OKLAHOMA TAX COMMISSION

TAX POLICY AND RESEARCH DIVISION
TONY MASTIN, DIRECTOR

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July 28, 2005

Re: Our File Number LR-05-124; Sales tax on purchases by a manufacturer

Dear]

This is in response to your inquiry concerning the sales taxability of certain purchases, which might be made by a manufacturer that is engaged in the slaughter of cattle, and the preparing of meat. Please note that in order to be eligible for the exemption, a manufacturer must have a valid Oklahoma Manufacturer's Sales Exemption Permit.

I have copied your inquiry and the list of items you have asked about into this letter. Each item is followed by our response:

> "I was wondering if you could provide some answers for me as it relates to sales taxes and related exemptions. I have read the materials you have sent me, but I thought that just a quick validation by someone within the State of OK tax area would help me in my process. Could you have someone identify for me whether or not the items below would have sales/use tax applied against them in Oklahoma."

1) Cattle purchases - confirm, but I believe that these are definitely exempt

Response: Purchases of cattle by an animal slaughter and processing establishment that holds an Oklahoma Manufacturing Sales Exemption Permit are exempt from sales tax. Please see rule 710:65-13-150.1.

2) Packaging material (cardboard boxes, Cryovac plastic bags to individually seal meat, etc.)

Response: Purchases of packaging material by an animal slaughter and processing establishment that holds an Oklahoma Manufacturing Sales Exemption Permit, which are used in the manufacturing operation, at a manufacturing site, are exempt from sales tax. Please see rules 710:65-13-150.1 and 710:65-19-256. Subsection (8) of the latter rule specifically addresses meat packers.

3) Replacement parts to manufacturing equipment

Response: Purchases of replacement parts to manufacturing equipment by an animal slaughter and processing establishment, which holds an Oklahoma Manufacturing Sales Exemption Permit, which are used in the manufacturing operation, at a manufacturing site, are exempt from sales tax. Please see rule 710:65-13-150.1, specifically subsection (b)(2)(D)(i).

4) Frocks, gloves, knives, etc. worn/used on the processing floor by employees

Response: Purchases of frocks, gloves, knives, etc. worn/used on the processing floor by employees, where the purchases are made by an animal slaughter and processing establishment which holds an Oklahoma Manufacturing Sales Exemption Permit, which are used in the manufacturing operation, at a manufacturing site, are exempt from sales tax. Please see rule 710:65-13-150.1, specifically subsection (b)(2)(B)(i).

5) Utilities for manufacturing purposes (natural gas, electric, water, etc.) - confirm whether this would be exempt or not for our business (from what I can tell they would be exempt)

Response: Purchases of utilities by an animal slaughter and processing establishment, which holds an Oklahoma Manufacturing Sales Exemption Permit, where the utilities are used in the manufacturing operation, at a manufacturing site, are exempt from sales tax. Please see rule 710:65-13-150.1, specifically subsection (b)(2)(A)(ii).

6) CO2 and ammonia

Response: Purchases of industrial gases by an animal slaughter and processing establishment that holds an Oklahoma Manufacturing Sales Exemption Permit, where the gases are used in the manufacturing operation, at a manufacturing site, are exempt from sales tax. Please see rule 710:65-13-150.1

7) Sanitation clean-up services

Response: Purchases of sanitation clean-up services are not subject to sales tax in Oklahoma. However, the entity providing the services to an animal slaughter and processing establishment would be the sales taxable consumer user of whatever goods it purchased and used to provide the services. Only the holder of a Manufacturer's Sales Exemption Permit may make purchases of material to be used in the manufacturing operation at a manufacturing site, exempt from sales tax. Please see rule 710:65-19-309.

8) Other services (electrical work, legal services, other provided services)

Response: Purchases of other services such as electrical work, legal services and other provided services are not generally subject to sales tax in Oklahoma. However, the entity providing the services to an animal slaughter and processing establishment would be the sales taxable consumer user or whatever goods it purchased and used to provide the services. Only the holder of a Manufacturer's Sales Exemption Permit may make purchases of material to be

used in the manufacturing operation at a manufacturing site, exempt from sales tax. Please see rules 710:65-19-56 and 710:65-19-309. Please note that an entity providing electrical services to repair real property is a contractor and is the taxable consumer user or tangible personal property used to make the repair to the real property. However, an entity that is selling repair parts and installing them on manufacturing equipment is a vendor and could make the sale of the repair parts, exempt from sales tax, to a manufacturer who holds a Manufacturer's Sales Exemption Permit. One group of services that are subject to sales tax in Oklahoma are the services of providing telecommunications and the services of the installation, maintenance and repair or telecommunications equipment.

9) Freight and trucking

Response: Separately agreed to and separately stated charges for freight and trucking are not subject to sales tax in Oklahoma. Please see rule 710:65-19-70.

10) Salt and chemicals used in the process

Response: Purchases of salt and chemicals by an animal slaughter and processing establishment that holds an Oklahoma Manufacturing Sales Exemption Permit, where the salt and chemicals are used in the manufacturing operation at a manufacturing site are exempt from sales tax. Please see rule 710:65-13-150.1.

11) Pallets

Response: Purchases of pallets for use by a manufacturer in a manufacturing operation at a manufacturing site may be purchased exempt from sales tax. Purchases of pallets to be used in distribution and transportation operations are taxable purchases even when made by a manufacturer that holds a Manufacturer's Sales Exemption Permit. Please see rule 710:65-13-150.1.

Unofficial copies of the rules noted in this letter ruling can be viewed at the following website:
www.oar.state.ok.us/oar/codedoc02.nsf

This response applies only to the circumstances set out in your request of July 25, 2005. Pursuant to Commission Rule 710:1-3-73(e), this Letter Ruling may be generally relied upon **only** by the entity to whom it is issued, assuming that all pertinent facts have been accurately and completely stated, and that there has been no change in applicable law.

If I can be of further assistance, please feel free to contact me.

Sincerely,
OKLAHOMA TAX COMMISSION

Michael G. Pillow
Tax Policy Analyst