

THE CITY OF SEATTLE
DIRECTOR'S RULE
IMPLEMENTING SEATTLE BUSINESS TAX ORDINANCE
RULE 5-501

FILED
CITY OF SEATTLE
MAY 13 2015
CITY CLERK

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.

(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 peripheral devices.
- (b) 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 include peripheral devices.
- (c) 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 disc drives, memory, as well as internal and external peripheral devices such as compact disk read-only memory (CD-ROM) drives, compact disk rewriteable (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.

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

- (a) Retail and wholesale sales. Gross proceeds of sales of computers, computer systems, and computer hardware to persons are subject to taxation under the wholesaling or retailing classifications, as the case may be. Sales to consumers are retail sales and sales to persons who resell the equipment are wholesale sales. Separately stated charges for custom programming installed with the associated computer system software are subject to taxation under the service and other business activities classification.
- (b) 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 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) classifications and may claim a multiple activities tax credit (MATC).

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- (i) Separately stated charges for custom programming involved with the associated computer software are not subject to taxation under the manufacturing 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 taxation 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.
- (c) Examples.
- (i) ABC Computers, Inc., a Seattle manufacturer, manufactures and sells computer systems at retail. ABC sells a computer system to Customer X 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 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) ADE Computers, Inc. a Seattle manufacturer, manufactures and sells computer systems at retail to customers in Seattle. ADE sells to Customer Y 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 classification on the sales of the computer system, including the peripheral devices. ADE is subject to taxation under the manufacturing classification on the sale 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 sale of the peripheral devices, because the combining of a computer system with the peripheral devices in this case constitutes merely packaging activities.
 - (iii) AFG Computers, Inc., a Seattle manufacturer, manufactures and sells computer systems at retail. AFG sells a computer system to Customer Z. 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

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computer as part of the sale. AFG is subject to taxation under the retailing classification on 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) Same facts as (iii), except that AFG sells and installs the prewritten computer software to Z after Z purchases the computer system. AFG is subject to taxation under the retailing 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 sale of the computer system. AFG is entitled to claim a multiple activities tax credit. AFG is not subject to taxation under the manufacturing classification on the sale of the prewritten computer software, because no manufacturing activity occurs for installation of the software by AFG after the sale of the computer system. 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) 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) 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 is 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 subject to taxation under the retailing classification.

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

- (i) *Installing computer hardware.* Gross proceeds of sales for installing computer hardware are subject to taxation under either the wholesaling or retailing classification. See Seattle Rule 5-275 (Installing, cleaning, repairing or otherwise altering or improving personal property of consumers) for more information.
- (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 classification. Repair of computer hardware in Seattle for consumers is subject to taxation under the retailing 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.

Effective: May 15, 2007.

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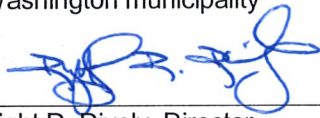
DIRECTOR'S CERTIFICATION

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.

DATED this 14th day of May, 2007.

CITY OF SEATTLE,
a Washington municipality

By:



Dwight D. Dively, Director
Department of Finance

STATE OF WASHINGTON – KING COUNTY

--SS.

209880
CITY OF SEATTLE:REVENUE &

No. MAKING HEARING

Affidavit of Publication

The undersigned, on oath states that he is an authorized representative of The Daily Journal of Commerce, a daily newspaper, which newspaper is a legal newspaper of general circulation and it is now and has been for more than six months prior to the date of publication hereinafter referred to, published in the English language continuously as a daily newspaper in Seattle, King County, Washington, and it is now and during all of said time was printed in an office maintained at the aforesaid place of publication of this newspaper. The Daily Journal of Commerce was on the 12th day of June, 1941, approved as a legal newspaper by the Superior Court of King County.

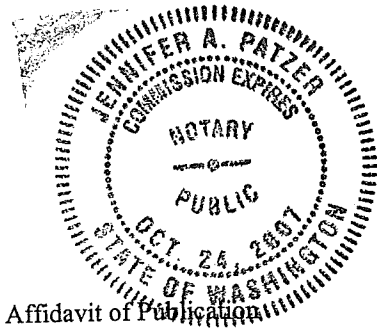
The notice in the exact form annexed, was published in regular issues of The Daily Journal of Commerce, which was regularly distributed to its subscribers during the below stated period. The annexed notice, a

CT:NOTICE PROPOSED RULE

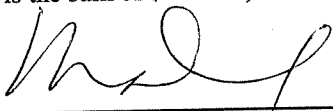
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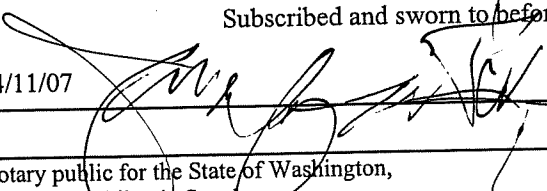
04/11/07

The amount of the fee charged for the foregoing publication is the sum of \$ 139.50, which amount has been paid in full.



Affidavit of Publication



Subscribed and sworn to before me on
04/11/07 

Notary public for the State of Washington,
residing in Seattle

City of Seattle

**NOTICE OF PROPOSED RULE
MAKING HEARING**

AND OPPORTUNITY TO COMMENT

The Director of Finance, acting under the authority of Seattle Municipal Code Chapters 3.02 and 5.55, proposes to adopt new rules for implementing the Seattle Business License Tax Ordinance (Seattle Municipal Code, Chapter 5.45). Please note that although these rules are applicable to SMC 5.45, the individual rules may also apply to other chapters of the City's Tax Code, including, but not limited to, SMC 5.30 (Definitions), SMC 5.32 (Revenue Code), SMC 5.35 (Commercial Parking Tax), SMC 5.37 (Employee Hours Tax), SMC 5.40 (Admissions Tax), SMC 5.48 (Business Tax - Utilities), SMC 5.52 (Gambling Tax), and SMC 5.55 (General Administrative Provisions). The following rules are proposed for adoption and will become effective as of May 15, 2007:

Seattle Rule 5-000 Rules adopted.

Seattle Rule 5-002 Business license requirements.

Seattle Rule 5-007 Penalties.

Seattle Rule 5-008 Recordkeeping requirements.

Seattle Rule 5-009 Limitations on tax assessments.

Seattle Rule 5-033 When tax liability arises.

Seattle Rule 5-034 Finance charges, carrying charges, interest, and penalties.

Seattle Rule 5-037 Accounting methods.

Seattle Rule 5-039 Employees distinguished from persons engaging in business.

Seattle Rule 5-042 Successor liability.

Seattle Rule 5-044 Value of products.

Seattle Rule 5-064 Credit losses, bad debts, recoveries.

Seattle Rule 5-065 Taxes, deductible and nondeductible.

Seattle Rule 5-067 Accommodation sales.

Seattle Rule 5-068 Pool purchases.

Seattle Rule 5-125 Casual or isolated sales.

Seattle Rule 5-275 Installing, cleaning, repairing or otherwise altering or improving personal property of consumers.

Seattle Rule 5-276 Constructing and repairing of new or existing buildings or other structures upon real property.

Seattle Rule 5-500 Computer software.

Seattle Rule 5-501 Computer hardware.

Seattle Rule 5-502 Taxation of information services and computer related services.

Seattle Rule 5-804 Staffing businesses, staffing services.

Seattle Rule 5-921 Exemptions, deductions and credits available under the employee hours tax.

PUBLIC HEARING AND COMMENT:

The Department of Executive Administration has scheduled a public hearing on the proposed rule changes for 1:00 p.m. to 3:00 p.m. on Monday, April 30, 2007. The hearing will be held in a conference room on the 40th floor of the Seattle Municipal Tower, Suite 4096, located at 700 Fifth Avenue. All interested persons are invited to present data, views, or arguments, with regard to the proposed rules, orally at the hearing, or in writing at or before the hearing.

Written comments should be mailed or delivered to:

Department of Executive Administration Attn.: Mel McDonald, Deputy Director Revenue and Consumer Affairs 700 Fifth Avenue - Suite 4250 P.O. Box 34214 Seattle, Washington 98124-4214

The public may inspect copies of the proposed rules at the Revenue and Consumer Affairs offices, 700 Fifth Avenue, Suite 4250. If you would like a copy of the proposed rules, please call (206) 233-0071, FAX (206) 684-5170, email: rca.bizlictx@seattle.gov, or submit a written request to the address above.

Dwight D. Dively, Director, Department of Finance

Date of publication in the Seattle Daily Journal of Commerce, April 11, 2007.