
MANUFACTURING

“Manufacturing.” means the operation or performance of an integrated series of operations which places a product, article, substance, commodity, or other tangible personal property in a form, composition or character different from that in which it was acquired whether for sales of for use by a manufacturer. The change in form, composition or character must result in a different product having a distinctive name, character or use from the raw material or prepared materials.

It is important to determine if a business is actually manufacturing, as stated above, and not just a packager or an assembler of a product. An operation which restores a used or worn item of tangible personal property to its essentially original form and use is not considered manufacturing.

Arvada provides an exemption for businesses that manufacture or compound for wholesale sales. **“Wholesale sales”** means a sale by wholesalers to retailers, jobbers, dealers, or other wholesalers for resale and does not include a sale by Wholesalers to users or consumers not for resale; latter types of sales shall be deemed to be retail sales and shall be subject to the provisions of this chapter. Some examples of businesses that may qualify as a manufacturer because they are producing a new product are restaurants, printers, or photo processing. However, these types of businesses do not qualify for the exemption on manufacturing machinery and specific processing equipment, because they are not manufacturing for wholesale sale.

Test for Wholesale Sales:

A test should be made to determine if a manufacturer qualifies for the manufacturing machinery exemption. The manufacturer must have the majority (equal to or greater than 50 percent) of their total sales in wholesale sales. This can be determined by dividing the total amount of wholesale sales into total sales. If the percentage of wholesale sales drops below 50 percent then machinery purchased would not qualify for the exemption. This test can be done on an annual basis if need be. Wholesale sales should be properly documented with resale numbers.

If the business qualifies as a manufacturer for wholesale sales then additional tests need to be met concerning the equipment used in the manufacturing process. First of all, the machinery needs to be “exclusively” and “directly” used in manufacturing tangible personal property.

Test for Use of Manufacturing Machinery:

The machinery must be “exclusively” used in the manufacturing of tangible personal property. If the property is used for any purpose outside the beginning and ending points of manufacturing or if the equipment has other uses other than manufacturing, then it would not qualify for the exemption.

To be used “directly” in manufacturing, the equipment must act upon and have a positive effect on the manufactured article. Direct use in manufacturing is deemed to begin at the point at which raw material reaches the first machine involved in changing form of material and end at point at which manufacturing has altered material to its completed form, including packaging, if required. Machinery used during the manufacturing process to move materials from one direct production step to another in a continuous flow and machinery used in testing during the manufacturing process is deemed to be directly used in manufacturing.

The following are examples of direct uses in manufacturing:

1. Machinery, which cleans or prepares raw materials for production on the manufacturing line, after manufacturing has begun and before it has stopped.
2. Machinery that performs testing of a particular product tested during the manufacturing process, or testing as a step in a continuous manufacturing line process.
3. Loader, fork lift or conveyor belt machinery integral to the manufacturing line process, moving material from inventory on the contiguous plant site, through the manufacturing line steps, and such machines moving materials through the final alteration or packaging.

The following are not direct uses in manufacturing, and are not exempt:

1. Machinery used in the repair and maintenance of manufacturing machinery or other items used to clean machinery.
2. Machinery used in managerial, sales research and development, or other non-operational activities.

If the manufacturing machinery meets the qualifications of “exclusively” and “directly” used in manufacturing then the repair parts and replacement parts for the machinery are also exempt if the purchase order and/or invoice is more than \$500.00 and the item is capitalized.

Test for Inclusion as Manufacturing Machinery:

Is each individual component of a system a constituent part of machinery that acts upon and has a positive effect on the product?

“**Machinery**” means any apparatus consisting of interrelated parts used to produce an article of tangible personal property. The term includes both the basic unit and any adjunct or attachment necessary for the basic unit to accomplish its intended function. Such items must serve only qualifying manufacturing machines to be considered an interrelated part, adjunct, or attachment of qualifying manufacturing machinery.

The definition of machinery requires it to be used to produce tangible personal property not simply contain the product. The use must be “exclusively and directly” in manufacturing. Bins, racks, fixtures, tanks, pipes and valves usually do not act to produce a product, but simply contain and protect from loss.

Machinery does not include dies, molds, jigs, masks, fluids, drill bits, abrasives products, or tooling that are consumed or used up.

Note: Not all manufacturing machinery that is exempt by the Colorado Department of Revenue is exempt by Arvada. The State's exemption is for machinery and machine tooling that is used “predominantly” and “directly” in manufacturing. Predominantly is defined as “must be used greater than 50%” in manufacturing. (This exemption does not apply to the RTD/CD tax.) The State’s requirement of predominantly differs from Arvada’s requirement of exclusively. In addition, the State does not require a manufacturer to manufacture for wholesale sales and for business located outside of the state enterprise zones; the purchase must be capitalized to qualify for the exemptions.

Sales Tax on Manufactured Articles:

The sales of tangible personal property to a person engaged in the manufacturing or compounding of a product or service, where such tangible personal property becomes a physical part of such product or service, is a wholesale sale and exempt from sale tax. In addition, any container, label, or shipping case used to encase or enclose such product may be purchased tax free by the manufacturer or compounder.

Electrical energy, natural or manufactured gas sold to manufacturers is subject Arvada sales tax. The Colorado

Department of Revenue exempts “industrial uses” of electricity, coal, gas, fuel, oil, coke, or nuclear fuel in a continuing business activity of manufacturing or producing tangible personal property.

Manufacturing Aids:

Parts or ingredients which are used in manufacturing but do not become by the manufacturing processes, a necessary and recognized ingredient, component and constituent part of the finished product are considered manufacturing aids and are therefore taxable.

Example of parts or materials which are manufacturing aids and are therefore taxable:

1. **Flux** used as a cleaning agent or as a means of reducing oxidation is not a component part of the final product.
2. **Rubber chemicals** used as a lubricant to facilitate mold release of rubber products, such as tire, many remain as a film but is not a component part of the finished product.
3. **Cleaners** purchased for use in preparing metal parts surfaces prior too rust proofing, is not a component part of the final product.
4. **Photo resist** materials which may be essential to manufacture integrated circuit chips is not a component part of the final product.
5. **Masks** are glass plates used in manufacturing integrated circuit chips, which are necessary and essential for the transfer of a desired pattern into a silicon wafer. Masks are not a component part of the final product.
6. **Phosphoric and sulfuric acid** used in the process known as anodizing aluminum are primarily use as electrodes, acting as a catalyst. These acids are not a component part of the final product.
7. When paint thinner, abrasives, cleaning compounds, masking tapes and similar items are used by a person painting tangible personal property, that person is the user of such items and must pay tax

EXAMPLES

1. ZYX Company manufactures magnets, which contains advertisement. These magnets are sold to distributors who then sell to consumers; therefore, ZYX Company qualifies as a manufacturer for wholesale sales. The machinery that is exclusively and directly used in the manufacturing process of these magnets will qualify as an exemption to sales or use tax. This machinery must act upon and have a positive effect on the product. The silk screens machines, magnet cutter/cutting unit, rollers and packaging equipment are used in the direct process of manufacturing. Other equipment such as storage shelves, office equipment, computers hardware and software, printers, scanner and water purification equipment will not qualify. All of the electricity and gas used in the business is subject to tax.

2. ABC Company manufactures trashcans that are sold at retail to consumers and waste management companies. ABC Company does not qualify as a business that manufactures for wholesale sales, therefore, does not qualify for a manufacturing machinery exemption. ABC Company uses oxygen in the welding the trashcans. The gas that is used is subject to sales or use tax along with any welding gloves, masks or other welding supplies purchase by the business. The trashcans get painted before they are packaged; therefore the paint is purchased tax free, because it becomes a physical part of the finished product. However, the sand paper, paint thinner, metal cleaners, air filters, and rags that are consumed in the painting process are subject to sales or use tax.

ARVADA MUNICIPAL CODE – Chapter 98 – Taxation

Sec. 98-61. Definitions.

Exempt Materials – if requirements are met

Commercial packaging materials means containers, labels, and/or cases, that become part of the finished product to the purchaser, used by or sold to a person engaged in manufacturing, compounding, wholesaling, jobbing, retailing, packaging, distributing or bottling for sale, profit or use, and is not returnable to said person for reuse. Commercial packaging materials does not include commercial shipping materials.

Commercial shipping materials means materials that do not become part of the finished product to the purchaser which are used exclusively in the shipping process. Commercial shipping materials include but are not limited to containers, labels, pallets, banding material and fasteners, shipping cases, shrink wrap, bubble wrap or other forms of binding, padding or protection.

Machinery means any apparatus consisting of interrelated parts used to produce an article of tangible personal property. The term includes both the basic unit and any adjunct or attachment necessary for the basic unit to accomplish its intended function.

Manufacturing means the operation or performance of an integrated series of operations which places a product, article, substance, commodity, or other tangible personal property in a form, composition or character different from that in which it was acquired whether for sale or for use by a manufacturer. The change in form, composition or character must result in a different product having a distinctive name, character or use from the raw or prepared materials.

Wholesale sales means a sale by wholesalers to retailers, jobbers, dealers, or other wholesalers for resale and does not include a sale by Wholesalers to users or consumers not for resale; latter types of sales shall be deemed to be retail sales and shall be subject to the provisions of this chapter.

Sec. 98-70. Exempt sales.

(9) Additional provisions of exemption from the tax under this article:

g. Tangible personal property purchased or leased from a resident vendor by a person engaged within the city in the business of manufacturing for wholesale sale or compounding for wholesale sale, when such tangible personal property is:

1. An article, substance or commodity which becomes an ingredient or component part of the product manufactured, which product is itself tangible personal property, and the container, label and shipping case thereof.

2. Machinery and specific processing equipment and repair parts and replacements thereof, exclusively and directly used in manufacturing tangible personal property. The purchases must be capitalized to qualify for the exemption and each purchase order or invoice must be more than \$500.00. There is no limit on the amount that can be exempt as long as the \$500.00 minimum on each purchase is met.

(10) City Manager shall be authorized, in his or her discretion, to enter into agreements with persons engaged within the city in business of manufacturing to effectuate the exemptions set forth in subsection (9)(g) above, whenever such an agreement will promote the best interest of the city. The City Manager shall timely report any such agreement to City Council verbally or in writing.

Sec. 98-78. Exemptions.

(6) Tangible personal property purchased or leased from a nonresident vendor by a person engaged within the city in the business of manufacturing for wholesale sale or compounding for wholesale sale, when such tangible personal property is:

a. An article, substance or commodity which becomes an ingredient or component part of the product manufactured, which product is itself tangible personal property, and the container, label and shipping case thereof.

b. Machinery and specific processing equipment and repair parts and replacements thereof, exclusively and directly used in manufacturing tangible personal property. The purchases must be capitalized to qualify for the exemption and each purchase order or invoice must be more than \$500.00. There is no limit on the amount that can be exempt as long as the \$500.00 minimum on each purchase is met.

(10) City Manager shall be authorized, in his or her discretion, to enter into agreements with persons engaged within the city in business of manufacturing to effectuate the exemptions set forth in subsection (9)(g) above, whenever such an agreement will promote the best interest of the city. The City Manager shall timely report any such agreement to City Council verbally or in writing.

RELATED TOPICS

CONTAINERS, LABELS AND CASES
EXEMPT PURCHASES CONVERTED TO TAXABLE USE
RESEARCH AND DEVELOPMENT

THE ABOVE INFORMATION IS A SUMMARY IN LAYMAN'S TERMS OF THE RELEVANT ARVADA TAX LAW FOR THIS SUBJECT, INDUSTRY OR BUSINESS SEGMENT. IT IS NOT INTENDED FOR LEGAL PURPOSES TO BE SUBSTITUTED FOR THE FULL TEXT OF THE ARVADA MUNICIPAL CODE. HOWEVER, THE TAX GUIDE SHALL BE USED IN CONJUNCTION WITH THE ARVADA MUNICIPAL CODE (CHAPTER 98) IN DETERMINING TAX LIABILITY.



Revenue Office
 8101 Ralston Road
 Arvada, CO 80002
 (720) 898-7100 - Phone
 (720) 898-7110 - Fax

Sales Tax Exemption Purchase of Machinery Equipment

Seller:		Arvada Account Number:	
Address:			
City:	State:	ZIP:	
Purchaser:		Arvada Account Number:	
Address:			
City:	State:	ZIP:	
Date of Purchase:	Amount of Purchase:	Equipment is: <input type="checkbox"/> Leased <input type="checkbox"/> Purchased	

Description of item(s) being purchased:
How Used in Manufacturing:
End Product being Manufactured:
How is Product Sold:
<input type="checkbox"/> Wholesale = %
<input type="checkbox"/> Retail = %
<p>I hereby certify that _____ is entitled to the exemption of purchases of Manufacturing Machinery.</p> <p>By (Authorized Signature of Purchasing Firm) Title</p> <p>_____</p>

Instructions

General Information

The City of Arvada is a Home Rule City, which has a Manufacturing Machinery Exemption separate from the Colorado Department of Revenue. Purchase of machinery and specific processing equipment that is exclusively and directly used in manufacturing of tangible personal property is exempt if the manufacturer meets the following criteria:

For the business to qualify:

The manufacturing business must have the majority (equal to or greater than 50 percent) of their total sales in wholesale sales.

For the machinery to qualify:

Be used in Arvada, Colorado.

Be used exclusively and directly used in the manufacturing of tangible personal property for sale.

Be included on a purchase order or invoice totaling more than \$500.00.

Be capitalized.

Claiming the Exemption:

The purchaser must complete the ***City of Arvada Sales Tax Exemption – Purchase of Machinery Equipment***. Give one copy of the completed form to the seller of the machinery and a second copy to the City of Arvada. The purchaser must also keep a copy. Any questions regarding this form should be directed to the Audit Staff in the Revenue Office at the City of Arvada – (720) 898-7100.