

## Memorandum

To: Honorable Judy Chu, Ph.D., Chair  
Honorable Betty T. Yee, Vice Chairwoman  
Honorable Bill Leonard  
Honorable Michelle Steel  
Honorable John Chiang

Date: December 4, 2008

From: Kristine Cazadd  
Chief Counsel

Subject: Board Meeting, December 17, 2008 - Chief Counsel Matter  
**Regulation 1502. Computers, Programs, and Data Processing**

The Legal Department requests that the Board authorize the staff to commence a new rulemaking proceeding by publishing a proposed amendment to Board Sales and Use Tax Regulation 1502, subdivision (b), which adds a new provision that defines the phrase “complete plan for the solution of a problem” as follows:

**COMPLETE PLAN FOR THE SOLUTION OF A PROBLEM.** Complete plan for the solution of a problem” means a plan for the solution of any problem which a program (or subdivision thereof such as a procedure, function, or routine) may be created or used to address or solve, and need not include or constitute a complete plan for the solution of the full array of a purchaser’s problems, requirements, or desired features; and includes, without limitation, any problem associated with: information processing; the manipulation and storage of data; the input and output of data; the transfer of data and programs (including any subdivision thereof such as a procedure, function, or routine); the translation of programs (including any subdivision thereof such as a procedure, function, or routine) into machine code; defining procedures, functions, and routines; executing programs or subdivisions thereof such as procedures, functions, and routines that may be invoked within a program; and the control of equipment, mechanisms, or special purpose hardware.

This language would be added to a new subdivision (b)(3) and the current subdivision (b)(3) would be renumbered as subdivision (b)(4) with subsequent subdivisions being renumbered accordingly. The proposed language will define the phrase “complete plan for the solution of a problem” which is used in current subdivision (b)(10) in defining “program.” Subdivision (b)(10) currently provides as follows:

The complete plan for the solution of a problem, i.e., the complete sequence of automatic data processing equipment instructions necessary to solve a problem; includes both systems

and application programs and subdivisions such as assemblers, compilers, routines, generators, and utility programs.

The purpose for the recommended revision is to more precisely define the phrase “complete plan for the solution of a problem” to clarify that such problems include any problem that a program – including subdivisions and routines per subdivision (b)(10) – may be created or used to address or solve. The regulation is necessary to clarify that the definition for the phrase “complete plan for the solution of a problem” must be consistent with:

- (1) Revenue and Taxation Code section 6010.9, subdivision (c) and Board Sales and Use Tax Regulation 1502 (b)(10), which define “computer program” to mean the “complete plan for the solution of a problem, such as the complete sequence of automatic data-processing equipment instructions necessary to solve a problem *and includes both systems and application programs and subdivisions, such as assemblers, compilers, routines, generators, and utility programs.*” (Emphasis added.)

Statutes and regulations must be defined logically and consistently. In particular, laws should be interpreted so as to be internally consistent. The phrase “complete plan for the solution of a problem” should be defined broadly enough to encompass all of the different types of “problems” that a program or subdivisions of a program, such as an assembler, compiler, routine, generator, or utility program may be created or used to address or solve. Such software building blocks obviously are created and used to solve numerous and diverse programming problems, even if, in and of themselves, they may not be capable of fulfilling any specific purchaser’s complete and ultimate software needs. Therefore, to narrowly define a computer problem as only one that satisfies the full array of a purchaser’s software needs in each and every instance would improperly create an internal conflict within the definitional provisions of the statute and regulation because these provisions expressly include such software building blocks as subdivisions and routines within the definition of “program.” The proposed regulatory amendment will clarify the statute and regulation to prevent and preclude such an impermissibly narrow interpretation.

- (2) Revenue and Taxation Code section 6010.9, subdivision (d), which provides that: “custom computer program” means a computer program prepared to the special order of the customer and includes those services represented by separately stated charges for modifications to an *existing prewritten program which are prepared to the special order of the customer.* The term does not include a “canned” or prewritten computer program which is held or existing for general or repeated sale or lease, *even if the prewritten or “canned” program was initially developed on a custom basis or for in-house use* *Modification to an existing prewritten program to meet the customer’s need is custom computer programming only to the extent of the modification.*” (Emphasis added.)

Statutory provisions should be interpreted to be consistent with related statutes. With respect to the above-quoted statutory language, if an existing prewritten program does not “meet the customer’s needs” and, thus, needs custom “modification,” then it cannot be said to be capable of fulfilling such customer’s complete and ultimate software needs. Nevertheless, the statute expressly deems such prewritten software requiring modification and customization to be “programs.” Thus, it is obvious that the Legislature did not mean to exclude prewritten software that did not fully satisfy each and every need of a customer

from the definition of computer program. To do so would, in fact, be absurd. If millions of lines of sophisticated prewritten compiled computer code needed the entry of one data item to be functional for an intended customer's use, is it logical to exclude those millions of lines of code from the definition of a "program," yet define the entry of the one data item by a nonprogrammer as creating a "custom program?"

Therefore, to define a computer program as only one that satisfies the full array of the customer's software needs in each and every instance would improperly create a conflict with section 6010.9, which expressly addresses the sales and use tax consequences of defining a program as either custom or prewritten (or "canned").

Attached to this memorandum is Regulation 1502 incorporating the proposed language, with the new provision underscored.

If you have any questions, please do not hesitate to contact the Litigation Division, Assistant Chief Counsel, Robert W. Lambert at (916) 324-6593.

Approved: \_\_\_\_\_

Ramon J. Hirsig  
Executive Director

KC/ML/gm

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cc: (w/ Attachment)

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BOARD OF EQUALIZATION

SALES AND USE TAX REGULATION

REGULATION 1502. COMPUTERS, PROGRAMS, AND DATA PROCESSING.

Reference: Sections 995.2, 6006, 6007, 6010, 6010.9, 6011, 6012, 6015, and 6016, Revenue and Taxation Code.

**(a) IN GENERAL.** "Automatic data processing services" are those rendered in performing all or part of a series of data processing operations through an interacting assembly of procedures, processes, methods, personnel, and computers.

Automatic data processing services may be provided by manufacturers of computers, data processing centers, systems designers, consultants, software companies, etc. In addition, there are banks and other businesses which own or lease computers and use them primarily for their own purposes but occasionally provide services to others. Businesses rendering automatic data processing services will be referred to herein as "data processing firms."

**(b) DEFINITIONS OF TERMS.**

(1) APPLICATION. The specific job performance by an automatic data processing installation. For example, data processing for a payroll may be referred to as a payroll application.

(2) CODING. The list, in computer code, of the successive computer instructions representing successive computer operations for solving a specific problem.

(3) COMPLETE PLAN FOR THE SOLUTION OF A PROBLEM. "Complete plan for the solution of a problem" means a plan for the solution of any problem which a program (or subdivision thereof such as a procedure, function, or routine) may be created or used to address or solve, and need not include or constitute a complete plan for the solution of the full array of a purchaser's problems, requirements, or desired features; and includes, without limitation, any problem associated with: information processing; the manipulation and storage of data; the input and output of data; the transfer of data and programs (including any subdivision thereof such as a procedure, function, or routine); the translation of programs (including any subdivision thereof such as a procedure, function, or routine) into machine code; defining procedures, functions, and routines; executing programs or subdivisions thereof such as procedures, functions, and routines that may be invoked within a program; and the control of equipment, mechanisms, or special purpose hardware.

(4) COMPUTER. A computer is an electronic device (including word processing equipment and testing equipment) or combination of components, which is programmable and which includes a processor (central processing unit or microprocessor), internal memory, and input and output connections. Manufacturing equipment which incorporates a computer is a computer for purposes of this regulation. However, the term does not include manufacturing equipment which operates under the control of mechanical or electronic accessories, the attachment of the equipment of which is required for the machine to operate. An electronic device otherwise qualifying as a computer remains a computer even though it may be used for information processing, data acquisition, process control, or for the control of manufacturing machinery or equipment.

(5) CUSTOM COMPUTER PROGRAM AND PROGRAMMING. A computer program prepared to the special order of the customer. A program prepared to the special order of the customer qualifies as a custom program even though it may incorporate preexisting routines, utilities, or similar program components. It includes those services represented by separately stated charges for modifications to an existing prewritten program which are prepared to the special order of the customer.

(6) DATA ENTRY (INCLUDING ENCODING). Recording information in or on storage media by punching holes or inserting magnetic bits to represent letters, digits, and special characters.

**Regulation 1502.** (Continued)

(7) **DIGITAL PRE-PRESS INSTRUCTION.** The creation of original information in electronic form by combining more than one computer program into specific instructions or information necessary to prepare and link files for electronic transmission for output, within the printing industry, to film, plate, or direct to press, which is then transferred on electronic media such as tape or compact disc.

(8) **INPUT.** The information or data transferred, or to be transferred, from storage media into the internal storage of the computer.

(9) **OUTPUT.** The information transferred from the internal storage of the computer to storage media or tabulated listing.

(10) **PREWRITTEN PROGRAM.** A program held or existing for general or repeated sale or lease. The term also includes a program developed for in-house use which is subsequently offered for sale or lease as a product.

(11) **PROGRAM.** The complete plan for the solution of a problem, i.e., the complete sequence of automatic data processing equipment instructions necessary to solve a problem; includes both systems and application programs and subdivisions such as assemblers, compilers, routines, generators, and utility programs.

(12) **PROOF LISTING.** A tabulated listing of input.

(13) **SOURCE DOCUMENTS.** A document supplied by a customer of a data processing firm from which basic data are extracted (e.g., sales invoice).

(14) **STORAGE MEDIA.** Includes hard disks, floppy disks, diskettes, magnetic tape, cards, paper tape, drums and other devices upon which information is recorded.

**(c) BASIC APPLICATIONS OF TAX.**

(1) The transfer of title, for a consideration, of tangible personal property, including property on which or into which information has been recorded or incorporated, is a sale subject to tax.

(2) Charges for producing, fabricating, processing, printing, imprinting, or otherwise physically altering, modifying or treating consumer-furnished tangible personal property (cards, tapes, disks, etc.), including charges for recording or otherwise incorporating information on or into such tangible personal property, are generally subject to tax.

(3) A transfer for a consideration of the title or possession of tangible personal property which has been produced, fabricated, or printed to the special order of the customer, including property on which or into which information has been recorded or incorporated, is generally a sale subject to tax. However, if the contract is for the service of researching and developing original information for a customer, tax does not apply to the charges for the service. The tangible personal property used to transmit the original information is merely incidental to the service.

(4) Charges for the transfer of computer-generated output are subject to tax where the true object of the contract is the output and not the services rendered in producing the output. Examples include artwork, graphics, and designs. However, the transfer by the seller of the original information created by digital pre-press instruction is not subject to tax if the original information is a custom computer program as explained in subdivision (f)(2)(F).

(5) Charges for processing customer-furnished information (sales data, payroll data, etc.) are generally not subject to tax. (For explanation and specific application of tax, see subdivision (d).)

(6) Leases of tangible personal property may be subject to tax under certain conditions. (See Regulation 1660 for application of tax to leases.)

**Regulation 1502.** (Continued)

(7) Charges made for the use of a computer, on a time-sharing basis, where access to the computer is by means of remote telecommunication are not subject to tax. (See subdivision (i).)

(8) Generally data processing firms are consumers of all tangible personal property, including cards and forms, which they use in providing nontaxable services unless a separate charge is made to customers for the materials, in which case tax applies to the charge made for the materials.

**(d) MANIPULATION OF CUSTOMER-FURNISHED INFORMATION AS SALE OR SERVICE.**

(1) GENERAL. Generally tax applies to the conversion of customer-furnished data from one physical form of recordation to another physical form of recordation. However, if the contract is for the service of developing original information from customer-furnished data, tax does not apply to the charges for the service. The tangible personal property used to transmit the original information is merely incidental to the service.

(2) DATA ENTRY AND VERIFICATION. This covers situations where a data processing firm's agreement provides only for data entry, data verification, and proof listing of data, or any combination of these operations. It does not include contracts under which these services are performed as steps in processing of customer-furnished information as discussed under subdivision (d)(5).

Agreements providing solely for data entry and verification, or data entry, providing a proof list and/or verifying of data are regarded as contracts for the fabrication of storage media and sales of proof lists. Charges therefore are taxable, whether the storage media are furnished by the customer or by the data processing firm.

Tax also applies to charges for the imprinting of characters on a document to be used as the input medium in an optical character recognition system. The tax application is the same regardless of which type of storage media is used in the operation.

(3) ADDRESSING (INCLUDING LABELS) FOR MAILING. Where the data processing firm addresses, through the use of its computer or otherwise, material to be mailed, with names and addresses furnished by the customer or maintained by the data processing firm for the customer, tax does not apply to the charge for addressing. Similarly, where the data processing firm prepares, through the use of its computer or otherwise, labels to be affixed to material to be mailed, with names and addresses furnished by the customer or maintained by the data processing firm for the customer, tax does not apply to the charge for producing the labels, whether or not the data processing firm itself affixes the labels to the material to be mailed. (For the sale of mailing list by the proprietor of such list, as a sale of tangible personal property or as a nontaxable addressing, see Regulation 1504 "Mailing Services.")

(4) MICROFILMING AND PHOTORECORDING. Tax applies to charges for microfilming or photo recording except, as provided in subdivision (d)(5), where the microfilming or photo recording is done under a contract for the processing of customer-furnished information. Tax applies to a contract where data on magnetic tape are converted into combinations of alphanumeric printing, curve plotting and/or line drawings, and put on microfilm or photo recording paper.

**(5) PROCESSING OF CUSTOMER-FURNISHED INFORMATION.**

(A) "Processing of customer-furnished information" means the developing of original information from data furnished by the customer. Examples of automatic data processing processes which result in original information are summarizing, computing, extracting, sorting, and sequencing. Such processes also include the updating of a continuous file of information maintained by the customer with the data processing firm.

(B) "Processing of customer-furnished information" does not include: (1) an agreement providing solely for the reformatting of data or for the preparation of a proof listing or the performance of an edit routine or other pre-processing, (2) the using of a computer as a mere printing instrument, as in the preparation of personalized computer-printed letters, (3) the mere converting of data from one medium to

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another, (4) an agreement under which a person undertakes to prepare artwork, drawings, illustrations, or other graphic material unless the provisions of subdivision (f)(2)(F) apply regarding digital pre-press instruction and custom computer programs. Additionally, graphic material furnished incidentally to the performance of a service is not subject to tax. For example, graphics furnished in connection with the performance of architectural, engineering, accounting, or similar professional services are not subject to tax. With respect to typography, clip art combined with text on the same page is considered composed type as explained in Regulation 1541.

(C) Contracts for the processing of customer-furnished information usually provide that the data processing firm will receive the customer's source documents, record data on storage media, make necessary corrections, process the information, and then record and transfer the output to the customer.

Where a data processing firm enters into a contract for the processing of customer-furnished information, the transfer of the original information to the customer is considered to be the rendering of a service. Except as described in subdivisions (c)(8) and (d)(5)(E), tax does not apply to the charges made under contracts providing for the transfer of the original information whether the original information is transferred on storage media, microfilm, microfiche, photo recording paper, input media for an optical character recognition system, punched cards, preprinted forms, or tabulated listing. The breakdown of the total charge into separate charges for each operation involved in processing the customer-furnished information will not change the application of tax.

(D) The furnishing of computer programs and data by the customer for processing under direction and control of the data processing firm will not alter the application of tax, notwithstanding that charges are based on computer time.

(E) Taxable Items. Where a data processing firm has entered into a contract which is regarded as a service contract under subdivision (d)(5)(C) and the data processing firm, pursuant to the contract, transfers to its customer tangible property other than property containing the original information, such as: duplicate copies of storage media; inventory control cards for use by the customer; membership cards for distribution by the customer; labels (other than address labels); microfiche duplicates; or similar items for use, tax applies to the charges made for such items. If no separate charge is made, tax applies to that portion of the charge made by the data processing firm which the cost of the additional computer time (if any), cost of materials, and labor cost to produce the items bear to the total job cost.

(F) Additional Copies. When additional copies of records, reports, tabulation, etc., are provided, tax applies to the charges made for the additional copies. "Additional copies" are all copies (other than carbon copies), whether the copies are prepared by rerunning the same program, by using multiple simultaneous printers, by looping a program such that the program is run continuously, by using different programs to produce the same output product, or by other means. Where additional copies are prepared the tax will be measured by the charge made by the data processing firm to the customer. If no separate charge is made for the additional copies, tax applies to that portion of the gross receipts which the cost of the additional computer time (if any), the cost of materials and labor cost to produce the additional copies bear to the total job cost. Charges for copies produced by means of photocopying, multi-lithing, or by other means are subject to tax.

**(e) TRAINING SERVICES AND MATERIALS.** Data processing firms provide a number of training services, such as data entry and verification, programming, and specialized training in systems design.

(1) Charges for training services are nontaxable, except as provided in subdivision (g) where the training services are provided as part of the sale of tangible personal property. The data processing firm is the consumer of tangible personal property which is used in training others, or provided to trainees without a separate charge as a part of the training services.

(2) Tax applies to charges for training materials, including books, furnished to trainees for a charge separate from the charge for training services.

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(3) Where a person sells tangible personal property, such as computers or programs, and provides training materials to the customer without making an additional charge for the training materials, this is a sale of the training materials. The selling price of the training materials is considered to be included in the sales price of the tangible personal property.

**(f) COMPUTER PROGRAMS.**

(1) PREWRITTEN (CANNED) PROGRAMS. Prewritten programs may be transferred to the customer in the form of storage media or by listing the program instructions on coding sheets. In some cases they are usable as written; however, in other cases it is necessary that the program be modified, adapted, and tested to meet the customer's particular needs. Tax applies to the sale or lease of the storage media or coding sheets on which or into which such prewritten (canned) programs have been recorded, coded, or punched.

(A) Tax applies whether title to the storage media on which the program is recorded, coded, or punched passes to the customer, or the program is recorded, coded, or punched on storage media furnished by the customer. The temporary transfer of possession of a program, for a consideration, for the purpose of direct use or to be recorded or punched by the customer, or by the lessor on the customer's premises, is a lease of tangible personal property. The tax applies unless the property is leased in substantially the same form as acquired by the lessor and the lessor has paid sales tax reimbursement or use tax with respect to the property.

(B) Tax applies to the entire amount charged to the customer. Where the consideration consists of license fees, all license fees, including site licensing and other end users fees, are includable in the measure of tax. Tax does not apply, however, to license fees or royalty payments that are made for the right to reproduce or copy a program to which a federal copyright attaches in order for the program to be published and distributed for a consideration to third parties, even if a tangible copy of the program is transferred concurrently with the granting of such right. Any storage media used to transmit the program is merely incidental.

(C) Maintenance contracts sold in connection with the sale or lease of prewritten computer programs generally provide that the purchaser will be entitled to receive, during the contract period, storage media on which prewritten program improvements or error corrections have been recorded. The maintenance contract also may provide that the purchaser will be entitled to receive, during the contract period, telephone or on-site consultation services.

If the purchase of the maintenance contract is not optional with the purchaser, that is, if the purchaser must purchase the maintenance contract in order to purchase or lease a prewritten computer program, then the charges for the maintenance contract are taxable as part of the sale or lease of the prewritten program. Tax applies to any charge for consultation services provided in connection with a maintenance contract except as provided below.

For reporting periods commencing on or after January 1, 2003, if the purchase of the maintenance contract is optional with the purchaser, that is, if the purchaser may purchase the prewritten software without also purchasing the maintenance contract, and there is a single lump sum charge for the maintenance contract, 50 percent of the lump sum charge for the maintenance contract is for the sale of tangible personal property and tax applies to that amount; the remaining 50 percent of the lump sum charge is nontaxable charges for repair.

If no tangible personal property whatsoever is transferred to the customer during the period of the maintenance contract, tax does not apply to any portion of the charge. Tax does not apply to a separately stated charge for consultation services if the purchaser is not required to purchase those services in order to purchase or lease any tangible personal property, such as a prewritten computer program or a maintenance contract.

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(D) The sale or lease of a prewritten program is not a taxable transaction if the program is transferred by remote telecommunications from the seller's place of business, to or through the purchaser's computer, and the purchaser does not obtain possession of any tangible personal property, such as storage media, in the transaction. Likewise, the sale of a prewritten program is not a taxable transaction if the program is installed by the seller on the customer's computer except when the seller transfers title to or possession of storage media or installation of the program is a part of the sale of the computer.

If the transfer of a prewritten program is a nontaxable transaction, then the seller is the consumer of tangible personal property used to produce written documentation or manuals (including documentation or manuals in machine-readable form) designed to facilitate the use of the program and transferred to the purchaser for no additional charge. If a separate charge is made for the documentation or manuals, then tax applies to the separate charge.

(E) The transfer of a prewritten program on storage media is not a sale for resale when the storage media, or an exact copy, will be used to produce additional copies of the program. Charges for testing a prewritten program on the purchaser's computer to insure that such a program operates as required are installation charges and are nontaxable.

**(2) CUSTOM PROGRAMS**

(A) Tax does not apply to the sale or lease of a custom computer program, other than a basic operational program, regardless of the form in which the program is transferred. Nor does the tax apply to the transfer of a custom program, or custom programming services performed, in connection with the sale or lease of computer equipment, whether or not the charges for the custom program or programming are separately stated.

(B) However, charges for custom modifications to prewritten programs are nontaxable only if the charges for the modifications are separately stated. Otherwise, the charges are taxable as part of the sale of the prewritten program.

When the charges for modification of a prewritten program are not separately stated, tax applies to the entire charge made to the customer for the modified program unless the modification is so significant that the new program qualifies as a custom program. If the prewritten program was previously marketed, the new program will qualify as a custom program, if the price of the prewritten program was 50 percent or less of the price of the new program. If the prewritten program was not previously marketed, the new program will qualify as a custom program if the charge made to the customer for custom programming services, as evidenced in the records of the seller, is more than 50 percent of the contract price to the customer.

(C) Charges for any written documentation or manuals designed to facilitate the use of a custom computer program by the customer are nontaxable, whether separately stated or not. The vendor of the custom computer program is the consumer of the written documentation or manuals, or of any tangible personal property used by the vendor in producing the written documentation or manuals.

(D) A custom computer program includes a program prepared to the special order of a customer who will use the program to produce and sell or lease copies of the program, and the charge for such custom computer program is not subject to tax. Sales or leases of the copies, however, are taxable as sales of prewritten computer programs.

(E) A computer program prepared to the special order of a customer to operate for the first time in connection with a particular basic operating system is a custom computer program even though a different version currently operates in connection with an incompatible basic operating system.

(F) Digital pre-press instruction is a custom computer program under section 6010.9 of the Revenue and Taxation Code, the sale of which is not subject to tax, provided the digital pre-press instruction is prepared to the special order of the purchaser. Digital pre-press instruction shall not, however, be regarded as a custom computer program if it is a "canned" or prewritten computer program which is held or existing for general or repeated sale or lease, even if the digital pre-press instruction was initially developed on a

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custom basis or for in-house use. The sale of such canned or prewritten digital pre-press instruction in tangible form is a sale of tangible personal property, the retail sale of which is subject to tax.

**(g) SERVICE CHARGES.** The following activities are service activities. Charges for the performance of such services are nontaxable unless the services are performed as a part of the sale of tangible personal property.

(1) Designing and implementing computer systems (e.g., determining equipment and personnel required and how they will be utilized).

(2) Designing storage and data retrieval systems (e.g., determining what data communications and high-speed input-output terminals are required).

(3) Consulting services (e.g., study of all or part of a data processing system).

(4) Feasibility studies (e.g., studies to determine what benefits would be derived if procedures were automated).

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(5) Evaluation of bids (e.g., studies to determine which manufacturer's proposal for computer equipment would be most beneficial).

(6) Providing technical help, analysts, and programmers, usually on an hourly basis.

(7) Training Services.

(8) Maintenance of equipment. (See Regulation 1546 for application of tax to maintenance contracts.)

(9) Consultation as to use of equipment.

**(h) PICK-UP AND DELIVERY CHARGES.** If the data processing firm's billing is for nontaxable processing of customer-furnished information, the tax will not apply to pick-up and delivery charges. If pick-up and delivery charges are made in conjunction with the sale of tangible personal property or the processing of customer-furnished tangible personal property, the tax will apply to the pick-up charges. Tax will apply to the delivery charges to the extent specified in Regulation 1628, "Transportation Charges."

**(i) RENTAL OF COMPUTERS.** A lease includes a contract, by which a person secures for a consideration the use of a computer which is not on his or her premises, if the person or his or her employees, while on the premises where the computer is located operate the computer, or direct and control its operation. A lease does not include a contract whereby a person secures access by means of remote telecommunication to a computer which is not on his or her premises, if the person or his or her employees operate the computer or direct and control its operation by means of remote telecommunication. (See Regulation 1660 for application of tax to leases.)

History: Adopted February 17, 1972, effective March 25, 1972.

Amended November 18, 1987, effective March 4, 1988. In subdivision (b), amended the regulation to conform several definitions to industry standards. In subdivision (c), amended the regulation to make clear and specific the basic application of tax. In subdivision (f), amended the regulation to make clear and specific the application of tax to prewritten computer programs.

Amended June 24, 1998, effective January 29, 1999. Subdivision (b) amended to delete last sentence and add new second sentence. Subdivision (f)(1)(D) amended to add new last sentence.

Amended September 1, 1999, effective December 3, 1999. Subdivision (b)—definition "Electronic or Pre-Press Instruction" added. Language added to subdivision (c)(4) and to (d)(5)(B)4 emphasizing that only the sale of digital pre-press instructions that qualify as custom computer programs may be non-taxable. Also added to the last sentence in subdivision (d)(5)(B), language to harmonize Regulation 1502 with a simultaneous change to Regulation 1541 concerning customer furnished information; also added an example that with respect to typography, clip art and text combined on the same page is considered composed type. New subdivision (f)(2)(F) added.

## Regulation 1502. (Continued)

Amended September 11, 2002, operative January 1, 2003. Word "paragraph" changed to "subdivision" throughout. Word "subdivision" added before, and words "above" and "below" deleted after, subdivision numbers in cross references. Word "section" deleted throughout. Word "exempt" replaced with "nontaxable" throughout. Subdivision (b)-list reformatted as separate subdivisions (1)-(13); titles in all new subdivisions capitalized; substance of former un-numbered paragraph, regarding electronic or digital pre-press instructions, transferred to new subdivision (b)(6) and re-written to conform to recent amendments to Regulation 1540 and 1541 in this area with title "Electronic or Digital Pre-Press Instruction" changed to "DIGITAL PRE-PRESS INSTRUCTION" and words "electronic or" deleted throughout accordingly; definitions for "Keystroke," "Off-line," and "On-line," deleted; cross-reference to subdivision (d)(5) deleted. Subdivision (d)(3) word "regardless" deleted and words "or not", "For the S", and "the" added. Subdivision (d)(5)- subdivision (C)- "rendition" replaced with "rendering." Subdivision (f)(1)(C)- in first un-numbered paragraph, phrase "that ... program" and new second sentence added and phrase "including ... services" deleted. Second un-numbered paragraph replaced with new second and third un-numbered paragraphs. Subdivision (f)(2)(B)- word "services" deleted for clarity, and "%" replaced with "percent." Subdivision (f)(2)(C)-"Any" replaced with "Charges for any"; words "separately stated" added and phrase "a ... manuals" deleted. Subdivision (f)(2)(D)-phrase "and ... tax" added to first sentence; "The" replaced with "Sales or leases of the" and words "sales of" added to second sentence, and third sentence deleted. Subdivision (f)(2)(F)- current language replaced with new language to conform the definition of digitized pre-press instructions to that promulgated in recent amendments to Regulations 1540 and 1541. Subdivision (g)- gender-neutral language added.

Regulations are issued by the State Board of Equalization to implement, interpret or make specific provisions of the California Sales and Use Tax Law and to aid in the administration and enforcement of that law. If you are in doubt about how the Sales and Use Tax Law applies to your specific activity or transaction, you should write the nearest State Board of Equalization office. Requests for advice regarding a specific activity or transaction should be in writing and should fully describe the facts and circumstances of the activity or transaction.