



Indiana Department of Revenue

Indiana Government Center • 100 N. Senate Ave. Indianapolis, IN 46204 • dor.in.gov

Sales Tax Information Bulletin #64

Subject: Manufacturing and Production Exemptions

Publication Date: September 2026

Effective Date: October 1, 2026

References: IC 6-2.5-5-3; IC 6-2.5-5-4; IC 6-2.5-5-5.1; IC 6-2.5-5-6; 6-2.5-5-30; 45 IAC 2.2-1-1; 45 IAC 2.2-5-8; 45 IAC 2.2-5-11; 45 IAC 2.2-5-12; 45 IAC 2.2-5-14; 45 IAC 2.2-5-15.5

Disclaimer: Information bulletins are intended to provide nontechnical assistance to the general public. Every attempt is made to provide information that is consistent with the appropriate statutes, rules, and court decisions. Any information that is not consistent with the law, regulations, or court decisions is not binding on either the department or the taxpayer. Therefore, the information provided herein should serve only as a foundation for further investigation and study of the current law and procedures related to the subject matter covered herein.

Introduction

In general, the sale of any tangible personal property is subject to Indiana sales and use tax unless the transaction is entitled to a statutory exemption. Indiana has four statutory exemptions pertaining to specific types of tangible personal property directly used, consumed, or incorporated in direct manufacturing or production. In brief, and subject to certain exceptions, transactions involving the following are exempt from sales tax:

- Transactions involving manufacturing machinery, tools, and equipment, acquired by the purchaser for direct use in the direct production, manufacture, fabrication, assembly, extraction, mining, processing, refining, or finishing of other tangible personal property for sale.
- Transactions involving tangible personal property acquired for the purchaser's direct use in the direct production of the machinery, tools, or equipment described above.
- Transactions involving tangible personal property acquired by the purchaser for direct consumption as a material to be consumed in the direct production of other tangible personal property for sale in the person's business of manufacturing, processing, refining, repairing, or mining.
- Transactions involving tangible personal property acquired for incorporation as a material part of other tangible personal property which the purchaser manufactures, assembles, refines, or processes for sale in the purchaser's business.

The purpose of this bulletin is to explain these exemptions in more detail.

Definitions

"Consume" means the dissipation or expenditure by combustion, use, or application, and does not mean or include the:

- obsolescence;
- discarding;
- disuse;
- depreciation;
- damage;
- wear; or
- breakage

of tangible personal property.

"Material handling equipment" means equipment that transports materials: (1) within the production process; and (2) from an onsite location. The type of equipment that would fall within the meaning of this term would include dollies, forklifts, chain or belt conveyers, and pallet jacks.

"Onsite location" means a location where the manufacturing or production takes place that is owned or leased by the person occupationally engaged in manufacturing or production and property contiguous to said property, which is also owned or leased by the same person occupationally engaged in manufacturing or production.

"Transportation" means the movement, transporting, or carrying of persons or property from one place to another and includes loading and unloading of persons or property into or from transportation vehicles.

Machinery, Tools, and Equipment Used Directly in Direct Production or Manufacturing

The purchases of machinery, tools, and equipment are exempt from sales and use tax if the machinery, tools, and equipment (including material handling equipment purchased for the purpose of transporting materials to activities from an onsite location) are directly used in the direct production or manufacture of other tangible personal property for sale.

To be "directly used in direct production" is what is called a **"double direct"** test. The machinery, tools, or equipment must be directly used, and the direct use of the property has to be in direct production. The phrase "directly used in direct production" means that the property must be integral and essential to the production process. It must have an immediate impact on the article being produced. Some examples of machinery, tools, and equipment that are directly used in direct production are discussed later.

NOTE: This particular exemption does not apply to material consumed in production or to materials incorporated into tangible personal property produced. There are separate exemptions for materials used in that capacity discussed later in this bulletin.

Manufacturing or Production Results in a Substantial Change

Manufacturing or production refers to a business's performance of an integrated series of operations that places tangible personal property in a form, composition, or character different from that in which it was acquired. The change in form, composition, or character must be a substantial change, and it must result in a transformation of property into a different product having a distinctive name, character, and use.

Operations such as compounding, fabricating, or assembling are examples of the types of operations that may qualify under this definition. Indiana statute also specifically clarifies that commercial printing is treated as the production and manufacture of tangible personal property. For further information on commercial printing, please refer to [Sales Tax Information Bulletin #69](https://www.in.gov/dor/resources/tax-library/information-bulletins), available at [in.gov/dor/resources/tax-library/information-bulletins](https://www.in.gov/dor/resources/tax-library/information-bulletins).

Machinery, Tools, and Equipment Must Have an Immediate Effect on the Article Produced

The machinery, tools, and equipment are directly used in direct production if they have an immediate effect on the item produced. Machinery, tools, or equipment have an immediate effect on the article being produced if they are an **essential** and **integral** part of an integrated process that produces tangible personal property for sale. Component parts of a unit of machinery or equipment that themselves have an immediate effect on the article being produced are exempt if such components are an integral part of such manufacturing unit.

Example: Aluminum pistons are produced in a manufacturing process. After the removal of raw aluminum from storage inside the plant, the manufacturing process begins with the melting of the raw aluminum and the production of castings in the foundry. It continues with the machining of the casting and the plating and surface treatment of the piston. Finally, the process ends with the final, saleable aluminum pistons, just prior to the transportation of the completed pistons to a storage area for subsequent shipment to customers. Because of the functional interrelationship of the various steps and the flow of the work-in-process, the total production process comprising these activities is integrated.

The fact that particular property may be considered essential to the conduct of the business of manufacturing because its use is required either by law or by practical necessity does not itself mean that the property has an immediate effect upon the article being produced. Instead, in addition to being essential for one of those reasons, the property must also be an integral part of an integrated process which produces tangible personal property.

The fact that the equipment either may not touch the work-in-process or cause a change in the product by itself is not determinative as to whether it is essential or integral, as illustrated in the examples below:

- Air compressors used as a power source for exempt tools and machinery in the production process.

- An electrical distribution system, including generators, transformers, electrical switchgear, cables inside or outside the plant, and related equipment used to produce and/or supply electricity to exempt manufacturing equipment used in direct production.
- A pulverizer for raw materials to be used in an exempt furnace to produce and/or supply energy to manufacturing equipment used in direct production.
- Boilers, including related equipment such as pumps, piping systems, etc., which draw water, or produce and transmit steam to operate exempt machinery and equipment used in direct production.
- A work bench integrated with a work station or that supports production machinery within the production process.
- An automated scale process that measures quantities of raw aluminum for use in the next production step of the casting process in the foundry.

It also isn't determinative that the equipment is built in a manner to service various pieces of exempt equipment, as an alternative to building the equipment into each of the pieces of exempt machinery, as illustrated in the examples below:

- Pumping and filtering equipment and related tanks and tubing used to supply lubricating and coolant fluids to exempt drilling and cutting machinery.
- Cooling towers and related pumps and piping used to cool, circulate, and supply water employed to control the temperature of exempt furnaces and exempt machines used in the foundry and machining areas.
- Pumping and filtering equipment, including related tanks and tubing, is used to supply lubricating and coolant fluids to both exempt and nonexempt equipment. On the average, 90% of the fluid is used for the exempt equipment employed in direct production and 10% is used for the nonexempt equipment. The taxpayer is entitled to an exemption equal to 90% of the gross retail income attributable to the transaction or transactions in which the equipment comprising the production process was purchased.

The exemption includes safety clothing or equipment that is required to allow a worker to participate in a production process without injury or to prevent contamination of the product during production. However, clothing or other equipment furnished to workers that is used primarily for the workers' comfort and convenience is not exempt if the workers are able to participate in the production process without it. The following types of equipment are likewise not exempt because of the lack of an essential and integral relationship with an integrated production system:

- Equipment and furnishings located in the administrative offices of the plant.
- An electrical distribution system, including electrical switchgear, transformers, cables, and related equipment used to supply electricity to the administrative office building.
- A boiler used to produce steam for general heating in the plant or administrative office building.

- A fire extinguisher hung on a wall inside the plant.
- Ceiling lights for general illumination in the plant area.
- Equipment (including material handling equipment) used to move finished products from the last step of production.

The following examples give more comprehensive illustrations of how the above principles apply within specific manufacturing processes:

Examples of the Application of the Immediate Effect Standard

#1: A manufacturer orders several computers for use in its business:

- Some computers will be used to control and monitor various aspects of the manufacturing operations. The computers will be located in a separate room in a different part of the plant from the manufacturing activity but will be connected to the exempt equipment through the building's network. The computer equipment, including related terminals, servers, and data storage, is exempt because its use in this manner is an integral and essential part of the integrated production process.
- On the other hand, several computers will be used by individuals in other departments to process accounting, personnel, and sales data. These computers are taxable because their uses are not an integral and essential part of the integrated production process.
- Other computers will be used 40% of the time to monitor various aspects of the plating and surface-treatment operations, and 60% of the time to write e-mails and messages to colleagues. The taxpayer is entitled to an exemption for the computer equipment equal only to 40% of the gross retail income attributable to the transaction or transactions in which the computer equipment was purchased.
- Finally, some computers will be used to produce designs for equipment that will be manufactured. The designs themselves are not sold as products, and thus the computers are not exempt. In other words, computer-aided design is a nonexempt function.

#2: A manufacturer of high technology electronic equipment uses microscopes to enable technicians to produce miniaturized products which could not otherwise be produced. The microscope is essential and integral to the production process. The microscopes are exempt from tax.

#3: A manufacturer of printed circuit boards uses a computerized locator system to assist and direct employees in placing components in their correct positions on printed circuit boards. The system visually demonstrates the location on the board requiring a component and at the same time dispenses the appropriate component for insertion by the employee. The locator system is an essential and integral part of the integrated production process and is, therefore, exempt.

#4: An electrical distribution system, including electrical switchgear, transformers, cables, and related equipment, is used to supply electricity to both equipment used in production and to an administrative office building. On the average, 90% of the electricity is used for the

equipment employed in direct production and 10% for the administrative office building. The taxpayer is entitled to an exemption equal to 90% of the gross retail income attributable to the transaction or transactions in which the equipment comprising the electrical distribution system was purchased.

#5: Manufacturing equipment utilized for the production of plastics consists of an interconnected system which contains among its components a coal-fueled boiler, heat exchangers, vacuum jets, process heating vessels, distillation/stripping columns, related equipment, and piping. All elements of this integrated production process are exempt from tax.

#6: Steam generators used to heat water which is used in mixing and warming component materials in the manufacture of ready-mixed concrete are exempt from tax.

#7: The manufacturer of certain extruded rubber products uses an interconnected production process of an air compressor, an air dryer, and injection molding machines which work together to force rubber through dies in order to form the desired shapes. The component parts of the production process are exempt since the production process has an immediate effect upon the article being produced.

#8: The production of flat-rolled metal products requires that an oil mixture, which serves as both a rolling lubricant and a coolant, be continuously sprayed on sheets in the rolling mill. Spent oil is simultaneously removed and passed through a filtering process which is interconnected with the rolling mill, after which the oil is resprayed onto the sheets. The fact that such equipment is built in a manner to service various pieces of exempt equipment, as an alternative to building the equipment into each of the pieces of exempt machinery, is not determinative. The rolling mill and oil filtration process are exempt.

#9: A metal manufacturer uses a variety of electrically-powered production equipment which has differing voltage and power requirements. Power cables used to bring electricity to the manufacturer's plant are taxable. Switch gears, transformers, conduits, cables, controls, rectifiers, and generators which are interconnected with the production equipment and serve as an electrical distribution system for such equipment are exempt from tax. Items used to distribute electricity for general lighting and space heating are taxable.

#10: For security reasons, a mesh screen is installed around the parts and equipment "store" in a manufacturing plant. Because the screen has no physical or functional interrelationship with other parts of the integrated production process, it does not have an immediate effect on the article being produced and is taxable.

Restriction on Use in Pre- or Postproduction

The integrated production process begins at the point of the first operation or activity constituting part of the production process and ends at the point that the production has altered the item to its completed form, including packaging, if required. Any machinery, tools, or equipment used in preproduction or postproduction activities are therefore not eligible for this exemption.

Examples of Preproduction and Postproduction Equipment

In this scenario, a production process that begins with weighing and measuring out appropriate ingredients, continues with combining and otherwise treating the ingredients, and ends with packaging the items.

#1: Equipment used to transport raw materials to the manufacturing plant is employed prior to the first operation or activity constituting part of the integrated production process and is taxable.

#2: A hand truck is used to transport a 50-gallon drum of raw materials from storage to weighing and measuring equipment. The hand truck is a type of material handling equipment and is exempt because it is transporting materials into the first step of the production activity.

#3: Weighing and measuring equipment and all equipment used as an essential and integral part of the subsequent manufacturing steps, through packaging, qualify for exemption.

#4: Equipment which loads packaged products from the packaging step of production into storage, or from storage into delivery vehicles, is subject to tax.

Storage Equipment

Tangible personal property used in or for the purpose of storing raw materials or finished goods after completion of the production process is not exempt. However, temporary storage equipment needed for moving materials being manufactured from one machine to another, or from one production step to another, may be exempt subject to the following conditions:

- Equipment used to store work-in-process or semi-finished goods is not subject to tax if the work-in-process or semi-finished goods are ultimately completely produced for resale and in fact resold.
- Storage facilities or containers for materials or items currently undergoing production during the production process are temporary storage facilities and containers and are not subject to tax.

Examples of Storage Equipment

#1: Purchases of refrigeration equipment used in milk product production during the production process are exempt. However, refrigeration equipment used to store milk products subsequent to production is taxable.

#2: Parts undergoing various machining operations are transported from a machine operation to a storage rack where they are held for periods of time, as required by the processing schedule for the next machine operation in the integrated production process. The length of time required for storage in the processing schedule is not determinative. As the processing schedule dictates, the parts are removed from the storage racks and transported to the next machine operation. The storage racks are exempt.

#3: Finished goods are placed in the packages in which they will be delivered to customers, and the packages are loaded onto storage pallets which are used only in a finished goods storage area. The pallets are taxable.

#4: A metal and alloy manufacturer pulverizes raw materials for use in an exempt furnace. Weigh bins utilized for the temporary storage of the exempt materials after pulverization and prior to use in the exempt furnace are exempt.

#5: Replacement parts for manufacturing equipment are kept in storage bins in the plant "store." The storage bins are taxable because they do not store work-in-process or semi-finished goods.

Transportation Equipment

Transportation equipment used to transport work-in-process or semi-finished materials to or from storage is not subject to tax if the transportation is within the production process. However, the following uses of transportation equipment would be taxable because they are used in preproduction or postproduction activities:

- Transportation equipment used for moving raw materials to the plant prior to their entrance into the production process is taxable, as is tangible personal property used for moving finished goods from the plant after manufacture.
- Transportation equipment used to transport work-in-process, semi-finished, or finished goods between plants is taxable, unless the equipment is material handling equipment transporting such goods between plants in an onsite location as part of the same integrated production process.

Examples of Transportation Equipment

#1: A manufacturer of clay pipe uses forklift tractors to transport the pipe from the machine in which it is formed to the kiln. The forklift tractors are exempt.

#2: A metal and alloy manufacturer pulverizes raw materials for use in an exempt furnace. Weigh bins are utilized for the temporary storage of the exempt materials after pulverization and prior to use in an exempt furnace. Transportation equipment used to transport the pulverized raw material to and from the weigh bins is exempt.

#3: A forklift is used exclusively to move work-in-process from a temporary storage area in a plant and to transport it to a production machine for processing. Because the forklift functions as an integral part of the integrated system comprising the production operations, it is exempt.

#4: A forklift is used exclusively to move finished goods from a storage warehouse and to load them on trucks for shipment to customers. The forklift is taxable because it is used outside the integrated production process.

#5: A forklift is regularly used 40% of the time for the purpose described in Example #3 and 60% of the time for the purpose described in Example #4. The taxpayer is entitled to an

exemption equal to 40% of the gross retail income attributable to the transaction in which the forklift was purchased.

#6: A truck is used to transport work in process between different buildings which are part of an overall plant facility that constitutes an integrated production process. The truck is exempt.

#7: A truck is used for the same purpose as described in Example #6. However, the two buildings in the plant facility are located on opposite sides of a federal highway, and the truck must be registered with the Indiana Bureau of Motor Vehicles for highway use because it crossed the highway in transporting the work in process between buildings. The truck is exempt, notwithstanding its registration for highway use.

#8: A truck is used on the federal highway and must be registered with the Indiana bureau of motor vehicles for highway use. The truck is used to transport a finished component part from the last step of a production process to be introduced into another integrated production process at another business location. The truck is taxable.

#9: A truck is used 40% of the time for the purpose described in Example #6 and 60% of the time for the purpose described in Example #8. The taxpayer is entitled to an exemption equal to 40% of the gross retail income attributable to the transaction in which the truck was purchased.

#10: A crane is used to unload a barge delivering raw materials to a steel plant where the raw materials are stockpiled in a storage yard adjacent to the plant. The crane is taxable.

#11: A crane is used to move stockpiled materials to the next step of production for processing. Stockpiling allows moisture to drain and evaporate from washed stone, thereby reducing moisture levels to a standard generally acceptable to stone purchasers. The crane is exempt.

#12: A crane is used 40% of the time for the purpose described in Example #8, and 60% of the time to move raw materials from the stockpile to a production machine for processing. The taxpayer is entitled to an exemption equal to 60% of the gross retail income attributable to the transaction in which the crane was purchased.

Maintenance, Replacement, and Testing Equipment

Machinery, tools, and equipment used in the normal repair and maintenance of machinery used in the production process which are predominantly used to maintain production machinery are subject to tax. Replacement parts, used to replace worn, broken, inoperative, or missing parts or accessories on exempt machinery and equipment, are exempt from tax.

Example: A manufacturer of sheet metal repairs and upgrades used machinery by replacing worn or broken parts and adding new elements and features available in state-of-the-art equipment. All items which become components of the upgraded machinery are exempt from

tax. However, all tools and equipment used to repair or upgrade used machinery would be taxable.

Machinery, tools, and equipment used to test and inspect the product as part of the production process are exempt.

Example: Selected parts are removed from production according to a schedule dictated by statistical sampling methods. Quality control equipment is used to test the parts in a room in the plant separate from the production line. Because of the functional interrelationship between the testing equipment and the machinery on the production line and because of the product flow, the testing equipment is an integral part of the integrated production process and is exempt.

Nonexempt Use of Machinery Tools and Equipment

Machinery, tools, and equipment used in managerial sales, research, and development, or other nonoperational activities, are not directly used in manufacturing and, therefore, are subject to tax. This category includes, but is not limited to, tangible personal property used in any of the following activities:

- Management and administration
- Selling and marketing
- Exhibition of manufactured or processed products
- Safety or fire prevention equipment which does not have an immediate effect on the product
- Security equipment
- Space heating
- Ventilation and cooling for general temperature control
- Illumination
- Heating equipment for general temperature control
- Shipping and loading

Energy Equipment

Equipment used to modify energy purchased from public utilities purchased for the production process is exempt if the equipment is used to modify the utilities for use by exempt equipment. Further, equipment used to create energy that can otherwise be purchased exempt from a public utility for use by exempt equipment is exempt. However, for any equipment that qualifies as essential and integral to the production process and also is used in an alternative nonessential or nonintegral manner, or both, the exemption only applies to the percentage of use of the equipment used in the exempt manner.

Machinery, Tools, and Equipment Directly Used in Direct Extraction and Mining, Processing, or Refining

The guidance above also applies to the processes of fabrication, assembly, extraction, mining, processing, refining, or finishing. The information in this section provides specific guidance on extraction and mining, and processing and refining.

Extraction and Mining

"Extraction" means the removal of natural resources, minerals, and mineral aggregates from the earth, pits, or banks.

"Mining" includes commercial mining (both deep and surface mining), quarrying, gas and oil drilling, and any other commercial extraction of natural resources, minerals, and mineral aggregates from the earth. It also includes the extraction for commercial purposes of coal, clay, crushed and graded stone, gravel, sand, oil, natural gas, gypsum, slate, ore, and all materials and similar natural resources and mineral aggregates.

For purposes of the exemption as it pertains to extraction and mining, "direct use in the extraction and mining process" begins at the point of the first operation or activity constituting part of the integrated production process. Utilization by the purchaser in extraction or mining begins with the first drilling of the shaft or well or the first removal of overburden in surface mining or quarrying. It ends when the item being mined or extracted has been physically removed from the mine, well, or quarry.

Examples of Application of Exemption to Extraction and Mining

#1: Crushed stone is produced in a mining, production, and processing operation that begins with stripping overburden from an area to be mined, continues with the extraction and crushing of the stone, and ends with the stockpiling of the stone, which allows moisture to drain and evaporate from the washed stone, thereby reducing moisture levels to a standard more generally acceptable to stone purchasers. Because of the functional interrelationship of the various steps and the flow of the work in process, the total process comprised by these activities is integrated.

#2: Coal is produced in a surface mining operation that begins with the clearing of surface obstacles and overburden from the land above the coal deposit to be mined, continues with the removal of waste material and with the extraction of the coal, continues further with the transportation from the coal seam to the processing facility, continues further with the refilling and grading of the mined area with overburden and waste material from a subsequently mined area, continues further with the cleaning of the coal, and ends with the stockpiling of the coal to allow moisture to drain and evaporate from the washed coal, thereby reducing moisture levels to a standard more generally acceptable to coal purchasers. Because of the functional interrelationship of the various steps and the flow of the work in process, the total process comprised of such activities is integrated. The following items are exempt:

- Equipment used to modify the energy purchased for the surface mining process if the equipment is used to modify the energy for use by exempt equipment;
- Pumps and hose used to remove water or to divert water from the active pit area;
- However, the following types of equipment are not exempt because of the lack of an essential and integral relationship with the integrated production process:
 - Equipment used to load extracted and processed minerals from storage stockpiles to railroad cars.
 - Earth-moving equipment used to construct a parking lot next to the mining area and to construct a road leading from the parking lot to the main highway.
 - Vehicles used to transport workers to and from the mining area.
 - Pickup trucks used by supervisors in overseeing and directing the mining operations.
 - Transportation equipment used to convey fuel, supplies, and repair parts to coal mining equipment in the mine.

#3: Coal is produced in an underground mining operation that begins with the boring of a shaft from the surface to the coal deposit to be mined, continues with the removal of waste material and the extraction of coal, continues further with transportation from the coal seam to the processing facility, continues further with the installation of roof supports and the coating of walls with rock dust to prevent mine explosion and collapse, continues further with cleaning of coal, and ends with the stockpiling of coal to allow moisture to drain and evaporate from the washed coal, thereby reducing moisture levels to a standard more generally acceptable to coal purchasers. Because of the functional interrelationship of the various steps and the flow of the work in process, the total process comprised of such activities is integrated. The following are exempt:

- Continuous miners used to bore the shaft, cut the coal, and load it into shuttle cars.
- Shuttle cars used to transport the coal from the continuous miner to the feeder breaker at the end of a conveyor belt or other off-highway transportation system.
- The feeder breaker which breaks the large lumps of coal and feeds the coal onto the conveyor belt which carries the coal outside the mine where it is stockpiled or transported to the processing facility.
- Electrical cable supplying electricity to exempt production equipment in the underground mine as part of an electrical distribution system.
- Equipment used to modify the energy purchased for the underground mining process if the equipment is used to modify the energy for use by exempt equipment.
- Pumps and hose used to remove water from the underground mine.
- Blasting and dislodging equipment.

Further, even though the following equipment may not touch the work in process or, by itself, cause a change in the product, the following types of equipment constitute essential and integral parts of the integrated production process and are, therefore, exempt:

- A drag line used to remove overburden and other waste materials from the pit to be mined.
- Earth-moving equipment used to dig a ditch to divert a stream crossing the area to be mined.
- Electrical cable supplying electricity to exempt production equipment in the field as part of an electrical distribution system.
- Dozers used in refilling and covering over a previously mined pit with the overburden removed from the next pit being mined.
- Equipment used in a coal wash plant to clean the coal prior to sale to customers.
- Equipment used to blend different grades of coal together so that the final product meets customer specifications regarding quality and sulfur content.

The following are examples of storage containers for finished goods after the completion of the extraction or mining process, which are subject to tax:

- Receiving tanks for natural gas, crude oil, or brine are taxable.
- Facilities for storing coal after extraction and processing from the mine are taxable.

Transportation equipment used to transport work-in-process or semi-finished materials within the extraction or mining process are exempt from tax:

- Haul trucks, front-end loaders, and conveyors used to transport coal from a crusher to a wash plant are exempt.
- Haul trucks, front-end loaders, and conveyors used to transport coal from a wash plant to a stockpile to allow moisture to drain and evaporate from the washed stone, thereby reducing moisture levels to a standard more generally acceptable to coal purchasers, are exempt.

The following are examples of taxable uses of transportation equipment because they are used in preproduction or postproduction activities: front-end loaders, cranes, and equipment used to load coal onto trucks, railroad cars, or barges for delivery to customers.

Processing or Refining

"Processing or refining" is defined as the performance by a business of an integrated series of operations which places tangible personal property in a form, composition, or character different from that in which it was acquired. The change in form, composition, or character must be a substantial change. Operations such as distilling, brewing, pasteurizing, electroplating, galvanizing, anodizing, impregnating, cooking, heat treating, and slaughtering of animals for meal or meal products are examples of the types of operations which constitute processing or refining, although any operation which has such a result may be processing or refining. Indiana statute specifically also includes the retreading of tires and the felling of trees (for further use in production or for sale in the ordinary course of business) as the processing of tangible personal property.

For purposes of the exemption as it pertains to processing or refining, "direct use" begins at the point of the first operation or activity constituting part of the integrated production process and ends at the point that the processing or refining has altered the item to its completed form, including packaging (if required), and does not include pre-processing or refining, or post-processing or refining, activities. Ultimately, a processed or refined end product must be substantially different from the component materials used.

Example of Processing or Refining

A whiskey distiller produces whiskey in a process that begins with the grinding and fermenting of grain and the distillation of the fermented mash, continues further with the maturation of the distilled alcohol and with the blending of individual whiskeys, and ends with the bottling, labeling, and packaging of the whiskey prior to shipment to customers. Because of the functional interrelationship of the various steps and the flow of the work in process, the total production process comprised of such activities is integrated.

The following types of equipment constitute essential and integral parts of the integrated production process of whiskey and are, therefore, exempt. The fact that such equipment is built in a manner to service various pieces of exempt equipment, as an alternative to building the equipment into each of the pieces of exempt machinery, is not determinative.

- Pumps used to circulate cooling water through exempt condensers in the distillery.
- Chemicals used to treat the water used in the production of whiskey to ensure that the water is pure or to prevent scale buildup in the boilers and pipes.
- Equipment used to pulverize coal prior to being fed into the exempt boiler used to generate steam in the distillation process.
- A bottling and packaging process, which includes equipment such as case and bottle conveyors used during the filling operations, equipment to fill the bottles with product and to place labels on the bottles, and case filling equipment and case palletizers. The exempt production process begins after the bottles are introduced onto the bottle conveyors for the filling step of production and ends with the final packaging of the product onto the case palletizers, which would include the palletizers.

Because of the lack of an essential and integral relationship with the integrated production process, the following types of equipment are not exempt:

- Equipment and furnishings located in the administrative offices of the plant.
- Equipment used for research and development of new products.
- Equipment used periodically to test the purity of the water in onsite deep wells which supply the plant's water requirements.
- Racks on which cases of empty bottles are stored prior to their introduction into the bottling and packaging system.
- The depalletizer used to strip pallets from cases containing empty bottles and unscramblers used to move empty bottles out of cases and onto the production line.

Transportation equipment, including trucks, conveyors, forklifts, and specialized barrel movers used to move whiskey barrels to, within, and from a maturation warehouse as transportation of work in process, is exempt. However, transportation equipment used to move barrels of matured and blended whiskey from a storage warehouse to trucks for shipment to customers is taxable.

Sales of Tangible Personal Property Directly Used in the Direct Production of Machinery, Tools, and Equipment Described Above

Transactions involving tangible personal property are exempt from Indiana sales tax if the person acquiring the property acquires it for the person's direct use in the direct production of the machinery, tools, or equipment described above. This includes material handling equipment purchased for the purpose of transporting materials into any of the activities described above from an onsite location.

This exemption extends only to tangible personal property directly used in the direct production of manufacturing or agricultural machinery, tools, and equipment to be used by the manufacturer or producer. Further, the machinery, tools, and equipment must have an immediate effect upon the article being produced or manufactured, meaning it is an essential and integral part of an integrated process which produces tangible personal property.

The machinery, tools, or equipment must qualify based on all elements described above (i.e., preproduction and postproduction activities; storage; transportation; tangible personal property which has an immediate effect upon the article produced; maintenance and replacement; testing and inspection; and managerial, sales, and other nonoperational activities).

Sales of Tangible Personal Property Directly Consumed in Direct Manufacturing, Processing, Refining, or Mining

Transactions involving tangible personal property are exempt from Indiana sales tax if the person acquiring the property acquires it for direct consumption as a material to be consumed in the direct production of other tangible personal property in the person's business of manufacturing, mining, production, processing, repairing, refining, or extraction. In this context, to "consume" means the dissipation or expenditure by combustion, use, or application, and does not mean or include the:

- obsolescence;
- discarding;
- disuse;
- depreciation;
- damage;

- wear; or
- breakage

of tangible personal property. This exemption includes transactions involving acquisitions of tangible personal property used in commercial printing.

"Direct consumption in the direct production by manufacturing, processing, refining, extraction, or mining" does not include preproduction or postproduction activities, subject to the following conditions:

- Direct consumption in the direct production, manufacturing, processing, or refining process begins at the point of the first operation or activity constituting part of the integrated production process and ends at the point that the production process has altered the item to its completed form, including packaging, if required.
- Direct use in mining or extraction begins with the drilling of the shaft or well or the first removal of overburden in surface mining or quarrying. It ends when the item being mined or extracted has been physically removed from the mine, well, or quarry.

Further, purchases of materials to be directly consumed in the production, manufacturing, processing, refining, extraction, or mining process are only exempt if they have an immediate effect on the article being produced, meaning it is an essential and integral part of an integrated process which produces tangible personal property. Purchases of materials to be consumed during these process are also exempt from tax if the consumption of such materials has an immediate effect upon machinery, tools, or equipment which are both directly used in the direct production or mining process and are exempt from tax for reasons discussed in the sections above.

Non-Exempt Use of Consumable Materials

Purchases of materials consumed in production, manufacturing, processing, refining, extraction, or mining activities beyond the scope of those described above are taxable. Such activities include:

- Postproduction activities
- Storage equipment
- Maintenance, testing, and inspection (except where in direct production or where essential and integral to the process system)
- Management and administration
- Sales
- Research and development
- Exhibition of products
- Safety or fire prevention
- Space heating
- Ventilation and cooling equipment for general temperature control
- Illumination
- Shipping and loading

Utilities Directly Consumed in a Direct Production Process

Utilities may be sold exempt by a public utility or power subsidiary for direct consumption in the direct production of other tangible personal property in the customer's business of manufacturing, mining, production, processing, repairing, recycling, refining, oil extraction, mineral extraction, or irrigation. [Sales Tax Information Bulletin #55](#) further explains the nature of the exemption and how the application process works. The bulletin can be found at the following address: in.gov/dor/resources/tax-library/information-bulletins/.

Material Incorporated into Tangible Personal Property Produced for Resale

Transactions involving tangible personal property are exempt from Indiana sales tax if the person acquiring the property acquires it for incorporation as a material part of other tangible personal property which the purchaser manufactures, assembles, refines, or processes for sale in the person's business. This exemption includes transactions involving acquisitions of tangible personal property used in commercial printing.

"Incorporated as a material or an integral part into tangible personal property for sale by such purchaser" means:

- the material must be physically incorporated into and become a component of the finished product;
- the material must constitute a material or an integral part of the finished product; and
- the tangible personal property must be produced for sale by the purchaser.

The exemption applies only to tangible personal property to be incorporated as a material or an integral part into tangible personal property produced for sale by a purchaser engaged in the business of manufacturing, assembling, refining or processing. This exemption does not apply to persons engaged in producing tangible personal property for their own use.

Environmental Quality Control Equipment

A person who is occupationally engaged in manufacturing, processing, refining, or mining may purchase environmental quality control equipment exempt from the sales or use tax. The equipment must constitute, be incorporated into, or consumed in the operation of, a device, facility, or structure predominantly used and acquired for the purpose of complying with any federal, state, or local environmental quality statutes, regulations, or standards.

Industrial Processors

Transactions involving manufacturing machinery, tools, and equipment are exempt from Indiana sales tax if the person is an industrial processor and acquires that property for the person's direct use in an industrial processing service. This includes material handling equipment purchased for

the purpose of transporting materials into an industrial process from an onsite location. However, the exemption does not apply to transactions involving distribution equipment or transmission equipment acquired by a public utility engaged in generating electricity.

Further, transactions involving tangible personal property are exempt from Indiana sales tax if the industrial processor acquired the property for the industrial processor's direct consumption as a material to be consumed in an industrial processing service.

An industrial processor is not making a retail transaction when the processor:

- acquires tangible personal property owned by another person;
- provides industrial processing or servicing, including enameling or plating, on the property; and
- transfers the property back to the owner to be sold by that owner either in the same form or as a part of other tangible personal property produced by that owner in the owner's business of manufacturing, assembling, constructing, refining, or processing.

For more information on exemptions related to industrial processors, please refer to [Sales Tax Information Bulletin #82](#), available at in.gov/dor/resources/tax-library/information-bulletins.

If you have any questions concerning this bulletin, please contact the Tax Policy Division at taxpolicy@dor.in.gov.



M. Kevin Gulley
Commissioner
Indiana Department of Revenue