RESEARCH AND DEVELOPMENT
SALES TAX EXEMPTION

ANALYSIS

The South Carolina Sales and Use Tax Act was modified to provide for a complete sales tax exemption on machines used in research and development. This change is effective July 1, 2001. This section reads:

"Exempted from the taxes imposed by this chapter are the gross proceeds of sales, or sales price of ... machines used in research and development. 'Machines' includes machines and parts of machines, attachments, and replacements which are used or manufactured for use on or in the operation of the machines, which are necessary to the operation of the machines, and which are customarily used in that way. 'Machines used in research and development' means machines used directly and primarily in research and development, in the experimental or laboratory sense, or new products, new uses for existing products, or improvement of existing products." (Section 12-36-2120(56))

Key Points
1. Machines includes parts, attachments, and replacements. Must be necessary to the operation of the machine.
2. Machines must be used directly for research and development. That is, the research and development must arise immediately from the machine.
3. Machines must be used primarily for research and development. In other words, chiefly, or first and foremost.

IMPLEMENTATION

Purchase Procedure

1. The business manager must include in the body of the purchase requisition, "Vendor is not to charge sales tax on research and development equipment per Section 12-36-2120(56) of the South Carolina Code of Laws." This is important because only the colleges know if the equipment will be used for research and development.
2. The sales tax exempt accounts to be used are:
   - 50385 R&D Exempt Med/Sci/Lab Equip Under $5000
   - 50386 R&D Exempt Data Proc Equip Under $5000
   - 50624 R&D Exempt Med/Sci/Lab Equip Over $5000
   - 50628 R&D Exempt Data Proc Equip Over $5000
3. Procurement creates a purchase order based on the requisition. The statement on the requisition will prompt procurement to add the suffix "NT" (non-taxable) to the purchase order number.
4. When accounts payable receives the invoice, they will pull the purchase order up in Smartstream. The "NT" on the purchase order number will prompt them to verify there is no sales tax on the invoice, or to set the use tax code to zero percent.
5. If the invoice shows sales tax, accounts payable should notify procurement who should in turn call the vendor to determine whether they will send an adjusted invoice, or if we should pay the invoice less the sales tax. The buyer should be prepared to fax the vendor a copy of the tax code to support our claim for sale tax exempt purchase.
6. Call Scott Patterson @ 792-8103, or e-mail at pattesco@musc.edu with any questions.

Who Should Read This

Business Managers
Procurement
Accounts Payable