


ST 2129 - SALES TAX : COMPUTERS USED AS AUXILIARIES TO AIDS TO MANUFACTURE

 This cover sheet is provided for information only. It does not form part of *ST 2129 - SALES TAX : COMPUTERS USED AS AUXILIARIES TO AIDS TO MANUFACTURE*

This document has been Withdrawn.

There is a [Withdrawal notice](#) for this document.

TAXATION RULING NO. ST 2129

SALES TAX : COMPUTERS USED AS AUXILIARIES TO AIDS TO
MANUFACTURE

F.O.I. EMBARGO: May be released

REF H.O. REF: ST 66/E88/1 DATE OF EFFECT: Immediate
82/12611

B.O. REF: DATE ORIG. MEMO ISSUED:

F.O.I. INDEX DETAIL

REFERENCE NO:	SUBJECT REFS:	LEGISLAT. REFS:
I 1187152	COMPUTERS AUXILIARIES TO AIDS TO MANUFACTURE	SALES TAX (EXEMPTIONS & CLASSIFICATIONS) ACT; ITEMS 113A, B, C. FIRST SCHEDULE SALES TAX REGULATIONS REGULATION 4.

OTHER RULINGS ON TOPIC ST 2105

PREAMBLE Taxation Ruling No ST 2105 dealt with the circumstances in which computers and components of computer systems may qualify for exemption from sales tax as aids to manufacture. A number of cases have now come to notice where computers and computer systems are used to process or treat goods that are for use as aids to manufacture. The question has arisen whether these computers and computer systems qualify for exemption as auxiliaries to aids to manufacture.

FACTS 2. In one case a micro computer is used in connection with the production of pre-fabricated building sections. The computer performs a number of functions including the preparation of costings, quotations, and the preparation of cutting and assembly instructions for use by production operatives during the course of manufacturing the building sections. The instructions for the operatives dealt with the allocation of materials to the task and the means and order in which the cutting and assembly operations are to be carried out. The computer is primarily and principally used in the preparation of the operator instructions.

3. Another case involves computer systems used by a garment manufacturer to produce identity coupons and tags. The identity coupons are attached to cloth which has been cut to size and shape in the factory cutting room. The coupons contain operator instructions and when each process is completed the coupon is torn-off and attached to the operators working sheet, the details of which are fed back into the computer to help provide control of the operation of the plant. The coupons are accepted as aids to manufacture.

4. The tags produced by the other computer system are of two types, the first being produced in five copies most of which are used in connection with the transportation of partly finished goods within the factory premises. The second type is

produced in two copies one of which is affixed to cartons of completed garments in the factory storage area for the purpose of identifying the garments in the carton. The other part is used to update the computer file on the completed garment.

RULING

5. In the case mentioned above it has been accepted that the operator instructions, identity coupons and tags respectively are goods for use as specified in paragraph (a) of the defined meaning of aids to manufacture. Because of this and by virtue of paragraph (d) of that definition the instructions, coupons and tags qualify for conditional exemption as aids to manufacture. The classification, for sales tax purposes, of the computers and computer systems used to bring them into existence has been considered, therefore, under the "auxiliaries to aids to manufacture" (auxiliaries) provisions in the sales tax law.

6. The conditional exemption for auxiliaries was inserted in the Sales Tax (Exemptions and Classifications) Act by Act No. 142 of 1981 and is explained in the explanatory memorandum which accompanied the amending Bill as follows -

"The broad purpose of this definition is to provide exemption for goods used by a manufacturer in processing or treating goods used by him as aids to manufacture (paragraph (a) of the definition). It will also exempt goods associated with the processing or treating of aids to manufacture. Exemption will apply to goods for use:

- . in the disposal of waste substances resulting from any treatment of aids to manufacture (paragraph (b));
- . in transporting aids to manufacture or other goods covered by the definition within the premises where the aids are treated (paragraph (c));
- . in storing within the premises or contiguous premises aids to manufacture or other goods covered by the definition (paragraph (d));
- . in cleansing or sterilizing bottles, vats or other containers used to store aids to manufacture or other goods covered by the definition (paragraph (e));
- . in operating, applying, cleansing or sterilizing equipment used in any processing or treatment covered by this definition (paragraph (f));
- . in constructing or repairing equipment to be used in any processing or treatment covered by this definition (paragraph (g)).

The definition does not extend to goods which are excluded from the definition of aids to manufacture."

7. In Taxation Ruling No. ST 2105, at paragraph 10, the need to consider the primary and principal and direct use of each component of a computer system so as to determine whether it qualified for exemption as an "aid to manufacture" was emphasised. It is also necessary to consider each component of

such systems separately in relation to the conditional exemption available for auxiliaries.

8. As presently relevant the expression auxiliaries means goods for use by a manufacturer exclusively or primarily and principally in the processing or treatment of goods to be used by him as aids to manufacture but does not include goods which are of any of the kinds expressly excluded from the definition of aids to manufacture. Computers and components of computer systems are not expressly excluded from the defined meaning of aids to manufacture because although there is a general exclusion for equipment or articles of a kind ordinarily used for office work which would embrace computers, such goods may qualify for exemption as an aid to manufacture where they are for use primarily and principally, and directly, in the manufacture of goods (see Taxation Ruling ST 2105). Thus, where a computer or other component of a computer system is used by a manufacturer exclusively or primarily and principally in the processing or treatment of goods to be used by him as aids to manufacture conditional exemption as auxiliaries will apply.

9. In both cases detailed above the computers and components of the computer systems are used primarily and principally in processing or treating goods, eg coupons, tags, operating instructions, for use by the manufacturer as aids to manufacture. Consequently conditional exemption as "auxiliaries to aids to manufacture" applies.

COMMISSIONER OF TAXATION
25 June 1985

<