

Taxability of Palletizer Systems

This memorandum sets forth the policy of the Department of Taxation and Finance with respect to the imposition of the sales and compensating use tax on palletizer systems used in production of a product for sale within New York State.

A palletizer system consists of:

1. Conveyor systems - machinery which feeds the cased products into the palletizer (or pallet loader).
2. Palletizer (pallet loader) - machinery which automatically arranges cases into layers and stacks them on pallets.

Section 1115(a)(12) of the tax law provides exemption from the sales and use tax for machinery and equipment for use or consumption directly and predominantly in the production of tangible personal property for sale by manufacturing or processing. When a manufacturer's or processor's products are labeled, packaged, and palletized prior to either immediate shipment, or storage pending shipment, the palletizing system would qualify as production equipment used directly and predominantly in the production phase. A palletizer used in this manner would be exempt from both the statewide sales and use tax and all local sales and use taxes imposed outside the City of New York.

Use of the palletizer system to prepare mixed pallets (pallets containing cases of more than one product) will not affect the tax exempt status of the machinery, as long as the pallet load remains the unit of sale. An interruption in the production cycle, of work in process prior to final packaging of the goods, does not affect the exempt status of the palletizer system or other production machinery or equipment. If completed, cased products (labeled and sealed) are stored awaiting customers orders and then palletized to fill the orders, palletizers so used will be considered part of the distribution operation and not eligible for exemption under section 1115(a)(12) of the tax law.

Example 1: A manufacturer or processor who supplies private label products to retailers, processes the product through the point where it is placed in unlabeled cans, jars, etc. The product is temporarily removed from the production, pending a customer's order. When the order is received, the product is placed back into production where the appropriate brand labels are applied to the containers. The product proceeds through the casing operation directly to the pallet loader where it is palletized for sale. The palletizer qualifies for exemption under section 1115(a)(12) of the tax law.

Example 2: A manufacturer or processor completes the labeling of a product and packages it into cartons. The cartons are then stored pending shipment. Subsequent to storage, the cartons are palletized for distribution. The palletizer is not eligible for exemption.

Palletizers which are not part of the production line, but are used to store or distribute a product are not exempt from sales or use tax. Examples are a palletizer used in the warehouse area by a manufacturer or one used by a wholesaler for the shipment of goods.