De minimis: a percentage used to determine the predominant cost in a service transaction. If a small amount of materials/tangible property is included as part of your service, depending on the state and the amount, the service could still be tax exempt. SST uses a 10% de minimis rule, TX uses 5%, IL typically uses 3.5%.

**Other Names for the True Object Test:**
- Essence of transaction (Texas)
- Incidental to service (Michigan)
- Real object (Rhode Island)
- Primary function
- Dominant purpose
- Primary object

If the service is taxable, but the item is exempt, the service should also be exempt.

**What are you SELLING?**

- **TANGIBLE PERSONAL PROPERTY**
  - Ex. Machinery
  - Do you provide any type of service in conjunction with the good? Ex. installation or delivery
  - NO
  - TANGIBLE PERSONAL PROPERTY

- **SERVICE**
  - Ex. Architecture
  - Is any tangible material transferred with the service?
  - YES

**What is the TPP?**
- Manufacturing machinery
- Office equipment
- Computer software
- Clothing

**Questions to consider for taxability purposes:**
- How is the TPP used?
- Is there an exemption?
- What is the state of delivery?
- Is the TPP taxable or exempt in the state of delivery or use?

**What is the TRUE OBJECT?**

The True Object Test looks through a transaction and determines whether the intent of the purchaser was to acquire tangible personal property or whether the tangible personal property was incidental to the rendering of a service.

- **What is it the customer really wants?**
  - Is it the services? Or is it the tangible personal property created by those services?

**TANGIBLE PERSONAL PROPERTY**

- Is the tangible personal property considered de minimis in the state?
  - NO
  - The True Object is the service but TPP is not de minimis. Consider the questions for the taxability of the TPP.
  - YES
  - The True Object is the service & TPP is de minimis. Consider the questions for the taxability of the service.

**SERVICE**

- Ex. Architecture
  - Is any tangible material transferred with the service?
  - NO

**Questions to consider for taxability purposes:**
- What do state rules say about what you’re providing?
- Where is the service performed/ enjoyed?
- Is there an exemption?
- Is the service taxable or exempt in the state of delivery or use?

1. If the service is taxable, but the item is exempt, the service should also be exempt.
2. Other Names for the True Object Test: Essence of transaction (Texas); Incidental to service (Michigan); Real object (Rhode Island); Primary function; Dominant purpose; Primary object.
3. De minimis: a percentage used to determine the predominant cost in a service transaction. If a small amount of materials/tangible property is included as part of your service, depending on the state and the amount, the service could still be tax exempt. SST uses a 10% de minimis rule, TX uses 5%, IL typically uses 3.5%.