

Wisconsin Department of Revenue

**Frequently Asked Questions – Sales and Use Tax Treatment
Computer – Hardware, Software, Services****1. What computer hardware, software, and services are taxable?**

There are two major sales and use tax provisions that relate to the sales and use tax treatment of computer hardware, software and services:

- The sale of tangible personal property is subject to Wisconsin sales or use tax, unless an exemption applies. Tangible personal property is defined to include computer software, except custom computer software. Therefore the sale, lease, or license of computer hardware and computer software, except custom computer software, is subject to Wisconsin sales or use tax.
- The repair, service, alteration, fitting, cleaning, painting, coating, towing, maintenance, and inspection of tangible personal property is also subject to Wisconsin sales or use tax.

Taxable Sales

Charges to customers for the following services are subject to Wisconsin sales or use tax:

- Installation and setup of computer hardware
- Installation of hardware devices (including printers, hard drives, modems, monitors, etc.)
- Installation of computer software, except custom software (e.g., canned software)
- Configuration of computer software, except custom software (e.g., canned software)
- Online or on-site troubleshooting hardware problems
- Online or on-site troubleshooting computer software, except custom software (e.g., canned software) problems
- Setting up hardware and computer software, except custom software (e.g., canned software) on network
- Making adjustments to computer software, except custom software (e.g., canned software) via modem
- Installation of computer software, except custom software (e.g., canned software) upgrade
- Inspections of hardware and computer software, except custom software (e.g., canned software)
- Consulting and design services provided in connection with the sale of computer hardware and computer software, except custom computer software
- Internet access services that originate or terminate in Wisconsin and are charged to a service address in Wisconsin.

Example 1: Company A charges a flat monthly fee to both “dial-up” customers (that is, customers that use local access and long-distance telephone companies to connect to Company A) and “dedicated-line” customers (that is, customers who have a direct line to Company A) for providing access to the Internet.

Customers have an unlimited number of usage hours and/or access. The monthly fee is for providing access to the Internet which is a telecommunications service that is subject to tax if it originates or terminates in Wisconsin and is charged to a service address in Wisconsin.

Example 2: Assume the same facts as Example 1, except that Company A charges an hourly rate in addition to a flat monthly charge. For example, Company A charges a customer \$12.95 per month plus \$2 per hour for every hour of access or usage in excess of 8 hours. The monthly and hourly charges are for providing access to the Internet which is a telecommunications service that is subject to tax if the service originates or terminates in Wisconsin and is charged to a service address in Wisconsin.

- Installation or hook-up charges relating to Internet access services that originate or terminate in Wisconsin and are charged to a service address in Wisconsin.

Example: Company B, an Internet service provider, charges customers who subscribe for access services a one-time fee for installation and connection required for providing access to the Internet. The installation charge is part of the gross receipts for providing access to the Internet and is subject to Wisconsin sales or use tax in the same manner as the access charges.

- The sale of finished art to a customer where the customer takes possession of the finished art and then has a third party or itself transmit the finished art to a server of an Internet service provider.

Example: Company A is an advertising agency. Company A designs the information that will appear on Company B's web site in the form of graphics and text. Company A provides this design work (that is, finished art) to Company B. Company B gives the finished art to Company C (paper copy or diskette), an Internet service provider. Company C transforms the finished art into a point and click interface that allows others to access the information from the web site and print out the information desired. The charge by Company A to Company B for the finished art is subject to Wisconsin sales or use tax.

- Sales of textbooks and manuals
- Photographic services

Example: Company C provides Internet-related services to real estate professionals. One of its services involves taking photographs of homes that are for sale. The photographs include 360-degree pictures of rooms or fronts of properties that give a "virtual tour" of the customer's property. The photographs are electronically transferred by the photographer to the customer's web site where the photographs can be viewed by potential purchasers of homes. The charge by Company C to the real estate professional for photographic services (taking the photographs and reproducing them on the Internet) is subject to Wisconsin sales or use tax.

Nontaxable Sales

Charges to customers for the following services are not subject to Wisconsin sales or use tax:

- Writing custom programs
- Contract programming
- Installing custom programs
- Updating custom programs
- Training people on how to use software or hardware

- Writing queries of databases
- Designing screens, forms, reports, or menus
- Answering people's questions
- Reformatting data
- Data migration
- Data conversion
- Data recovery
- Making backups of data files
- Network assessment services that consist of network analysis and evaluation unrelated to a specific hardware or software problem and unrelated to the sale of computer hardware or computer software
- Hosting web sites (that is, the storing of data on a computer) without selling any tangible personal property is a nontaxable service. Only specific services are subject to the Wisconsin sales tax (such as photographic services or telecommunications services, including Internet access). Likewise, domain name registration and site maintenance/update services are not subject to sales tax if no tangible personal property is transferred or taxable service performed.
- Designing web sites and home pages (no tangible personal property transferred to customer).

Web site design is not among the services subject to Wisconsin sales tax if no tangible personal property is transferred or the service is not primarily a photographic service. If the completed web site (that is, graphic design work) is transferred to the customer in an intangible format (for example, sent electronically via e-mail), the charge for the electronic file, including design work, is not subject to tax. However, if the completed web site is transferred to the customer in a tangible format (for example, paper copy, diskette), it is considered to be a sale of tangible personal property (that is, finished art). The entire charge for the sale of the finished art, including planning and design, is subject to tax unless an exemption applies.

Example: Customers supply an advertising agency or similar design company with information that is transformed into a point and click interface that allows others to access the information from a home page or web site and print out the information desired. Specifically, a client tells the designer the information it wishes to advertise. A computer is used to create the words and graphics. The finished art created on the computer is transmitted by the advertising agency or similar design company electronically via e-mail to a server and can be accessed through the Internet. No tangible personal property is transferred to the client. The charge to the client is not subject to tax.

- Web site database charges.

Example: Company B, an Internet service provider, sets up Company C with a database that can be accessed by other Internet users. Company B charges Company C a set-up charge and per-megabyte storage charge. The charge also covers the administrative costs relating to the domain name registration for the web site. The charges by Company B to Company C for database set-up or storage are not subject to Wisconsin sales or use tax.

- Charges for providing advertising or listing space on a web site.

Example 1: Company A is a start-up Internet business that acts as a web site. The function of this web site is to provide a starting place in a local area for information and services. It functions like a newspaper, business directory, and local shopper. Company A will be selling listing and ad space for the web site for profit. The charge by Company A for listing and ad space is not subject to Wisconsin sales or use tax.

Example 2: Company C has developed a real estate listing service that will provide both public organizations and private individuals with a means of advertising on the Internet. The electronic listing service will utilize a “hyperlink” concept that will begin with a home page and allow the user to link to other sections of the listing service and other site locations on the Internet. Company C generates revenue by charging sellers of real estate for listing properties with Company C. The charge by Company C for listing properties is not subject to Wisconsin sales or use tax.

- Access services that will be resold.

Example: Company A is an Internet access provider located in Wisconsin. Company A provides Internet access to Company B, an Internet Services Provider (ISP). Company B provides this access to end users accessing the Internet. The charge by Company A to Company B for access services is not subject to Wisconsin sales or use tax because the services are for resale. Company B should provide Company A with a properly completed sales and use tax exemption certificate claiming resale.

- Training on how to use the Internet

More information about computer software and services can be found in [sec. Tax 11.71 Wis. Adm. Code](#) Computer industry.

2. Does a company have to pay sales tax on software that it obtains over the Internet?

In order to establish the tax treatment of the software license, a determination must be made whether the transaction is a lease of the software or a nontaxable data processing service.

- A. *Software Lease* – The sale, lease, or license of computer software, except custom computer software, in Wisconsin is subject to Wisconsin sales or use tax unless an exemption applies, regardless of how it is delivered to the customer (diskette vs. electronically). For the sale, lease, or license of computer software to be subject to Wisconsin sales or use tax, the software, except custom software, must be situated in Wisconsin when used by the customer. If the software at all times is located on the server outside Wisconsin (that is, it is not downloaded or in some other way transferred to the customer’s computer but, instead, the customer uses the software at the physical location of the server outside Wisconsin), a Wisconsin tax will not apply.

Note: If, instead of a license of tangible personal property the transaction is a data processing service, the transaction is not taxable. (See Part B. *Data Processing Services*, below, for tax treatment.)

Example: A software provider is located in New York and the user is a Wisconsin business. The user is billed by the software provider for use of software located in New York. The software is not downloaded or transferred in any way to the user in Wisconsin. The gross receipts from licensing to the Wisconsin business the software on the New York server are not subject to Wisconsin sales or use tax.

- B. *Data Processing Services* – A company may provide services which permit persons at different locations to access the same software through remote access by telephone lines, microwave, or other means. Such services are not subject to Wisconsin sales or use tax when (1) the persons or the persons’ employees who have access to the software are not located on the premises where the equipment/software is located and do not operate the equipment or control its operation, and (2) software that is downloaded or physically transferred to the cus-

tomor or the customer's computers is incidental to the data processing services (that is, used solely to allow access to the service provider's hardware and software).

Note: The vendor may load the software onto its server and maintain the software if there is a breakdown. Such loading and maintenance, by itself, does not demonstrate sufficient evidence of control over the software to conclude that the vendor is providing a data processing service. If a customer has control over computer hardware and software it accesses from a remote location, has unlimited access to the server, loads its own software, is responsible for security measures regarding its use of the computer equipment (file server) and software, and decides how, when, and where its output will be provided through its own manipulation of the software, the vendor is leasing (licensing) tangible personal property (software) to its customer (see Part A, *Software Lease*, above, for tax treatment).

Example: Company A, an Application Service Provider (ASP), provides access to its software. The software is stored on Company A's servers and the customer accesses the software via the Internet. Customers that contract with Company A have access to Company A's servers, but do not operate or have control over the servers. Company A has control over the computer hardware and software, loads the software onto the server, and is responsible for security measures regarding the computer equipment (file server) and software.

In order for Company A's customers to access the hardware and software, the customers must use a client utility program that they download from Company A.

Company A is providing a data processing service, which is not subject to Wisconsin sales and use tax, regardless of whether the server is located in Wisconsin or outside Wisconsin. Data processing services are not among the services subject to Wisconsin sales and use tax.

FOR MORE INFORMATION PLEASE CONTACT:

WISCONSIN DEPARTMENT OF REVENUE
Customer Service and Education Bureau
PO Box 8949
Madison, WI 53708-8949
Phone: (608) 266-2776
Fax: (608) 267-1030
E-mail: sales10@dor.state.wi.us