



# Industrial Processing/Manufacturing Exemptions

## Industry Specific Exemptions From Sales and Use Tax

### EHTC State and Local Tax Services

#### INCOME & FRANCHISE TAX

- Tax Minimization Studies
- Business Structure Reviews
- Allocation and Apportionment Planning
- Combined, Consolidated, & Unitary Planning
- Nexus Studies
- Amended State Tax Returns from IRS Audits
- Single Business Tax Training

#### SALES & USE TAX

- Reverse Audits
- Compliance System Review
- Direct Pay & Compliance Agreements
- Exemption Certificate Documentation
- Industrial Processing / Manufacturing Exemption
- Utility Studies
- Nexus Studies
- Sales & Use Tax Training
- Transportation Company
- Procurement Company

#### PROPERTY (AD VOLOREM) TAX

- Real Property Tax Reviews
- Personal Property Tax Reviews

#### TAX AUDIT & APPEALS

- Sales & Use Tax Audit Defense & Appeals
- Income & Franchise Tax Audit Defense & Appeals
- Property Tax Audit Defense & Appeals
- State and Local Tax Litigation Support
- Merger & Acquisition Due Diligence Reviews
- Voluntary Disclosure

#### BUSINESS INCENTIVE SERVICES

- Business Relocation & Expansion Services
- Tax Credits, Exemptions, & Abatements
- Grants, Financing, & Infrastructure Assistance

Most state sales and use tax laws provide specific exemptions for tangible personal property used or consumed in industrial processing or manufacturing. The exemption may include the ingredients and consumable supplies as well as the machinery and equipment, including maintenance and repair parts. Some states exempt engineering, research, quality control, waste removal, packaging, and other ancillary activities. Manufacturers often find it difficult to benefit from the available exemptions because to fully realize the tax savings takes an unusual combination of knowledge of the law and more importantly, knowledge of the manufacturing process.

**EHTC has developed a five-step process to specifically identify purchases that qualify for the industrial processing / manufacturing exemption:**

**Step One** is a complete study and analysis of the manufacturing process. With the assistance of plant managers and engineering personnel, we attempt to identify how the product is manufactured and the various processes necessary to complete the product for delivery to the customer.

**Step Two** is research into the specific state statute providing for the exemption. Because some state statutes are vague, we also research the appropriate rules, regulations, letter rulings and case law. Much of the knowledge in the industrial processing/manufacturing area is so specific that it may not be published. Therefore we have an ongoing dialogue with the state tax authorities as well as our network of tax and legal professionals who specialize in this area.

**Step Three** is a review of accounting records including purchase invoices. The review of invoices may initially be on a sample basis, but may develop into a vendor intensive review. The knowledge of the manufacturing process and law is used to make the tax determination.

**Step Four** is the compilation of invoices where tax was paid in error and the application for refund from the vendor or directly from the state.

**Step Five** is the implementation of a compliance system to provide assurance that the exemptions will be claimed on future purchases.

EHTC has sales and use tax professionals that are capable in identifying purchases that will qualify for exemption and determine if there are refunds of tax paid on qualifying purchases.