



Exemptions for Computer System Hardware (Form ST-121.3)

Introduction

The sale and use of certain computer system hardware is exempt from sales tax. Computer system hardware that qualifies for the exemption may be purchased, rented, or leased using [Form ST-121.3](#), *Exemption Certificate For Computer System Hardware*. This bulletin explains:

- how to use the certificate,
- what kinds of property and services can be purchased exempt from sales tax using [Form ST-121.3](#), and
- penalties that may be imposed for misuse of the certificate.

Exempt sales

[Form ST-121.3](#) can be used to make tax exempt purchases of computer system hardware used directly and predominantly to:

- design and develop computer software for sale,
- provide the service, for sale, of designing and developing Internet Web sites, or
- provide a combination of the two uses described above.

Computer system hardware includes the physical components from which a computer system is built, as well as associated parts and embedded software (e.g., software that comes as a part of the computer system hardware and is actually an integral part of the computer, typically in the form of a memory chip). Computer system hardware includes:

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| • microcomputers | • monitors |
| • minicomputers | • keyboards |
| • mainframe computers | • mouses |
| • personal/laptop computers | • printers |
| • tablet computers | • scanners |
| • external hard drives | • servers |
| • portable disk drives | • network interfaces |
| • CD-ROM drives | • network hubs |
| • external modems | • network routers |

Designing and developing includes system analysis, program design, coding, testing, debugging, and documentation activities.

Directly means that the computer system hardware is actually used in, or has an active, causal relationship in, designing and developing computer software for sale or in providing the service, for sale, of designing and developing Internet Web sites. The use of computer system hardware in administration, production, or distribution activities is not considered direct use for purposes of this exemption.

Predominantly means that the hardware must be used more than 50% of the time in designing and developing computer software for sale or in providing the service, for sale, of designing and developing Internet Web sites.

For additional information see [TSB-M-98\(5\)S](#), *Exemption for Computer System Hardware*.

How to use Form ST-121.3

If you are the purchaser, fill out [Form ST-121.3](#) and give it to the seller. You must complete all required entries and sign and date the form. You must give the seller a properly completed [Form ST-121.3](#) within 90 days after the delivery of the property or performance of the service. Sales tax exemption certificates may also be issued and accepted electronically. See [TSB-M-07\(1\)S](#), *Electronic Resale and Exemption Documents for Sales and Compensating Use Taxes*.

You may use [Form ST-121.3](#) as a single-purchase certificate, or as a blanket certificate covering the first and subsequent purchases of the same general type of property or service from the same seller.

Taxable purchases

These purchases are not eligible for the exemption:

- pre-written computer software, including operating system software and application software, that is not embedded software;
- consumable supplies or tools used in the operation, maintenance, or repair of computer system hardware (e.g., toner, ink, printer paper, and CD-ROMs);
- the services of installing, maintaining, servicing, or repairing computer system hardware; and
- charges for support packages and warranties.

Penalties

Misuse of this exemption certificate may subject you to serious civil and criminal sanctions in addition to the payment of any tax and interest due. These include:

- a penalty equal to 100% of the tax due;
- a \$50 penalty for each fraudulent exemption certificate issued;
- criminal felony prosecution, punishable by a substantial fine and a possible jail sentence; and
- revocation of your *Certificate of Authority*, if you are required to be registered for sales tax purposes.

Note: A Tax Bulletin is an informational document designed to provide general guidance in simplified language on a topic of interest to taxpayers. It is accurate as of the date issued. However, taxpayers should be aware that subsequent changes in the Tax Law or its interpretation may affect the accuracy of a Tax Bulletin. The information provided in this document does not cover every situation and is not intended to replace the law or change its meaning.

References and other useful information

Tax Law: Section 1115(a)(35) and 1145(a)(5)

Memoranda:

[TSB-M-98\(5\)S](#), *Exemption for Computer System Hardware*

[TSB-M-07\(1\)S](#), *Electronic Resale and Exemption Documents for Sales and Compensating Use Taxes*

Bulletins:

[Exemption Certificates for Sales Tax \(TB-ST-240\)](#)

[Sales and Use Tax Penalties \(TB-ST-805\)](#)