

ST 14-0027-GIL 04/30/2014 MANUFACTURING MACHINERY & EQUIPMENT Machinery used to shred and bale paper could qualify for the exemption if such equipment is used primarily in the manufacturing or assembling of tangible personal property for wholesale or retail sale or lease. See 86 Ill. Adm. Code 130.330(b) (This is a GIL.)

April 30, 2014

Dear Xxxx:

This letter is in response to your letter dated January 25, 2013 in which you requested information, and our follow-up conversations and requests for additional information. The Department issues two types of letter rulings. Private Letter Rulings (“PLRs”) are issued by the Department in response to specific taxpayer inquiries concerning the application of a tax statute or rule to a particular fact situation. A PLR is binding on the Department, but only as to the taxpayer who is the subject of the request for ruling and only to the extent the facts recited in the PLR are correct and complete. Persons seeking PLRs must comply with the procedures for PLRs found in the Department’s regulations at 2 Ill. Adm. Code 1200.110. The purpose of a General Information Letter (“GIL”) is to direct taxpayers to Department regulations or other sources of information regarding the topic about which they have inquired. A GIL is not a statement of Department policy and is not binding on the Department. See 2 Ill. Adm. Code 1200.120. You may access our website at www.tax.illinois.gov to review regulations, letter rulings and other types of information relevant to your inquiry.

In your letter you have stated and made inquiry as follows:

We are writing to request the Department’s interpretation of certain transactions.

BACKGROUND ON COMPANY’S BUSINESS

The business of COMPANY (‘COMPANY’) involves the on-site shredding of office documents for customers throughout the United States and the sale of the shredded paper to paper brokers.

Trucks containing sophisticated shredding equipment, a compactor, a side life [sic] and a conveyor, together with the associated electrical equipment and hydraulics, arrive at the customer’s premises at regular, pre-arranged times. Documents for shredding are removed from the customer’s premises to the parked shredding truck where they are shredded and compacted in the shredding trucks. The advantage of this system to customers is the added security offered by being able to demonstrate and certify that documents, which may be sensitive in nature, have been destroyed at the customer’s premises, concurrent with their pick-up.

The shredded and compacted paper is then removed to COMPANY’s premises for further compacting, baling and ultimate sale to paper recyclers.

A key part of COMPANY’s business is the mobile shredding truck. The shredding trucks themselves are assembled by a division of a related PROVINCE company, COMPANY A (‘COMPANY A’). Through COMPANY A, the company will purchase a bare truck chassis from a dealer located in PROVINCE. The chassis will include an

upgraded transmission necessary to provide the power take-off for operating the shredding equipment. COMPANY A assembles various components in the form of an engineered van body, shredding equipment, compactors, lifts, conveyors and climatic controls on the truck chassis. The finished shredding truck is then sold to COMPANY directly.

RULING REQUESTED

We request the Department's confirmation that the equipment required to shred and compact office documents is a manufacturing process which changes the tangible personal property into a material with a different from [sic] or use and, as a result, COMPANY may obtain exemption from Sales and Use Tax on the purchase of production equipment directly used in the operation.

If the answer to the above question is in the affirmative, we request confirmation that, at a minimum, the exemption in question would extend to the following machinery/equipment:

- (1) shredding equipment,
- (2) compactor,
- (3) conveyor,
- (4) truck body,
- (5) side lift, and
- (6) associated electrics and hydraulics

when mounted on the truck chassis for use in the on-site shredding operation. We also request confirmation that the exemption would apply to equipment used for baling the shredded paper. If the exemption extends to all of the above-mentioned equipment, we would additionally request confirmation that the exemption would further extend to the truck chassis as an integral part of the manufacturing process.

REASONING

The company is of the view that it is engaged in the direct production or finishing of tangible personal property. The shredding of paper is an integrated series of operations which puts tangible personal property in a form different from that in which it was acquired. The tangible property is the office documents and the change in form is substantial. The change results in a product which has a distinctive character and a use clearly different from that of the inputs to its creation.

Since the shredding is regarded as a manufacturing process, then the side lift and hopper would be the material handling equipment necessary and directly involved in bringing the raw materials (the office documents) into the manufacturing process. The loading of the documents onto the side lift would represent the commencement of an integrated production process. The side lift raises the full bags of documents from ground level to truck level at which point the bags are emptied into a large hopper for feeding into the shredder.

The floor conveyor is contained in the body of the truck and plays an integral role in compacting the shredded paper within the truck body as well as moving it away from the rear of the shredding equipment in much the same way as an assembly line conveyor. Also, the truck body is specially engineered and manufactured to specifications prescribed by COMPANY specifically for its own use in the shredding operation. Further details of the unique nature of the truck body and its active causal relationship with the product are voluminous and therefore not detailed herein. They are, however, available upon request. Alternatively, however the truck body could be viewed as a temporary storage container for goods in process. Based on the foregoing, these two components are also used directly in the manufacturing process.

The process ends at the point where the processed paper is finished for actual sale in the marketplace (i.e. in the form of the most marketable product). In this instance, the most marketable product emerges from the baling process and thus the act of baling the shredded paper at COMPANY's location would constitute the completion of the process.

The truck chassis is used to transport the semi-finished materials from the customer's location to COMPANY's premises where the paper is baled and the process complete. Processing the paper at the customer's site is a vital and integral part of COMPANY's manufacturing process. Obviously, this could not take place without a mechanism for transporting the materials in process. This movement of goods in process is distinguishable from the mere shipment of goods in that it takes place within one continuous, integrated process.

Based on the foregoing, the mobile shredding truck is a fully integrated manufacturing unit used directly in the direct production of tangible property and therefore would qualify for the exemption.

In many ways, COMPANY's claim for exemption would appear to be similar to that commonly available on trucks and equipment used by manufacturers of ready-mixed concrete. In both cases, the vehicle is a mobile manufacturing facility.

If you wish to discuss this request, or if you require further information, please do not hesitate to contact me. Your assistance in resolving this issue would be appreciated.

DEPARTMENT'S RESPONSE:

The Department's regulation "Public Information, Rulemaking and Organization" provides that "[w]hether to issue a private letter ruling in response to a letter ruling request is within the discretion of the Department. The Department will respond to all requests for private letter rulings either by issuance of a ruling or by a letter explaining that the request for ruling will not be honored." 2 Ill. Adm. Code 1200.110(a)(4). The Department recently met and determined that it would decline to issue a Private Letter Ruling in response to your request. We hope however, the following General Information Letter will be helpful in addressing your questions.

Machinery and equipment that is used primarily in the manufacturing or assembling of tangible personal property for wholesale or retail sale or lease is exempt from Retailers' Occupation Tax. See

86 Ill. Adm. Code 130.330. The manufacturing process is the production of any article of tangible personal property, whether such article is a finished product or an article for use in the process of manufacturing or assembling a different article of tangible personal property, by procedures commonly regarded as manufacturing, processing, fabricating, or refining which changes some existing material or materials into a material with a different form, use or name. These changes must result from the process in question and be substantial and significant. See Section 130.330(b)(2).

With respect to the eligibility for exemption on the purchase of the shredding equipment, compactor, conveyor, and equipment used for baling, generally speaking, machinery used to shred and bale paper could qualify for the exemption if such equipment is used primarily in the manufacturing or assembling of tangible personal property for wholesale or retail sale or lease. To the extent that such machinery is used primarily to change paper into material with a different form, use or name, and that material is sold at wholesale or retail or leased, such machinery would qualify for the exemption. See Section 130.330(e)(3).

Regarding the purchase of the truck body, side lift, associated electrics and hydraulics, and the truck chassis, we are unable to form an opinion regarding the taxability of such sales based on the information you provided regarding the use of such machinery before, during or after the production cycle. Generally speaking, machinery and equipment used to store, convey, handle or transport materials or parts or sub-assemblies prior to their entrance in to the production cycle do not generally qualify for the manufacturing machinery and equipment exemption. See Section 130.330(d)(4)(C). Likewise, machinery and equipment used to store, convey, handle or transport finished articles of tangible personal property to be sold or leased after completion of the production cycle do not qualify for the exemption. See 130.330(d)(4)(D). Additionally, machinery and equipment used to transport work in process, or semifinished goods, between plants do not qualify for the exemption. See Section 130.330(d)(4)(E).

I hope this information is helpful. If you require additional information please visit our website at www.tax.illinois.gov or contact the Department's Taxpayer Information Division at (217) 782-3336.

Very truly yours,

Samuel J. Moore
Associate Counsel

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