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State of South Carolina  
Department of Revenue  
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SC REVENUE RULING #08-3

**SUBJECT:** Research and Development Machines  
(Sales and Use Tax)

**EFFECTIVE DATE:** Applies to all periods open under the statute.

**SUPERSEDES:** All previous advisory opinions and any oral directives in conflict herewith.

**REFERENCES:** S. C. Code Ann. Section 12-36-2120(56) (Supp. 2007)

**AUTHORITY:** S. C. Code Ann. Section 12-4-320 (2000)  
S. C. Code Ann. Section 1-23-10(4) (Supp. 2007)  
SC Revenue Procedure #05-2

**SCOPE:** The purpose of a Revenue Ruling is to provide guidance to the public and to Department personnel. It is an advisory opinion issued to apply principles of tax law to a set of facts or general category of taxpayers. It is the Department's position until superseded or modified by a change in statute, regulation, court decision, or another Departmental advisory opinion.

Question:

In order for a machine to qualify for the exemption from the sales and use tax in Code Section 12-36-2120(56) for research and development machines, what percentage of the machine's use must be devoted to research and development?

Conclusion:

In order for a machine to qualify for the exemption from the sales and use tax in Code Section 12-36-2120(56) for research and development machines, more than 50% of its total use must be for direct use in research and development as defined in the exemption.

Note: Based on the definition of research and development found in the exemption, the use of a machine indirectly in research and development (e.g., administrative uses), or not in the experimental or laboratory sense of research and development, or not with respect to new products, new uses for existing products, or improvement of existing products must be considered as non-qualifying uses when determining if the machine qualifies for the exemption in Code Section 12-36-2120(56).

Facts:

Machines used in research and development at universities and other places may also be used for other purposes. For example, at a university, a machine used in research and development may also be used for teaching or administrative purposes.

The issue at hand is what percentage of the machine's use must be devoted to research and development in order for the exemption in Code Section 12-36-2120(56) to apply.

Discussion:

Code Section 12-36-2120(56) exempts from the sales and use tax the gross proceeds of sales, or sales price, of

Machines used in research and development. "Machines" includes machines and parts of machines, attachments, and replacements which are used or manufactured for use on or in the operation of the machines, which are necessary to the operation of the machines, and which are customarily used in that way. "Machines used in research and development" means machines used directly and primarily in research and development, in the experimental or laboratory sense, of new products, new uses for existing products, or improvement of existing products.

It is an accepted practice in South Carolina to resort to the dictionary to determine the literal meaning of words used in statutes. For cases where this has been done, see *Hay v. South Carolina Tax Commission*, 273 S.C. 269, 255 S.E.2d 837 (1979); *Fennell v. South Carolina Tax Commission*, 233 S.C. 43, 103 S.E.2d 424 (1958); *Etiwan Fertilizer Co. v. South Carolina Tax Commission*, 217 S.C. 484, 60 S.E.2d 682 (1950).

The Second College Edition of the American Heritage Dictionary provides the following definitions:

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|-----------|-------------------------------------------------------------------|
| primarily | 1. At first; originally. 2. Chiefly; principally.                 |
| primary   | ... 4. Being first or best in degree, quality, or importance. ... |
| chiefly   | 1. Above all; especially. 2. Mostly; mainly. ...                  |

Based on the above, when comparing all of a machine's direct use in research and development as defined in the exemption to the total of all its non-qualifying uses (teaching, administrative, etc.), the machine must be used mostly for qualifying research and development. In other words, more than 50% of its total use must be for direct use in research and development as defined in the exemption.

Note: The use of a machine indirectly in research and development (e.g., administrative uses), or not in the experimental or laboratory sense of research and development, or not with respect to new products, new uses for existing products, or improvement of existing products must be considered as non-qualifying uses when determining if the machine qualifies for the exemption in Code Section 12-36-2120(56).

SOUTH CAROLINA DEPARTMENT OF REVENUE

s/Ray N. Stevens  
Ray N. Stevens, Director

February 29, 2008  
Columbia, South Carolina