

DEPARTMENT OF STATE REVENUE

Information Bulletin #75
Sales Tax
January 2023
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SUBJECT: Sales Tax Exemption for Research and Development Property

REFERENCES: [IC 6-2.5-5-40](#)

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SUMMARY OF CHANGES

Apart from technical, nonsubstantive changes, this bulletin has been revised to remove guidance and references to dates that are no longer within statute.

I. INTRODUCTION

The purpose of this bulletin is to provide guidance concerning an Indiana sales tax exemption for research and development property. Not all activities are considered research and development activities, such as those considered incidental to research and development activities.

II. DEFINITIONS

"Research and development property" means tangible personal property that has not previously been used in Indiana for any purpose and is acquired by the purchaser for the purpose of research and development activities.

"Research and development activities" include design, refinement, and testing of prototypes of new or improved commercial products conducted before sales have begun for the purpose of determining facts, theories, or principles, or for the purpose of increasing scientific knowledge that may lead to new or enhanced products.

"Research and development activities" do not include:

- (1) efficiency surveys;
- (2) management studies;
- (3) consumer surveys;
- (4) economic surveys;
- (5) advertising or promotions;
- (6) research in connection with literary, historical, or similar projects;
- (7) testing for purposes of quality control;
- (8) marketing and sales research;
- (9) product market testing, including product testing by product consumers or through consumer surveys for evaluation of consumer product performance or consumer product usability;
- (10) the acquisition, investigation, or evaluation of another's patent, model, process, or product for the purpose of investigating or evaluating the value of a potential investment; or
- (11) the providing of sales services or any other service, whether technical or nontechnical in nature.

III. PURCHASING EXEMPT ITEMS

Research and development property purchased for the purpose of research and development activities is exempt from Indiana sales tax. The exemption for research and development property applies regardless of whether the person who acquires the property is a manufacturer or seller of the new or existing products that are the subject of the research and development activities.

Further, it is important to note that the rules applicable to the sales tax exemption for research and development property and the rules applicable to the credit for increasing research expenses under [IC 6-3.1-4](#) are not identical. While some categories of expenses would qualify for both, the sales tax exemption and income tax credit have

somewhat different provisions which may permit qualification for either the exemption or the credit but not both.

In order to qualify for the exemption, the research and development property must fall under the definition of research and development property outlined above. First, the property must not have been previously used in Indiana for any purpose and must have been acquired by the purchaser for the purpose of research and development activities. Thus, if an item that is originally purchased for an unrelated purpose - such as inventory held for resale or machinery used for a different purpose - is subsequently used in research and development activities, the use of the item in research and development activities is taxable.

Second, in order to qualify for the exemption, the property must be acquired by the purchaser for the purpose of research and development activities devoted to experimental or laboratory research and development for new products, new uses of existing products, or improving or testing existing products. This means the property must be devoted to a research and development activity that is considered essential and integral to experimental or laboratory research and development. Certain activities will not be considered to be devoted to experimental or laboratory research and development. Any items purchased for these purposes will not qualify for the exemption. These activities include:

- (1) heating, cooling, or illumination of office buildings;
- (2) capital improvements to real property;
- (3) janitorial services;
- (4) personnel services or accommodations;
- (5) inventory control functions;
- (6) management or supervisory functions;
- (7) marketing;
- (8) training;
- (9) accounting or similar administrative functions; or
- (10) any other function that is incidental to experimental or laboratory research and development.

NOTE: In order to qualify for the exemption, the property must be used directly in research and development activities. Office supplies, consumables, hand-powered tools, and repair parts are all examples of items that may be exempt from sales tax as research and development property when directly used in research and development activities.

Office furniture, furnishings, storage equipment, and other items that are not used directly in research and development activities are subject to tax.

If the property is purchased from an Indiana vendor or an out-of-state vendor that is registered to collect Indiana sales and use tax, in order to receive the exemption at the time of purchase, the purchaser of research and development property is required to complete an exemption certificate. If the purchaser pays Indiana sales or use tax on the purchase of exempt research and development property, the purchaser may file a claim for refund (Form GA-110L) with the department.

If you have any questions concerning this bulletin, please contact the Tax Policy Division at taxpolicy@dor.in.gov.

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Commissioner

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