

**STATE BOARD OF EQUALIZATION**

1020 N STREET, SACRAMENTO, CALIFORNIA
(P.O. BOX 942879, SACRAMENTO, CALIFORNIA 94279-0001)
(916) 445-6414

July 26, 1988

Mr. G--- C---
XXX XXth Street
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Dear Mr. C---:

This is in response to your letter dated June 16, 1988, in which you request our advice on whether charges you make for researching medical information are subject to sales tax. You describe your business in your letter as follows:

“What I’m selling is a medical information service to the public – I’ll give you a sample business transaction.

“Somebody would call me up and give me a medical name of their ailment. They would most commonly question about the diagnosis that their doctor had given. We would research the most current medical information on the subject and send them a computer printout of the subject. They would pay for our research of the computer data-bases. That’s the business.”

Generally, except where a sale is specifically exempted by statute, sales tax applies to a retailer’s gross receipts from all retail sales of tangible personal property in this state. (Revenue and Taxation Code section 6051.) However, sales tax applies only to the gross receipts from retail sales of tangible personal property and not to charges for the performance of services. (Sales Tax Regulation 1501.) In many instances, a service transaction requires the transfer of tangible personal property incidental to the performance of the service. When tangible personal property is transferred in connection with the service, the “true object” test is used to determine whether sales tax applies. If the true object of the transaction is the service itself, tax will not be imposed on the transaction even though some tangible personal property is transferred. However, if the true object of the transaction is the tangible personal property itself, the transaction will be taxable. (Sales Tax Regulation 1501.)

This principle is illustrated by an example stated in Sales Tax Regulation 1501 as follows:

“For example, a firm which performs business advisory, record keeping, payroll and tax services for small businesses and furnishes forms, binders, and other property to its clients as an incident to the rendition of its services is the consumer and not the retailer of such tangible personal property. The true object of the contract between the firm and its client is the performance of a service and not the furnishing of tangible personal property.”

Similarly, we have stated in letter rulings that with respect to research and development contracts, if the development contract is primarily for the service of developing information, the ultimate recording of the information on paper under such contracts is incidental to the purchase of the service to develop the information. The development of information is not a sale of tangible personal property. It is a service. (Business Taxes Law Guide Annotations 515.0660 (3/11/66); 515.0700 (3/9/66).)

It is our opinion that your business of researching the latest medical information for your clients is a service. The true object of the transaction is to provide the client with information. The computer printout is the means you use to transmit that information and is only incidental to providing the service of supplying medical information. Since the charges you make are for providing a service, they are not subject to sales tax.

I hope this information is helpful. If you have any further questions, please contact this office.

Very truly yours,

Michele F. Hicks
Tax Counsel

MFH:jb