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April 15, 1992

Mr. S--- F. P---, Owner  
S--- B--- S---  
P.O. Box XXXXXX  
--- ---, CA XXXXX-XXXX

SR -- XX-XXXXXX

Dear Mr. P---:

This is in reply to your February 10, 1992 letter regarding the application of sales tax to your charges for data processing and data entry. Specifically, you asked for the application of tax to the following cases you presented”

“Case 1: Data entry services. Keying of customer’s paper documents, and providing magnetic media (diskette or computer tape).”

Enclosed is a copy of Sales and Use Tax Regulation 1502, Computers, Programs, and Data Processing. As noted in subdivision (d)(2), charges for data entry are taxable whether the storage media are furnished by the customer or by the data processing firm. Therefore, when a customer provides you with paper documents containing data for you to record on storage media, tax applies to your charge, whether you or the customer provide the magnetic media.

“Case 2: Same as Case 1, but in addition, custom programming services are necessary to allow the data entry to commence. Is the programming portion taxable?”

Yes the charge for the programming is taxable. When you perform programming for your use in performing taxable data entry, tax applies to the total gross receipts from your sale or the data entry with no deduction for the cost of the programming services. Revenue and Taxation Code section 6012 defines “gross receipts” to mean the total amount or the sale price of materials used, labor or service cost, interest paid, or any other expense.

“Case 3: Same as Case 1, except that instead of magnetic media, the data is transmitted over telephone lines, using a ‘modem’.”

Tax does not apply to your charge if you transfer the information by remote telecommunications from your place of business to or through the purchaser’s computer, and you do not transfer any tangible personal property, such as storage media, in the transaction. (Cf. Sales and Use Tax Reg. 1502, subd. (f)(1)(D)).

“Case 4: Same as Case 1, except that instead of magnetic media, an address list only is provided.”

Tax does not apply to charges for furnishing an original document prepared by using a typewriter or work processing equipment. If you create a mailing list from documents provided by your customer, tax does not apply to your charge for the original document and carbon copies produced simultaneously with the original. Tax does apply to your charge for producing multiple copies of the document. See Sales and Use Tax Regulation 1502.1, Word Processing.

“Case 5: Same as Case 4, but in addition to the address list, magnetic media is also provided. What is taxable in this case, if anything? The data entry portion of the service; the services to create the address list; the services to physically take the data and create magnetic media.

In this case, since you transfer magnetic media to the customer, the entire charge is taxable regardless that you also provide an address list to the customer.

We hope this answers your questions; however, if you need further information, feel free to write again.

Very truly yours,

Ronald L. Dick  
Senior Tax Counsel

RLD:sr

Encs.