

Sales Tax Exemption on Manufacturing Building Machinery & Equipment — *Pennsylvania Department of Revenue*

Overview: Pennsylvania Sales Tax Exemption for Manufacturers

Pennsylvania sales tax exemptions for manufacturing offer both manufacturers and processors an exemption on purchases of tangible personal property, including machinery and equipment, predominantly used directly in manufacturing or processing operations per [PA Code 32.32](#). This Pennsylvania sales tax exemption for manufacturing also applies to repair parts for machinery and equipment, as well as supplies that are directly used or consumed in the manufacturing or processing operation.

[PA Code 32.1](#) defines manufacturing as, “an integrated series of operations which places personal property in a form, composition or character different from that in which it was acquired.” Some examples of activities that qualify as manufacturing are compounding, fabricating, and processing.

PA Code 32.1 also defines the manufacturing operation as, “the series of production activities, beginning with the first production operation and ending with the packaging of the product for the ultimate consumer.”

Since this definition limits the scope of the manufacturing operation to the first stage of production through the packaging of the final product for sale, activities such as collecting, weighing or storing raw materials and loading or delivery of the packaged goods to the customer do not qualify for the Pennsylvania sales tax exemption for manufacturing.

Pennsylvania Sales Tax Exemptions for Manufacturing: Important Criteria

Two important criteria in the Pennsylvania sales tax exemptions for manufacturing involve the provision stating that machinery, equipment, repair parts, or supplies must be predominantly used in the manufacturing operation and directly used in the manufacturing operation. Per PA Code 32.32(a)(2), tangible personal property must be used more than 50% of the time in manufacturing operations to be considered as having a predominant use.

For example, if a forklift is used 55% of the time to move work-in-process and used 45% of the time to load the final product onto a delivery truck, then this forklift would be considered as having a predominant use in the manufacturing operation and would be entirely exempt for sales and use tax purposes.

What Factors Do I Need to Consider When Using Personal Property in a Manufacturing Operation?

Per PA Code 32.32(a)(1), to determine whether tangible personal property is directly used in the manufacturing operation, there are three factors to consider:

- The physical proximity of the property to the actual production process
- The proximity of the time of use of the property in relation to time of use of other property used before and after it in the production process
- The active causal relationship between use of the property and production of the final product

What Types of Property Are Exempt?

Assuming the property meets the predominant use and direct use criteria and is part of the manufacturing operation, some types of property that would qualify for the Pennsylvania sales tax exemption are:

- Machinery and equipment used to transport, convey, handle or store the product
- Repair parts to machinery and equipment used to transport, convey, handle or store the product
- Equipment, machinery and supplies used to control, abate or prevent air, water or noise pollution
- Property used for quality control in testing and inspecting the product throughout the production cycle
- Packaging equipment and supplies that are used to ship the final product to the ultimate consumer
- Research & development equipment and supplies that are used to create a new or improved product or devise a new method of production
- Safety supplies that are used to protect employees during the manufacturing operation and are required by OSHA



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- Electricity and natural gas used to power production equipment. A utility survey must be completed for each meter claimed to be exempt and should be prepared by either a plant engineer or independent consulting firm. This survey needs to indicate the usage of each meter that has a direct causal relationship to the manufactured product.

Claiming Pennsylvania Sales Tax Exemptions for Manufacturing

To claim the Pennsylvania sales tax exemption for manufacturing on machinery and machine tools, qualifying manufacturers need to complete the [Pennsylvania Exemption Certificate \(REV-1220\)](#) and provide a copy of this certificate to their vendors.

For manufacturers who have already paid sales taxes to their vendors, they can complete and submit the [Board of Appeals Petition Form \(REV-65\)](#) to recover sales taxes on qualifying tangible personal property predominantly used directly in a manufacturing operation.

The Board of Appeals Petition Form can also be used to recover use taxes accrued on exempt tangible personal property predominantly used directly in a manufacturing operation. A Board of Appeals Petition must be filed within three years of the actual payment of the tax, otherwise the statute of limitations will have lapsed, and any taxes paid in error will not be eligible for a refund.

Pennsylvania Code 32.32: *Manufacturing & Equipment Sales Tax Exemption*

61 Pa. Code § 32.32 - Manufacturing; processing

(a) *Equipment, machinery, parts and foundations therefore and supplies used directly in manufacturing or processing.* The purchase or use of tangible personal property or services performed thereon by a person engaged in the business of manufacturing or processing is exempt from tax if the property is predominantly used directly by him in manufacturing or processing operations. Purchases of vehicles required to be registered under 75 Pa.C.S. § § 101-9821 (relating to the Vehicle Code) as well as supplies and repair parts for the vehicles shall be subject to tax. There is no exemption for maintenance facilities or for materials or supplies to be used or consumed in construction, reconstruction, remodeling, repair or maintenance of real estate other than machinery, equipment or parts therefor that may be affixed to the real estate. Beginning March 4, 1971, foundations for equipment and machinery became subject to tax and remained taxable until February 9, 1981. Effective February 7, 1981, foundations used to support equipment, machinery and parts used directly in manufacturing or processing shall be exempt from tax.

(1) *Direct use.* In determining whether property is directly used, consideration shall be given to the following factors:

- (i) The physical proximity of the property in question to the production process in which it is used.
- (ii) The proximity of the time of use of the property in question to the time of use of other property used before and after it in the production process.
- (iii) The active causal relationship between the use of the property in question and the production of a product. The fact that particular property may be considered essential to the conduct of the business of manufacturing or processing because its use is required either by law or practical necessity does not of itself, mean that the property is used directly in the manufacturing or processing operations.

(2) *Property directly used; predominant use.* The purchase or use by a manufacturer or processor of property in the following categories, when predominantly used directly in manufacturing or processing, shall be exempt from tax. Where a single unit of the property is put to use in two different activities, one of which is a direct use and the other of which is not, the property may not be exempt from tax unless the manufacturer or processor makes use of the property more than 50% of the time directly in manufacturing or processing operations.

(i) *General.* Machinery, equipment, parts and foundations therefor, and supplies which are used in the actual production or to transport, convey, handle or store the product from the first production operation to the time the product is packaged for the ultimate consumer are considered to be directly used in manufacturing-processing operations. Repair parts which are installed and become an integral part of such property shall also be exempt from tax.

(ii) *Pollution control devices.* Equipment, machinery and supplies designed and used to control, abate or prevent air, water or noise pollution generated in the manufacturing or processing operation shall be deemed to be directly used in manufacturing or processing and, therefore, is not subject to tax. In order for property to qualify as exempt pollution control devices it is not necessary that the pollutants be recycled or used in any manner.

(iii) *Testing and inspection.* Property used to test and inspect the product throughout the production cycle, shall be considered to be directly used in manufacturing-processing operations.

(iv) *Cleaning of returnable containers.* Property used to wash, sterilize or inspect returnable containers prior to their being filled shall be exempt when used in packaging the product if the container will be delivered to the ultimate consumer.

(v) *Packaging.* Wrapping equipment and supplies, including internal packing materials and returnable containers, used in packaging which passes to the ultimate consumer are directly used and therefore shall be exempt.

(vi) *Research.* Property which is used directly in research activities shall be exempt from tax, provided that the object of the research is the production of a new or improved product or method of producing a product. The exemption does not apply to property used in market research or in other research which is conducted with the objective of improving administrative efficiency.

(3) *Property not directly used.* Property in the following categories is not directly used in manufacturing or processing operations and the purchase or use of the property shall be subject to tax.

(i) *Real estate.* The terms manufacturing or processing do not include the construction, reconstruction, alteration, remodeling, servicing, repairing, maintenance or improvement of real estate. The purchase or use of tangible personal property by a manufacturer or processor for the purpose shall be subject to tax, even though the structure may house or otherwise contain equipment or other facilities used directly in manufacturing or processing.

(ii) *Maintenance facilities.* Maintenance, service and repair work is not a manufacturing operation. Maintenance facilities, including tools, equipment and supplies predominantly used in performing the work (For example: chain, hoists, tire spreaders, welding equipment, drills, sanders, wrenches, paint brushes and sprayers, oilers, absorbent compounds, dusting compounds, air blowers and wipers) shall be subject to tax. However, replacement parts which are used to replace worn parts upon exempt machinery and equipment (For example: motors, belts, screws, bolts, cutting edges, air filters or gears) and operating supplies which are actively and continuously used in the operation of exempt machinery and equipment (For example: fuel, lubricants, paint and compressed air) shall be exempt from tax. Equipment and supplies, including soaps and cleaning compounds, brushes, brooms, mops, and similar items, used in general cleaning and maintenance of manufacturing or processing property shall be subject to tax. Installation and repair of property for others is not manufacturing or processing, whether the work is performed for or by a manufacturer or processor. This is so whether the property installed or repaired is manufactured or processed by the installer or repairman or someone else.

(iii) *Managerial sales or other nonoperational activities.* Property used in managerial, sales or other nonoperational activities is not directly used in manufacturing or processing and shall be therefore subject to tax. This category includes but is not limited to property used in any of the following activities:

(A) *Management and administration.* Office furniture, supplies and equipment, textbooks, and other educational materials, books and records, and all other property used in manufacturing or processing record keeping and other administrative and managerial work, whether on or off the production line, shall be subject to tax. The property includes, but is not limited to supplies used to record the quality and quantity of work in production or goods in storage, the flow of work, the results of inspection or to instruct workers in routing work or other production activities.

(B) *Selling and marketing.* Property used in advertising manufactured or processed products for sale or in marketing, transporting the products to a market or to customers, or selling the products, is not within the scope of the manufacturing-processing exemption.

(C) *Exhibition of manufactured or processed products.* Property used in the exhibition of manufactured or processed products or of manufacturing or processing operations shall be subject to tax.

(D) *Safety and fire prevention.* Property used to prevent or fight fires and equipment and supplies used for such programs as safety, accident prevention or fire prevention shall be subject to tax, even though the equipment or



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property is required by law, except for drugs, medicines and medical supplies exempted by section 204(17) of the TRC (72 P. S. § 7204(17)).

(E) *Employee use.* Property used for the personal comfort, convenience or use of employees, shall be subject to tax. However protective equipment, such as face masks, helmets, gloves, coveralls, goggles and the like, worn by production personnel shall be exempt from tax.

(F) *Space heating, cooling, ventilation and illumination.* Property, such as machinery and equipment, fuel or power used to ventilate buildings, lighting for general illumination, air conditioning and other space cooling and space heating equipment, shall be subject to tax unless it is established that the use of such property bears an active causal relationship to the manufacturing or processing operation.

(G) *Preproduction activities.* Property used to transport personnel or to collect, convey or transport other property, and storage facilities or devices used to store or hold property, prior to its use in the first production stage shall be subject to tax.

(H) *Property used during production.* Property used in managerial, sales or other nonoperational activities shall be subject to tax even though it is used during the production operation. Illustrations of the property include safety, heating and ventilation equipment, planking or grating for cross-walks or platforms, and maintenance equipment or facilities.

(I) *Post production activities.* Property used to transport or convey the finished product from the final manufacturing or processing operation, which includes but does not extend beyond the operation of packaging for the ultimate consumer, and storage facilities or devices used to store the product, are not used directly in manufacturing or processing and are taxable. For example, equipment which loads packaged products into cases or cartons for ease of handling in delivery shall be subject to tax. Machinery, equipment, supplies and other property used to convey, transport, handle or store the packaged product shall also be taxable.

(J) *Waste disposal.* Property used in waste handling and disposal of pollutants shall not be deemed to be directly used and shall be subject to tax unless such property qualifies for exemption under the provisions of subsection (a)(2)(ii).

(b) *Materials incorporated as components into manufactured or processed products.* The sale of personal property which will be physically incorporated by the manufacturer or processor as an ingredient or constituent of products which will be sold in the regular course of his business, is a sale for resale. These



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materials may be purchased by the manufacturer or processor free of tax upon his presentation to the vendor of a properly executed Exemption Certificate certifying that the purchase is for resale. When the manufacturer is not licensed with the Bureau he shall be required to explain on the reverse side of the certificate why a sales tax number is not required.

(c) Use of exemption certificate. When a manufacturer or processor purchases exempt property under the provisions of this section, he shall be required to prepare and deliver to the vendor a properly executed exemption certificate.

Notes

61 Pa. Code § 32.32

[Pennsylvania Exemption Certificate FORM \(REV-1220\)](#)