

1 Department of Revenue

2

3 Adopted Permanent Rules Relating to Data Processing

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5 Rules as Adopted

6 8130.9700 AUTOMATIC DATA PROCESSING.

7 Subpart 1. In general. A sales or use tax is imposed upon
8 the gross receipts from selling, leasing, or granting a license
9 to use tangible personal property. When separately stated, the
10 labor charges for repair, service, and maintenance of tangible
11 personal property is not subject to tax. The producing,
12 fabricating, processing, printing, or imprinting of tangible
13 personal property for a consideration for consumers who directly
14 or indirectly furnish the materials used in the producing,
15 fabricating, processing, printing, or imprinting is also subject
16 to tax. The transfer of property produced, fabricated, or
17 printed to the special order of the customer is also subject to
18 tax.

19 This part sets forth guidelines for the application of the
20 general statutory provisions to transfers of property and
21 service rendered in the automatic data processing industry.

22 "Automatic data processing services" are those rendered in
23 performing all or part of a series of data processing operations
24 through an interacting assembly of procedures, processes,
25 methods, personnel, and automatic data processing equipment.
26 Automatic data processing services may be provided by
27 manufacturers of data processing equipment, data processing
28 centers, systems designers, consultants, software companies,
29 etc. In addition, there are banks and other businesses which
30 own or lease automatic data processing equipment and use it
31 primarily for their own purposes but occasionally provide
32 services to others. Businesses rendering automatic data
33 processing services will be referred to as "service bureaus."

34 Subp. 2. Description of terms. Data processing terms are
35 described as follows:

1 [For text of items A to C, see M.R.]

2 D. "Input" means the information or data transferred,
3 or to be transferred, from external storage media (e.g., punched
4 cards, punched paper tape, and magnetic tape) into the internal
5 storage of the computer.

6 E. "Keypunching" means recording information in
7 cards, paper tapes, or magnetic tapes, discs, or drums by
8 punching holes in the cards, paper tapes or inserting magnetic
9 bits on magnetic tape, discs, or drums, to represent letters,
10 digits, and special characters. Keypunching includes the
11 necessary preliminary encoding or marking of the source
12 documents.

13 [For text of items F to L, see M.R.]

14 Subp. 3. Taxable transactions, unless otherwise exempt
15 under Minnesota Statutes, chapter 297A. Certain transactions
16 are treated as follows:

17 [For text of item A, see M.R.]

18 B. Leases of equipment are subject to tax. A lease
19 includes a contract by which a lessee secures for a
20 consideration the use of equipment which may or may not be on
21 the lessee's premises if the lessee or the lessee's employees
22 operate the equipment, or if the equipment is operated under the
23 direction and control of the lessee or the lessee's employees.
24 Subleasing receipts are taxable without any deduction or credit
25 for tax paid by the original lessee to the lessor, if the
26 original lessee uses the property in addition to subleasing it.
27 Use of equipment on a time-sharing basis, where access to the
28 equipment is only by means of remote access facilities, is not a
29 taxable leasing of such equipment.

30 C. Persons who sell or lease data processing
31 equipment may provide a number of training services with the
32 sale or rental of their equipment. Training services, per se,
33 when separately stated, are not subject to the tax. Training
34 materials, such as books, videos, and cassettes, furnished to
35 the trainees for a specific charge are taxable.

36 D. Generally tax applies to the conversion of

1 customer-furnished data from one physical form of recordation to
2 another.

3 For example, if all or some data in punched cards is
4 duplicated into another set of cards, charges for this service
5 are taxable.

6 E. When additional copies of records, reports, or
7 tabulations are provided, tax applies to the charges made for
8 the additional copies. "Additional copies" are all copies in
9 excess of those produced on multipart carbon paper simultaneous
10 with the production of the original and on the same printer,
11 whether the copies are prepared by rerunning the same program,
12 by using multiple simultaneous printers, by looping a program
13 such that the program is run continuously, by using different
14 programs to produce the same output product, or by other means.
15 Where additional copies are prepared, the tax will be measured
16 by the charge made by the service bureau to the customer.
17 Charges for copies produced by means of photocopying,
18 multilithing, or by other means are also subject to tax.

19 F. Sales of mailing lists in the form of cheshire
20 tapes, gummed labels, and heat transfers produced as a result of
21 a computer run are taxable. However, computer-generated mailing
22 lists alone involving no transferable product are not taxable.
23 Where the service bureau, through the use of its automatic data
24 processing equipment, addresses material to be mailed, with
25 names and addresses furnished by the customer or maintained by
26 the service bureau for the customer, tax does not apply to the
27 charge for addressing. Similarly, where the service bureau
28 prepares labels to be affixed to material to be mailed, with
29 names and addresses furnished by the customer or maintained by
30 the service bureau for the customer, tax does not apply to the
31 charge for producing the labels, when the service bureau itself
32 affixes the labels to the material to be mailed.

33 G. For taxation of retail sales of computer software,
34 see part 8130.9910.

35 Subp. 4. **Nontaxable services.** Certain services are
36 treated as follows:

1 A. "Processing a client's data" means the developing
2 of original information from raw data furnished by the
3 customer. Examples of automatic data processing operations
4 which result in original information are summarizing, computing,
5 extracting, sorting, and sequencing. Such operations also
6 include the updating of a continuous file of information
7 maintained by the customer with the service bureau.

8 Generally, if a person enters into a contract to process a
9 client's data by the use of a computer program, or through an
10 electrical accounting machine programmed by a wired plugboard,
11 the contracts are nontaxable (except if the contract is in the
12 nature of a lease as outlined in subpart 3, item B). Such
13 contracts usually provide that the person will receive the
14 client's source documents, record data in machine-readable form
15 (such as in punch cards or on magnetic tape), make necessary
16 corrections, rearrange or create new information as the result
17 of the processing, and then provide tabulated listings or record
18 output on other media. This service is considered nontaxable
19 even if the total charge is broken down into specific charges
20 for each step. The furnishing of computer programs and data by
21 the client for processing under direction and control of the
22 person providing the service is nontaxable even though charges
23 may be based on computer time. The true object of these
24 contracts is considered to be a service, even though some
25 tangible personal property is incidentally transferred to the
26 client.

27 "Processing a client's data" does not include:

28 (1) work performed under an agreement providing
29 solely for the reformatting of data or for the preparation of a
30 proof listing or the performance of an edit routine or other
31 preprocessing;

32 (2) the using of a computer as a mere printing
33 instrument, as in the preparation of personalized
34 computer-printed letters; or

35 (3) the mere converting of data from one medium
36 to another.

1 [For text of items B and C, see M.R.]

2 D. Keypunching and keystroke verifying is an item
3 which covers situations where a service bureau's agreement
4 provides only for keypunching, keystroke verifying, and proof
5 listing of data or any combination of these operations. It does
6 not include contracts under which these services are performed
7 as steps in processing a client's data as described in item A.

8 Agreements providing for keypunching and keystroke
9 verification, or keypunching, providing a proof list, and/or
10 verification of data are not regarded as contracts for the
11 fabrication of punch cards and sales of proof lists. Charges
12 therefore are not taxable, whether the cards are furnished by
13 the customer or by the service bureau. Data from source
14 documents may also be recorded directly on magnetic tape
15 (off-line). This operation may include keystroke verifying
16 and/or proof listing of data and is comparable to the punch card
17 operation. Charges for this operation are not taxable whether
18 the magnetic tapes are furnished by the customer or by the
19 service bureau. No tax applies to charges for the imprinting of
20 characters on a document to be used as the input medium in an
21 optical character recognition system. The tax treatment is the
22 same even though paper tape or other medium were used in the
23 operation.

24 Subp. 5. **Microfilming and/or photorecording services.**

25 Microfilming and photorecording services are treated as follows:

26 A. Some electronic data processing systems accept
27 signals directly from the computer (on-line) at high speeds and
28 then records them on microfilm or on photorecording paper. The
29 computer output medium is merely changed from the more common
30 output media of magnetic tape and tabulated listings to
31 microfilm or photorecording paper. When this end product is the
32 result of a complete computer program as outlined in subpart 4,
33 item B, the tax will not apply.

34 [For text of item B, see M.R.]

35 Subp. 6. [See repealer.]

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- 1 REPEALER. Minnesota Rules, part 8130.9700, subpart 6, is
- 2 repealed.