

## Manufacturing Machinery and Equipment Exemption

**Beginning January 1, 2006**, the purchase, lease, or rental of manufacturing machinery and equipment by a person engaged in the business of manufacturing is exempt from sales and use tax. **Beginning January 1, 2006**, installation, repair, or maintenance services performed on manufacturing machinery and equipment are also exempt from tax.

**Manufacturing** means an action or series of actions performed upon tangible personal property, either by hand or machine, which results in the property being reduced or transformed into a different state, quality, form, property, or thing.

**Machinery and equipment** means any machinery or equipment purchased, leased, or rented by a person engaged in the business of manufacturing for use in manufacturing, including computers, software, and related peripheral equipment used to guide, control, operate, or measure the manufacturing process.

~~If a machine has other uses in addition to its manufacturing use, the manufacturing use must be greater than 50% of total use to qualify for the exemption.~~ Machinery and equipment used to produce chemical catalysts and solutions, steam, or electricity essential to the manufacturing process also qualify for the exemption. However, purchases of chemical catalysts and solutions themselves which are used in the manufacturing process remain subject to tax.

Qualifying machinery and equipment must be used by the manufacturer to:

- ❖ Produce, fabricate, assemble, process, finish, refine, or package tangible personal property;
- ❖ Transport, convey, handle, or store the manufactured goods, or the raw materials or components used in manufacturing such goods;
- ❖ Mold or shape the physical characteristics of the finished products or their packaging materials;
- ❖ Maintain the integrity of the products or maintain the unique environmental conditions required for either the products or the machinery and equipment itself; or
- ❖ Test or measure the product, the manufacturing process, or the quality of the finished products.



**Manufacturing does not include:** retail operations; the generation or transmission of electricity; the production or transmission of information, programming, or data; the preparation of food for immediate consumption; or the purification or transportation of water.

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*This guidance document may change with updated information or added examples. The Department recommends you do not print this document. Instead, sign up for the subscription service at [revenue.nebraska.gov](http://revenue.nebraska.gov) to get updates on your topics of interest.*

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**Machinery and equipment** that **does not** qualify for the exemption includes, but is not limited to:

- ❖ Vehicles required to be registered for operation on the roads of Nebraska;
- ❖ Repair shop equipment;
- ❖ Tools powered by hand;
- ❖ Security equipment or safety apparel;
- ❖ Office equipment, including computers, software, and related equipment used for purposes other than manufacturing, e.g., by administrative departments; or
- ❖ Cleaning equipment.

**Contractors operating under Option 2 or Option 3** are consumers of all manufacturing machinery, equipment, and any repair or replacement parts installed for a customer. Therefore, the contractor must pay tax on purchases of such machinery, equipment, and repair or replacement parts, regardless of the fact the equipment will be used by a manufacturer. **Contractors operating under Option 1** may purchase qualifying machinery and equipment tax free (for resale) and sell such items tax free when the purchaser furnishes an exemption certificate as explained below.

**Claiming the exemption.** In order to purchase qualifying manufacturing machinery and equipment or installation, repair, or maintenance services exempt from tax, the manufacturer must furnish the seller with a properly completed Nebraska Resale or Exempt Sale Certificate, Form 13, with Section B completed. Purchasers may also use the Streamlined Certificate of Exemption.

**Date of sale.** The exemption applies to purchases made on and after January 1, 2006. Purchasers should use the date of the invoice in determining the date of the sale. For machinery and equipment that is fabricated or assembled in stages, the exemption applies to progress billings dated on and after January 1, 2006.

**Warranties, guarantees, and maintenance agreements.** Sales of warranties, guarantees, and maintenance agreements covering qualifying manufacturing machinery and equipment are exempt from tax. Option 2 and Option 3 contractors who repair manufacturing machinery and equipment that is covered under a warranty, guarantee, or maintenance agreement are required to pay tax on the repair parts used in the performance of such agreements even though the sale of the agreement itself is exempt from tax. Option 1 contractors can purchase the repair parts tax free (for resale).

**Further information.** Additional information on this exemption is available on the Department's website: [revenue.nebraska.gov](http://revenue.nebraska.gov); or call 800-742-7474 (NE and IA), or 402-471-5729.