OKLAHOMA TAX COMMISSION

TAX POLICY AND RESEARCH DIVISION
TONY MASTIN, DIRECTOR

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October 19, 2006

Re: Our File Number LR-06-158; Sales tax on construction materials

Dear

This is in response to your inquiry concerning the tax base on which your client owes sales/use tax in Oklahoma. I have set out your "FACTS" and "QUESTION" below and they are followed by our response.

YOUR "FACTS"

"Our client is a manufacturer of structural steel building components. They are not located in Oklahoma. Its primary customers are general contractors who are building new retail stores throughout the United States. In the past, the majority of its sales have been non-installation sales of their product. However, the trend has changed and now the majority of its projects are installation projects, where they sell and install the structural steel. They are subcontractors of the general contractor."

Your "Question"

"Our client has purchased all its raw materials exempt from tax. For all installation jobs, based on our understanding of Oklahoma's sales and use tax laws, we feel that our client needs to pay Oklahoma state, and the applicable local tax, only on the **cost of materials** that they use in fulfilling their contract."

Our Response

A manufacturer that withdraws tangible personal property from its inventory after such inventory has been manufactured owes tax on the "sales value" of the property pursuant to Oklahoma Tax Commission Rule 710:65-1-7. "Sales Value," in the case of a manufacturer is "the sum of the manufacturer's cost of raw materials and the proportionate share of both the cost of machinery and equipment used and the cost of items consumed in the direct process or the manufacturing of the product, all of which were purchased exempt for use in the process of manufacturing..." pursuant to Oklahoma Tax Commission Rule 710:65-1-2.

This response applies only to the circumstances set out in your request of September 18, 2006. 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