



Machinery, Equipment, Materials, and Services used in Production

Introduction

This bulletin explains how sales tax applies when manufacturers located in New York State purchase:

- machinery and equipment;
- raw materials;
- parts, tools, and supplies;
- services from subcontractors; and
- services to machinery and equipment.

Definitions

The term *production* covers a variety of activities, including manufacturing, processing, generating, assembling, refining, mining, and extracting.

Manufacturing generally results in the creation of a product that is substantially different from its component parts in form, character, composition, and usefulness.

Example: A steel manufacturer combines iron with carbon to make commercial steel. This is a manufacturing operation.

Processing generally results in a change in the nature, shape, or form of materials.

Example: To make decorative landscaping stone, chunks of rock are passed through a series of crushers which reduce the chunks into smaller sizes. This is a processing operation.

Generating is the creation of a product (such as electricity, steam, or refrigeration) by means of a natural or chemical process.

Example: Hydroelectric power is produced by causing water to fall or flow over turbine blades. The production of hydroelectric power is a generating operation.

Assembling is a manufacturing operation, or a process associated with a manufacturing operation, that produces goods by fitting together various parts to make a complete product.

Example: A manufacturer of cars has a production line where various components (engines, frames, doors, windows, etc.) are put together in the process of making a finished car. This is an assembly operation.

Refining is the operation by which impurities or unwanted elements are removed from a product.

Example: Production of gasoline, motor fuels, and fuel oils from crude oil is a refining operation.

Mining is the operation by which minerals are removed from the earth through either surface or underground excavations.

Example: Producing granite slabs from a quarry is a mining operation.

Extracting is a manufacturing operation, or a process associated with a manufacturing operation, in which oil, gas, or mineral deposits are removed from their natural underground reservoirs.

Example: Drilling a well to remove natural gas from the ground is an extracting operation.

A manufacturing process can generally be broken down into three phases:

- The *administration phase*, which includes sales, promotion, accounting, purchasing, general facility maintenance, clerical work, and the receiving and testing of raw materials.
- The *production phase*, which includes the actual production process, starting with the handling and storage of raw materials at the plant site, continuing through the production and quality control testing of products, and ending with the last step of production where the resulting products are packaged and ready for sale.
- The *distribution phase*, which includes everything that takes place after the products are packaged and ready for sale, including storing, loading, shipping, displaying, and selling finished products.

Machinery and equipment

Machinery and equipment used *directly* and *predominantly* in the production of tangible personal property for sale can be purchased exempt from sales tax using [Form ST-121, Exempt Use Certificate](#). Machinery and equipment used in the *administration* or *distribution* phases does not qualify for the exemption.

Directly means that during the production phase the machinery or equipment must:

- act upon or effect a change in material to form the product to be sold;
- have an active and necessary role in the production of the product for sale;
- be used in handling, storage, or conveyance of materials or the product to be sold;
- or
- be used to package the product for sale.

Example: A manufacturer has two forklifts. One forklift is used to unload the raw materials to be weighed and inspected before being placed in storage. The forklift does not qualify for the exemption because weighing and inspecting of raw materials is an administrative function.

The second forklift is used to move materials throughout the production line. This forklift qualifies for the exemption.

Predominantly means that the machinery or equipment is used more than 50% of the time in a production activity. This is generally determined by hours of operation.

Example: A manufacturer of custom motorcycles purchases a welding machine for use in building motorcycle frames. Occasionally, the welding machine is used to repair other equipment within the shop. If the welding machine is used more than 50% of the time to build motorcycle frames for sale, it is considered to be used predominantly in production and can be purchased exempt from sales tax.

Computer equipment used directly in production also qualifies for the sales tax exemption. To qualify, the computers must:

- be directly linked to production equipment, and
- have an active and necessary role in the actual production process.

Computer equipment used in collateral or administrative functions (such as computer equipment linked to production equipment that merely functions to collect data for administrative use) does not qualify for the exemption.

Raw materials

A manufacturer may purchase raw materials that will become part of the finished product without paying sales tax by issuing [Form ST-120, Resale Certificate](#), to its supplier.

Example: A manufacturer of fragrances purchases oils, dyes, and chemical compounds used in the production of perfume for sale. The manufacturer may purchase these items without paying sales tax by issuing [Form ST-120, Resale Certificate](#), to the supplier.

Example: A furniture manufacturer purchases pine boards to make dining room tables. The furniture manufacturer may purchase the pine boards for resale without paying sales tax.

Parts, tools, and supplies

Parts, tools, and supplies can also be purchased exempt from sales tax if they are used directly and predominantly in production.

Parts are components of machinery or equipment that are actually attached to the machinery or equipment. A part cannot accomplish the work for which it was designed independent of the machine of which it is intended to be a component. Examples of parts are:

- saw blades,
- motors,
- gears, and
- bits.

Tools are manually operated implements for performing a task. Common examples of tools are:

- wrenches,
- sheet metal shears,
- utility knives,
- hammers,
- vises, and
- drills.

Supplies are items used in the maintenance of exempt machinery or equipment and items used or consumed in production. Examples include:

- oil, grease, and coolant to keep engines running properly;
- sandpaper;
- paper patterns; and
- welding rods, acetylene, and propane gas used with welding equipment.

Subcontractors

Work performed by a subcontractor that becomes part of the finished product is considered exempt production work.

Example: A custom motorcycle manufacturer sends parts to a paint shop to be painted prior to being installed on the motorcycle. The work performed at the paint shop is part of the production process.

Example: A door manufacturer has custom stained glass produced by a subcontractor that will be inlaid in the doors for sale. The process of creating the stained glass that will become a component part of the door is part of the production process.

Installing, repairing, maintaining, or servicing exempt machinery and equipment

Charges to a manufacturer for installing, maintaining, servicing, or repairing exempt production machinery and equipment are also exempt from sales tax.

Installing means setting up or putting something in place for use. For example, the installation of plumbing or electrical fixtures needed for the operation of production equipment is exempt from sales tax.

Maintaining, servicing, and repairing are terms used to cover all activities that relate to keeping things in a condition of fitness, efficiency, readiness, or safety, or restoring them to such condition.

Form ST-121, Exempt Use Certificate

Manufacturers purchasing qualifying machinery, equipment, parts, tools, supplies, or services should use [Form ST-121, Exempt Use Certificate](#), to make these purchases exempt from sales tax.

Note: A Tax Bulletin is an informational document designed to provide general guidance in simplified language on a topic of interest to taxpayers. It is accurate as of the date issued. However, taxpayers should be aware that subsequent changes in the Tax Law or its interpretation may affect the accuracy of a Tax Bulletin. The information provided in this document does not cover every situation and is not intended to replace the law or change its meaning.

References and other useful information

Tax Law: Sections 1105-B and 1115(a)(12)

Regulations: Section 528.13

Bulletins: [How to Register for New York State Sales Tax \(TB-ST-360\)](#)