

# Extractive Operations

Section 4u of the Sales Tax Act (MCL 205.54u) and Section 4p of the Use Tax Act (MCL 205.94p) provide the statutory basis for the exemption relating to extractive operations. The extractive operation exemption parallels the industrial processing exemption. The statute provides for the sale to or purchases of “tangible personal property to an extractive operator for use or consumption in extractive operations” to be exempt from the tax. (MCL 205.54u(1))

“An extractive operator is a person who, either directly or by contract, performs extractive operations.”  
(MCL 205.54u(5)(b))

“ ‘Extractive operations’ means the activity of taking or extracting for resale ore, oil, gas, coal, timber, stone, gravel, clay, minerals, or other natural resource material. An extractive operation begins when contact is made with the actual type of natural raw product being recovered. Extractive operation includes all necessary processing operations before shipment from the place of extraction. Extractive operations includes all necessary processing operations and movement of the natural resource material until the point at which the natural raw product being recovered first comes to rest in finished goods inventory storage at the extraction site.”  
(MCL 205.54u(5)(a))

The statute provides a list of items that do not qualify for the exemption.

“The extractive operation exemption does not include the following:

- a. Tangible personal property consumed or used in the construction, alteration, improvement, or repair of buildings, storage tanks, and storage and housing facilities. (MCL 205.54u(4)(a))
- b. Tangible personal property consumed or used in transporting the product from the place of extraction, except for tangible personal property consumed or used in transporting extracted materials from the extraction site to the place where the extracted materials first come to rest in finished goods inventory storage. (MCL 205.54u(4)(b))
- c. Tangible personal property that is a product the extractive operator produces and that is consumed or used by the extractive operator for a purpose other than the manufacturing or producing of a product for ultimate sale. The extractor shall account for and remit the tax to the state based upon the product’s fair market value. (MCL 205.54u(4)(c))
- d. Equipment, materials, and supplies used in exploring, prospecting, or drilling for oil, gas, brine, or other natural resources. (MCL 205.54u(4)(d))

- e. Equipment, materials, and supplies used in the storing, withdrawing, or distribution of oil, gas, or brine from a storage facility. (MCL 205.54u(4)(e))
- f. Vehicles, including special bodies or attachments, required to display a vehicle permit or license plate to operate on public highways." (MCL 205.54u(4)(f))

"Property eligible for the exemption includes the following:

- a. Casing pipe or drive pipe. (MCL 205.54u(3)(a))
- b. Tubing. (MCL 205.54u(4)(b))
- c. Well-pumping equipment. (MCL 205.54u(4)(c))
- d. Chemicals. (MCL 205.54u(4)(d))
- e. Explosives or acids used in fracturing, acidizing, or shooting wells. (MCL 205.54u(4)(e))
- f. Christmas trees, derricks, or other wellhead equipment. (MCL 205.54u(4)(f))
- g. Treatment tanks. (MCL 205.54u(4)(g))
- h. Piping, valves, or pumps used before movement or transportation of the natural resource from the production area. (MCL 205.54u(4)(h))
- i. Chemicals or acids used in the treatment of crude oil, gas, brine, or other natural resources. (MCL 205.54u(4)(i))
- j. Tangible personal property used or consumed in depositing tailings from hard rock mining processing. (MCL 205.54u(4)(j))
- k. Tangible personal property used or consumed in extracting the lithologic units necessary to process iron ore. (MCL 205.54u(4)(k))

Our firm provides the information in this whitepaper for general guidance only, and does not constitute the provision of legal advice, tax advice, accounting services, investment advice, or professional consulting of any kind. The information provided herein should not be used as a substitute for consultation with professional tax, accounting, legal, or other competent advisers. Before making any decision or taking any action, you should consult a professional adviser who has been provided with all pertinent facts relevant to your particular situation. Tax articles in this e-newsletter are not intended to be used, and cannot be used by any taxpayer, for the purpose of avoiding accuracy-related penalties that may be imposed on the taxpayer. The information is provided "as is," with no assurance or guarantee of completeness, accuracy, or timeliness of the information, and without warranty of any kind, express or implied, including but not limited to warranties of performance, merchantability, and fitness for a particular purpose.