

Revenue Information Bulletin No. 15-006
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Sales Taxes

Manufacturing Machinery and Equipment Sales & Use Tax Exclusion
Revisiting “Eligible for Depreciation” and Repairs and Spare Parts

Act 1 of the 2004 First Extraordinary Session of the Louisiana Legislature provided phased-in exclusions from the state sales, use, lease, and rental tax for machinery and equipment used by eligible manufacturers in plant facilities predominantly and directly involved in the actual manufacturing for agricultural purposes or in the actual manufacturing of tangible personal property that is for sale to another. The exclusions are found in the definition of “cost price” for use tax purposes under Louisiana Revised Statute 47:301(3)(i)(i), “sales price” for sales tax purposes under La. R.S. 47:301(13)(k)(i), and “gross proceeds” (from lease or rental), “monthly lease or rental price paid” and “monthly lease or rental price contracted or agreed to be paid” as used in La. R.S. 47:302(B), 321(B), and 331(B) imposing the tax on lease and rental transactions under La. R.S. 47:301(28)(a).¹

The purpose of this Revenue Information Bulletin is to revisit spare parts and repairs and the requirement of “eligible for depreciation”, as it relates to the definition of machinery and equipment. Louisiana Revised Statute 47:301(3)(i)(ii)(aa) provides:

(aa) "Machinery and equipment" means tangible personal property or other property that is eligible for depreciation for federal income tax purposes and that is used as an integral part in the manufacturing of tangible personal property for sale. "Machinery and equipment" shall also mean tangible personal property or other property that is eligible for depreciation for federal income tax purposes and that is used as an integral part of the production, processing, and storing of food and fiber or of timber.

For the machinery and equipment to qualify for the sales and use tax exclusion, it must be “eligible for depreciation.” LAC 61:I.4301C “Cost Price” defines the term *eligible for depreciation* as follows:

the machinery or equipment is a principal component of the manufacturing process and has a substantially useful life beyond the taxable year, although it does not have to be capitalized and depreciated to qualify for exclusion. Examples of property considered eligible for depreciation are robotic welding machines in a vehicle manufacturing plant; pumps, valves, and compressors in a petrochemical plant; and tractors, trailers, and harvesting equipment on a commercial farm. Examples of items that do not qualify include nuts, bolts, gaskets, lubricants, filters, and fuel.

Machinery and equipment do not need to be depreciated on the manufacturer’s federal income tax return to qualify for the sales and use tax exclusion. It only needs to be eligible for depreciation for federal income tax purposes. Machinery and equipment expensed under Internal Revenue Code Section 179 are still eligible for the exclusion.

¹ For general information on the Manufacturing Machinery and Equipment Exclusion, see [Revenue Information Bulletin 04-012](#)

Internal Revenue Code (“IRC”) Section 167(a) provides a depreciation deduction for the reasonable allowance of exhaustion, wear and tear of property used in the trade or business, or property held for the production of income. An asset must meet the following criteria to be eligible for the federal income tax deduction for depreciation:²

1. It must be property owned by the taxpayer
2. The property must be used in the taxpayer’s business or income-producing activity
3. It must have a determinable life
4. It must be expected to last more than one year

Similarly, the *Eligible for Depreciation* requirement contained in La. R.S. 47:301(3)(i)(ii)(aa) also provides that the manufacturing machinery or equipment must be a principal component of the manufacturing process and must have a substantial useful life beyond the taxable year.³

The federal income tax deduction for depreciation is allowed for property subject to exhaustion, wear and tear over time due to use. Therefore, consumables⁴ which are not subject to exhaustion, wear and tear over time do not qualify for the manufacturing machinery and equipment sales and use tax exclusion. Items such as nuts, bolts, gaskets, lubricants, filters, and fuels are not eligible for the sales and use tax exclusion.⁵ Louisiana Revised Statute 47:301(3)(i)(i) itself requires that the machinery or equipment be an integral part of the production, processing, and storing of food and fiber or of timber. An item of tangible personal property not subject to exhaustion, wear and tear is not a piece of machinery or equipment directly used in the manufacturing process.

Examples of items eligible for the exclusion are robotic welding machines in a vehicle manufacturing plant; pumps, valves, and compressors in a petrochemical plant; and tractors, trailers, and harvesting equipment on a commercial farm.⁶ Eligible items are as follows:⁷

- (a). computers and software that control, communicate with or control other computer systems that control, or control heating or cooling systems for machinery or equipment that manufactures tangible personal property for sale. Computers and software used for inventory and accounting systems or that control non-qualifying machinery and equipment do not qualify for the exclusion;
- (b). machinery and equipment necessary to control pollution at a plant facility where pollution is produced by the manufacturing operation. For purposes of this exclusion, machinery and equipment necessary to control pollution includes equipment that reduces the volume, toxicity, or potential hazards of the waste products generated by the manufacturing operation or transforms the waste product for reuse in the manufacturing operation; and

² Internal Revenue Service Publication 946(2013)

³ LAC 61:I.4301 “Cost price” (h)(iv)

⁴ This should not be confused with the sales tax exclusion for consumables provided in La. R.S. 47:301(3)(k)(i) for a manufacturer, whose principal activity is manufacturing and who is assigned an industry group designation by the United States Census of 3211 through 3222 or 113310 pursuant to the North American Industry Classification System of 2007.

⁵ LAC 61:I.4301 “Cost price” (h)(iv)

⁶ LAC 61:I.4301 “Cost price” (h)(v)

⁷ LA. R.S. 47:301(3)(i)(ii)(I)(aaa-ccc); Not listed in the regulation but in the statute in La. R.S. 47:301(i)(ii)(I)(ddd-eee) are exclusions for machinery and equipment used for electric power cogeneration and to produce news publications, respectively.

(c). machinery and equipment used to test or measure raw materials, the property undergoing manufacturing, or the finished product, when such test or measurement is a necessary part of the manufacturing process. This includes machinery and equipment used to test the quality or quantity of the product for sale before, during, or after the manufacturing process.

Spare Parts and Repairs

Some manufacturers may stockpile machinery and equipment, because the item is not readily available from a dealer, or a manufacturer may be compelled by law to maintain a stockpile of certain types of machinery and equipment to avoid a breakdown in the manufacturing process. Spare pieces of machinery or equipment are eligible for the sales and use tax exclusion, if the machinery and equipment meet the definition of machinery contained in La. R.S. 47:301(3)(i)(ii)(aa). This means that the machinery and equipment must be eligible for depreciation for federal income tax purposes, and that it must be an integral part of the manufacturing process. Examples of qualifying spare parts are compressors, pumps and valves.⁸ Items which do not qualify for this exclusion are bolts, nuts, gaskets, oil and other items not eligible for depreciation for federal income tax purposes.⁹

Manufacturers, who purchase an eligible piece of machinery or equipment and pay the taxes due, may obtain a refund, if the sales and use taxes paid meet the criteria for an overpayment pursuant to La. R.S. 47:1621(A). Taxpayers should utilize [Claim for Refund for Overpayment Form R-20127](#).

Repairs of machinery and equipment to keep the property in ordinary efficient working order do not typically qualify for the manufacturing machinery and equipment sales and use exclusion, because the labor and materials do not qualify for depreciation for federal income tax purposes. However, property purchased for the repair would qualify for the sales and use exclusion, if it is a major component of the manufacturing process and has a substantially useful life beyond the current period.¹⁰ Generally, an item with a substantially useful life beyond the current period means that it is eligible for depreciation for federal income tax purposes.

Questions concerning this matter can be directed to the Policy Information Center at 1-855-307-3893 Option 4 or via email at Policy@la.gov.

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Secretary

⁸ LAC 61:I 4301(C) "Cost price" (viii)(c)

⁹ LAC 61:I 4301(C) "Cost price" (viii)(c)

¹⁰ LAC 61:I 4301(C) "Cost price" (vii)