



# Special Notice

CALIFORNIA STATE BOARD  
OF EQUALIZATION  
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SACRAMENTO, CA 95814

## *Lucent* Court Case: Lucent's Charges for Software on Storage Media as Part of a Technology Transfer Agreement are Not Subject to Tax

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The decision in the court case *Lucent Technologies, Inc. v. Board of Equalization* (2015) 241 Cal.App.4th 19 (hereafter *Lucent*), may require the Board of Equalization (BOE) to amend Sales and Use Tax [Regulation 1507](#), *Technology Transfer Agreements*, and Sales and Use Tax [Regulation 1502](#), *Computers, Programs, and Data Processing*. Amendments to these regulations may be necessary to clarify when an agreement for the transfer of software is a "technology transfer agreement" and to make the regulations consistent with the *Lucent* decision.

To assist you in understanding this topic and the BOE's role and responsibilities, this notice:

- Defines a technology transfer agreement.
- Explains the *Lucent* decision.
- Advises when the BOE will hold public meetings (interested parties meetings) to discuss proposed amendments to the regulations.
- Provides guidance on filing claims for refunds on sales or purchases of non-custom software (software that is not a custom computer program as defined in Regulation 1502) transferred on storage media as part of a technology transfer agreement.
- Provides information about existing claims for refunds based on software transactions similar to the software technology transfer agreements in the *Lucent* court case.
- Provides resources for additional information about *Lucent*.

### Technology Transfer Agreement

A technology transfer agreement (TTA) is defined in Revenue and Taxation Code sections [6011](#) and [6012](#) as an "agreement under which a person who holds a patent or copyright interest assigns or licenses to another person the right to make and sell a product or to use a process that is subject to the patent or copyright interest." Sections 6011 and 6012 also provide that sales and use tax does not apply to the "amount charged for intangible personal property transferred with tangible personal property in a" TTA and provide rules for determining the taxable amount charged for tangible personal property transferred in a TTA.

### The *Lucent* Decision

In *Lucent*, the Court of Appeal reviewed agreements under which AT&T Corporation and Lucent Technologies, Inc. (collectively Lucent), sold telephone companies switches used to connect telephone and data networks, copies of copyrighted and patented software recorded on tapes and discs, and licenses granting the telephone companies the right to copy the software onto the switches' hard drives and the right to use the software to route calls and data and offer call waiting and other features to their customers.

The court held that the agreements constituted TTAs because the software was copyrighted and patented, Lucent established that it was the holder of the copyrights and patents, and Lucent established that it transferred a portion of its copyright and patent interests in the software to the telephone companies so that they could copy and use the software to

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produce telephone products that were subject to Lucent's copyrights and patents. The court also held that tax applied to the charges for the blank tapes and discs used to transmit the software, but did not apply to the charges for the software and licenses.

**Other Software Transferred On Tangible Media**

The Court of Appeal did *not* address the way sales and use tax applies to the typical off-the-shelf retail sale of canned, mass-marketed software on tangible storage media in *Lucent*. Also, the holding in *Lucent* applies to software transmitted on tangible storage media that is wholly collateral to the buyer's subsequent use of the licenses regarding that software, but the court's holding does not address the application of tax to embedded non-custom software or pre-loaded non-custom software, which were not at issue in *Lucent*. The court indicated that storage media is "wholly collateral" to the buyer's use of the licenses regarding the software if the storage media is only being used to transmit the software to the buyer so that it can be copied and used in conjunction with a computer or computers, and the storage media is not essential or otherwise physically useful to the buyer's subsequent use of the software.

**BOE To Hold Interested Parties Meetings To Discuss Proposed Changes**

During the BOE's meeting on March 30, 2016, staff received authorization to begin working on:

1. Amendments to Regulation 1507 to clarify the requirements to establish that an agreement for the transfer of software on tangible storage media, such as tapes or discs, is a software TTA, in accordance with the holding in *Lucent*, and clarify the measure of tax when software is transferred under a software TTA; and
2. Amendments to Regulation 1502 to conform to the amendments to Regulation 1507.

Accordingly, this issue was added to the 2016 calendar for the BOE's Business Taxes Committee, and staff has scheduled three interested parties meetings to discuss proposed amendments. The interested parties meeting on June 30, 2016, discussed the amendments to Regulation 1507. Subsequent meetings are planned to continue the Regulation 1507 discussion and to discuss conforming amendments to Regulation 1502 and the application of tax to embedded non-custom software and pre-loaded non-custom software. The interested parties meeting dates are listed on the BOE website at [www.boe.ca.gov/meetings/pdf/2016BTCcalendar.pdf](http://www.boe.ca.gov/meetings/pdf/2016BTCcalendar.pdf).

If you would like to receive notices of the interested parties meetings and other materials for this issue, please email your request to:  
[btcinformationrequests@boe.ca.gov](mailto:btcinformationrequests@boe.ca.gov).

**Filing A Claim For Refund**

A retailer may file a claim for refund directly with the BOE for tax the retailer paid on the sale of non-custom software transferred on storage media as part of an agreement that the retailer believes is a TTA. If the retailer collected the amount being claimed as a refund from a purchaser as sales tax reimbursement, the retailer must return any refunded sales tax reimbursement to the purchaser.

A consumer who paid use tax (typically use tax applies when you purchase from an out-of-state vendor) on the purchase of non-custom software transferred on storage media as part of an agreement the consumer believes is a TTA may also file a claim for refund directly with the BOE. However, a consumer who paid sales tax reimbursement (typically sales tax applies when you purchase from a California vendor) on such a transaction must obtain a refund of any excess tax reimbursement directly from the vendor.

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For information on filing a claim for refund, including filing deadlines, see publication 117, *Filing a Claim for Refund*, at [www.boe.ca.gov/formspubs/pub117/](http://www.boe.ca.gov/formspubs/pub117/).

**Existing Claims For Refund**

During the BOE's meeting on March 30, 2016, BOE staff also acknowledged that claims for refund based upon software transactions that were similar to the software TTAs in *Lucent* are ready to be processed if staff can verify that the claims relate to a software TTA, specifically:

1. Between an exclusive holder-retailer, such as Lucent, and a licensee, such as the telephone companies involved in Lucent's software TTAs;
2. Pursuant to which software was transmitted to the licensee on tangible storage media that was wholly collateral to the licensee's use of the licenses regarding that software, such as the tapes and discs used to transfer Lucent's software.

Also, BOE staff recently clarified that an exclusive holder-retailer's agreement is similar to the software TTAs in *Lucent* if the agreement assigns or licenses the right to reproduce or copy non-custom software, subject to the exclusive holder-retailer's copyright or patent interest, that is transmitted on wholly collateral storage media.

BOE staff will be sending a questionnaire to taxpayers that previously filed claims for refunds, which may relate to one or more software transactions that are similar to the software TTAs in *Lucent* to help BOE staff identify those claims that are ready to be processed.

**For More Information**

Please visit the BOE's Software Technology Transfer Agreements webpage at [www.boe.ca.gov/sutax/stta.htm](http://www.boe.ca.gov/sutax/stta.htm).