



Indiana Department of Revenue

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Sales Tax Information Bulletin #85

Subject: Sales Tax Exemptions for Taxpayers Engaged in Recycling

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References: IC 6-2.5-5-5.1; IC 6-2.5-5-30; IC 6-2.5-5-45.8; 45 IAC 2.2-1-1; 45 IAC 2.2-5-15.5

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Introduction

Indiana law provides various sales tax exemptions for persons occupationally engaged in the business of recycling. The exemptions include: utility services; recycling materials and other tangible personal property directly used in the direct processing of recycling materials; and equipment to comply with environmental standards.

Definitions

"Recycling" means the processing of recycling materials and other tangible personal property into a product for sale if the product is predominately composed of recycling materials. The term "recycling" does not include the demolition of buildings or other improvements to realty, the processing of property primarily for disposal in a licensed solid waste disposal facility rather than for sale, or the collection and transportation of recycling materials.

"Recycling materials" means metal, paper, glass, plastic, textile, rubber, or other tangible personal property that is considered "scrap" by industry standards or has no more than scrap value, is a byproduct of another person's manufacturing or production process, was previously manufactured or incorporated into a product, would otherwise be reasonably destined for disposal in a licensed solid waste disposal facility, or has been removed or diverted from the solid waste stream for sale as raw materials regardless of whether or not the materials require subsequent processing or separation from each other.

"Occupationally engaged in recycling" means engaged in recycling with the intention of doing so at a profit.

"Processing of recycled materials" means receiving recycling materials and creating a product for sale by changing the original form, use, or composition of the property through weighing, sorting, grading, separating, shredding, crushing, compacting, breaking, cutting, baling, shearing, torching, wire-stripping, or other means.

"Recycling cart" means a manually propelled container with a capacity of not more than 100 gallons of recycling materials.

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.

Utilities Consumed in Recycling

Electrical energy, natural or artificial gas, water, steam, or steam heating service sold to a person for use in recycling is exempt from sales tax if the purchaser is engaged in recycling and the utility is consumed as an integral part of the integrated process in recycling materials. The sales must either be separately metered for the excepted uses, or if using a single meter, the utility service must be predominately used by the person engaged in industrial production 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 the utilities 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 recycling are exempt from sales and use tax.

Materials Used in the Recycling Process

The purchase of recycling materials and other tangible personal property is exempt from the sales tax if the person acquiring that property acquires it for the person's direct use in the processing of recycling materials and the person acquiring that property is occupationally engaged in the business of recycling.

Further, transactions involving a recycling cart are exempt from the state gross retail tax if the person acquiring the recycling cart is occupationally engaged in the business of recycling.

Example #1: A large retailer of household goods and other general merchandise collects cardboard cases and cartons and uses a baler to form scrap cardboard into easily movable cubes. The baler is not exempt from sales tax because the retailer is not occupationally engaged in recycling.

Example #2: A crane or forklift used exclusively to move bales of recycled products away from the production process is not exempt from the sales tax because the equipment is not directly used in the processing of recycling. It does not matter if the person acquiring the forklift or crane was occupationally engaged in the process of recycling or a person not engaged in the process of recycling.

Environmental Quality Control Equipment

A person who is occupationally engaged in recycling 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 predominately used and acquired for the purpose of complying with any federal, state, 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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