

CLAIMING RESEARCH AND DEVELOPMENT EXEMPTION FOR TAX EXEMPT OBJECT CODES

CHEMICALS

Object Code: 5280

Verbiage required to be noted on transaction forms/edocs:

This purchase will be used for research and development purposes as that term is defined by ARS 42-5061(A)(38) and ARS 42-5159(A)(35). The exemption from sales tax pursuant to ARS 42-5061(A)(38) and from assessment of use tax under ARS 42-5159(A)(35) is authorized by Leslie Bonilla, Manager of Business and Finance of SPLS.

Definition:

"Sales of liquid, solid or gaseous chemicals used in...research and development...If using or consuming the chemicals, alone or as part of an integrated system of chemicals, involves direct contact with the materials from which the product is produced for the purpose of causing or permitting a chemical or physical change to occur in the materials as part of the production process. This paragraph does not include chemicals that are used or consumed in activities such as packaging, storage or transportation."

Not all chemicals qualify for tax exemption and must adhere to the State's statement above to qualify. Chemicals used or consumed in packing, storage or transportation do not qualify.

The State does not provide a specific definition of chemicals. Therefore, it is up to the principal investigator or researcher to determine whether the item to be purchased is a chemical, and to determine whether the chemical is used in qualifying R&D.

EQUIPMENT

Object Code: 7690

Verbiage required to be noted on transaction forms/edocs:

This purchase will be used for research and development purposes as that term is defined by ARS 42-5061(B)(15) and ARS 42-5159(B)(15). The exemption from sales tax pursuant to ARS 42-5061(B)(15) and the exemption from use tax pursuant to ARS 42-5159(B)(15) is authorized by Leslie Bonilla, Manager of Business and Finance of SPLS.

Definition:

The State does not provide a definition for machinery or equipment but does provide examples of what it is not for this purpose. **Purchases that do not qualify include:**

- Expendable materials (i.e., research supplies),
- Janitorial equipment or tools,
- Office equipment,
- Furniture,
- Motor vehicles,
- Buildings

Cost of the item is not a factor, qualifying machinery or equipment can be inexpensive or costly. Purchases of computers rarely qualify as exempt under the statutes as partial administrative function is implied.

Software Qualifying as Machinery or Equipment

In specific cases, software used in R&D can qualify as machinery or equipment for the purposes of a tax exemption. University Tax Services and the Arizona Department of Revenue (ADOR) worked together to develop descriptions and examples of software qualifying as machinery or equipment for this purpose.

Software used in R&D only qualifies for tax exemption when it falls within one of the four categories below:

1. Machinery or equipment exempt under A.R.S. § 42-5061(B)(15) or A.R.S. § 42-5159(B)(15) often requires propriety software to function effectively, as intended, or at all. An example of this would be operating software needed for a microscope to function.
2. Software used to manage and/or control specific tasks conducted on machinery or equipment exempt under A.R.S. § 42-5061(B)(15) or A.R.S. § 42-5159(B)(15). An example of this would be software

- necessary to have a spectrometer perform a specific task, such as mass spectrometry analyses.
3. Software used as the most efficient means to compile and process generated data to create information, and further, knowledge applicable within the context of the research performed. An example of this would be software that analyzes COVID-related research data and compiles a report based on that data.
 4. Software containing protocols involving vertebrate animals utilized in research and development. The protocols are reviewed and approved by American Association for Laboratory Animal Science (IACUC) and outline how research will comply with federal animal welfare regulations to ensure the responsible conduct of research. Without the software, it would be impossible to provide adequate care and ensure compliance with federal regulations for the animals, who are a fundamental resource in conducting research on campus.

Administrative software used in R&D is taxable. Software that manages labs, assists with scheduling or supply management, provides methods for researchers to request services, or used in quality control fit in the taxable category.