

Notice

Notice Number: 00-08
Tax Type: Kansas Retailers' Sales Tax
Brief Description: Kansas Exemption for Manufacturing Machinery & Equipment as Expanded by House Bill No. 2011. (revised 11/09/2006)
Keywords:
Approval Date: 09/07/2000

Body:

**KANSAS DEPARTMENT OF REVENUE
OFFICE OF THE SECRETARY**

NOTICE 00-08

**Kansas Exemption for Manufacturing
Machinery & Equipment as Expanded by House Bill No. 2011**

Effective July 1, 2000, businesses engaged in certain manufacturing or processing activities will not be required to pay sales or use tax on an expanded range of machinery and equipment used in manufacturing and processing operations. This expanded exemption applies to purchases of machinery and equipment delivered on or after July 1, 2000. In the case of leased machinery and equipment, the exemption applies to payments for rental periods that occur on and after July 1, 2000. Service or labor charges for installing and repairing qualifying machinery and equipment are exempt when performed on or after July 1, 2000. These changes are contained in House Bill 2011 that was enacted by the 2000 Kansas Legislature. The new statutory provisions in Section 1 of the bill are set out as the Appendix to this notice.

The new law benefits manufacturing or processing businesses. The law defines “manufacturing or processing business” as a business that utilizes an integrated production operation to manufacture, process, fabricate, finish, or assemble items for wholesale and retail distribution as part of what is commonly regarded as a industrial manufacturing or processing operation or a agricultural commodity processing operation. The exemption does not apply to retail operations or other non-industrial businesses. Retail operations and non-industrial businesses include, but are not limited to: contractors; construction companies; retail businesses that prepare food products for consumption by the buyer on or off premises; businesses that service or refurbish property that is returned to its owner, such as repair shops and machine shops; copying services, photo finishing services, and similar businesses that perform services for retail customers; telephone companies; and utility transmission and distribution operations.

An “integrated production operation” means an integrated series of operations engaged in at a manufacturing or processing plant to convert tangible personal property into a different product or form of product. Such operations generally include the machinery and equipment that makes up a production line along with adjunct machinery and equipment that function simultaneously with the production line as part of an interrelated operation. An integrated production operation also includes pre-production material-handling operations and post-production distribution operations done at the manufacturing or processing plant. Generally, how machinery or equipment is used determines whether it qualifies for this exemption.

Integrated production operations encompass machinery and equipment used at a plant or facility to:

- Receive, handle, treat, or store raw materials before production or processing;
- transport, handle, or store the property being manufactured or processed during production or processing operations;
- effect a physical change on the property;
- guide control, or direct the movement of the property during manufacturing or processing;
- test or measure raw materials and the product as part of the integrated operation;
- plan, manage, control, or record the production flow from receipt of raw materials to managing inventories of the finished product;

produce energy for, lubricate, control, or enable the functioning of other production machinery at a continuous production operation;

package the manufactured or processed product;

transport electricity, gas, water, steam, or other items used in production (1) from the point of generation, if in the plant, to the production operation, or (2) from the point it is first metered at the plant site, if generated or produced outside the plant, to the production operation;

cool, heat, filter, refine, or otherwise treat water, oil, solvents, acids, and other substances used in production operations;

provide and control the environment in special and limited areas of the plant, such as clean rooms, painting areas, and freezing or cold storage areas;

treat, transport, or store waste or other byproducts of the manufacturing or processing operation;

control pollution caused by the production operation;

when used at a mineral extraction site, to clean, separate, grind or otherwise treat or prepare the mineral or other product that has been extracted from its natural state before its transmission, distribution, or sale at retail; and transport, handle, or store property during warehousing or distribution operations.

In addition to exempting the machinery and equipment used in integrated production operation at a plant or facility, the legislature deemed that certain other items are exempt even though they are not production machinery or equipment. These include:

Computers and related equipment used by a manufacturer in product engineering or in research and product development;

machinery and equipment used to build or remanufacture dies, jigs, tools, or other parts of machinery and equipment used in integrated production operations;

portable plants used for aggregate concrete, bulk cement, and asphalt. This provision exempts the cement drums and related equipment that are attached to a truck chassis, but not the truck chassis;

industrial fixtures, devices, support facilities, and special foundations; and

laboratory equipment that is not located at the plant or facility but which would otherwise qualify for exemption.

For purposes of this exemption, exempt production equipment does NOT include:

Machinery and equipment used for nonproduction purposes, such as accounting, administration, advertising, employee work scheduling, fire prevention, first aid, marketing and sales, plant communications, and plant security;

machinery, equipment, and tools used in maintenance and repair, including repair and maintenance of production equipment;

transportation, transmission, and distribution equipment not primarily used in production, warehousing or materials handling at the plant or facility, including all electricity, oil, or water distribution equipment located outside the plant or facility. Such transportation equipment shall include pumps for pipeline transmission, and equipment used to filter, purify, or otherwise condition or modify water, gas, or other substances being transported by pipeline;

office machines and equipment;

buildings and other parts of real estate that are not otherwise exempt;

building fixtures that are not an integral part of the manufacturing or processing operation;

machinery and equipment used for general plant heating, cooling, and lighting;

motor vehicles registered to operate on public highways;

employee apparel, except safety and protective apparel that is purchased by an employer and furnished without charge to employees who are involved in production or research activities; and machinery and equipment used in mining, gas and petroleum drilling, water drilling, quarrying, sand and gravel extraction operations, and other similar activities to explore for or extract petroleum, gas, mineral, rock, sand, water, and other minerals or similar matter from below the surface of the soil or water or from a mine.

To claim exemption, the manufacturer/purchaser must provide the seller with an exemption certificate. The certificate

may be in the format suggested by the department, or in any other format that provides substantially the same information. A copy of the "Integrated Production Machinery & Equipment Exemption Certificate," Form ST-201, prepared by the department for this purpose is attached at the end of this notice. Manufacturers and processors who qualify for exemption may claim exemption by providing a completed exemption certificate to their vendor; they do not have to apply to the department for an exemption number. Both the buyer and the seller must maintain a copy of the exemption certificate as part of their records for at least three years after the last sale or purchase is made under the certificate.

Expanded Exemption for Warehouse Machinery & Equipment

The new legislation that adopts the integrated plant concept for manufacturing and processing businesses provides a separate exemption that specifically applies to equipment used in a warehouse or distribution facility. This exemption is set forth at K.S.A. 79-3606(fff). It applies to material handling equipment, racking systems, and other related equipment used in warehouse and distribution facilities in Kansas. Labor services performed on or after July 1, 2000, to install, repair, and maintain qualified warehouse machinery and equipment are exempt for the first time. Repair and replacement parts for warehousing machinery and equipment continue to be exempt.

To claim the sales or use tax exemption under this provision, a buyer must complete an exemption certificate and furnish it to the vendor. A copy of the "Warehouse Machinery & Equipment Certificate," Form ST-203, designed for this purpose is attached to this notice. Qualified buyers may use this certificate or one that provides substantially the same information.

Additional copies of this or any other notice or exemption certificate are available from the Kansas Department of Revenue's voice mail forms request line at (785) 296-4937 or may be downloaded from our web site: www.ink.org/public/kdor. If you have any questions about this notice, please contact our Topeka Assistance Center.

TOPEKA ASSISTANCE CENTER

Docking State Office Building
915 SW Harrison St., 1st Floor
Topeka, KS 66612-1588
In Topeka call: 368-8222
Outside Topeka call toll free: 1-877-526-7738
Hearing Impaired TTY: 1-785-296-6461
FAX: 1-785-291-3614

Issued: September 7, 2000; Revised November 9, 2006.

APPENDIX

New Provisions in Section 1 of House Bill No. 2011

K.S.A. 79-3606(kk) *The following shall be exempt from the tax imposed by the act: . . . (1) (A) all sales of machinery and equipment which are used in this state as an integral or essential part of an integrated production operation by a manufacturing or processing plant or facility;*

*(B) all sales of installation, repair and maintenance services performed on such machinery and equipment; and
(C) all sales of repair and replacement parts and accessories purchased for such machinery and equipment.*

(2) For purposes of this subsection:

(A) "Integrated production operation" means an integrated series of operations engaged in at a manufacturing or processing plant or facility to process, transform or convert tangible personal property by physical, chemical or other means into a different form, composition or character from that in which it originally existed. Integrated production operations shall include: (i) Production line operations, including packaging operations; (ii) preproduction operations to handle, store and treat raw materials; (iii) post production handling, storage, warehousing and distribution operations; and (iv) waste, pollution and environmental control operations, if any;

(B) "production line" means the assemblage of machinery and equipment at a manufacturing or processing plant or facility where the actual transformation or processing of tangible personal property occurs;

(C) "manufacturing or processing plant or facility" means a single, fixed location owned or controlled by a

manufacturing or processing business that consists of one or more structures or buildings in a contiguous area where integrated production operations are conducted to manufacture or process tangible personal property to be ultimately sold at retail. Such term shall not include any facility primarily operated for the purpose of conveying or assisting in the conveyance of natural gas, electricity, oil or water. A business may operate one or more manufacturing or processing plants or facilities at different locations to manufacture or process a single product of tangible personal property to be ultimately sold at retail;

(D) "manufacturing or processing business" means a business that utilizes an integrated production operation to manufacture, process, fabricate, finish, or assemble items for wholesale and retail distribution as part of what is commonly regarded by the general public as an industrial manufacturing or processing operation or an agricultural commodity processing operation. (i) Industrial manufacturing or processing operations include, by way of illustration but not of limitation, the fabrication of automobiles, airplanes, machinery or transportation equipment, the fabrication of metal, plastic, wood, or paper products, electricity power generation, water treatment, petroleum refining, chemical production, wholesale bottling, newspaper printing, ready mixed concrete production, and the remanufacturing of used parts for wholesale or retail sale. Such processing operations shall include operations at an oil well, gas well, mine or other excavation site where the oil, gas, minerals, coal, clay, stone, sand or gravel that has been extracted from the earth is cleaned, separated, crushed, ground, milled, screened, washed, or otherwise treated or prepared before its transmission to a refinery or before any other wholesale or retail distribution. (ii) Agricultural commodity processing operations include, by way of illustration but not of limitation, meat packing, poultry slaughtering and dressing, processing and packaging farm and dairy products in sealed containers for wholesale and retail distribution, feed grinding, grain milling, frozen food processing, and grain handling, cleaning, blending, fumigation, drying and aeration operations engaged in by grain elevators or other grain storage facilities. (iii) Manufacturing or processing businesses do not include, by way of illustration but not of limitation, nonindustrial businesses whose operations are primarily retail and that produce or process tangible personal property as an incidental part of conducting the retail business, such as retailers who bake, cook or prepare food products in the regular course of their retail trade, grocery stores, meat lockers and meat markets that butcher or dress livestock or poultry in the regular course of their retail trade, contractors who alter, service, repair or improve real property, and retail businesses that clean, service or refurbish and repair tangible personal property for its owner;

(E) "repair and replacement parts and accessories" means all parts and accessories for exempt machinery and equipment, including, but not limited to, dies, jigs, molds, patterns and safety devices that are attached to exempt machinery or that are otherwise used in production, and parts and accessories that require periodic replacement such as belts, drill bits, grinding wheels, grinding balls, cutting bars, saws, refractory brick and other refractory items for exempt kiln equipment used in production operations;

(F) "primary" or "primarily" mean more than 50% of the time.

(3) For purposes of this subsection, machinery and equipment shall be deemed to be used as an integral or essential part of an integrated production operation when used:

(A) To receive, transport, convey, handle, treat or store raw materials in preparation of its placement on the production line;

(B) to transport, convey, handle or store the property undergoing manufacturing or processing at any point from the beginning of the production line through any warehousing or distribution operation of the final product that occurs at the plant or facility;

(C) to act upon, effect, promote or otherwise facilitate a physical change to the property undergoing manufacturing or processing;

(D) to guide, control or direct the movement of property undergoing manufacturing or processing;

(E) to test or measure raw materials, the property undergoing manufacturing or processing or the finished product, as a necessary part of the manufacturer's integrated production operations;

(F) to plan, manage, control or record the receipt and flow of inventories of raw materials, consumables and component parts, the flow of the property undergoing manufacturing or processing and the management of inventories of the finished product;

(G) to produce energy for, lubricate, control the operating of or otherwise enable the functioning of other production machinery and equipment and the continuation of production operations;

(H) to package the property being manufactured or processed in a container or wrapping in which such property is normally sold or transported;

(I) to transmit or transport electricity, coke, gas, water, steam or similar substances used in production operations from the point of generation, if produced by the manufacturer or processor at the plant site, to that manufacturer's

production operation; or, if purchased or delivered from offsite, from the point where the substance enters the site of the plant or facility to that manufacturer's production operations;

(J) to cool, heat, filter, refine or otherwise treat water, steam, acid, oil, solvents or other substances that are used in production operations;

(K) to provide and control an environment required to maintain certain levels of air quality, humidity or temperature in special and limited areas of the plant or facility, where such regulation of temperature or humidity is part of and essential to the production process;

(L) to treat, transport or store waste or other byproducts of production operations at the plant or facility; or

(M) to control pollution at the plant or facility where the pollution is produced by the manufacturing or processing operation.

(4) The following machinery, equipment and materials shall be deemed to be exempt even though it may not otherwise qualify as machinery and equipment used as an integral or essential part of an integrated production operation: (A) Computers and related peripheral equipment that are utilized by a manufacturing or processing business for engineering of the finished product or for research and development or product design; (B) machinery and equipment that is utilized by a manufacturing or processing business to manufacture or rebuild tangible personal property that is used in manufacturing or processing operations, including tools, dies, molds, forms and other parts of qualifying machinery and equipment; (C) portable plants for aggregate concrete, bulk cement and asphalt including cement mixing drums to be attached to a motor vehicle; (D) industrial fixtures, devices, support facilities and special foundations necessary for manufacturing and production operations, and materials and other tangible personal property sold for the purpose of fabricating such fixtures, devices, facilities and foundations. An exemption certificate for such purchases shall be signed by the manufacturer or processor. If the fabricator purchases such material, the fabricator shall also sign the exemption certificate; and (E) a manufacturing or processing business' laboratory equipment that is not located at the plant or facility, but that would otherwise qualify for exemption under subsection (3)(E).

(5) "Machinery and equipment used as an integral or essential part of an integrated production operation" shall not include:

(A) Machinery and equipment used for nonproduction purposes, including, but not limited to, machinery and equipment used for plant security, fire prevention, first aid, accounting, administration, record keeping, advertising, marketing, sales or other related activities, plant cleaning, plant communications, and employee work scheduling;

(B) machinery, equipment and tools used primarily in maintaining and repairing any type of machinery and equipment or the building and plant;

(C) transportation, transmission and distribution equipment not primarily used in a production, warehousing or material handling operation at the plant or facility, including the means of conveyance of natural gas, electricity, oil or water, and equipment related thereto, located outside the plant or facility;

(D) office machines and equipment including computers and related peripheral equipment not used directly and primarily to control or measure the manufacturing process;

(E) furniture and other furnishings;

(F) buildings, other than exempt machinery and equipment that is permanently affixed to or becomes a physical part of the building, and any other part of real estate that is not otherwise exempt;

(G) building fixtures that are not integral to the manufacturing operation, such as utility systems for heating, ventilation, air conditioning, communications, plumbing or electrical;

(H) machinery and equipment used for general plant heating, cooling and lighting;

(I) motor vehicles that are registered for operation on public highways; or

(J) employee apparel, except safety and protective apparel that is purchased by an employer and furnished gratuitously to employees who are involved in production or research activities.

(6) Subsections (3) and (5) shall not be construed as exclusive listings of the machinery and equipment that qualify or do not qualify as an integral or essential part of an integrated production operation. When machinery or equipment is used as an integral or essential part of production operations part of the time and for nonproduction purpose at other times, the primary use of the machinery or equipment shall determine whether or not such machinery or equipment qualifies for exemption.

(7) The secretary of revenue shall adopt rules and regulations necessary to administer the provisions of this

subsection

(fff) all sales of material handling equipment, racking systems and other related machinery and equipment that is used for the handling, movement or storage of tangible personal property in a warehouse or distribution facility in this state; all sales of installation, repair and maintenance services performed on such machinery and equipment; and all sales of repair and replacement parts for such machinery and equipment. For purposes of this subsection, a warehouse or distribution facility means a single, fixed location that consists of buildings or structures in a contiguous area where storage or distribution operations are conducted that are separate and apart from the business' retail operations, if any, and which do not otherwise qualify for exemption as occurring at a manufacturing or processing plant or facility. Material handling and storage equipment shall include aeration, dust control, cleaning, handling and other such equipment that is used in a public grain warehouse or other commercial grain storage facility, whether used for grain handling, grain storage, grain refining or processing, or other grain treatment operation.

ST-201 - Integrated Production Machinery and Equipment Exemption Certificate

ST-203 - Warehouse Machinery and Equipment Exemption Certificate

The above exemption certificates can be accessed at the KDOR web site: <http://www.ksrevenue.org/forms-btsaleex.htm>

Date Composed: 09/13/2000 Date Modified: 11/09/2006

[Return to KSA Listing](#)