



Indiana Department of Revenue

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Sales Tax Information Bulletin #82

Subject: Sales Tax Exemptions Related to Industrial Processing

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References: IC 6-2.5-1-20.1; IC 6-2.5-1-20.2; IC 6-2.5-1-27; 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; IC 6-2.5-5-8; IC 6-2.5-5-9; IC 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 2.2-5-13; 45 IAC 2.2-5-14; 45 IAC 2.2-5-15; 45 IAC 2.2-5-15.5; 45 IAC 2.2-5-16

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Introduction

Indiana law provides various sales and use tax exemptions for persons occupationally engaged in industrial processing. The exemptions include tangible personal property either consumed in the direct processing of or incorporated into other tangible personal property; machinery, tools, and equipment directly used in an industrial processing service; and equipment used to comply with environmental standards.

Definitions

"Industrial processor" means a person that:

- acquires tangible personal property owned by another person;
- provides industrial processing services, 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.

Such services are not considered to be retail transactions.

"Tangible Personal Property" means personal property that can be seen, weighed, measured, felt, or touched, or which is in any other manner perceptible to the senses. The term includes electricity, water, gas, steam, and prewritten computer software.

"Industrial processing service" means an activity performed on behalf of a manufacturer that would rise to the level of manufacturing or production if the activity were performed by the manufacturer as part of the manufacturer's integrated production process.

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

- (1) obsolescence;
- (2) discarding;
- (3) disuse;
- (4) depreciation;
- (5) damage;
- (6) wear; or
- (7) breakage;

of tangible personal property.

NOTE: For information related to exemptions related to manufacturing, production, and refining, please refer to Sales Tax Information Bulletin #64, available at in.gov/dor/resources/tax-library/information-bulletins.

Utilities Consumed in Industrial Processing

Electrical energy, natural or artificial gas, water, steam, or steam heating service sold to an industrial processor for use in industrial processing service is exempt from sales tax if the utility is directly consumed in an industrial processing service. The sales must either be separately metered for the excepted uses, or if using a single meter, the utility service must be predominately consumed by the person engaged in industrial processing for the excepted use. A utility service is considered to be predominately used if more than 50% of the utility service consumed is for an exempt purpose.

For further information on this exemption and the forms needed to be filed, please refer to Sales Tax Information Bulletin #55, available online at in.gov/dor/resources/tax-library/information-bulletins/sales-tax-information-bulletins/.

Other Materials Consumed in Industrial Processing

The purchases of materials and other tangible personal property to be consumed in industrial processing, or to become a part of the product by the process, are exempt from sales and use tax.

Machinery, Tools, and Equipment Used in Industrial Processing

Industrial processors may purchase, rent, or lease manufacturing machinery, tools, and equipment, including material handling equipment purchased for the purpose of transporting materials into an industrial process from an onsite location, exempt from Indiana sales tax if the industrial processor acquires that property for the person's direct use in an industrial processing service.

However, this exemption does not apply to transactions involving distribution equipment or transmission equipment acquired by a public utility engaged in generating electricity. The exemption also does not include machinery, tools, or equipment used to prepare materials for use in industrial processing, such as a conveyor belt or forklift used to move materials from storage to where the materials are introduced into the process. The exemption excludes any machinery, tools, or equipment used to move the finished product to a storage area as well.

Environmental Quality Control Equipment

An industrial processor may purchase environmental quality control equipment exempt from the sales or use tax. The equipment must 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 state, federal, or local environmental quality statutes, regulations, or standards.

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



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