

STATE OF MICHIGAN



JOHN ENGLER, Governor

DEPARTMENT OF TREASURY

TREASURY BUILDING, LANSING, MICHIGAN 48922

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REVENUE ADMINISTRATIVE BULLETIN 2000 - 4

Approved: June 13, 2000

SALES AND USE TAX -- INDUSTRIAL PROCESSING

RAB-2000 - 4. This Revenue Administrative Bulletin (RAB) describes the industrial processing exemption allowed under the Sales and Use Tax Acts. This RAB replaces RAB 1988-14 for periods after March 30, 1999. RAB 1988-14 remains in effect for periods prior to March 31, 1999.

1999 PA 116 and 1999 PA 117 ("the Acts") clarified and expanded the industrial processing exemptions in Michigan's sales and use tax acts. The Acts were based on Michigan Administrative Code Specific Sales and Use Tax Rule 40 (1979 AC, R 205.90) and significantly expanded the exemption. This RAB discusses industrial processing activities and describes the tangible personal property that is exempt from when used or consumed in industrial processing.

The Acts expanded and clarified the industrial processing exemption on a prospective basis beginning March 31, 1999. However, the Acts statutorily implemented apportionment effective for all periods beginning March 31, 1995 and all tax years that are open under the statute of limitations. This statutory change does not affect taxpayer liability for persons claiming an industrial processing exemption for previous tax years, as the industrial processing exemption had been apportioned pursuant to Rule 40 for prior periods.

For periods prior to March 31, 1999, refer to RAB 1988-14, Rule 40 (1979 AC, R 205.90), MCL 205.54y; MSA 7.525(25) (Sales Tax Act), and MCL 205.94r; MSA 7.555(4r) (Use Tax Act). For questions related to this RAB or periods prior to March 31, 1999, please call the Sales, Use and Withholding Taxes Division at (517) 373-3190 or write to them at Treasury Building, Lansing, Michigan 48922.

ISSUES

- I. What is industrial processing and who qualifies as an industrial processor?
- II. If property is used in both an exempt industrial processing function and also in a taxable manner, is the exemption prorated?
- III. What activities constitute industrial processing?
- IV. What activities do **not** constitute industrial processing?
- V. What property is eligible for an industrial processing exemption?

- VI. What property is **not** eligible for an industrial processing exemption?
- VII. Can sales of tangible personal property to persons other than industrial processors qualify for an industrial processing exemption?

CONCLUSIONS

- I. Industrial processing "[M]eans the activity of converting or conditioning tangible personal property by changing the form, composition, quality, combination, or character of the property for ultimate sale at retail or for use in the manufacturing of a product to be ultimately sold at retail. Industrial processing begins when tangible personal property begins movement from raw materials storage to begin industrial processing and ends when finished goods first come to rest in finished goods inventory storage." [MCL 205.54t(7)(a); MSA 7.525(20)(7)(a) and MCL 205.94o(7)(a); MSA 7.555(4o)(7)(a)].

An industrial processor "[M]eans a person who performs the activity of converting or conditioning tangible personal property for ultimate sale at retail or use in the manufacturing of a product to be ultimately sold at retail." [MCL 205.54t(7)(b); MSA 7.525(20)(7)(b) and MCL 205.94o(7)(b); MSA 7.555(4o)(7)(b)].

A person is defined in the General Sales Tax Act [MCL 205.51(1)(a); MSA 7.521] and the Use Tax Act [MCL 205.92(a); MSA 7.555(2)] as:

[A]n individual, firm, partnership, joint venture, association, social club, fraternal organization, municipal or private corporation whether organized for profit or not, company, estate, trust, receiver, trustee, syndicate, the United States, this state, county, or any other group or combination acting as a unit, and includes the plural as well as the singular number, unless the intention to give a more limited meaning is disclosed by the context.

- II. For all property, the industrial processing exemption is limited to the percentage of exempt use to total use determined by a reasonable formula or method approved by the Department. This RAB discusses numerous instances in which property is used in industrial processing and the property qualifies for an industrial processing exemption. Although the property qualifies for an industrial processing exemption, the exemption is limited to the percentage of exempt use to total use. The formula or method used in determining the industrial processing exemption does not have to be pre-approved by the Department. However, the formula or method used does have to reasonably reflect the percentage of exempt use to total use. The following examples demonstrate exempt use based upon time used in an exempt activity; other methods which would reasonably reflect the exempt activity are also allowable.

Example 1

An industrial processor uses a forklift truck 60% of the time in its plant moving in-process parts from one press to another press; this usage is exempt under industrial processing. The forklift truck is used the remaining 40% of the time in taxable activities such as shipping and receiving. The forklift truck would qualify for a 60% industrial processing exemption on the cost of the truck.

Example 2

An industrial processor makes castings of steel bolts at one of its plant sites. These bolts are taken by a forklift truck to another building at its plant site for hardening. In this example, if the forklift truck was used 30% of the time in moving bolts from one building to another building, and 70% of the time in non-industrial processing activities, the forklift truck would qualify for a 30% industrial processing exemption.

III. Industrial processing includes the following activities:

- 1) Production or assembly.
- 2) Research or experimental activities. Any person may qualify for an exemption under industrial processing for research or experimental activities if specific criteria are met. The General Sales Tax Act [MCL 205.54t(7)(e); MSA 7.525(20)(7)(e)] and the Use Tax Act [205.94o(7)(e); MSA 7.555 (4o)(7)(e)] define research or experimental activity:

[A]ctivity incident to the development, discovery, or modification of a product or a product related process. Research or experimental activity also includes activity necessary for a product to satisfy a government standard or to receive government approval. Research or experimental activity does not include the following:

- (i) Ordinary testing or inspection of materials or products for quality control purposes.
- (ii) Efficiency surveys.
- (iii) Management surveys.
- (iv) Market or consumer surveys.
- (v) Advertising or promotions.
- (vi) Research in connection with literacy, historical, or similar projects.

As used under "research and experimental activity", the General Sales Tax Act [MCL 205.54t(7)(c); MSA 7.525(20)(7)(c)] and the Use Tax Act [MCL 205.94o(7)(c); MSA 7.555 (4o)(7)(c)] define product as:

[I]ncludes but is not limited to a prototype, pilot model, process, formula, invention, technique, patent, or similar property, whether intended to be used in a trade or business or to be sold, transferred, leased, or licensed.

Example 3

The research division of an automobile manufacturer designs a new prototype of an engine. The equipment and supplies consumed in the development of the prototype would qualify under research and development. The manufacturer qualifies for an industrial processing exemption because the "**tangible personal property**" is used

by that person to perform an industrial processing activity." [MCL 205.54t(1)(c); MSA 7.525(20)(1)(c) and MCL 205.94o(1)(c); MSA 7.555(4o)(1)(c)].

Example 4

A manufacturer of plastics develops several new plastics. The manufacturer then hires an independent research company to test the fire retardant capabilities of the new plastics. The independent research company also conducts its own private research of the tensile strength of several new steel alloys. The research company does not manufacture any product nor does it actually sell the steel alloys. Instead, the research company is seeking to develop a new patent on the steel alloys and sell or license the patent. Approximately 20% of the research company's equipment and supplies are consumed in the research that it conducts for the plastics manufacturer with the remaining 80% of the equipment and supplies being consumed in its own private research of the tensile strength of the new steel alloys.

Even though the research company is not an industrial processor, the research company would qualify for a 20% industrial processing exemption because the "tangible personal property is used by that person to perform an industrial processing activity **for or on behalf** of an industrial processor." [MCL 205.54t(1)(c); MSA 7.525(20)(1)(c) and MCL 205.94o(1)(c); MSA 7.555(4o)(1)(c)]. However, the research company would not qualify for an industrial processing exemption on the remaining 80% of the equipment and supplies because the research company is not an industrial processor nor is it consuming "tangible personal property [which] is used by that person to perform an industrial processing activity for or on behalf of an industrial processor." The research company does not meet the definition of an industrial processor which means "[A] person who performs the activity of converting or conditioning tangible personal property for ultimate sale at retail or use in the manufacturing of a product to be ultimately sold at retail." [MCL 205.54t(7)(b); MSA 7.525(20)(7)(b) and MCL 205.94o(7)(b); MSA 7.555(4o)].

- 3) Engineering related to industrial processing.
- 4) Inspection, quality control, or testing to determine whether particular units of materials or products or processes conform to specified parameters at any time before materials or products first come to rest in finished goods inventory storage.

Example 5

An industrial processor performs tests on its raw materials. The equipment and supplies used or consumed by an industrial processor in this testing and quality control function are exempt.

Example 6

Testing and quality control activities are taxable once finished goods have come to rest and are placed in finished goods inventory storage. An industrial processor manufactures a product and the completed product is placed in finished goods inventory storage. Before shipment of the product to its customers, the industrial processor performs testing and quality control activities on the product to insure that proper standards are being met. Equipment and supplies used or consumed by an

industrial processor in a quality control function in testing finished goods which have come to rest are taxable. These testing and quality control activities would not qualify under industrial processing inasmuch as industrial processing ends once the goods have been placed "in finished goods inventory storage."

- 5) Planning, scheduling, supervision, or control of production or other exempt activities.

Example 7

A computer used by an industrial processor to schedule maintenance on exempt equipment is exempt.

Example 8

A computer used by an industrial processor to schedule employees' overtime equalization in the plant is taxable as an administrative function. The computer is taxable regardless of whether the employees are working with exempt industrial processing equipment or in a taxable administrative function.

- 6) Design, construction, or maintenance of production or other exempt machinery, equipment, and tooling.

Example 9

An industrial processor uses drafting equipment 40% of the time to draft plans for exempt equipment and 60% of the time for drafting plans for building expansion. The drafting equipment would qualify for a 40% industrial processing exemption.

- 7) Remanufacturing.

The General Sales Tax Act [MCL 205.54t(7)(d); MSA 7.525(20)(7)(d)] and the Use Tax Act [MCL 205.94o(7)(d); MSA 7.555 (4o)(7)(d)] define remanufacturing as:

[T]he activity of overhauling, retrofitting, fabricating, or repairing a product or its component parts for ultimate sale at retail.

Example 10

A company purchases used carburetors and other parts and refurbishes the carburetors by installing new gaskets on the carburetors. The company then resells the carburetors. The company would qualify for industrial processing on the equipment and supplies used or consumed in restoring the carburetors. Remanufacturing includes the activities of disassembly, sorting, and reassembly of parts when that activity accompanies overhauling.

Example 11

A company purchases used driveshafts to be sold to automobile parts retailers. The company **only** cleans the driveshafts and then resells the driveshafts to the automobile parts retailers. The equipment and supplies consumed in the cleaning of the driveshafts would not qualify for industrial processing. The activity of merely

cleaning the driveshafts would not qualify under remanufacturing and therefore the equipment and supplies would not qualify under industrial processing.

- 8) Processing of production scrap and waste up to the point it is stored for removal from the plant of origin.

Example 12

A heat treating company uses chemicals in performing its processing functions. These chemicals must be disposed of after being used. The taxpayer purchases equipment and supplies to treat the used chemicals before the chemicals are shipped to a landfill. The equipment and supplies used to treat the chemicals are exempt for industrial processing because they are used to treat production waste up to the point it is stored for removal from the plant of origin.

Example 13

An industrial processor collects its own production waste from several small containers near the industrial processing equipment and stores this waste in a large container for pickup by a waste removal company or a recycler. The waste removal company or recycling company dumps the waste from the large container into its own trucks. The small containers located near the industrial processing equipment are exempt and the large container is taxable.

Example 14

An industrial processor collects its own production waste from several small containers near the industrial processing equipment and stores this waste in a large container. The industrial processor then bales the production waste into bundles and places these bundles in a storage area to be picked up by a recycling company. The equipment and supplies used or consumed in the baling of the production waste qualifies for exemption under industrial processing. As in the prior example, the small containers located near the industrial processing equipment are exempt. In this example however, the large container is also exempt because the scrap has not come to rest until it is placed in bundles and put in a storage area.

- 9) Recycling of used materials for ultimate sale at retail or reuse.

Example 15

A plastics manufacturing company grinds up production scrap to be reused for two purposes, first as a raw material in its own process, and second, as a raw material to be sold to other industrial processors. The grinding equipment used in these processes would qualify for the industrial processing exemption.

- 10) Production material handling.

Example 16

An industrial processor manufactures steel bolt castings at one of its plants. These castings are taken by a forklift truck to another building at its plant site for grinding. The forklift truck would be exempt under industrial processing. Production material

handling includes in-process movement of production materials and interplant movement of in-process materials within the same legal entity.

Example 17

An industrial processor manufactures steel bolt castings at one of its plants. These castings are taken by a forklift truck to a nearby plant of one of its subsidiary corporations for grinding. The forklift truck would not qualify for industrial processing because the bolts are not shipped within the same legal entity.

Example 18

An industrial processor manufactures steel bolt castings at its primary plant. These castings are shipped by truck to one of its own divisions located several miles away. The division performs grinding operations on the castings and then returns the castings to the primary plant for further processing. In-process shipping and receiving within the same legal entity is exempt. Therefore, any equipment or supplies consumed by either the primary plant or the division is shipping and receiving of in-process parts and is exempt. The truck would not qualify for an industrial processing exemption, regardless of whether it is owned by the company or a third party, inasmuch as it is a licensed highway vehicle.

11) Storage of in-process materials.

Example 19

An industrial processor manufactures automobiles. One of its divisions manufactures plastic handles which are then shipped to its primary assembly plant. The handles are received at the assembly plant and placed into in-process storage utilizing an automated storage/retrieval system that consists of a computer system, bins, portable storage racks, and material handling equipment. The handles are retrieved as needed and sent to the production line using an automatic guided vehicle system. The computer system, bins, portable storage racks, material handling equipment, and automatic guided vehicle system are exempt.

IV. Industrial processing does not include the following activities:

1) Purchasing, receiving, or storage of raw materials.

Example 20

A chrome plating company receives parts from another industrial processor. The chrome plating company applies chrome finish to the industrial processor's parts and then ships the parts back to the industrial processor. The receiving and shipping activities of the chrome plating company are taxable activities inasmuch as the company is receiving raw material.

[Note: The receiving and shipping activities of the industrial processor are also taxable activities because the in-process movement of materials is not within the same legal entity. If the plating company and the industrial processor were separate divisions or plants of the same legal entity, the receiving and shipping activities of the separate divisions or plants would be exempt.]

- 2) Sales, distribution, warehousing, shipping, or advertising activities.
- 3) Administrative, accounting, or personnel services.
- 4) Design, engineering, construction, or maintenance of real property and nonprocessing equipment.
- 5) Plant security, fire prevention, or medical or hospital services.

Example 21

An industrial processor has a fire protection sprinkler system installed in the ceiling in their plant. The sprinkler system is excluded from the industrial processing exemption as realty. The fact that the sprinkler system serves to protect the industrial processing area does not exempt the sprinkler system under industrial processing.

V. Property that is eligible for an industrial processing exemption includes the following:

- 1) Property that becomes an ingredient or component part of the finished product to be sold ultimately at retail.
- 2) Machinery, equipment, tools, dies, patterns, foundations for machinery or equipment, or other processing equipment used in an industrial processing activity and in their repair and maintenance.
- 3) Property that is consumed or destroyed or that loses its identity in an industrial processing activity.

Example 22

An industrial processor uses lubricating oils in the processing equipment. The lubricating oils are exempt under industrial processing.

- 4) Tangible personal property, not permanently affixed and not becoming a structural part of real estate, that becomes a part of, or is used and consumed in installation and maintenance of, systems used for an industrial processing activity.
- 5) Fuel or energy used or consumed for an industrial processing activity. This includes energy such as natural gas, coal, electricity, or fuel oil to operate industrial processing equipment or to heat, cool, and illuminate the industrial processing areas.

Example 23

An industrial processor consumes electricity in its industrial processing activities as well as taxable non-industrial processing activities. The industrial processor is billed a lump sum for the electricity, transmission, and distribution of the electricity. If the industrial processor consumes 30% of the electricity in an industrial processing function, 30% of the total amount for electricity, transmission, and distribution would be exempt for industrial processing.

- 6) Machinery, equipment, or materials used within a plant site or between plant sites operated by the same person for movement of tangible personal property in the process of production.

Example 24

Portable racks that are used in shipping in-process materials between plant sites operated by the same person are exempt. The racks may be used for shipment of in-process materials and placed on licensed highway vehicles to other plants of the same person; the racks would still be exempt under industrial processing. However, racks that are only used when attached to licensed highway vehicles are taxable because the racks are part of the vehicle and are excluded from the exemption.

- 7) Office equipment, including data processing equipment, used for an industrial processing activity.

Example 25

An engineer for an industrial processor uses a hand-held calculator in the plant to verify tolerances on in-process parts. The calculator would be exempt under industrial processing.

VI. Property that is not eligible for an industrial processing exemption includes the following:

- 1) Tangible personal property permanently affixed and becoming a structural part of real estate including building utility systems such as heating, air conditioning, ventilating, plumbing, lighting, and electrical distribution, to the point of the last transformer, switch, valve, or other device at which point usable power, water, gas, steam, or air is diverted from distribution circuits for use in industrial processing.

Example 26

An industrial processor purchases an electrical transformer which converts electricity to usable voltage. This transformer then feeds a press used for industrial processing and also feeds the general lighting system of the office area. This transformer is real property inasmuch as it services real property, i.e., the general lighting system. As real property, the transformer is not eligible for an industrial processing exemption and cannot be apportioned.

Example 27

This same industrial processor purchases a second transformer which converts electricity to usable voltage. Forty percent of the energy from this transformer feeds exempt industrial processing equipment and the remaining sixty percent feeds taxable equipment used in the shipping department. This transformer is not real property and is subject to apportionment. Therefore, this transformer is 40% exempt for industrial processing and 60% taxable.

- 2) Office equipment, including data processing equipment, used for nonindustrial processing purposes.
- 3) Office furniture or office supplies.

Example 28

A plant foreman's desk is taxable as office furniture.

- 4) An industrial processor's own product or finished good that it uses or consumes for purposes other than industrial processing.

Example 29

A printing company uses its printing equipment 10% of the time to produce promotional brochures and office supplies which are used internally. These promotional brochures and office supplies would be taxable on the cost of raw materials. Also, 10% of the taxpayer's printing equipment would not be entitled to the industrial processing exemption. Similarly, 10% of the consumables, utilities, and other consumed supplies would not be entitled to the industrial processing exemption.

- 5) Tangible personal property used for receiving and storage of materials, supplies, parts, or components purchased by the user or consumer.
- 6) Tangible personal property used for receiving or storage of natural resources extracted by the user or consumer.
- 7) Vehicles, including special bodies or attachments, required to display a vehicle permit or license plate to operate on public highways, except for a vehicle bearing a manufacturer's plate or a specially designed vehicle, together with parts, used to mix and agitate materials at a plant or job site in the concrete manufacturing process.

Example 30

Vehicles bearing a manufacturer's plate are eligible for an exemption if used in a qualifying activity. A vehicle bearing a manufacturer's plate being used by an engineer for testing and analytical purposes would qualify for an industrial processing exemption. The exemption should be supported by records such as daily logs, analytical reports, etc.

Example 31

Vehicles being used by officers or other key executives of a manufacturer and simply bearing a manufacturer's plate would not qualify for an industrial processing exemption. In addition, vehicles bearing manufacturer's plates used by dignitaries at sporting or other events would not qualify for an industrial processing exemption. The vehicles in these instances would not qualify for an industrial exemption because the vehicle is not being used in a qualifying activity.

Example 32

A cement mixer at a plant or job site in the concrete manufacturing process is exempt under industrial processing. Tires and repair parts attached to the concrete mixing truck or to the mixer are exempt. Supplies used or consumed in the concrete mixing truck such as gasoline, oil, antifreeze, windshield washer solvent, transmission, brake fluid, etc., are subject to tax.

- 8) Tangible personal property used for the preparation of food or beverages by a retailer for ultimate sale at retail through its own locations.

Example 33

A corporation has a central commissary where it prepares much of the food which will be sold through its several restaurant locations. The restaurants are separate divisions of the corporation and each division maintains its own records. The central commissary ships the prepared food to the various restaurant locations. The corporation does not qualify for an industrial processing exemption because the food is sold through its own locations.

- 9) Tangible personal property used or consumed for the preservation or maintenance of a finished good once it first comes to rest in finished goods inventory storage.

Example 34

A manufacturer shrinkwraps its product before the product is placed in finished goods inventory (inventory has come to rest). This shrinkwrap equipment is exempt for industrial processing.

Example 35

The same manufacturer takes its inventory from finished goods storage prior to shipping its product to its customers. Once the manufacturer receives an order from a customer, it then shrinkwraps the appropriate amount of product for shipment to its customer. This shrinkwrap equipment is taxable.

- 10) Returnable shipping containers or materials, except when used within a plant site or between plant sites operated by the same person for movement of tangible personal property in the process of production.

The definition for containers is found in Departmental rules and means:

[T]he article and devices in which tangible personal property is placed for shipment and delivery, such as wrapping materials, bags, cans, twines, gummed tapes, barrels, boxes, tote boxes, pallets, racks, bottles, drums, carboys, cartons, sacks, and materials from which such containers are manufactured.

Example 36

An industrial processor uses containers for shipment of in-process parts from one of its plant sites to another of its plant sites. These containers, when used in in-process storage, or movement within or between plant sites operated by the same person, are exempt under industrial processing. This includes "dunnage" which is defined in Departmental rules as being ". . . for a single use only, of bracing, blocking, skidding, shoring, and other materials, . . ." However, dunnage, when used in shipment of a product to a customer, is taxable.

Example 37

Containers such as pallets and barrels which are used to ship a product and then returned to the industrial processor for reuse are taxable. An industrial processor uses pallets 40% of the time in the plant in movement of in-process materials. The remaining 60% of the time the pallets are used in shipping the finished product to its customers. The pallets would qualify for a 40% industrial processing exemption.

- 11) Tangible personal property used in the production of computer software originally designed for the exclusive use and special needs of the purchaser.

Example 38

Production of customized software is considered a service and therefore the industrial processing exemption is not allowable on the equipment or supplies used in the production of custom software. Also, as a service, the equipment, supplies, and direct material costs are taxable.

- VII. Sales to a person, whether or not the person is an industrial processor, are exempt if the tangible personal property is 1 or more of the following:
- 1) A computer used in operating industrial processing equipment.
 - 2) Equipment used in a computer assisted manufacturing system.
 - 3) Equipment used in a computer assisted design or engineering system integral to an industrial process.
 - 4) A subunit or electronic assembly comprising a component in a computer integrated industrial processing system. Examples of computer-related equipment include cabling used to enable computers to communicate, provided such equipment is dedicated to computers used for industrial processing.

Examples of computers qualifying for industrial processing**Example 39**

Computers programmed to operate robotics on an assembly line.

Example 40

Robotics on the assembly line used by the servicer operating the equipment.

Example 41

Computers used in the design of the final product and/or any component part of the final manufactured product.

Example 42

"Servicer owned" circuit boards in computers used to operate paint application systems.

Examples of computers NOT qualifying for industrial processing**Example 43**

CAD computers used by an engineering firm to design a building for an industrial processor.

Example 44

Computers used by lumber wholesalers or lumberyards to determine the stress loads for floor joists on load bearing walls.

Example 45

Computers programmed to manage a finished goods inventory after the inventory has come to rest.

- 5) Computer equipment used in connection with the computer assisted production, storage, and transmission of data if the equipment would have been exempt had the data transfer been made using tapes, disks, CD-ROMs, or similar media by a company whose business includes publishing doctoral dissertations and information archiving, and that sells the majority of the company's products to nonprofit organizations exempt under section 4q of the Sales Tax Act and 4(1)(x) of the Use Tax Act.
- 6) Equipment used in the production of computer software that is offered for general sale to the public or software modified or adapted to the user's needs or equipment by the seller, only if the software is available for sale from a seller of software on an as-is basis or as an end product without modification or adaptation.
- 7) The tangible personal property is intended for ultimate use in and is used in industrial processing by an industrial processor.

Example 46

ABC Corporation is a holding company for several manufacturing entities. ABC Corporation is not an industrial processor but purchases a press to be used at no cost by one of its subsidiary corporations. The purchase of the press would qualify for an industrial processing exemption after March 30, 1999. However, it would not qualify for an industrial processing exemption prior to March 31, 1999.

- 8) The tangible personal property is used by a person to perform an industrial processing activity for or on behalf of an industrial processor.

Examples qualifying for industrial processing exemption**Example 47**

An industrial processor hires a company that installs and repairs exempt industrial processing equipment such as in-process assembly lines. The company's equipment and supplies used or consumed in this repair work qualify under industrial processing.

Example 48

An inspection firm is hired by an industrial processor to inspect items of an industrial processor that are "in process". The equipment and supplies used or consumed in this inspection by the inspection firm are exempt under industrial processing.

Example 49

An outside company is hired by an industrial processor to conduct in-process product testing and provide on-going production engineering for the industrial processor. The equipment and supplies used or consumed in the product testing and on-going production engineering by the outside company are exempt under industrial processing.

Example 50

A die repair company is hired by an industrial processor to repair dies that are being used in exempt industrial processing functions. The equipment and supplies used or consumed by the die repair company are exempt under industrial processing. Consumed supplies would include supplies used directly in the repair work as well as other indirect supplies such as natural gas and electricity consumed in the repair work. The equipment and supplies are exempt whether the actual repair work is done at the repair company's own facilities, or at the industrial processor's location.

Examples NOT qualifying for industrial processing exemption**Example 51**

A waste removal company is hired to remove waste or scrap from an industrial processor after the waste and scrap have come to rest in storage. The equipment and supplies which are used or consumed are taxable.

Example 52

A die repair company repairs equipment for a residential home builder and equipment of a municipality. The equipment and supplies which are used or consumed are taxable.

Example 53

An inventory service company is hired to take a finished goods inventory of an industrial processor. The equipment and supplies which are used or consumed are taxable.

Example 54

A public relations firm does a market and consumer survey for an industrial processor to forecast future consumer demand for its products and the survey is used by the industrial processor in its production scheduling. The equipment and supplies which are used or consumed are taxable.