



STATE OF TENNESSEE

Industrial Machinery Exemption

April 2021

LAWS/RULES: Industrial Machinery Exemption

Tenn. Code Ann.
§ 67-6-102(44)
& 67-6-206

Exemptions for industrial machinery used by qualified manufacturers

Tenn. Code Ann.
§ 67-6-206(b)
TENN. COMP. R. & REGS.
1320-05-01-.40

Exemptions for industrial materials and supplies, and industrial energy fuels and water

Tenn. Code Ann.
§ 67-6-102(44)
& 67-6-206(a)

Other industrial machinery exemptions

WHO IS A QUALIFIED MANUFACTURER?



Person whose principal (more than 50%) business activity at a given location is from fabricating or processing tangible personal property for resale and consumption off the premises.”



A person whose principal business activity at a given location is the preparation of food for immediate retail sale does not qualify.

DEFINITION: Industrial Machinery



Machinery, apparatus and equipment with all associated parts, appurtenances and accessories, including hydraulic fluids, lubricating oils, and greases necessary for operation and maintenance, that is necessary to, and primarily for, the fabrication or processing of tangible personal property for resale and consumption off the premises.”

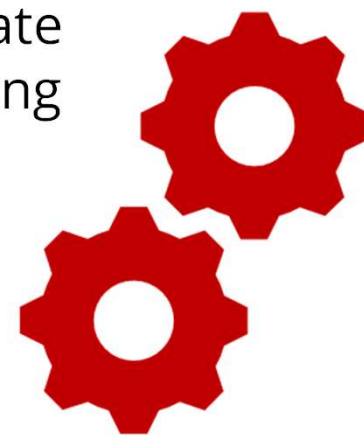
INDUSTRIAL MACHINERY

To qualify for exemption....

1. Person must be a qualified manufacturer
2. Item must be machinery, apparatus or equipment
3. Item must be necessary to the fabricating or processing of the products sold
4. Item must be primarily for the fabrication of the products sold

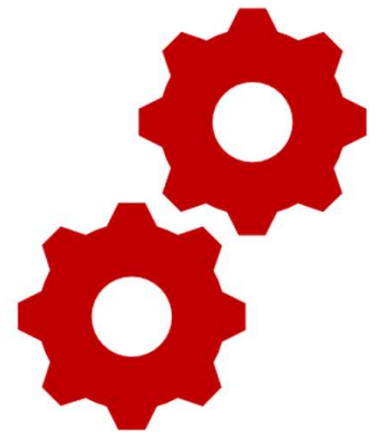
WHAT MACHINERY IS EXEMPT?

- ✓ Machinery, apparatus, and equipment necessary to and primarily for the fabricating or processing of tangible personal property
- ✓ Machinery necessary for converting tangible personal property into taxable specified digital products for resale
- ✓ Machines for generating, producing, and distributing electricity, steam, and water
- ✓ Equipment used to transport raw materials from storage to process
- ✓ Equipment used to transport finished goods from the end of the process to storage
- ✓ Pollution control facilities needed to control or eliminate air or water pollutants resulting from the manufacturing
- ✓ Machinery used to package manufactured items
- ✓ Repair parts and repair and installation labor for industrial machinery



WHAT IS NOT EXEMPT?

- ⊘ Equipment primarily used prior to transport of raw materials to process (e.g., raw materials storage or receiving)
- ⊘ Equipment primarily used after transport of finished goods to storage (e.g., finished goods storage or shipping)
- ⊘ Equipment used primarily for the storage or distribution of specified digital products after conversion
- ⊘ Equipment used for convenience or comfort of workers
- ⊘ Equipment used in the preparation of food for immediate retail sale
- ⊘ Equipment used for maintenance



ENERGY FUEL REDUCED TAX RATE



Qualified manufacturers may purchase all forms of energy fuels used in any manner at a given manufacturing location at a reduced 1.5% state tax rate.

- ✓ Electricity
- ✓ Natural gas
- ✓ Coal
- ✓ Firewood
- ✓ Fuel oil
- ✓ Propane and butane gases



These energy fuels are not subject to a local option tax

ENERGY FUEL FULLY EXEMPT

- ✓ Any **energy fuel** that comes into **direct contact** with the product during manufacturing, is expended during the contact, and is metered separately
- ✓ Natural gas used to generate heat to produce primary aluminum, aluminum sheet and foil
- ✓ Electricity used to generate radiant heat for production of heat-treated glass
- ✓ Any energy fuel that is produced by a manufacturer from its own facilities

WATER REDUCED TAX RATES

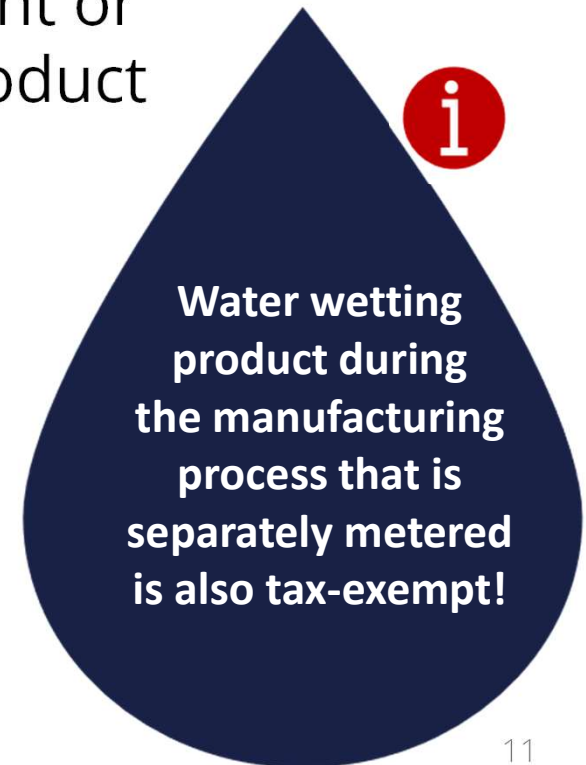


Qualified manufacturers may purchase water used in any manner at a given manufacturing location at a reduced

- ✓ 1% state tax rate, and
- ✓ .5% local tax rate.

WATER FULLY EXEMPT

- ✓ Any **water** that comes into **direct contact** with the product during manufacturing, is expended during the contact, and is metered separately
- ✓ Any water that becomes an ingredient or component of the manufactured product
- ✓ Water that is produced or extracted by a manufacturer from its own facilities or in the public domain



INDUSTRIAL MATERIALS AND SUPPLIES

- ✓ Materials for future processing, manufacturing, or conversion into articles of tangible personal property for resale
 - Must become a component part of the finished product or are used directly in fabricating

- ✓ Materials and supplies coming into direct contact with the product that are rapidly consumed in processing or manufacture of the finished product
 - Note, once removed from inventory, the supplies must be totally used or consumed within 25 days to qualify for exemption

- ✓ May be purchased tax-exempt with a resale certificate. An industrial machinery exemption certificate is not required.

OTHER IM EXEMPTIONS

- ✓ Machinery used in the **fabrication of trusses, window units or door units for resale** as part of principal business of the sale of building supplies
- ✓ Machinery and equipment necessary to and primarily for **remanufacturing industrial machinery** when used by one whose principal business is remanufacturing industrial machinery
- ✓ Machinery used in the **pre-press and press operations in the business of printing**
- ✓ Machinery and equipment with all associated parts and accessories, repair parts, repair and installation labor that is necessary to and primarily for **mining**
- ✓ Machinery for **fabrication of asphalt/crushed stone** to be used by contractor in roads funded by tax revenues
- ✓ County or municipality **contractor for water pollution control or sewage systems**



APPLICATION: Process



- ✓ Business must have a sales tax account with a location ID for each manufacturing location
- ✓ Separate application must be submitted for each manufacturing location
- ✓ Complete the application entirely, submitting all information requested, including:
 - ❑ Attach a list of the machinery and equipment and describe its use

APPLICATION: Contractor Information

- ✓ Contractors may purchase, provide and install machinery, parts, accessories, including hydraulic fluids, lubricating oils and greases for maintenance, that is necessary to and primarily **used for fabricating or processing of tangible personal property at a qualified manufacturer's facility.**
- ✓ Contractors must submit a separate industrial machinery application for each contracted job with a manufacturer.
- ✓ The industrial machinery exemption certificate issued to the contractor will be valid only for a specific manufacturer's facility location and will include a beginning and end date for the job.



APPLICATION – Where to Find

<https://www.tn.gov/content/dam/tn/revenue/documents/forms/sales/f1303101fillin.pdf>



TENNESSEE DEPARTMENT OF REVENUE
Application for Industrial Machinery, Energy Fuels and Water Sales and Use Tax Exemption

1. Business Name _____ FEIN or SSN _____

2. Sales Tax Account No. _____ Location Identifier _____ Other Industrial Mach. No. _____

3. Mailing Address _____
Street City State ZIP Code

4. Facility Location of Machinery _____
Street City State ZIP Code

5. Business Contact _____
Name Phone Number Email Address

6. Indicate type of business:

- a) Manufacturer or processor
- b) Printer
- c) Mining
- d) Fabricator of prescription eyewear
- e) Fabricator of building trusses, window units, or door units
- f) Package automotive aftermarket products
- g) Contractor for manufacturer
- h) County or municipality contractor for water pollution control
- i) County or municipality contractor for sewage systems

Application for Industrial Machinery Exemption



CERTIFICATES

Exempt entities must provide vendors with **either**:

- ✓ Copy of the certificate, **or**
- ✓ Fully completed Streamlined Sales Tax certificate of exemption (must include the IM exemption authorization number included on the certificate issued by TDOR)

TN



STATE OF TENNESSEE
DEPARTMENT OF REVENUE

COMPANY NAME
COMPANY ADDRESS
NASHVILLE TN 37082-0194

Effective Date: May 1, 2017
Account No: 1XXXXXXX-SLC
Exemption No: XXXXXXXXX
Facility Address:

COMPANY ADDRESS 2
ADDRESS
NASHVILLE TN 37221-2111

Manufacturing and Processing Industrial Machinery, Energy Fuels and Water
Sales and Use Tax Certificate of Exemption

The taxpayer is principally engaged in fabricating or processing tangible personal property for resale at the facility and, therefore, may purchase exempt from sales and use tax:

- machinery and equipment, with all associated parts, appurtenances, accessories, hydraulic fluids, lubricating oils, and greases, that are necessary to and primarily for the fabrication or processing of tangible property for resale
- repair parts and repair and installation services for such qualified industrial machinery
- pollution control facilities used to control air or water pollution resulting from such fabricating or processing
- separately metered energy fuel that comes in direct contact with the product

In addition, the taxpayer may pay a reduced state and local sales and use tax rate of 1.5% on purchases of water and a reduced state tax rate of 1.5% on purchases of energy fuel for use at the above facility address.

This certificate of exemption may not be used for purchases at other locations.

Seller's Name

I, _____
above, affirm that the purchaser of the property at the facility address referenced in this statement.

Print Name of Authorized Representative

**Issued by mail
and on TNTAP
upon application
approval**

CERTIFICATES:

Exemption authorization must be obtained prior to making tax-exempt purchases

Retroactive authority for the IM exemption may be granted when failure to obtain authority prior to making a purchase resulted from...

- Major restructuring of the business/change in ownership
- Death of a key person in the organization's tax area
- Entity was misled by state officials which indicated that authority to purchase IM was not required
- Any other grounds that the Commissioner finds satisfactory to allow retroactive application of exemption

IMPORTANT TO NOTE....



To claim a refund or credit for tax paid on purchases of qualifying industrial machinery must use the following procedure:

1. Request a refund from the vendor and provide vendor with the certificate of exemption
2. Vendor must file a refund claim within three years from December 31 of the year in which the tax was remitted to the Department
3. Vendor must provide a copy of the purchaser's certificate of exemption with the claim for refund
4. Vendor must refund or issue a credit memo for the collected tax to the purchaser and submit such documentation showing the purchaser received a refund or credit for the tax paid



THANK YOU