

Rulings of the Tax Commissioner

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Brief Description: Computerized reservation system
Topics: Taxability of Persons and Transactions
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Re: Request for Ruling/Sales and Use Tax

Dear*****

I received a copy of your letter to ***** regarding the application of the sales and use tax to various purchases and lease agreements by travel agencies.

As you are aware, the department has initiated a use tax self audit program. The use tax applies to the use, consumption or storage of tangible personal property when the Virginia sales tax is not paid at the time property is purchased. The self audit program is designed to allow taxpayers to review their own records and report and pay any use tax that may be due, which would result in a reduction in penalties and interest if the taxpayer is audited in the future.

The sales and use tax does not apply to professional, insurance or personal service transactions which involve sales as inconsequential elements. While travel agencies may provide a nontaxable service, all purchases of tangible personal property for use by travel agencies are subject to the sales and use tax. Similarly, attorneys and other professionals who provide nontaxable services are liable for sales and use tax on their purchases of tangible personal property.

You specifically question the application of the use tax to the lease of a computerized reservation system, and related equipment and supplies. Enclosed are copies of two rulings issued by the department which explain the application of the sales and use tax to the lease of a

computerized reservation system.

Generally, the department has ruled that where a vendor provides computerized reservation services to a travel agency and leases computer equipment as part of the overall charge for the service, the sales and use tax shall not apply to the travel agency as provided in §58.1-608.2 of the *Code of Virginia*. However, the vendor must register with the state and shall be liable for the payment of the use tax on such computer equipment terminals and other tangible personal property used in Virginia in providing the reservation services to the travel agency.

I hope this information is helpful. If you have any additional questions regarding the application of the sales and use tax to travel agencies, please do not hesitate to contact the department.

Sincerely,

W. H. Forst
Tax Commissioner
