~~This rule contains examples that identify a number of facts and then state a conclusion. The examples should be used only as a general guide. The tax results in all situations must be determined after a review of all facts and circumstances.~~

Examples included in this rule identify facts and then state a conclusion; they should be used only as a general guide. The tax consequences of all situations must be determined after a review of all facts and circumstances. Additionally, each fact pattern in each example is self-contained (i.e., "stands on its own") unless otherwise indicated by reference to another example. Examples concluding that business license tax applies to the transaction assume that no exclusions or exemptions apply and the sale is sourced to Seattle.

### **(2) Definitions.**

- (a) Computer. A “computer” is an electronic device that accepts information in digital or similar form and manipulates it for a result based on a sequence of instructions. Examples of a computer include, but are not limited to, mainframe computer, laptop, workstation, and desktop computer. “Computer” also includes automatic data processing equipment, which is a computer used for data processing purposes. “Computer” does not include any computer software or peripheral devices.
- (b) Computer hardware. “Computer hardware” includes, but is not limited to, the mechanical, magnetic, electronic, or electrical components of a computer system such as towers, motherboards, central processing units (CPU), hard disk drives, memory, as well as internal and external peripheral devices such as compact disk read-only memory (CD\*\_ROM) drives, compact disk re\_writable (CD-RW) drives, zip drives, internal and external modems, wireless fidelity (Wi-Fi) devices, floppy disks, compact disks (CDs), digital versatile disks (DVDs), cables, mice, keyboards, printers, monitors, scanners, web\_cameras, speakers, and microphones.
- (c) Computer network. A “computer network” is two or more computers and associated computer software that uses common storage.
- (d) Computer system. A “computer system” is a functional unit, consisting of one computer and associated computer software, ~~whereas a computer network is two or more computers and associated computer software that uses common storage~~. A computer system may or may not include peripheral devices.

**(3) Taxation of computers, computer systems, and computer hardware.**

- (a) ~~Retail and wholesale sales.~~ Wholesale sales of computer hardware. Gross proceeds of sales of computers, computer systems, and computer hardware to persons other than consumers (i.e., sales for resale without intervening use) are subject to taxation under the wholesaling or retailing classifications, ~~as the case may be.~~
- (b) Retail sale of computer hardware. Gross proceeds of sales of computers, computer systems, and computer hardware to consumers are subject to tax under the retail sales and retail services classification. ~~Sales to consumers are retail sales and sales to persons who resell the equipment are wholesale sales.~~ Separately stated charges for custom programming installed software sold with the ~~associated~~ computer system ~~software~~ are subject to taxation under the service and other business activities classification. See Seattle Rule 5-500(3)(a) (Taxation of custom software)
- (c) Manufacturing computers, computer systems, and computer hardware. Persons ~~engaged in~~ manufacturing computers, computer systems, and computer hardware in Seattle are subject to taxation under the manufacturing classification upon the value of the products. See Seattle Rule 5-044 (Value of products) and 5-111 (Manufacturing, processing for hire, fabricating). Manufacturers of computers, computer systems, and computer hardware who sell their products at retail or wholesale in Seattle are also subject to taxation under either the retail sales and retail services ~~retailing or wholesaling classifications, as the case may be.~~ In such cases, the manufacturer must report under both the “production” (manufacturing) and “selling” (wholesaling or ~~retailing~~ retail sales and retail services) classifications and may claim a multiple activities tax credit.
  - (i) Separately stated charges for custom programming ~~involved~~ sold with the ~~associated~~ computer software are not subject to taxation under the manufacturing classification but are subject to tax under the service and other business activities tax classification.
  - (ii) Separately stated charges for computer software sold and installed after the sale of a computer system are not subject to taxation under the manufacturing classification.
  - (iii) The combining of a computer system with certain peripheral devices is considered a packaging activity not subject to tax under the manufacturing classification, when the following occurs:
    - (A) The peripheral devices remain in the original packaging;
    - (B) The person does not attach its own label to the peripheral devices;
    - (C) The person maintains a separate inventory of the peripheral devices for sale apart from the sale of the computer system; and

- (D) The charge for the sale of peripheral devices is separately stated from the charge for the sale of computer system.

(d) Examples.

~~(i)~~Example 1. ABC Computers Inc. a Seattle manufacturer, manufactures and sells computer systems at retail. ABC sells a computer system to Customer X in Seattle for one flat charge. The computer system includes a disk drive, memory, CPU, keyboard, mouse, monitor, and bundled prewritten computer software. ABC is subject to ~~taxation~~ under the ~~retailing~~ retail sales and retail services classification on the sale to Customer X. In addition, ABC is subject to ~~taxation~~ under the manufacturing classification on the sale. ABC is entitled to claim a multiple activities tax credit.

~~(ii)~~Example 2. ADE Computers Inc. a Seattle manufacturer, manufactures and sells computer systems at retail to customers in Seattle. ADE sells a computer system with certain peripheral devices at separate charges to Customer Y in Seattle. ~~a computer system with certain peripheral devices at separate charges~~. The computer system without the peripheral devices consists of a disk drive, memory, CPU, and bundled prewritten computer software. The peripheral devices include a keyboard, mouse, and monitor. All peripheral devices remain in the original packaging of the manufacturers. ADE does not attach its own label to the peripheral devices. Finally, ADE maintains a separate inventory of the peripheral devices for sale apart from the sale of ADE's computer systems. ADE is subject to ~~taxation~~ under the ~~retailing~~ retail sales and retail services classification on the sales of the computer system, including the peripheral devices. ADE is subject to ~~taxation~~ under the manufacturing classification on the value of the computer system, excluding the peripheral devices. ADE is entitled to claim a multiple activities tax credit. ADE is not subject to ~~taxation~~ under the manufacturing classification on the value of the peripheral devices, because the combining of a computer system with the peripheral devices in this case constitutes merely packaging activities.

~~(iii)~~Example 3. AFG Computers Inc. a Seattle ~~manufacturer company~~, manufactures and sells computer systems at retail. AFG sells a computer system to Customer Z in Seattle. As part of the sale of the computer system, Z purchases from AFG, ~~under a separate and optional sales package~~, prewritten computer software developed by a third-party software developer. AFG installs the prewritten computer software to Z's computer as part of the sale. AFG is subject to ~~taxation~~ under the ~~retailing~~ retail sales and retail services classification on the value the sale of the computer system, including the prewritten computer software. Also, AFG is subject to ~~taxation~~ under the manufacturing classification on the entire sale. AFG is entitled to claim a multiple activities tax credit.

~~(iv)~~Example 4. Same facts as ~~(iii)~~ Example 3, except that AFG sells and installs the prewritten computer software to Z after Z purchases and takes possession of the

computer system. AFG is subject to taxation under the retailing retail sales and retail services classification on the sale of the computer system and the prewritten computer software. Also, AFG is subject to taxation under the manufacturing classification on the value sale of the computer system. AFG is entitled to claim a multiple activities tax credit. AFG is not subject to tax under the manufacturing classification on the value of the prewritten computer software, because no manufacturing activity occurs for the installation of the software by AFG after the sale of the computer system is not a part of AFG's manufacturing activity. ~~If AFG developed and installed custom software on Z's computer after the sale of the computer, the custom software sale is subject to taxation under the service and other business activities classification.~~

~~(v)~~Example 5. ALM Computers Inc. purchases used computers. ALM replaces a built-in CD-ROM drive with a CD-RW drive and adds a zip drive, additional memory, and an upgraded CPU before selling the computer to Customer W. ALM is engaged in manufacturing activity with respect to that computer and therefore subject to taxation under the manufacturing ~~tax~~ classification.

~~(vi)~~Example 6. AJK Computers Inc. acquires damaged computers for refurbishment and sale. AJK removes damaged hardware components and replaces them with new components without upgrading these components. Refurbishing computers ~~belonging to AJK Computers~~ in this manner is not a manufacturing activity. ~~If AJK Computers, Inc. was refurbishing or repairing computers belonging to clients, it would not be a manufacturing activity.~~ In this case, the repair billing would be sales of such refurbished computers are subject to taxation under the retailing retail sales and retail services classification.

Example 7. APQ Computers Inc. purchases computers for refurbishment and sale. APQ replaces the failed data storage device on one of the computers with an upgraded data storage device because the upgrade is the nearest version of the failed component that is available. The manufacturer has discontinued manufacturing the original data storage device because of a flaw in the design. APQ is not engaged in manufacturing activity with respect to that computer. Retail sale of that refurbished computer is subject to tax under the retail sales and retail services classification.

Example 8. ATV Computers Inc. is hired by a call center company to repair damaged computers. ATV removes damaged hardware components and replaces them with new components without upgrading these components. Refurbishing computers in this manner is not a manufacturing activity; it is a retail service. Refurbishing computers in this manner is subject to tax under the retail sales and retail services classification. See Seattle Rule 5-275 (Installing, cleaning, repairing or otherwise altering or improving personal property of consumers).

#### **(4) Taxation of other activities associated with computer hardware.**

- (a) ~~(i)~~ Installing computer hardware. Gross proceeds of sales for installing computer hardware are subject to taxation under either the wholesaling or ~~retailing~~ retail sales and retail services classification. See Seattle Rule 5-275 (Installing, cleaning, repairing or otherwise altering or improving personal property of consumers) for more information.
- (b) ~~(ii)~~ Repairing or maintaining computer hardware. Gross proceeds of sales for repair or maintenance of computer hardware are subject to taxation under either the wholesaling or ~~retailing~~ retail sales and retail services classification. Repair of computer hardware in Seattle for consumers is subject to taxation under the ~~retailing~~ retail sales and retail services classification. See Seattle Rule 5-275 (Installing, cleaning, repairing or otherwise altering or improving personal property of consumers) for more information. Also, see Seattle Rule 5-133 (Warranties and maintenance agreements) for information about repair performed as part of a warranty or maintenance agreement.

DIRECTOR'S CERTIFICATION

I, Jamie Carnell, \_\_\_\_\_, City of Seattle Interim City Finance Director, do hereby certify under penalty of perjury of law, that the within and foregoing is a true and correct copy as adopted by the City of Seattle, Office of City Finance.

DATED this \_\_\_\_\_ day of August 2023.

CITY OF SEATTLE, a Washington municipality

Effective date: August \_\_, 2023.

~~Effective: May 15, 2007~~

DIRECTOR'S CERTIFICATION

~~I, Dwight D. Dively, Director of the Department of Finance of the City of Seattle, do hereby certify under penalty of perjury of law, that the within and foregoing is a true and correct copy as adopted by the City of Seattle, Department of Finance.~~