

## REG-1-023, Component Parts - Manufacturing, Processing, and Fabrication

023.01 Property that becomes an ingredient or component part of a product manufactured, processed, assembled, or fabricated for sale by the purchaser is exempt. Property that is necessary for production but which does not become an ingredient or component part of the product sold is taxable.

023.02 To qualify as exempt the property must meet all of the following conditions:

023.02A The property must physically or chemically enter into and remain a part of the finished product;

023.02B The property must be an essential ingredient or component of the finished product; and

023.02C The finished product must be a product that was manufactured, processed, or fabricated for sale by the purchaser of the ingredient or component part.

023.03 A resale certificate should be used to purchase property that qualifies for exemption as an ingredient or component part.

023.04 Fabrication labor performed directly on the product being produced for sale can be purchased for resale.

023.05 Not all sales of property or products to manufacturers, processors, or fabricators are exempt. The property or products which are consumed by them in manufacturing or processing, but which do not become an ingredient or component part of the article, substance, or commodity manufactured, processed, or fabricated, are taxable. The manufacturer, processor, or fabricator is the final buyer or ultimate consumer of such property or product, and the sale to the manufacturer, processor, or fabricator is a taxable sale. Similarly, the purchase of equipment and supplies is taxable. They do not enter into the processing of, and do not form a part of the product sold.

023.06 Since most services are not durable, they cannot generally be a component of another service. The services which are necessary for the production of another service are normally consumed by the purchaser of the service, do not become a component of the service sold, and are taxable. However, a service that becomes a component of a service offered for sale by the purchaser is exempt.

023.07 To qualify as exempt as a component of another service, the service must meet all of the following conditions:

023.07A The service purchased must directly enter into and remain a part of the finished service delivered to the customer;

023.07B The service must be substantially the same as, and an essential component of, the finished service; and

023.07C The finished service must be a service that was performed for sale by the purchaser of the component service.

023.08 A resale certificate should be used to purchase a service that qualifies for exemption as a component part.

023.09 Property or products sold to service providers are consumed by them in providing the service, and do not become a component of the service. The service provider is the final buyer or ultimate consumer of such property or product, and the sale to the service provider is a taxable sale. Similarly, the purchase of equipment and supplies used in performing the service is taxable.

*(Sections 77-2702.13, 77-2702.16, 77-2702.19, and 77-2702.23, R.R.S. 2003. October 1, 2003.)*