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ALABAMA DEPARTMENT OF REVENUE  
REVENUE RULING 22-003

**This document may not be used or cited as precedent. Ala. Code 1975, Sec. 40-2A-5(a).**

To: Taxpayer

From: Vernon Barnett  
Commissioner of Revenue

Date: June 27, 2022

**FACTS<sup>1</sup>**

Taxpayer licenses its proprietary medical billing and other types of medical use software to its customers. Taxpayer itself licenses the medical billing codes incorporated into their software from the Copyright Owner (“CO”) and pays what both parties classify as “royalties” for the use of the materials. The CO owns and maintains a full database of these copyrighted materials for its licensed users and Taxpayer accesses these materials from time to time in developing and updating its software programs. Those codes are known in the industry as CPT (Current Procedural Terminology) content and are used to designate medical procedures or discrete parts thereof that are completed for medical billing. Taxpayer absorbs the costs of the royalty payments and does not specifically identify a charge to its customers for the reimbursement of royalties paid to the CO.

**REQUESTED REVENUE RULING QUESTION**

Under the facts as stated above, is Taxpayer’s payment of royalties to the CO subject to sales and use tax?

**REVENUE RULING**

Under the facts as presented, the payment of royalties for Taxpayer’s use of the CPT codes is not subject to Alabama’s sales and use tax laws<sup>2</sup>.

While the codes themselves are not classified as computer software, they are instead the copyrighted content in computer software that is tangible personal property. Taxpayer is paying a royalty to the CO to have the possession or use of these copyrighted CPT codes for a consideration and for the duration of a definite or indefinite period of time without transfer of the title to this property. As the licensing agreements do not constitute an actual or beneficial sale or exchange of these codes to Taxpayer, the “royalty” payment of Taxpayer for their use is not subject to Alabama’s sales and use tax.

<sup>1</sup>The facts upon which this revenue ruling is based are stated herein and in the Taxpayer’s request for this ruling. To the extent that any relevant facts asserted by the requestor were omitted, or were misstated, or if stated were misleading, this revenue ruling may be invalidated by the Department in whole or in part or withdrawn as the circumstances may require.

**CONCLUSION**

The Commissioner of the Department of Revenue grants the Taxpayer's requested ruling as set forth above.

A handwritten signature in blue ink, appearing to read "Vern Barnett", written over a horizontal line.

Vernon Barnett  
Commissioner of Revenue

<sup>2</sup>This ruling is focused on one specific aspect of the transaction and it addresses no other part or characteristic of this transaction in regard to any tax administered by the Alabama Department of Revenue.