

## **GJ FYI- For your Information**

### **Sales Tax**

#### **Manufacturing Equipment**

The City of Grand Junction exempts from sales and use tax the sales, storage, and use of manufacturing equipment. *Sec. 3.12.070 (pp) & Sec. 3.12.080 (f)*

*Manufacturing* means the operation of producing a new product, article, substance or commodity different from and having a distinctive name, character or use from raw or prepared materials.

*Manufacturing equipment* means machinery or machine tools used directly and exclusively in manufacturing by a person engaged in manufacturing, compounding for sale, profit or use, any article, substance or commodity.

In order to qualify for this exemption, a purchase must also qualify for the investment tax credit provided by section 38 of the Internal Revenue Code of 1954, as amended. Generally this requires that the equipment have a useful life of three years or longer. The purchase order or invoice, excluding blanket or open purchase orders, must be in excess of five hundred dollars (\$500.00).

*Leases* of equipment used in manufacturing are exempt under the following conditions:

- 1) The lease must be for more than three years;
- 2) The lessee must qualify for the investment tax credit;
- 3) The minimum lease payments must be for more than \$1,000.00 during the three year period; and
- 4) The equipment must be used within the city limits of Grand Junction directly and exclusively in manufacturing.

The equipment must be used exclusively in manufacturing of tangible personal property within the city limits of Grand Junction. If the equipment is purchased for any purpose outside the beginning and ending points of manufacturing, it is not exempt from use tax.

*Direct use* in manufacturing is deemed to begin at the point at which raw material reaches the first machine involved in changing the form of the material and is deemed to end at the point at which manufacturing has altered material to its completed form, including packaging, if applicable.

**Page 1 of 2**

*The City of Grand Junction is a Home Rule City. This information is obtained from the City's Sales and Use Tax laws and regulations. To view the City's Sales and Use Tax Ordinance and other sales and use tax guides and forms, please visit "Sales, Use, and Lodging Taxes" at : [www.gjcity.org](http://www.gjcity.org)*

*GJ FYIs are intended to provide general information concerning tax topics. Although the GJ FYIs represent a good faith effort to provide accurate and complete tax information, the information is not binding on the City of Grand Junction, nor does it replace, alter, or supersede The City of Grand Junction Ordinances or Resolutions.*

*GJ FYI- 2013-01  
(08/2013)*

## **GJ FYI Manufacturing Equipment Continued**

Equipment used to move personality from one direct production step to another in a continuous flow is deemed part of direct use. To be used directly in manufacturing, equipment must act upon and have a positive effect on the manufactured article.

The following are **not** direct uses in manufacturing:

- 1) Tangible personal property used for moving raw materials to a plant prior to their entrance into the manufacturing process;
- 2) Tangible personal property used for moving finished goods from a plant after manufacture. This includes vehicles used both to carry manufacturing equipment and to move goods after they are finished. Machinery added to a vehicle, which does not itself qualify for exemption, may qualify for the exemption providing it is used directly and exclusively in the manufacture of tangible personal property;
- 3) Tangible personal property used to transport work in process or semi-finished materials to or from storage;
- 4) Equipment used in normal repair and maintenance;
- 5) Equipment used to test and inspect the product; and
- 6) Equipment used in managerial, sales research and development, or other non-operational activities.

### **RECEIVING THE EXEMPTION**

To receive this exemption, a declaration of entitlement (Colorado Department of Revenue form DR1191) must be timely filed by the purchaser with the vendor of the equipment and the City of Grand Junction Finance Department. A copy must also be kept by the purchaser.