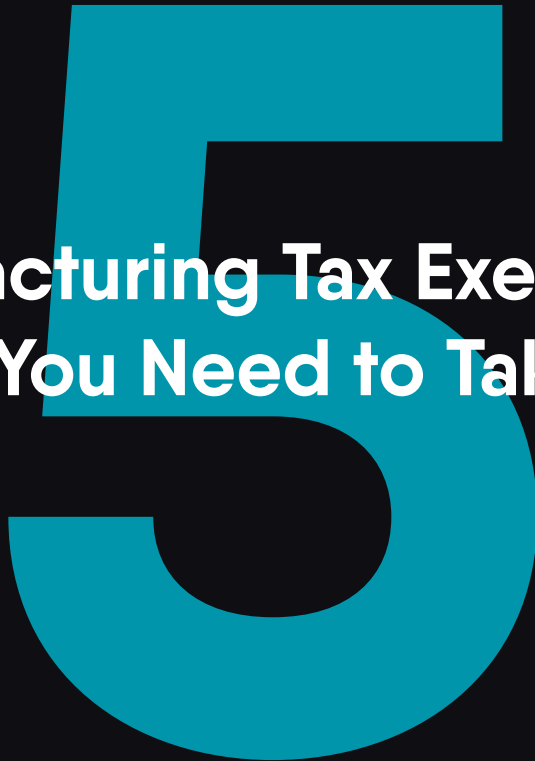




CLARK SCHAEFER HACKETT
BUSINESS ADVISORS

Manufacturing Tax Exemptions You Need to Take



Many manufacturers don't take full advantage of the sales and use tax exemptions available to them. In most cases, these companies are leaving significant money on the table.

Why do states offer sales and use tax exemptions to manufacturers?

States take various actions to entice manufacturers to set up shop within their borders. This helps states grow their economies and increase the number of well-paying jobs the manufacturing industry provides its residents. One way states incentivize manufacturers is by providing sales and use tax exemptions for certain manufacturing-related purchases and activities.

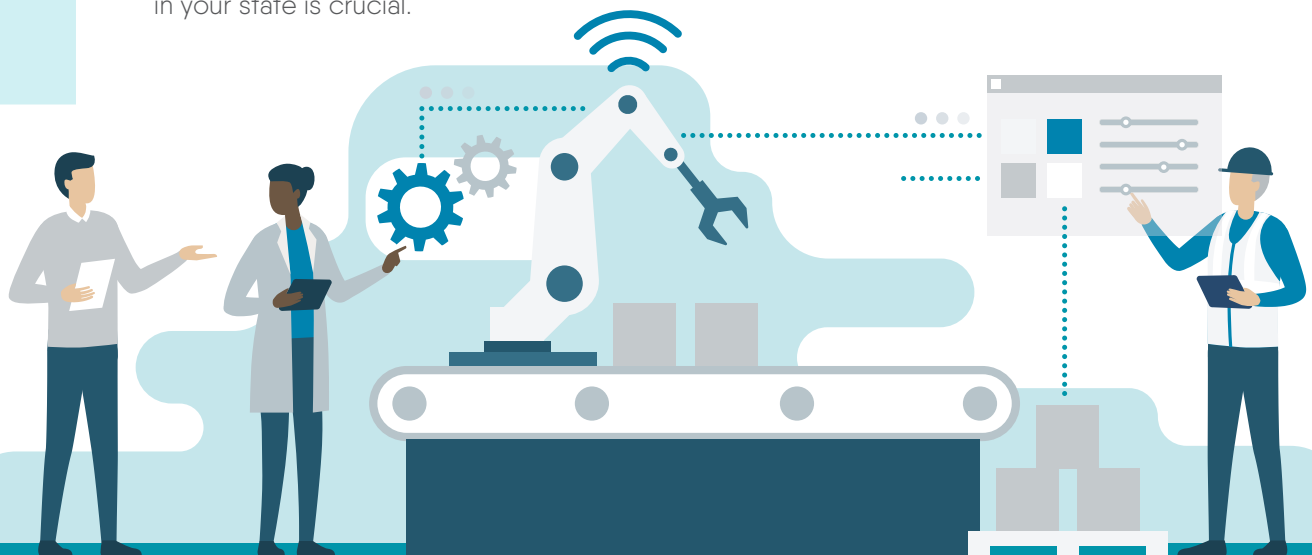
How do states define “manufacturing”?

Most states define a manufacturer as someone that engages in manufacturing, processing, assembling or refining a product for sale. But where does manufacturing start and end as determined by your state's sales and use tax exemption policies? Not all states define the start and end points the same. In most states, the manufacturing process starts when raw materials are moved from storage to the first step in the manufacturing process and ends when the manufactured product is placed in finished-goods storage. How these start and end points are defined can impact the taxability of material handling equipment (such as forklifts), testing equipment, storage racks and storage tanks. Once you've defined the manufacturing start and end points, consider the sales tax exemptions available to you.

Let's examine 5 of the most common manufacturing exemptions and what you can do to recover overpaid taxes if you've missed out on past exemptions.

Machinery & equipment

Most states (but not all) exempt from sales tax the purchase of machinery and equipment used directly in the manufacturing process. Some states exempt the full amount of eligible purchases, while others offer partial exemption, taxing the machinery at a reduced rate. States may also look at whether the machinery is used exclusively in the manufacturing process (100%), predominantly (50% or more) or is mixed use (less than 50%) to determine eligibility for exemption. Another factor in some states is whether the purchased equipment is replacing existing machinery, being installed in a new manufacturing facility, or upgrading an existing facility. Since machinery and equipment purchases could represent a significant capital investment, knowing the specific rules in your state is crucial.



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Machinery maintenance & repair

Equipment used by maintenance workers to build or maintain manufacturing equipment is often exempt. Additionally, the purchase of repair or replacement parts, molds, dies, tools, etc., that are integral to the manufacturing process are often exempt from sales tax as well.



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Raw materials, component parts & packaging

Most states provide an exemption for raw materials, ingredients, component parts and packaging materials that become incorporated into the finished product. States recognize that these types of purchases are not for consumption, but for resale.



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Materials consumed in the manufacturing process

Some states exempt from sales tax materials or property used or consumed in the manufacturing process. Examples include chemicals, lubricants, solvents, reagents, catalysts, oils, fuels and gases. Exempt and nonexempt materials can vary widely between states, so it's important to read the fine print in your state's policy.

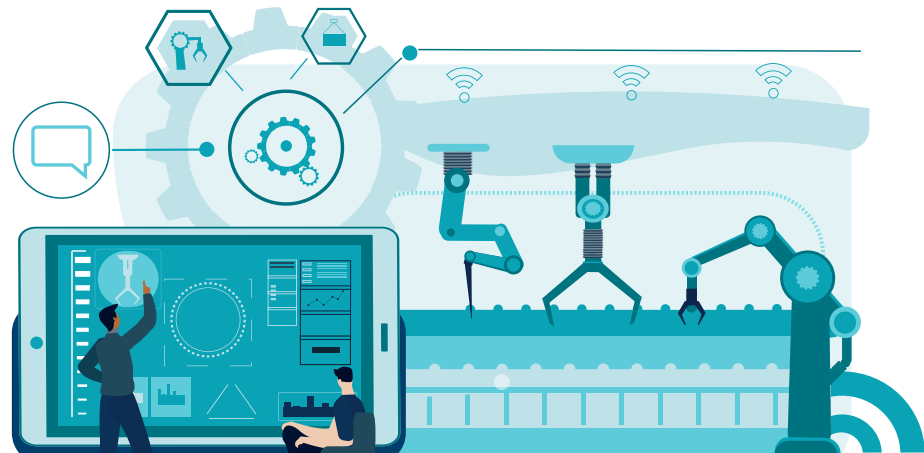


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Utilities

Many states provide an exemption for the sale, use, storage or consumption of utilities such as electricity, water, gas, etc., that are used directly in the manufacturing process. You may be required to have your manufacturing and non-manufacturing-related utilities segregated and metered separately, however, so be sure you research and follow the guidelines for your state.

These manufacturing exemptions can vary greatly by state—as can a state’s definition of “manufacturing”—so make sure you closely examine your state’s statutes and regulations so that you don’t leave money on the table. These exemptions are there, waiting for you to take advantage of.





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What if you've missed out on past exemptions?

Say you've recently purchased a large piece of capital equipment used in your manufacturing operation and you didn't take a sales tax manufacturing exemption. Can you apply for a refund in order to recover the sales tax you paid? The short answer is maybe.

At Clark Schaefer Hackett, we can provide a [rapid refund review](#) for your company. We'll analyze your fixed-asset data and invoices to identify instances where you were wrongly charged sales tax. If this occurred, we can work with you to request a refund from the applicable state tax department and develop a process to ensure you don't overpay in the future. Best of all, if we don't identify a refund opportunity during our preliminary assessment, you owe us nothing!

Schedule Your Complimentary Rapid Refund Assessment

Want to recover overpayment of sales and use tax? Do you qualify for manufacturing exemptions? Schedule an appointment today and find out how much you could save.

- ✓ Free consultation with a state and local tax expert
- ✓ Learn about all manufacturing tax exemptions available for your business
- ✓ Discover and recover overpayment of sales and use tax
- ✓ Review and assess how much you could be saving
- ✓ Identify areas of sales and use tax exposure

Contact Us Today

FOR A COMPLIMENTARY ASSESSMENT