TAXABILITY OF MAJOR DATA ENTRY TECHNIQUES

Data for a computer system is typically entered into the computer by use of input devices such as card readers, tape or disc drives, and by paper-tape media or by direct on-line entry via a keyboard. This data is recorded and stored on media such as punched cards, tape, or disc.

Following are a list of sections of the Tax Law and definitions pertinent to the application of State and local sales and use taxes levied on data entry techniques.

**Section 1105(a)**
Imposes New York State and applicable local tax on the receipts from every retail sale of tangible personal property.

**Section 1101(b)(4)**
Defines retail sales as a sale of tangible personal property to any person for any purpose, other than (A) for resale as such or as a physical component part of tangible personal property, or (B) for use by that person in performing the services subject to tax under paragraphs (1), (2), (3) and (5) of subdivision (c) of section eleven hundred five where the property so sold becomes a physical component part of the property upon which the services are performed or where the property so sold is later actually transferred to the purchaser of the service in conjunction with the performance of the service subject to tax.

**Section 1105(c)(2)**
Imposes New York State and applicable local tax on the service of producing, fabricating, processing, printing or imprinting tangible personal property, performed for a person who directly or indirectly furnishes the tangible personal property, not purchased by him for resale, upon which such services are performed.

**Definitions**

**Keypunch**
The act of converting data into machine-readable form on punched cards, so that they can be physically entered into the computer via a card reader. The data are stored in the punched cards in the form of punched holes that are a binary representation of each character.

**Key-To-Tape**
The act of converting data into machine-readable form similar to keypunch, except that input records are translated directly onto magnetic tape.

**Key-To-Disc**
The act of converting data into machine-readable form similar to keypunch, except that one or two disc memories are used as the intermediate memory for input keyboards. The keyboards are typically controlled by a minicomputer that not only provides the format control, check digit verification, or editing...
features for each keyboard but also loads each record onto the disc pack for intermediate storage, and then typically sequences the records into logical order by job and batch for entry onto a magnetic tape.

Key-To-Cassette

The act of converting data into machine-readable form, similar to key-to-disc. Key-to-cassette employs a keyboard, microprocessor, and two cassette tape recorders. One cassette tape is used for storing of the microprocessor control program, plus the format and verification data; the other is used for storing the keyed data.

Keystroke Verifying

The act of verifying data recorded on a punched card or transcribed on magnetic tape during the keypunch operation. A signal is given when the punched hole on the card and the depressed key disagree, or when the data on magnetic tape differs from depressed keys.

Buffered Keypunch

The process of keying data into a buffer memory. When all the data to be punched has been keyed, a release key is depressed and the characters are electronically read from the buffer and recorded in a card or transferred automatically onto magnetic tape. This procedure has an advantage over recording data directly into the memory in that when an operator senses an error was keyed, that character may be eliminated from the memory and the correct character re-keyed.

Check Digit Verification

An automatic process used to test the accuracy of a series of numbers which have been keyed.

Off-Line Equipment

Peripheral equipment or devices not in direct communication with the central processing unit of a computer.

On-Line Equipment

Peripheral equipment or devices in direct communication with the central processing unit of a computer.

Collating

The act of comparing and merging two or more similarly ordered sets of items onto one ordered set.

Sorting

The act of arranging numeric or alphabetic data in a given sequence.

Application Of State And Local Sales And Use Tax

The following information reflects the Department's position on the application of sales and use tax to major data entry transactions.

Keypunch, key-to-tape, key-to-disc and key-to-cassette (hereinafter referred to as data conversion) are the basic methods of preparing data for input into a computer system. The peripheral equipment or devices used to execute any of these acts may operate on-line or off-line from the computer.
Where the equipment or devices used to perform the data conversion are on-line with the computer, and the data conversion is one step in performing an information service, the charge for converting the human readable data to machine-readable form by keypunching is dependent upon the nature of the service being performed. (See: Technical Services Bureau Bulletin 1978-1(S); Data Processing Services - Information Services).

Where data conversion is performed on off-line equipment or devices, the taxability of the transaction is governed by the nature of the service being furnished. If the agreement provides that the data processing center will perform data conversion plus processing of the data through a computer system under the control of a program for the creation of new information, the application of tax is controlled by the nature of the service being furnished (object of the contract). This is identical to on-line data conversion covered above.

However, if the agreement provides that the purchaser will receive cards, disc, tape, cassettes, or other medium in a form specified by him, and packaged, arranged or otherwise prepared for him without creating any new information, only a change in its form, the taxability is as follows:

1. When the vendor furnishes the cards, tape, disc or cassette on which the purchaser's source data is recorded, the sale is of tangible personal property. As such, the charge for the data conversion is taxable in accordance with the provisions of Section 1105(a) of the Tax Law.

2. When the customer supplies the medium upon which the printing or encoding is performed, a sale of a fabrication service is made. The service is taxable pursuant to the terms of Section 1105(c)(2) of the Law which contains the descriptive words: "... producing, fabricating, processing, printing or imprinting tangible personal property... for a person who... furnishes the tangible personal property... upon which such services are performed."

The application of the tax levied will not be altered by the manner by which the purchaser is billed or the fact that:

A. The equipment or device used to record the data on cards, disc, tape or cassettes (i) adds numeric figures for a batch total, and/or (ii) performs check digit verification.

B. A buffered keypunch system is used.

C. The data recorded on cards, disc, tape or other medium is keystroke verified.

D. The prepared data is sorted or collated.

E. The keypunching is performed on partially prepunched cards supplied by the purchaser.

The New York State and applicable local tax levied on data conversion is computed using the combined rate of tax in effect in the taxing jurisdiction where the cards, disc, tape or cassette upon which the data is recorded is delivered to the purchaser or his designated representative.
A vendor buying cards, discs, tapes, cassettes and other media which are to be transferred to customers in conjunction with the sale of taxable data conversion services, may issue to the supplier a properly completed Resale Certificate (form number ST-120). The issuance of the properly completed certificate makes it possible for the supplier to eliminate the sales tax from the transaction which is for resale and provides the supplier with the documentation needed to verify, to the State Tax Commission, the reason for non-collection of tax.