



State of Georgia

## Department of Revenue

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Georgia Letter Ruling SUT No. 2013-02-25-01 Manufacturing

This letter is in response to your ruling request regarding the application of Georgia's sales and use tax exemption for manufacturing machinery and equipment to certain quality control equipment used in the company's manufacturing process.

### Facts

The Company is an American manufacturer of certain products. In the manufacture of its products, the Company leases various types of quality control equipment ("QC equipment") for use in its manufacturing process. The QC equipment was delivered to the Company in the state of Georgia. The Company historically paid Georgia state and local sales taxes to vendors on these lease agreements. The Company recently contacted the vendor to discuss the submission of a refund claim to the State of Georgia for the sales tax paid on the aforementioned lease payments. The basis of the claim by the vendor is that the equipment used is exempt from sales tax because the "substantial purpose" of the equipment is to be used in the Company's manufacturing process.

The QC equipment is used by the Company's manufacturing organization for quality control testing of incoming raw materials during the manufacturing of the Company's products. Below are several key activities for which the QC equipment is used in the manufacturing process:

[REDACTED]

The chart below lists the QC equipment used by the Company in its manufacturing operations and includes the percentage of time that each piece of equipment was used in manufacturing and R&D activities respectively. The percentages were calculated based on time studies performed by the Company that measured the amount of time in which a piece of equipment was used in quality control testing during the manufacturing process and the amount of time the same piece of equipment was used in R&D activities.

[CHART REDACTED]

## **Issue**

Does the QC equipment used by the Company in its manufacturing process qualify for the state of Georgia's sales and use tax exemption with respect to leases of manufacturing machinery and equipment as provided for under O.C.G.A. § 48-8-3(34)?

## **Analysis**

O.C.G.A. 48-8-3(34) provides an exemption from state sales and use tax for certain types of manufacturing machinery. To qualify for exemption, the machinery or equipment must:

1. Have the character of machinery or equipment at the time of sale or lease, or consist of components which, when assembled, will have the character of machinery or equipment;
2. Be used in a manufacturing plant; and
3. Be necessary and integral to the manufacture of tangible personal property for sale or further manufacturing.<sup>1</sup>

For machinery or equipment that has multiple purposes, some purposes necessary and integral to the manufacture of tangible personal property, and some purposes not necessary and integral to the manufacture of tangible personal property, the substantial purpose of such machinery or equipment will prevail for purposes of determining the eligibility for the exemption.<sup>2</sup> "Substantial purpose" is that purpose for which an item of tangible personal property is used more than one-third of the total amount of time that the item is in use; alternatively, instead of time, the purpose may be measured in terms of other applicable criteria such as the number of items produced.<sup>3</sup> Testing and quality control machinery or equipment located at a manufacturing plant used to test the quality of industrial materials, work in process, or finished goods will generally qualify as necessary and integral to the manufacture of tangible personal property.<sup>4</sup>

O.C.G.A. § 48-8-3.2, which became effective January 1, 2013, specifically lists "testing and quality control machinery or equipment located at a manufacturing plant used to test the quality of industrial materials, work in process, or finished goods" as an example that qualifies as necessary and integral to the manufacture of tangible personal property.<sup>5</sup> This section also adopts the "substantial purpose" test described above.<sup>6</sup>

## **Ruling**

The Company's QC equipment is used in its manufacturing process to test the quality of industrial materials, work in process, or finished goods. The Company asserts that the equipment is used in manufacturing more than one-third of the total amount of time that the item is in use. The QC equipment is necessary and integral to the manufacture of tangible personal property for

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<sup>1</sup> Ga. Comp. R. & Regs. r. 560-12-2-.62(3)(a).

<sup>2</sup> Ga. Comp. R. & Regs. r. 560-12-2-.62(3)(c).

<sup>3</sup> Ga. Comp. R. & Regs. r. 560-12-2-.62(2)(k).

<sup>4</sup> Ga. Comp. R. & Regs. r. 560-12-2-.62(4)(b)(4).

<sup>5</sup> O.C.G.A. § 48-8-3.2(e)(4).

<sup>6</sup> O.C.G.A. § 48-8-3.2(d)(2).

sale or further processing since the Company's ability to manufacture its products is highly dependent on the quality of incoming materials, and it is critical these materials are tested to ensure they meet the Company's quality standards before they are further used in the manufacturing process. For these reasons [i.e. the QC equipment is used in manufacturing more than one-third of the total time that the equipment is in use, and the QC equipment is necessary and integral to the manufacture of tangible personal property for sale or further processing], the QC equipment qualifies as exempt manufacturing machinery and equipment as provided by O.C.G.A. § 48-8-3(34) and § 48-8-3.2.

The opinions expressed in this ruling are based upon the information contained in your request and limited to the specific transactions, facts, and taxpayer in question. Should the circumstances regarding the transactions change, or differ materially from those represented, then this ruling may become invalid. In addition, please be advised that subsequent statutory or administrative rule changes or judicial interpretations of the Statutes or Rules upon which this advice is based may subject similar future transactions to a different tax treatment than that expressed in this response.