

---

---

IP 2009(13)

---

---

# **Sales and Use Taxes Guide for Manufacturers, Fabricators, and Processors**



# **IP 2009(13)**

## **Sales and Use Taxes Guide for Manufacturers, Fabricators, and Processors**

Published under the direction of the Commissioner  
Department of Revenue Services  
State of Connecticut

This document is not intended to be used as a legal ruling but as a general guide for the proper treatment of sales and use taxes as they relate to manufacturers, fabricators, and processors.

See the inside of the back cover for information on obtaining additional copies of this publication or how to contact the Department of Revenue Services with any questions about its content.

# Table of Contents

<p><b>Introduction .....6</b></p> <p>Purpose .....6</p> <p>Full Exemption .....6</p> <p>Partial Exemption .....6</p> <p>Responsibilities of Manufacturers, Fabricators, and Processors in Claiming Exemptions .....7</p> <p><b>Guide Sections .....8</b></p> <p><b>Section I - Manufacturers, Fabricators, and Processors .....10</b></p> <p>Manufacturers .....10</p> <p style="padding-left: 20px;">Manufacturing Guidelines</p> <p>Fabricators .....11</p> <p style="padding-left: 20px;">Fabrication Guidelines</p> <p>Processors .....13</p> <p style="padding-left: 20px;">Processing Guidelines</p> <p>Other Businesses .....13</p> <p style="padding-left: 20px;">Independent Contractors</p> <p style="padding-left: 40px;">Independent Contractor Guidelines</p> <p style="padding-left: 20px;">Cottage Industries</p> <p style="padding-left: 20px;">Retail-Based Manufacturing, Fabricating, or Processing</p> <p><b>Section II - Full Exemption for Machinery (Manufacturers) .....17</b></p> <p>Qualifying Machinery .....17</p> <p>Nonqualifying Machinery .....18</p> <p><b>Section III - Full Exemption for Materials, Tools, and Fuel (Manufacturers and Fabricators) .....19</b></p> <p>Materials .....19</p> <p style="padding-left: 20px;">Qualifying Materials</p> <p style="padding-left: 20px;">Nonqualifying Materials</p> <p>Tools .....20</p> <p style="padding-left: 20px;">Qualifying Tools</p> <p style="padding-left: 20px;">Nonqualifying Tools</p> <p>Fuel .....21</p> <p style="padding-left: 20px;">Qualifying Fuel</p> <p style="padding-left: 20px;">Nonqualifying Fuel</p> <p>Full Exemption for Gas, Electricity, and Heating Fuel .....21</p> <p style="padding-left: 40px;">Manufacturers and Fabricators</p> <p style="padding-left: 40px;">Mixed Use Locations</p> <p>\$150 Exemption for Electricity (Manufacturers, Fabricators, and Processors) .....23</p>	<p><b>Section IV - Partial Exemption for Machinery and Equipment (Manufacturers, Fabricators, and Processors) .....24</b></p> <p>Qualifying Machinery and Equipment .....25</p> <p>Nonqualifying Machinery and Equipment .....25</p> <p>Independent Contractors .....26</p> <p><b>Section V - Partial Exemption for Materials, Tools, and Fuels (Manufacturers, Fabricators, and Processors) .....27</b></p> <p>Industrial Plant Guidelines .....27</p> <p>Qualifying Materials .....28</p> <p>Qualifying Tools .....28</p> <p>Qualifying Fuels .....28</p> <p>Nonqualifying Materials, Tools, and Fuels .....29</p> <p>Independent Contractors .....29</p> <p><b>Section VI - Replacement, Repair, Component, and Enhancement Parts (Manufacturers, Fabricators, and Processors) .....30</b></p> <p>Component and Enhancement Parts .....30</p> <p>Replacement and Repair Parts .....30</p> <p>Manufacturers .....30</p> <p>Fabricators .....30</p> <p>Processors .....30</p> <p>Full Exemption .....30</p> <p>Software .....31</p> <p>Partial Exemption .....31</p> <p>Repair and Maintenance Services .....32</p> <p><b>Section VII - Labor and Services (Manufacturers, Fabricators, and Processors) .....35</b></p> <p>Services to Real Property .....35</p> <p>Taxability of Services to Real Property .....35</p> <p>Maintenance, Landscaping, and Janitorial Services .....36</p> <p>Fabrication Labor .....36</p> <p>Installation Labor .....36</p> <p>Assembly Labor .....37</p> <p>Repair Labor .....37</p> <p>Maintenance, Repair, and Warranty Contracts .....37</p> <p>Calibration Services .....37</p> <p>Engineering Services .....38</p>
---	---

Business Analysis, Management, Management Consulting, and Public Relation Services .....	38
Environmental Consulting Services .....	38
<b>Section VIII - Computers, Software, and Computer Services (Manufacturers, Fabricators, and Processors) .....</b>	<b>40</b>
Computers .....	40
Full Exemption	
Partial Exemption	
Software .....	41
Canned Software	
Full Exemption	
Partial Exemption	
Custom Software .....	42
Full Exemption	
Partial Exemption	
Computer and Data Processing Services .....	43
<b>Section IX - Research and Development (Manufacturers, Fabricators, and Processors) .....</b>	<b>45</b>
Partial Exemption .....	45
<b>Section X - Testing and Measuring (Manufacturers, Fabricators, and Processors) .....</b>	<b>46</b>
Full Exemption for Tools and Machinery .....	46
Tools	
Machinery	
Partial Exemption for Machinery, Equipment, Materials, Tools, and Fuels .....	46
<b>Section XI - Air Pollution Control and Waste Treatment (Manufacturers, Fabricators, and Processors) .....</b>	<b>48</b>
Air Pollution Control .....	48
Preapproved Equipment and Consumables	
Waste Treatment .....	49
Preapproved Equipment and Consumables	
Labor and Services .....	50
<b>Section XII - Containers and Packaging Materials (Manufacturers, Fabricators, and Processors) .....</b>	<b>52</b>
Nonreturnable Containers and Packaging Materials .....	52
Returnable Containers .....	52

<b>Section XIII - Industries with Specific Statutory Exemptions (Manufacturers, Fabricators, and Processors) .....</b>	<b>53</b>
Printers .....	53
Commercial Printers	
Publishers	
Prepress Production	
Exemption for Purchases by Commercial Printers and Publishers	
Metal Casting Foundries and Pattern Shops .....	54
Aircraft Manufacturing, Repair, and Overhaul .....	54
Optical Lens Fabrication .....	55
Commercial Photographic Film Processing .....	55
Biotechnology Industry .....	55
Fuel Cell Manufacturing .....	55
<b>Section XIV - Sales and Certificates (Manufacturers, Fabricators, and Processors) .....</b>	<b>57</b>
Sales of Goods .....	57
Sales of Services .....	57
Sales Price .....	57
Shipping or Delivery Charges .....	58
Cash Discounts .....	58
Exemption Certificates .....	58
Responsible Parties .....	58
Purchaser's Responsibilities	
Seller's Responsibilities	
Statutory Exemptions for Sales of Goods .....	59
Sale and Leaseback Arrangements .....	60
Out-of-State Sales and Purchasers .....	60
Title Passes Outside Connecticut	
Title Passes in Connecticut	
Buy Connecticut Provision .....	61
Refund Claim Requirements and Restrictions	
Refund Procedures	
Buy Connecticut Exemption Permit	
Organizations with Exemptions .....	62
Sales for Resale .....	63
<b>Section XV - The Connecticut Use Tax (Manufacturers, Fabricators, and Processors) .....</b>	<b>65</b>
Sales Price Subject to use tax .....	66
Remitting Business use tax .....	66
<b>Appendix A - Index of Tax Publications .....</b>	<b>67</b>

---

---

# Introduction

---

---

## Purpose

Connecticut sales and use taxes are imposed on the sale of all tangible personal property and certain enumerated services unless specifically exempt from this tax by statute. Full and partial exemptions from sales and use taxes are available to qualified manufacturers, fabricators, and processors. This Informational Publication is a reference of available benefits for manufacturers, fabricators, and processors under the Connecticut Sales and Use Taxes Act.

While many areas of the tax law are discussed, the statutory authority most commonly used for manufacturing exemptions are provided for in:

- *Conn. Gen. Stat. §12-412(3)*
- *Conn. Gen. Stat. §12-412(18)*
- *Conn. Gen. Stat. §12-412(34)*
- *Conn. Gen. Stat. §12-412(73)*
- *Conn. Gen. Stat. §12-412i*  
(the *Manufacturing Recovery Act of 1992*)

## Full Exemption

Conn. Gen. Stat. §12-412(3) provides a full exemption from sales and use taxes from the sale, furnishing, or service of gas including **bottled gas** and electricity when delivered to consumers through mains, lines, pipes, or bottles for use directly in fabrication of a finished product to be sold or an industrial manufacturing plant. The exemption is only allowed in relation to a metered building, location, or premises at which not less than 75% of the gas including bottled gas, or electricity consumed at the metered building, location, or premise is used for the purpose of the production, fabrication, or manufacturing. **Bottled gas** means L.P. (propane) gas.

Conn. Gen. Stat. §12-412(18) and §12-412(34) provide manufacturers a full exemption from sales and use taxes on the purchase of machinery (including repair, replacement, component, and enhancement parts), materials, tools, and fuel used directly in the

manufacturing production process. Conn. Gen. Stat. §12-412(18) also provides a full exemption from sales and use taxes for fabricators on the purchase of materials, tools, and fuel used directly in an industrial plant in the actual fabrication of finished products to be sold. Fabricators are not afforded the full exemption on machinery. Processors are not eligible for any of these full exemptions. Conn. Agencies Regs. §12-412(18)-1 and §12-412(34)-1 provide further guidance on the application of these exemption.

Conn. Gen. Stat. §12-412(73) provides a full exemption from sales and use taxes on purchases of component parts to be assembled into machinery for use directly in a manufacturing production process and for component parts to be assembled into or onto qualifying machinery provided the machinery has not yet been used in actual production. Fabricators and processors are not eligible for this exemption.

## Partial Exemption

The Manufacturing Recovery Act of 1992 (MRA), codified as Conn. Gen. Stat. §12-412i, provides a partial exemption from sales and use taxes. The partial exemption is a 50% reduction of the gross receipts to calculate sales and use taxes on purchases of machinery, equipment, materials, tools, fuels, component parts, and repair parts. This partial exemption is available to qualifying manufacturers, fabricators, processors, and qualifying independent contractors.

The MRA is not intended to replace Conn. Gen. Stat. §12-412(18), §12-412(34), and §12-412(73), but to work with and supplement the full exemptions available under these statutes. Any sale of materials, tools, fuel, machinery (or repair, replacement, component, and enhancement parts) that meets the requirements for full exemption under any one of these statutes continues to qualify for a full exemption. The MRA broadens the scope of the manufacturing and fabrication processes for the partial exemption and creates a partial exemption for processors and qualifying independent contractors.

## **Responsibilities of Manufacturers, Fabricators, and Processors in Claiming Exemptions**

As you read this publication, keep in mind that the burden of proving that a purchase qualifies for exemption rests with the purchaser. **It is the responsibility of the purchaser to:**

- (1) Understand all qualifications before claiming any exemption;
- (2) Provide the appropriate exemption certificates to suppliers; **and**
- (3) Keep complete and adequate records.

In matters of dispute, a purchaser must substantiate its qualifications to the Department of Revenue Services (DRS). In an audit, DRS need not prove that a purchase does not qualify for exemption; the purchaser must prove it does. A purchaser who issues a false or fraudulent exemption certificate will be held liable for payment of tax, penalties, and interest **and** may also be subject to both civil and criminal penalties.

---

---

## Guide Sections

---

---

- Section I:**  
(Pages 10-16) **Manufacturers, Fabricators, and Processors** helps to determine if a business qualifies as manufacturing, fabricating, or processing. Once the business is classified, the next step is to determine which purchases made by the business may qualify for a full or partial exemption. A business that does not meet the full qualifications of a manufacturer, fabricator, or processor may still qualify for a partial exemption.
- Section II:**  
(Pages 17-18) **Full Exemption for Machinery** pertains only to manufacturers on purchases of machinery used directly in the manufacturing production process.
- Section III:**  
(Pages 19-23) **Full Exemption for Materials, Tools, and Fuel** pertains to manufacturers and fabricators on purchases of materials, tools, and fuel that become an ingredient or component part of tangible personal property to be sold or are used directly in an industrial plant.
- Section IV:**  
(Pages 24-26) **Partial Exemption for Machinery and Equipment** pertains to manufacturers, fabricators, processors, and independent contractors on purchases of machinery and equipment under the MRA.
- Section V:**  
(Pages 27-29) **Partial Exemption for Materials, Tools, and Fuels** pertains to manufacturers, fabricators, processors, and independent contractors on purchases of materials, tools, and fuels under the MRA.
- Section VI:**  
(Pages 30-34) **Replacement, Repair, Component, and Enhancement Parts** pertains to manufacturers, fabricators, and processors. Manufacturers are eligible for full exemption on purchases of replacement, repair, component, and enhancement parts for machinery and a partial exemption on purchases of replacement, repair, component, and enhancement parts for machinery, equipment, and tools. Fabricators and processors are eligible for partial exemption on purchases of replacement, repair, component, and enhancement parts for machinery, equipment, and tools under the MRA.
- Section VII:**  
(Pages 35-39) **Labor and Services** pertains to manufacturers, fabricators, and processors.
- Section VIII:**  
(Pages 40-44) **Computers, Software, and Computer Services** pertains to manufacturers, fabricators, and processors. Manufacturers may be eligible for a full or partial exemption on some purchases. Fabricators and processors may be eligible for a partial exemption on some purchases.
- Section IX:**  
(Page 45) **Research and Development** pertains to the partial exemption available to manufacturers, fabricators, and processors.
- Section X:**  
(Pages 46-47) **Testing and Measuring** pertains to the full and partial exemptions available to manufacturers, fabricators, and processors.



- Section XI:** **Air Pollution Control and Waste Treatment** pertains to manufacturers, fabricators, and processors. A full exemption is available for tangible personal property incorporated into or used and consumed in an air pollution control or waste treatment facility.  
(Pages 48-51)
- Section XII:** **Containers and Packaging Materials** pertains to the exemption available to manufacturers, fabricators, and processors.  
(Pages 52)
- Section XIII:** **Industries With Specific Statutory Exemptions** pertains to certain manufacturers, fabricators, and processors that have been granted exemptions specific to their industries.  
(Pages 53-56)
- Section XIV:** **Sales and Certificates** pertains to manufacturers, fabricators, and processors who are required to collect tax on all sales made to their customers unless the items being sold are exempted by statute or an exemption or resale certificate is issued by the purchaser. Both suppliers and purchasers have responsibilities when providing and accepting certificates for exempt purchases of materials, tools, fuels, machinery, equipment, repair, replacement, component, and enhancement parts.  
(Pages 57-64)
- Section XV:** **Connecticut Use Tax** pertains to manufacturers, fabricators, and processors, and their responsibility in complying with the Connecticut use tax law.  
(Pages 65-66)
- Appendix A:** **Index of Tax Publications**

---

---

## Section I Manufacturers, Fabricators, and Processors

---

---

Full and partial exemptions from sales and use taxes are available to qualified manufacturers, fabricators, and processors. The first step is to determine whether your business qualifies as a manufacturer, fabricator, or processor.

### Manufacturers

Qualified manufacturers are eligible for exemption on purchases of:

#### Full Exemption

Machinery  
Materials  
Tools  
Fuel  
Component and enhancement parts  
Replacement and repair parts

#### Partial Exemption

Machinery  
Equipment  
Materials  
Tools  
Fuels  
Component and enhancement parts  
Replacement and repair parts

The term **manufacturing** is defined differently for the full exemption and the partial exemption under the Sales and Use Taxes Act.

Conn. Agencies Reg. §12-412(34)-1, for the full exemption, defines **manufacturing** as:

*an operation or an integrated series of operations that substantially transform, by physical, chemical or other means, the form, composition or character of raw or finished materials into a product possessing a new name, nature and use which is intended for sale, whether by the manufacturer or by another on whose behalf the manufacturer has undertaken the manufacture. The transformation cannot be a mere natural process, whether or not expedited by the use of machinery.*

Conn. Gen. Stat. §12-412i(b)(1), for the partial exemption under the MRA, defines **manufacturing** as:

*the activity of converting or conditioning tangible personal property by changing the form, composition, quality or character of the property for ultimate sale at retail or use in the*

*manufacturing of a product to be ultimately sold at retail. Changing the quality of property shall include any substantial overhaul of the property that results in a significantly greater service life than such property would have had in the absence of such overhaul or with significantly greater functionality within the service life of the property, beyond merely restoring the original functionality for the balance of the original service life.*

While the two definitions are **not** interchangeable, the major differences between the two are the inclusion of the following additional activities as manufacturing under the MRA for a partial exemption:

- (1) Manufacturing a product that will not itself be sold **for use in the manufacturing of a product** to be ultimately sold at retail; **and**
- (2) **Substantial overhaul** of tangible personal property for ultimate sale at retail or use in the manufacturing of a product to be ultimately sold at retail.

### Manufacturing Guidelines

Use these general guidelines to determine if a business qualifies as a manufacturer. Unless otherwise indicated, these guidelines apply for both a full and partial exemption.

- (1) The manufacturing process **must** occur at an establishment that has manufacturing as its predominant purpose, such as a **manufacturing plant** or an **industrial plant**, to qualify for a full exemption on purchases of machinery, materials, tools, and fuel and a partial exemption on purchases of materials, tools, and fuels.

While there is no requirement that the process take place at such a plant to qualify for a partial exemption on purchases of machinery and equipment, retail-based manufacturing does **not** qualify as manufacturing for either a full or partial exemption. See *Retail-Based Manufacturing, Fabricating, or Processing* on Page 15.

A **manufacturing plant** or an **industrial plant** is an establishment that has manufacturing as its predominant purpose (more than 50%) and is generally recognized as such. The ordinary meaning of the term **manufacturing** or **industrial plant** indicates a place used either exclusively or primarily

for manufacturing. If the plant is not located in a commercial or industrial zone or if it is located in a partially residential dwelling, it is less likely to qualify as a manufacturing plant or an industrial plant. See *Cottage Industries* on Page 14.

Use the following criteria to determine if an establishment has manufacturing as its predominant purpose.

- (a) The floor space must be predominantly devoted to a manufacturing process.
- (b) The predominant number of employees working at the establishment must be working in a manufacturing process.
- (c) The wages and salaries of the employees working at the establishment must be predominantly wages and salaries of employees working in a manufacturing process.
- (d) The costs of operating the facility must be predominantly attributable to the manufacturing process.
- (e) **Conversely**, if sales made at the facility are predominantly of products that were manufactured elsewhere, it is more likely a retail establishment and the manufacturing aspect of the establishment is incidental to its retail characteristics.

Research and development activities preliminary to the manufacturing process are includable in the manufacturing production process **only** to establish a facility as a **manufacturing plant** or an **industrial plant** to determine eligibility for a full or partial exemption. Measuring and testing activities are includable in the manufacturing production process **only** to establish a facility as a **manufacturing plant** or an **industrial plant** to determine eligibility for a partial exemption. Research and development activities and measuring and testing activities in and of themselves **do not** constitute manufacturing for purposes of the full exemption, but **do** qualify for the partial exemption if performed with respect to or in furtherance of manufacturing.

- (2) For a full exemption, the finished product must be intended for sale whether by the manufacturer or by another on whose behalf the manufacturer has undertaken the manufacturing. For a partial exemption, the finished product may also be a product **for use in** the manufacturing of another product ultimately sold at retail.
- (3) A chemical change to property, as opposed to only a physical change, is more likely to be considered manufacturing.

- (4) The process must be commonly regarded as manufacturing.\*
- (5) The higher the degree of physical change, the more likely the process is to be regarded as manufacturing.
- (6) A process involving production in standardized sizes and qualities and in multiple quantities is more likely to be manufacturing.

\* To determine an exemption from tax, a label of manufacturing does not in and of itself designate a manufacturing operation whether applied by a governmental agency or any other entity. *American Frozen Foods v. Dubno*, Conn. Super. Ct., No. 301353 (April 30, 1987), at 17.

**Production processes commonly regarded as manufacturing** include but are not limited to asphalt plants, wholesale bakeries, brass industry, wholesale candy factories, cement and concrete plants including mobile concrete mixers, chemical processing, circuit board production, computer chip production, concrete block and tile production, commercial dairies, electroplating, forges, foundries, furniture making, glass making, heat treating, injection molding, machine and equipment production, machine shops, metal hardening, paper making, pharmaceutical, photoengraving, commercial photofinishing, plating, printing, quarries, rolling mill, saw mill, tool and die making, and wire production.

**Production processes not generally regarded as manufacturing** include but are not limited to retail bakeries; bottling water; retail candy makers; cleaning and pressing of laundry; development of software programs; furnishing of gas, water, steam, electricity, telephone, or community antenna television service; graphic design; generation of steam or electricity; gravel plant; harvesting timber; photocopying; production and transmission of finished radio, television, or cable television programming; restaurants; screening plants; and ship yards (repairing and reconditioning boats).

### Fabricators

Qualified fabricators may be eligible for full or partial exemptions on some purchases:

#### Full Exemption

- Materials
- Tools
- Fuel

#### Partial Exemption

- Machinery
- Equipment
- Materials

Tools  
Fuels  
Component and enhancement parts  
Replacement and repair parts

The terms **actual fabrication** and **fabricating** are defined differently for the full and partial exemptions.

Conn. Agencies Regs. §12-412(18)-1(f), for a full exemption, defines **actual fabrication** as:

*an operation or an integrated series of operations that alter or modify a manufactured product or raw materials, whether or not a change in the identity of the product or materials occurs. The transformation cannot be a mere natural process, whether or not expedited by the use of human skill or labor or machinery.*

Conn. Gen. Stat. §12-412i(b)(2), for a partial exemption, defines **fabricating** as:

*to make, build, create, produce or assemble components of tangible personal property so that they work in a new or different manner.*

While the two terms are not interchangeable, the basic premise behind the two definitions is essentially the same.

### Fabrication Guidelines

Use these general guidelines to determine if a business qualifies as a fabricator. Unless otherwise indicated, these guidelines apply for purposes of full and partial exemption.

- (1) The process must occur at an **industrial plant** to qualify for a full or partial exemption on purchases of materials, tools, and fuel.

While there is no requirement that the fabrication process take place at an industrial plant to qualify for a partial exemption on purchases of machinery and equipment, retail-based fabricating does **not** qualify as fabrication. See *Retail-Based Manufacturing, Fabricating, or Processing* on Page 15.

An **industrial plant** is an establishment having fabrication of finished products to be sold as its predominant purpose (more than 50%) and is generally recognized as such. If the plant is not located in a commercial or industrial zone or if it is located in a partially residential building, it is less likely to qualify as an industrial plant. See *Cottage Industries* on Page 14.

Use the following criteria to determine if an establishment has fabrication as its predominant purpose.

- (a) The floor space of the establishment must be predominantly devoted to the fabrication of the finished products to be sold.
- (b) The predominant number of employees working at the establishment must be working in the fabrication of the finished products to be sold.
- (c) The wages and salaries of the employees working at the establishment must be predominantly wages and salaries of employees working in the fabrication of the finished products to be sold.
- (d) The costs of operating the facility must be predominantly for the fabrication of the finished products to be sold.
- (e) **Conversely**, if sales made at the establishment are predominantly of products fabricated elsewhere, it is more likely a retail establishment and the fabricating aspect of the establishment is incidental to its retail characteristics.

Research and development activities preparatory to the fabrication process are includable in the fabrication process **only** to qualify an establishment as an **industrial plant** to determine eligibility for a full or partial exemption. Measuring and testing activities are includable in the fabrication process **only** to qualify an establishment as an **industrial plant** to determine eligibility for a partial exemption. Research and development activities and measuring and testing activities in and of themselves **do not** constitute fabricating for purposes of the full exemption, but **do** qualify for the partial exemption if performed with respect to or in furtherance of fabrication.

- (2) For a full exemption, the finished products of fabrication must be intended for sale whether by the fabricator or by another on whose behalf the fabricator has undertaken the fabrication.
- (3) The process must be commonly regarded as fabrication. A process regarded as manufacturing will be regarded as fabrication, but a process regarded as fabrication will not necessarily be regarded as manufacturing.

**Fabricating activities** include but are not limited to assembling, baling, bending, bottling, casting, coating, cutting, drilling, harvesting timber, painting, perforating, photocopying, replating tools, screening, shearing, shaping, shredding, and welding.

**Nonfabricating activities** include but are not limited to developing software programs, packing, repairing, and remodeling.

## Processors

Qualified processors may be eligible for a partial exemption on some purchases:

### Partial Exemption

Machinery  
Equipment  
Materials  
Tools  
Fuels  
Component and enhancement parts  
Replacement and repair parts

Conn. Gen. Stat. §12-412i(b)(3), for the partial exemption, defines **processing** as:

*the physical application of the materials and labor necessary to modify or change the characteristics of tangible personal property.*

### Processing Guidelines

Use these general guidelines to determine if a business qualifies as a processor:

- (1) The process must occur at an **industrial plant** to be eligible for a partial exemption on purchases of materials, tools, and fuels.

While there is no requirement that the process take place at an industrial plant to qualify for partial exemption on purchases of machinery and equipment, retail-based processing does **not** qualify as processing. See *Retail-Based Manufacturing, Fabricating, or Processing* on Page 15.

For a partial exemption as a processor, an **industrial plant** is an establishment that has processing of finished products to be sold as its predominant purpose (more than 50%) and is generally recognized as such. If the plant is not located in a commercial or industrial zone or if it is located in a partially residential building, it is less likely to qualify as an industrial plant. See *Cottage Industries* on Page 14.

Use the following criteria to determine if an establishment has processing as its predominant purpose.

- (a) The floor space of the establishment must be predominantly devoted to processing finished products to be sold.
- (b) The predominant number of employees working at the establishment must be processing finished products to be sold.
- (c) The wages and salaries of the employees working at the establishment must be predominantly wages and salaries of employees processing finished products to be sold.

- (d) The costs of operating the establishment must be predominantly attributable to processing finished products to be sold.
- (e) **Conversely**, if sales made at the establishment are predominantly of products processed elsewhere, it is more likely a retail establishment and the processing aspect of the establishment is incidental to its retail characteristics.

Research and development activities preparatory to processing activities are includable with actual processing to qualify an establishment as an **industrial plant** to determine eligibility for a partial exemption. Measuring and testing activities are includable in the actual processing to qualify an establishment as an **industrial plant** to determine eligibility for a partial exemption. Research and development activities and measuring and testing activities in and of themselves **do** qualify for the partial exemption if performed with respect to or in furtherance of processing.

- (2) The finished products of processing must be intended for sale, whether by the processor or by another on whose behalf the processor has undertaken the operation.
- (3) The operation must be commonly regarded as processing. An operation regarded as fabrication is generally regarded as processing, but an operation regarded as processing is not necessarily regarded as fabrication.

**Processing activities** include but are not limited to recycling, pipe threading, and refining.

**Nonprocessing activities** include but are not limited to repairing tangible personal property, remodeling property, and packing, unpacking, or shelving of a product to be sold.

## Other Businesses

### Independent Contractors

A business that does not meet the full specifications of a manufacturer, fabricator, or processor but performs the activities of manufacturing, fabricating, or processing as a subcontractor, or performs specific related services for a qualifying manufacturer, fabricator, or processor, may still qualify for partial exemption on certain purchases.

For a partial exemption under the MRA, a business must be **primarily** (chiefly) engaged in a qualifying manufacturing, fabricating, processing, or related activity.

---

## Examples

- A contractor engaged in two separate activities, one that qualifies the contractor for the MRA partial exemption and the other that does not, is engaged primarily in the activity conducted **more than 50%** of the time.
- A contractor engaged in three different activities is engaged primarily in the activity conducted **more than 33.33%** of the time.

---

## Independent Contractor Guidelines

Use these guidelines to determine if an independent contractor qualifies for a partial exemption on certain purchases of machinery, equipment, materials, tools, and fuels:

- (1) A contractor primarily engaged in manufacturing, processing, or fabricating as a subcontractor for a qualifying manufacturer, fabricator, or processor is eligible for a partial exemption on purchases of machinery, equipment, materials, tools, and fuels. The process **must** occur at an **industrial plant** to be eligible for a partial exemption on purchases of materials, tools, and fuels.
- (2) A contractor primarily engaged in research and development for manufacturing, processing, or fabricating is eligible for a partial exemption on purchases of machinery, equipment, materials, tools, and fuels. The process **must** occur at an **industrial plant** to be eligible for a partial exemption on purchases of materials, tools, and fuels.
- (3) A contractor primarily engaged in **measuring and testing** including adjusting and calibrating machinery, equipment, and tools for manufacturing, processing, or fabricating is eligible for a partial exemption on purchases of machinery, equipment, materials, tools, and fuels. The process **must** occur at an **industrial plant** to be eligible for a partial exemption on purchases of materials, tools, and fuels.
- (4) A contractor *primarily* engaged in maintaining or repairing qualifying manufacturing, processing, or fabricating machinery or equipment is eligible for a partial exemption **only** on purchases of machinery or equipment.

There is no requirement that manufacturing, fabricating, processing, or related service activities take place at an industrial plant to qualify for a partial exemption on purchases of machinery and equipment, but retail-based activities do **not** qualify. See *Retail-Based manufacturing, Fabricating, or Processing* on Page 15.

An **industrial plant** is an establishment with the **predominant** purpose (more than 50%) of manufacturing, processing or fabricating finished products to be sold including any preparatory or related process or measuring or testing the products and is generally recognized as such.

Use the following criteria to determine if an establishment has as its predominant purpose the manufacturing, processing, or fabricating finished products to be sold or any preparatory or related process or the measuring or testing of the products:

- (a) The floor space of the establishment must be predominantly devoted to manufacturing, processing, or fabricating finished products to be sold.
- (b) The predominant number of employees working at the establishment must be manufacturing, processing, or fabricating finished products to be sold.
- (c) The wages and salaries of the employees working at the establishment must be predominantly wages and salaries of employees manufacturing, processing, or fabricating finished products to be sold.
- (d) The costs of operating the facility must be predominantly for the fabrication of the finished products to be sold.
- (e) **Conversely**, if sales made at the establishment are predominantly of products manufactured, processed, or fabricated elsewhere, it is more likely a retail establishment and the manufacturing, processing, or fabricating aspects of the establishment are incidental to its retail characteristics.

Research and development activities preparatory to the process or measuring and testing activities are includable with actual manufacturing, fabricating, or processing to qualify an establishment as an industrial plant for an exemption under the MRA as an independent contractor.

## Cottage Industries

In cottage industries, manufacturing, processing, or fabricating activities are conducted at a nonindustrial or noncommercial location such as a residential dwelling or in a building on the grounds of a residential dwelling. A facility that is not located in a commercial or industrial zone or that is located in a partially residential building is less likely to qualify as a manufacturing or an industrial plant and is considered a cottage industry. Cottage industries are not eligible for the full exemptions provided to qualifying manufacturers and fabricators; nor are they eligible for a partial exemption on materials, tools, and fuels. An establishment must be

a manufacturing plant or an industrial plant to qualify for the full exemption of machinery, repair, replacement, component or enhancement parts for the machinery, materials, tools, and fuel, and for partial exemption on purchases of materials, tools, and fuel. However, cottage industries may be eligible for a partial exemption on purchases of machinery and equipment and repair, replacement, component, or enhancement parts for the machinery and equipment.

### **Retail-Based Manufacturing, Fabricating, or Processing**

Businesses engaged in retail-based manufacturing, fabricating, or processing **do not** qualify as manufacturers, fabricators, and processors for an exemption. Retail-based manufacturing, processing, or fabricating includes any establishment primarily engaged in business:

- As a retailer of tangible personal property which manufactures, processes, or fabricates tangible personal property as an incidental part of its business;
- As a retailer of services which manufactures, processes, or fabricates tangible personal property as an incidental part of its business; **or**
- In furnishing, preparing, or serving food, meals, or drinks which manufactures, processes, or fabricates tangible personal property as an incidental part of its business.

**Retail-based establishments** include but are not limited to retailers such as restaurants, grocery stores, caterers, meat and fish markets; bakeries, candy, nut, and confectionery stores that process food products primarily for direct sale on the premises to consumers; photographic studios; artists; tailors; and establishments that primarily perform fabricating or processing on the property of others on a retail basis. These activities are taxable under Conn. Gen. Stat. §12-407(a)(2)(C) or (G).

## **References**

**Conn. Gen. Stat. §12-412(3)**

*Gas and Electricity*

**Conn. Gen. Stat. §12-412(18)**

*Production materials*

**Conn. Gen. Stat. §12-412(34)**

*Machinery used in manufacturing*

**Conn. Gen. Stat. §12-412i**

*Partial exemption for materials, tools, fuels, machinery and equipment used in manufacturing*

**Conn. Agencies Regs. §12-412(18)-1**

*Materials, tools and fuel used directly in an industrial plant in the actual fabrication of finished products to be sold*

**Conn. Agencies Regs. §12-412(34)-1**

*Machinery used directly in a manufacturing production process*

**Special Notice 93(1.1)**, *The Manufacturing Recovery Act of 1992 — Exemption for Purchases of Property Used in Manufacturing, Processing and Fabricating*

## Section 1 Summary

	MANUFACTURERS	FABRICATORS	PROCESSORS	INDEPENDENT CONTRACTORS *
<b>MANUFACTURING PLANT</b>	<p><b>Full exemption</b> on purchases of machinery; repair, replacement, component or enhancement parts for the machinery; and on materials, tools, and fuel</p> <p><b>Partial exemption</b> on purchases of machinery, equipment, materials, tools, repair, replacement, component or enhancement parts and fuels</p>	<b>Not applicable</b>	<b>Not applicable</b>	<b>Not applicable</b>
<b>INDUSTRIAL PLANT</b>	<p><b>Full exemption</b> on purchases of machinery; repair, replacement, component or enhancement parts for the machinery; and on materials, tools, and fuel</p> <p><b>Partial exemption</b> on purchases of machinery; equipment, materials, tools, repair, replacement, component or enhancement parts; and fuels</p>	<p><b>Full exemption</b> on purchases of materials, tools, and fuel</p> <p><b>Partial exemption</b> on purchases of machinery, equipment, materials, tools, repair, replacement, component or enhancement parts, and fuels</p>	<p><b>Partial exemption</b> on purchases of machinery, equipment, materials, tools, repair, replacement, component or enhancement parts, and fuels</p>	<p><b>Partial exemption</b> on purchases of machinery, equipment, materials, tools, repair, replacement, component or enhancement parts, and fuels</p>
<b>COTTAGE INDUSTRY</b>	<p><b>Partial exemption</b> on purchases of machinery and equipment; repair, replacement, component; or enhancement parts</p>	<p><b>Partial exemption</b> on purchases of machinery and equipment; repair, replacement, component, or enhancement parts</p>	<p><b>Partial exemption</b> on purchases of machinery and equipment; repair, replacement, component, or enhancement parts</p>	<p><b>Partial exemption</b> on purchases of machinery and equipment; repair, replacement, component, or enhancement parts</p>
<b>RETAIL-BASED</b>	<b>No exemptions</b>	<b>No exemptions</b>	<b>No exemptions</b>	<b>No exemptions</b>

\* Independent contractors performing manufacturing, fabricating, processing, or other specifically stated activities as subcontractors for manufacturers, fabricators, or processors.



---

---

## Section II Full Exemption for Machinery Manufacturers

---

---

Conn. Gen. Stat. §12-412(34) provides a full exemption on the purchase, lease, or rental of qualifying **machinery used directly in manufacturing**.

*Sales of and the storage, use or other consumption of machinery used directly in a manufacturing production process. The word “machinery” as used in this subsection means the basic machine itself, and includes all of its component parts and contrivances, such as belts, pulleys, shafts, moving parts, operating structures and equipment or devices, which component parts and contrivances are used or required to control, regulate or operate the machinery or to enhance or alter its productivity or functionality, whether such component parts and contrivances are purchased separately or in conjunction with such machine and all replacement and repair parts for the basic machine or for its component parts and contrivances, whether such replacement or repair parts are purchased separately or in conjunction with such machine. For purposes of this subsection, “machinery” includes machinery used exclusively to control or monitor an activity occurring during the manufacturing production process and machinery used exclusively during the manufacturing production process to test or measure materials and products being manufactured but shall not include office equipment or data processing equipment other than numerically controlled machinery used directly in the manufacturing process.*

The sale, lease, or rental of machinery is subject to tax as the sale of tangible personal property. The tax applies to the total gross receipts including any property taxes that are part of a lease or rental agreement. Conn. Gen. Stat. §12-412(34) allows a full exemption on the purchase, lease, or rental of qualifying machinery. The full exemption is available **only** to manufacturers operating in a manufacturing plant. See the definition of manufacturing plant on Page 10.

A qualifying manufacturer must complete and issue **CERT-101, Machinery, Component Parts, and Replacement and Repair Parts of Machinery Used Directly in a Manufacturing Process**, to the supplier to claim an exemption on purchases of machinery under Conn. Gen. Stat. §12-412(34). Only qualified manufacturers may issue CERT-101 and must attest to its exempt use. Contractors or other businesses may not issue this certificate. See *Section XIV*.

The machinery must be used directly in a **manufacturing production process** to qualify for a full exemption under Conn. Gen. Stat. §12-412(34).

Conn. Agencies Regs. §12-412(34)-1(d) defines the **manufacturing production process** as:

*...the activities or series of activities of which manufacturing consists, beginning with the movement of materials, after their receipt, inspection and storage, to the first production machine and ending with the packaging of the manufactured product for its sale to the ultimate consumer.*

For the full exemption, the manufacturing production process does **not** include:

- Pre-production activities such as the weighing, inspection, and storage of materials before the movement of materials to the first production machine; **or**
- Post-production activities such as the casing, bundling, sorting, handling, storing, loading, or delivery of the manufactured product after packaging the product to be sold to the ultimate consumer.

The machinery does not have to directly come into contact with the product being manufactured to qualify for the full exemption. It need only be used directly in the manufacturing process.

---

### Example

Machinery used to regulate atmospheric conditions within a “clean room” (enclosed, environmentally controlled area) used in the manufacturing production process qualifies as machinery used directly in the manufacturing production process. The quality of the air in the clean room has a direct effect on the product being manufactured.

---

### Qualifying Machinery

Use these general guidelines to determine if machinery is **used directly** in a manufacturing process:

- (1) The machinery directly transforms or has a direct effect on materials being manufactured into a product to be sold;
- (2) The machinery is used **predominantly** on the production line to perform an activity during the manufacturing process;

---

### Examples

- Machinery such as a forklift, conveyor belt, euclid, crane, payload, or hoist used more than 50% of the time to move the materials being manufactured between machinery;
- Electric or hydraulic motors used more than 50% of the time to power machinery; **or**
- Air compressors used more than 50% of the time for sandblasting in a manufacturing process.

---

(3) The machinery is **both**:

- (a) Used **exclusively** to control or monitor an activity during the manufacturing process; **or**  
Used **exclusively** to design a product as well as to control or monitor an activity during the manufacturing process; **and**
- (b) **Directly linked** with production machinery described in items (1) or (2) above;

---

### Example

A computer-aided design/manufacturing machine used exclusively to control or monitor, and directly linked to, machinery described in items (1) or (2) above.

---

(4) The machinery is used exclusively during the manufacturing production process to test (other than destructive testing), inspect, or measure materials and products being manufactured including quality control testing. This is true whether for continuous or random testing, inspection, or measuring during the manufacturing process.

### Machinery that qualifies for a full exemption as machinery used directly in the manufacturing process

includes but is not limited to numerically controlled machinery, thermal arc cutting systems, concrete mixers, pavement pulverizers and recyclers, motorized conveyors or dumper systems, boilers, motors, case packing machines (when used to package products for sale to the **ultimate** consumers), integrated chiller systems, clean rooms, shredders, and hydraulic power units.

---

### Nonqualifying Machinery

Machinery used in the following activities **does not** qualify for a full exemption. However, the machinery may qualify for a partial exemption under the MRA:

- (1) To manufacture tools to be used in the manufacturing process unless the tools are sold as finished products;
- (2) To repair or maintain machinery;

(3) To perform an activity **prior** to the first production stage of the manufacturing process;

---

### Example

Inspection machinery used upon receipt of materials before the movement of the materials to the first manufacturing production machine.

---

(4) To control or monitor an activity **after** the last production stage;

---

### Example

Computer used to monitor machinery that cases and loads manufactured products.

- (5) As a detached computer-aided design system (CAD) not directly linked to production machinery;
- (6) For destructive testing;
- (7) As office equipment or data processing equipment;

---

### Examples

- Computer used to maintain inventory control and job costing financial records; **and**
- Computer used both for employee scheduling and on the production line.

---

(8) To pack products after the products have already been placed in their packaging for ultimate sale;

---

### Example

A machine that shrink-wraps a pallet holding 100 boxes of cereal.

- (9) For research and development; **and**
- (10) In creating a prototype not intended to be sold.

---

### Applicable Certificates

**CERT-101**, *Machinery, Component Parts, and Replacement and Repair Parts of Machinery Used Directly in a Manufacturing Process*

### References

**Conn. Gen. Stat. §12-412(34)**

*Machinery used in manufacturing*

**Conn. Agencies Regs. §12-412(34)-1**

*Machinery used directly in a manufacturing production process*

---

---

## Section III Full Exemption for Materials, Tools, and Fuel Manufacturers and Fabricators

---

---

Processors **do not** qualify for a full exemption on purchases of materials, tools, and fuel under Conn. Gen. Stat. §12-412(18).

Conn. Gen. Stat. §12-412(18) allows a full exemption for **production materials**:

*Sales of and the storage or use of materials ... tools and fuel or any substitute therefor, which become an ingredient or component part of tangible personal property to be sold or which are used directly ... in an industrial plant in the actual fabrication of the finished product to be sold. Sales of and the storage or use of materials, tools and fuel or any substitute therefor, when such products are used directly in furnishing of power to an industrial manufacturing plant or in the furnishing of gas, water, steam or electricity when delivered to consumers through mains, lines or pipes.*

The sale, lease, or rental of materials, tools, and fuel is subject to tax as the sale of tangible personal property. Conn. Gen. Stat. §12-412(18) allows a full exemption on purchases of materials, tools, and fuel for manufacturers and fabricators operating in an **industrial plant**. See *Section I* of this publication to see if the business qualifies as a manufacturer or a fabricator.

A qualifying manufacturer or fabricator must complete and issue **CERT-100, Materials, Tools, and Fuel**, to the supplier to claim an exemption on purchases of materials, tools, and fuel under Conn. Gen. Stat. §12-412(18). Only qualified manufacturers and fabricators may issue CERT-100 and must attest to its exempt use. Processors, contractors, or other businesses may not issue this certificate. See *Section XIV*.

---

### Materials

Conn. Gen. Stat. §12-412(18) provides manufacturers and fabricators with a full exemption on the following:

- Materials that **become an ingredient or component part** of tangible personal property to be sold; **and**
- Materials **used directly** in an industrial plant in the actual fabrication of finished products to be sold.

---

### Examples

Anodes	Lubricants
Carbon dioxide	Nitrogen
Catalysts	Polishing compounds
Chemicals	Refrigerants
Dyes	Solvents
Helium	

---

### Qualifying Materials

Use these general guidelines to determine whether materials are **used directly** in an industrial plant in the actual fabrication or manufacturing of finished products to be sold and therefore qualify for the full exemption.

- (1) Materials used to clean or lubricate machinery used directly in the actual fabrication of finished products to be sold;

---

### Examples

- Grease used to lubricate assembly line machinery; **and**
  - Solvent used to clean assembly line machinery.
- 

- (2) Materials used to remove impurities from raw materials being fabricated into finished products to be sold;

---

### Example

Fluids used in a production line filtration system.

---

- (3) Materials used to make a qualifying tool;
- (4) Materials consumed in the grinding, polishing, cutting, or baking of products during the production process;

---

### Example

- Cubic boron nitride (CBN) applied to the cutting surface of grinding wheels used to grind products being fabricated;
  - Carbide tips applied to saw blades used to cut products being fabricated;
  - Muffles used inside a blast furnace to reduce atmospheric volume; **or**
  - Carbon dioxide, nitrogen, and helium combined to generate a laser beam used during the production process to cut a product being manufactured.
- 

- (5) Materials used to make molds into which molten steel will be poured to make parts being fabricated into finished products to be sold; **and**

- (6) Materials that come in contact with and have a direct effect on the products being fabricated or manufactured.

**Example**

Gloves used to prevent the contamination of products being fabricated or manufactured.

Gloves and safety goggles worn for the protection of workers **do not qualify** for an exemption under Conn. Gen. Stat. §12-412(18). However, Conn. Gen. Stat. §12-412(91) exempts from tax the sale and the storage, use, or other consumption of **safety apparel**. *Safety apparel* means any item of clothing or protective equipment worn by an employee for protection during the course of the employee’s employment including but not limited to back belts, ear plugs, gloves, hard hats, lab coats, respiratory masks including disposable, safety boots, safety glasses or goggles, and visors. This exemption is not limited to manufacturers, fabricators, or processors.

**Nonqualifying Materials**

Materials used in the following activities do not qualify for full exemption. However, the materials may qualify for partial exemption under the MRA:

- (1) **Prior to** the first production stage of the fabrication or manufacturing process;
- (2) **After** the last production stage of the fabrication or manufacturing process;
- (3) To conduct destructive testing;
- (4) In research and development;
- (5) For the benefit or safety of workers on the production line (except safety apparel fully exempt under Conn. Gen. Stat. §12-412(91)); **and**
- (6) To create a prototype not intended to be sold.

**Tools**

Conn. Gen. Stat. §12-412(18) provides manufacturers and fabricators with a full exemption on purchases of tools **used directly** in an industrial plant in the actual fabrication of the finished product to be sold including:

- Hand tools;
- Tools used in the operation of machinery;
- Nondestructive testing devices other than machinery or component parts; **and**
- Accessory tools that hold or align:
  - A piece of work being fabricated; **or**
  - A tool used in actual fabrication.

**Qualifying Tools**

Use these general guidelines to determine whether tools are **used directly** in an industrial plant in the actual fabrication of finished products to be sold.

- (1) Tools in direct contact with and used in the fabrication of finished products to be sold;

**Examples**

Chisels	Grinding wheels	Reamers
Cutters	Honing stones	Saws
Dies	Picks	Taps
Drills	Punches	

- (2) Tools that have a direct effect on finished products to be sold by holding or aligning tools in direct contact with raw materials or pieces of work being fabricated into the products;

**Examples**

Adapters	Die sets	Jigs
Brackets	Holders	Quills
Chucks	Inserts	

- (3) Tools that have a direct effect on finished products to be sold by holding or aligning pieces of work being fabricated into the products;

**Examples**

Backing plates	Plating racks	Stone holders
Collets	Shims	Straighteners
Frames		

- (4) Tools that adjust, regulate, or repair machinery used directly in the actual fabrication of finished products to be sold;

**Examples**

Hammers	Screwdrivers	Wrenches
---------	--------------	----------

- (5) Tools used for nondestructive testing during the fabrication of finished products to be sold;

**Example**

Measuring tools such as hand-held micrometers

- (6) Tools used to make other tools to be sold provided title transfers from seller to purchaser; **and**

**Example**

Tools used to make molds provided title to the mold transfers from the manufacturer to the customer

- (7) Tools used to check the performance or output of machinery used directly in the actual fabrication of finished products to be sold.

## Nonqualifying Tools

Tools used in the following activities do not qualify for full exemption. However, the tools may qualify for partial exemption under the MRA:

- (1) To make other tools (intended for use and not for sale) used directly in the actual fabrication of finished products to be sold;
- (2) To inspect finished products to be sold after their actual fabrication is completed and no further refabrication is practicable;
- (3) In destructive testing;
- (4) In research and development; **and**
- (5) To create a prototype not intended to be sold.

---

## Fuel

Conn. Gen. Stat. §12-412(18) provides manufacturers and fabricators with a full exemption on the following purchases of **fuel**:

- Fuel used directly in an industrial plant in the actual fabrication of finished products to be sold; **and**
- Fuel used directly to furnish power to an industrial manufacturing plant.

For this exemption, *fuel* is a substance generally regarded as fuel including but not limited to coal, gas, oil, oxygen, and acetylene. Electricity is not a fuel.

## Qualifying Fuel

Use these general guidelines to determine whether fuel is **used directly** in an industrial plant in the actual fabrication of finished products to be sold or is **used directly** to furnish power to an industrial manufacturing plant:

- (1) Fuel used to provide a temperature or pressure required in the process of fabrication of finished products to be sold is **used directly** in actual fabrication; **and**

---

### Examples

- Oxygen used to apply pressure during the production process;
- Acetylene used in a torch for cutting or welding; **and**
- Coal used in a furnace to apply heat to an item being fabricated or manufactured.

- (2) Fuel used in an industrial manufacturing plant to generate power for machinery used directly in actual fabrication of finished products to be sold is **used directly** in the furnishing of power to an industrial manufacturing plant.

## Nonqualifying Fuel

Fuel used in the following activities does not qualify for a full exemption under Conn. Gen. Stat. §12-412(18). The fuel may qualify for a full exemption under Conn. Gen. Stat. §12-412(3) or §12-412(16) or a partial exemption under the MRA:

- (1) To heat or cool an industrial plant where heating or cooling has only an incidental effect on the process of fabrication of finished products to be sold and is primarily for the comfort of workers at the plant;
- (2) An industrial manufacturing plant to generate power for machinery not used directly in actual fabrication of finished products to be sold or in a manufacturing production process;
- (3) In destructive testing;
- (4) In research and development; **and**
- (5) To create a prototype not intended to be sold.

---

## Full Exemption for Gas, Electricity, and Heating Fuel

### Manufacturers and Fabricators

In addition to the full exemption available under Conn. Gen. Stat. §12-412(18) for fuel used directly in an industrial plant in the actual fabrication of a finished product to be sold or to furnish power directly to an industrial manufacturing plant, Conn. Gen. Stat. §12-412(3) and §12-412(16) also provide full exemptions for gas, electricity, and heating fuel. However, the qualifications for exemption under these statutes are not identical. A fabricator or manufacturer may not qualify for a full exemption under Conn. Gen. Stat. §12-412(3) or §12-412(16), but may qualify for an exemption under Conn. Gen. Stat. §12-412(18).

A qualifying manufacturer or fabricator must complete and issue **CERT-115, Exempt Purchases of Gas, Electricity, and Heating Fuel**, to the supplier to claim an exemption on purchases of gas, electricity, or heating fuel under Conn. Gen. Stat. §12-412(3) or §12-412(16).

Conn. Gen. Stat. §12-412(3)(A) provides a full exemption for:

**Certain utilities.** (A) *Gas and electricity...The sale, furnishing or service of gas, including bottled gas, and electricity when delivered to consumers through mains, lines, pipes or bottles for use...(ii) directly in...fabrication of a finished product to be sold or an industrial manufacturing plant, provided the exemption under subdivision (ii) shall only be allowed with respect to a metered building, location*

*or premise at which not less than seventy-five per cent of the gas, including bottled gas, or electricity consumed at such metered building, location or premise is used for the purpose of such...fabrication or manufacturing. Bottled gas as used in this subsection means L.P. (propane) gas.*

Conn. Gen. Stat. §12-412(16) provides a full exemption for:

**Fuel for heating purposes.** *Sales of fuel used for heating purposes ... (ii) in any building, location or premise utilized directly in ... fabrication of a finished product to be sold or an industrial manufacturing plant, provided the exemption under this subdivision (ii) shall only be allowed with respect to a building, location or premise in which not less than seventy-five per cent of the fuel used in such building, location or premise is used for the purpose of such ... fabrication or manufacturing.*

### Mixed Use Locations

A manufacturer or fabricator may qualify for a full exemption on the purchase of gas, electricity, or heating fuel for a building used in both manufacturing or fabrication and a nonqualifying activity such as administration. If a building, location, or premises is served by a **single meter** and is used for both fabrication or manufacturing and a nonqualifying activity, the purchaser must establish either:

- **The usage test** - 75% or more of the gas, electricity, or heating fuel consumed at a location, building, or premises where fabrication of a finished product to be sold or production in an industrial manufacturing plant takes place is used for the manufacturing or fabrication; **or**
- **The square footage test** - 75% or more of the area of a building, location, or premises served by that meter or tank is used for manufacturing production or fabrication of a finished product to be sold.

For a full exemption under Conn. Gen. Stat. §12-412(3) or §12-412(16), **manufacturing** and **fabricating** include preproduction and postproduction activities if they occur at a building location, or premises served by a single meter. Therefore, qualifying areas

include the actual fabrication or production area, research and development areas, and storage areas for raw materials or finished products. A manufacturing or fabricating facility must qualify as an industrial plant under the five-part test discussed in **Policy Statement 94(3.2)**, *Gas and Electricity Purchased for Residential Use or for Use in Agricultural Production, in the Fabrication of Finished Products to be Sold, or in an Industrial Manufacturing Plant.*

However, if there is one meter serving the area of the building used for fabrication or manufacturing (the qualifying portion of the building) and a **separate** meter for the administrative (nonexempt) portion, **only** the electricity used in the fabrication or manufacturing area is exempt from tax.

---

#### Example 1

A building served by one electric meter is used both in manufacturing production and for administrative purposes. Eighty-five per cent of the electricity is used directly in the manufacturing production process and 15% is used for administrative purposes. The electricity used in this building is fully exempt under Conn. Gen. Stat. §12-412(3)(A).

---

#### Example 2

A building served by one electric meter is used both in the fabrication of a finished product to be sold and for administrative purposes. Fifty percent of the electricity is used directly in the fabrication process and 50% is used for administrative purposes. However, 85% of the area of the building is used in the fabrication of a finished product to be sold and 15% of the area is used for administrative purposes. The electricity used in this building is fully exempt under Conn. Gen. Stat. §12-412(3)(A).

---

#### Example 3

A building served by one electric meter is used both in manufacturing production and for administrative purposes. Fifty percent of the electricity is used directly in the manufacturing production process and 50% is used for administrative purposes. However, 65% of the area of the building is used in manufacturing and 35% of the area is used for administrative purposes. The electricity used in this building is **not** fully exempt under Conn. Gen. Stat. §12-412(3)(A).

---

## **\$150 Exemption for Electricity**

### **Manufacturers, Fabricators, and Processors**

In addition to the exemption available under Conn. Gen. Stat. §12-412(3)(A) for electricity purchased for the specified uses, Conn. Gen. Stat. §12-412(3)(D) allows an exemption for the first \$150 charged per metered location each month for electricity not qualifying for a full exemption. This exemption applies to all purchases of electricity not exempted under subdivision (A) regardless of the use of the electricity. The customer does not have to furnish a certificate to the electric utility to qualify for this exemption. If a customer has more than one meter or account with an electric utility company, the \$150 exemption applies to **each** metered location of that customer regardless of the number of accounts or meters of the customer. To determine an exemption under Conn. Gen. Stat. §12-412(3)(D), a **location** is a site at which a business operates. Therefore, an electricity customer can have several metered locations if it has more than one shop or warehouse in Connecticut.

## **Applicable Certificates**

**CERT-100**, *Materials, Tools and Fuel*

**CERT-115**, *Exempt Purchases of Gas, Electricity, and Heating Fuel*

## **References**

**Conn. Gen. Stat. §12-412(3)**

*Certain utilities*

**Conn. Gen. Stat. §12-412(16)**

*Fuel for heating purposes*

**Conn. Gen. Stat. §12-412(18)**

*Production materials*

**Conn. Agencies Regs. §12-412(18)-1**

*Materials, tools and fuel used directly in an industrial plant in the actual fabrication of finished products to be sold*

**Policy Statement 94(3.2)**, *Gas and Electricity*

*Purchased for Residential Use or for Use in Agricultural Production, in the Fabrication of Finished Products to be Sold, or in an Industrial Manufacturing Plant*

---

---

## Section IV Partial Exemption for Machinery and Equipment Manufacturers, Fabricators, and Processors

---

---

The Manufacturing Recovery Act of 1992 (the MRA), Conn. Gen. Stat. §12-412i, provides a partial exemption as a reduction of 50% of the sales price including shipping and handling for machinery and equipment and replacement, repair, and component and enhancement parts. Application of the MRA results in an effective tax rate of 3% on qualifying purchases.

### Example

A qualifying machine is purchased for \$10,000; the tax on the sales price is calculated as follows:

Sales price	\$10,000
Less:	
MRA partial exemption of 50%	- 5,000
<b>Adjusted sales price</b>	<b>\$5,000</b>
<b>Adjusted sales price</b>	\$5,000
Apply 6% sales tax	x 6%
<b>Sales tax to be paid</b>	<b>\$300</b>

The partial exemption is available for the purchase of a broader range of property than the full exemption for manufacturing machinery provided under Conn. Gen. Stat. §12-412(34). Likewise, the partial exemption may be used by a broader category of purchasers. Under Conn. Gen. Stat. §12-412(34), the full exemption is available only to manufacturers that purchase machinery and replacement, repair, component, and enhancement parts for use directly in a manufacturing process. Under Conn. Gen. Stat. §12-412i, fabricators, processors, and qualifying independent contractors may qualify for a partial exemption on purchases of machinery. Manufacturers that do not qualify under Conn. Gen. Stat. §12-412(34) may qualify for a partial exemption on purchases of machinery such as preproduction machinery that do not qualify for a full exemption. Manufacturers, fabricators, processors, and qualifying independent contractors may also qualify for a partial exemption on purchases of equipment or parts for the equipment.

The partial exemption under the MRA is not intended to replace the full exemption under Conn. Gen. Stat. §12-412(34). If a purchase qualifies for exemption under both Conn. Gen. Stat. §12-412i and §12-412(34), only the full exemption under Conn. Gen. Stat. §12-412(34) applies.

A qualifying manufacturer, fabricator, or processor must complete and issue **CERT-109**, *Partial Exemption for Machinery, Equipment, or Repair and Replacement Parts*, to the supplier to claim a partial exemption on purchases of machinery and equipment and repair, replacement, component, and enhancement parts under the MRA. The qualifying entity must attest to the exempt use of the certificate. See *Section XIV*.

Conn. Gen. Stat. §12-412i(b)(4), for the MRA partial exemption, defines **machinery** as:

*...the basic machine itself, including all of its component parts and contrivances such as belts, pulleys, shafts, moving parts, operating structures and all equipment or devices used or required to control, regulate or operate the machinery, including without limitation, computers and data processing equipment, together with all replacement and repair parts therefor, whether purchased separately or in conjunction with a complete machine, and regardless of whether the machine or component parts thereof are assembled by the taxpayer or another party.*

Conn. Gen. Stat. §12-412i(b)(5), for the MRA partial exemption, defines **equipment** as:

*...any device separate from machinery but essential to a manufacturing, processing or fabricating process.*

Equipment is essential **only** if the manufacturing, processing, or fabricating process cannot continue without that equipment. A legal requirement for equipment such as protective screens or railings for safety reasons does not necessarily render equipment essential. Likewise, a practical necessity, such as ceiling lights, does not necessarily render equipment essential.

Machinery and equipment must be used **primarily** (chiefly) in a qualifying manufacturing, processing, or fabricating activity for a partial exemption under Conn. Gen. Stat. §12-412i.



---

### Examples

- A machine used for two different functions, one that would qualify the machine for the MRA partial exemption and the other that would not, is used primarily in the qualifying activity **more than 50%** of the time.
- A machine used for three different functions is used primarily in the qualifying activity **more than 33.33 %** of the time.

---

### Qualifying Machinery and Equipment

The MRA provides a partial exemption for purchases of machinery and equipment used primarily in:

- (1) Any stage of the manufacturing, processing, or fabricating process:
  - From the time any raw materials are received; **and**
  - To the time the product is ready for delivery or storage.

Activities within the scope of the process qualifying for the MRA partial exemption include:

- Weighing and testing materials upon receipt;
  - Tool room activities;
  - Overpacking (placing packages in a form to be sold at retail in large boxes);
  - Crating;
  - Stacking the boxes on pallets; **and**
  - Covering the pallets with shrinkwrap for shipment;
- (2) Research and development for the manufacturing, processing, or fabricating tangible personal property, specifically an experimental or laboratory activity with its ultimate goal as:
    - The development of new products;
    - The development of new uses for existing products; **or**
    - The development or improvement of methods for producing products;
  - (3) Measuring or testing for manufacturing, processing, or fabricating tangible personal property including:
    - Nondestructive measuring or testing;
    - Destructive measuring or testing;
    - Alignment of machinery, equipment, and tools;
    - Calibration of machinery, equipment, and tools; **and**
    - Quality control measuring or testing;

- (4) Maintaining or repairing any machinery or equipment described in (1), (2), or (3) above; **or**
- (5) Metal finishing including but not limited to:
  - Grinding, filing, or sanding surfaces of metal items;
  - Removing excess metal with presses equipped with trimming dies or grinding wheels;
  - Examining the surface of metal to detect defects such as dents, scratches, or breaks;
  - Removing defects and filling an uneven surface with solder;
  - Smoothing the surface of an item to a specified finish with sandblasting or shot-blasting equipment;
  - Removing scale by dipping a metal forging in acid solution;
  - Heat treating to improve the physical properties of metal; **or**
  - Polishing a metal surface.

---

### Nonqualifying Machinery and Equipment

Machinery and equipment used primarily in the following activities do not qualify for partial exemption:

- (1) Administration;
- (2) General management;
- (3) Sales;
- (4) Any other activity not constituting manufacturing, processing, or fabricating; **or**
- (5) Retail-based manufacturing, processing, or fabricating including any establishment primarily engaged in business:
  - As a retailer of tangible personal property which manufactures, processes, or fabricates tangible personal property as an incidental part of its business;
  - As a retailer of services which manufactures, processes, or fabricates tangible personal property as an incidental part of its business; **or**
  - In furnishing, preparing, or serving food, meals, or drinks which manufactures, processes, or fabricates tangible personal property as an incidental part of its business.

**Retail-based manufacturing** includes but is not limited to retailers such as restaurants, grocery stores, caterers, meat and fish markets; bakeries, candy, nut, and confectionery stores that process food products primarily for direct sale on the premises to consumers; photographic studios;

artists; tailors; and establishments that primarily perform fabricating or processing services on the property of others on a retail basis. These services are taxable under Conn. Gen. Stat. §§12-407(a)(2)(C) or (2)(G);

(6) Beyond the scope of the qualifying process; **and**

---

**Example**

Machinery or equipment used to load the packaged product into storage or into delivery vehicles

---

(7) For testing or inspection for:

- Efficiency surveys;
- Management studies;
- Consumer surveys;
- Other market research, advertising, or promotional activities; **or**
- Research for literary, historical, or similar projects.

---

**Independent Contractors**

Businesses that do not meet the full specifications to establish them as manufacturers, fabricators, or processors, but perform the activities of manufacturing, fabricating, or processing as subcontractors or perform specific related services for qualifying manufacturers, fabricators, or processors may still qualify for a partial exemption on purchases of machinery and equipment.

An independent contractor can purchase machinery and equipment partially exempt under the MRA if the contractor is primarily engaged in:

- (1) **Manufacturing, processing, or fabricating as a subcontractor** for a qualifying manufacturer, fabricator, or processor;
- (2) **Performing research and development** for manufacturing, processing, or fabricating;
- (3) **Performing measuring and testing** including adjusting and calibrating machinery, equipment, and tools for manufacturing, processing, or fabricating; **or**
- (4) **Maintaining or repairing** qualifying manufacturing, processing, or fabricating machinery or equipment.

**Applicable Certificates**

**CERT-109**, *Partial Exemption for Machinery, Equipment, or Repair and Replacement Parts*

**References**

**Conn. Gen. Stat. §12-412i**

*Partial exemption for materials, tools, fuels, machinery and equipment used in manufacturing*

**Special Notice 93(1.1)**, *The Manufacturing Recovery Act of 1992 — Exemption for Purchases of Property Used in Manufacturing, Processing and Fabricating*

## Section V Partial Exemption for Materials, Tools, and Fuels Manufacturers, Fabricators, and Processors

The Manufacturing Recovery Act of 1992 (the MRA), Conn. Gen. Stat. §12-412i, provides a partial exemption as a reduction of 50% of the gross receipts or sales price for materials, tools, and fuels. Application of the MRA results in an effective tax rate of 3% on qualifying purchases.

### Example

A qualifying tool is purchased for \$500; the tax on the gross receipts is calculated as follows:

Tool sales price	\$500
Less	
MRA partial exemption of <b>50%</b>	- 250
<b>Adjusted sales price</b>	<b>\$250</b>
<b>Adjusted sales price</b>	<b>\$250</b>
Apply <b>6%</b> sales tax	x 6%
<b>Sales tax to be paid</b>	<b>\$15</b>

The partial exemption is available to a broader range of property than the full exemption for materials, tools, and fuels under Conn. Gen. Stat. §12-412(18). Likewise the partial exemption may be used by a broader category of purchasers. Under Conn. Gen. Stat. §12-412(18), the full exemption for materials, tools, and fuel is available only to manufacturers and fabricators who use the items directly in the manufacturing or fabricating process. Under Conn. Gen. Stat. §12-412i, processors and independent contractors may qualify for a partial exemption on purchases of materials, tools, and fuels. In addition, manufacturers and fabricators may qualify for a partial exemption on items not fully exempted under Conn. Gen. Stat. §12-412(18).

The partial exemption under the MRA is not intended to replace the full exemption under Conn. Gen. Stat. §12-412(18). If a purchase qualifies for an exemption under both Conn. Gen. Stat. §12-412i and §12-412(18), Conn. Gen. Stat. §12-412(18) applies. For a partial exemption under MRA, materials, tools, and fuels do not have to be used directly in the actual fabrication of finished products to be sold as required under Conn. Gen. Stat. §12-412(18).

A qualifying manufacturer, fabricator, or processor must complete and issue **CERT-108, *Partial Exemption of Materials, Tools, and Fuels***, to the supplier to claim a partial exemption on purchases of materials, tools, and fuels under the MRA. The qualifying manufacturer, fabricator, or processor must attest to the exempt use of the certificate. See *Section XIV*.

For purposes of the partial exemption under the MRA, an **industrial plant** is an establishment that has manufacturing, processing, or fabricating of finished products to be sold as its **predominant** purpose and is generally recognized as such. **Predominant** means more than 50%. An industrial plant does not include a cottage industry where manufacturing, processing, or fabricating is provided at a nonindustrial location such as a residential dwelling or a building on the grounds of a residential dwelling. If the plant is not located in a commercial or industrial zone or if it is located in a partially residential building, it is less likely to qualify as an industrial plant.

### Industrial Plant Guidelines

Use these guidelines to determine whether an establishment has manufacturing, processing, or fabricating of tangible personal property to be sold as its predominant purpose.

- (1) The floor space of the establishment must be predominantly devoted to manufacturing, processing, or fabricating finished products to be sold.
- (2) The predominant number of employees working at the establishment must be working in manufacturing, processing, or fabricating finished products to be sold.
- (3) The wages and salaries of employees working at the establishment must be predominantly of employees working in manufacturing, processing, or fabricating finished products to be sold.
- (4) The costs of operating the establishment must be predominantly attributable to manufacturing, processing, or fabricating finished products to be sold.
- (5) **Conversely**, if sales made at the establishment are predominantly of products manufactured, processed, or fabricated elsewhere, it is more likely a retail establishment and the manufacturing, processing, or fabricating aspect of the establishment is incidental to its retail characteristics.

To determine eligibility for a partial exemption, research and development and measuring and testing activities are includable to qualify an establishment as an industrial plant. Research and development activities and measuring and testing activities by themselves, **do** constitute manufacturing, fabricating, or processing for purposes of the exemption.

## Qualifying Materials

The MRA partially exempts purchases of materials that:

- (1) Become an ingredient or component part of tangible personal property to be sold (also fully exempt under Conn. Gen. Stat. §12-412(18));
- (2) Are used or consumed in manufacturing, processing, or fabricating tangible personal property to be sold;
- (3) Are used or consumed in any process preparatory or related to manufacturing, processing, or fabricating tangible personal property to be sold;
- (4) Are used or consumed in measuring or testing tangible personal property to be sold;
- (5) Are used in repairing and maintaining machinery and equipment qualifying for the MRA;
- (6) Are used in a tool room to manufacture or repair tools qualifying for the MRA;
- (7) Are used in a preparatory process for research and development;
- (8) Are used in a preparatory process to prepare the materials to be used or consumed;
- (9) Are used in a preparatory process to ready the machinery, equipment, or tools used in the manufacturing, processing, or fabricating process; **or**
- (10) Are needed to maintain a level of purity required for manufacturing, fabricating, or processing activities.

## Qualifying Tools

The MRA partially exempts purchases of tools used:

- (1) Or consumed in manufacturing, processing, or fabricating tangible personal property to be sold;
- (2) In measuring or testing tangible personal property to be sold;
- (3) In repairing and maintaining machinery and equipment qualifying for the MRA;
- (4) In a tool room to manufacture or repair tools qualifying for the MRA;
- (5) Or consumed in any process preparatory or related to manufacturing, fabricating, or processing tangible personal property to be sold such as:
  - Hand tools;

### Examples

Chisels	Screwdrivers
Hammers	Wrenches
Saws	

- Tools used in the operation of machinery;

### Examples

Chisels	Picks
Cutters	Punches
Dies	Reamers
Drills	Saws
Grinding wheels	Taps
Honing stones	

- Accessory tools that:

Hold or align a piece of work being manufactured, processed, or fabricated; **or**

Hold or align tools used in the processes;

### Examples

Adaptors	Inserts
Brackets	Jigs
Chucks	Quills
Die sets	Straighteners
Holder	

- (6) In a preparatory process for research and development;
- (7) In a preparatory process to prepare the materials to be used or consumed; **or**
- (8) In a preparatory process to ready the machinery, equipment, or tools used in the manufacturing, processing, or fabricating process.

## Qualifying Fuels

The MRA partially exempts purchases of fuels, generally regarded as such, including but not limited to coal, gas, oil, oxygen, and acetylene:

- (1) Used or consumed in manufacturing, processing, or fabricating tangible personal property to be sold;
- (2) Used or consumed in any process preparatory or related to manufacturing, processing, or fabricating tangible personal property to be sold;
- (3) Used or consumed in measuring or testing tangible personal property to be sold;
- (4) Used in repairing and maintaining machinery and equipment qualifying for the MRA;
- (5) Used in a tool room to manufacture or repair tools qualifying for the MRA;
- (6) Used in a preparatory process for research and development;
- (7) Used in a preparatory process to prepare the materials to be used or consumed;
- (8) Used in a preparatory process to ready the machinery, equipment, or tools used in the manufacturing, processing, or fabricating process; **or**
- (9) Needed to maintain a level of purity required for manufacturing, fabricating, or processing activities.

## Nonqualifying Materials, Tools, and Fuels

Materials, tools, and fuels used primarily (chiefly) in the following activities do **not** qualify for a partial exemption:

- (1) Administration;
- (2) General management;
- (3) Sales;
- (4) Any other activity not constituting manufacturing, processing, or fabricating;
- (5) Retail-based manufacturing, processing, or fabricating including any establishment primarily engaged in business:
  - As a retailer of tangible personal property which manufactures, processes, or fabricates tangible personal property as an incidental part of its business;
  - As a retailer of services which manufactures, processes, or fabricates tangible personal property as an incidental part of its business;
  - In furnishing, preparing or serving food, meals, or drinks which manufactures, processes, or fabricates tangible personal property as an incidental part of its business.

**Retail-based establishments** include but are not limited to retailers such as: restaurants, grocery stores, caterers, meat and fish markets; bakeries, candy, nut, and confectionery stores that process food products primarily for direct sale on the premises to consumers; photographic studios; artists; tailors; and establishments that primarily perform fabricating or processing services on the property of others on a retail basis (such services are taxable under Conn. Gen. Stat. §12-407(a)(2)(C) or (G));

- (6) Beyond the scope of the qualifying process; **or**

---

### Example

Machinery or equipment used to load the packaged product into storage or into delivery vehicles

---

- (7) Testing or inspection for:
  - Efficiency surveys;
  - Management studies;
  - Consumer surveys; **or**
  - Other market research, advertising, or promotional activities.

## Independent Contractors

Businesses that do not meet the full specifications to establish them as manufacturers, fabricators, or processors but perform the activities of manufacturing, fabricating, or processing as subcontractors or perform specific related services for qualifying manufacturers, fabricators, or processors may still qualify for partial exemption on certain purchases.

An independent contractor may purchase materials, tools, and fuels partially exempt under the MRA if the contractor is primarily engaged in the following activities at an industrial plant. See definitions of **primarily** and **industrial plant** as they relate to independent contractors on Pages 13 and 14.

- (1) Performing manufacturing, processing, or fabricating as a subcontractor for a qualifying manufacturer, fabricator, or processor;
- (2) Performing research and development for manufacturing, processing, or fabricating;
- (3) Performing measuring and testing for manufacturing, processing, or fabricating; **or**
- (4) Adjusting and calibrating qualifying manufacturing, fabricating, or processing machinery, equipment, or tools.

While a contractor primarily engaged in maintaining or repairing qualifying manufacturing, fabricating, or processing equipment **may** qualify for a partial exemption on purchases of machinery and equipment, the contractor is **not eligible** for a partial exemption on purchases of materials, tools, and fuels.

---

## Applicable Certificates

**CERT-108**, *Partial Exemption of Materials, Tools, and Fuels*

## References

### Conn. Gen. Stat. §12-412i

*Partial exemption for materials, tools, fuels, machinery and equipment used in manufacturing*

**Special Notice 93(1.1)**, *The Manufacturing Recovery Act of 1992 — Exemption for Purchases of Property Used in Manufacturing, Processing and Fabricating*

---

---

## Section VI Replacement, Repair, Component, and Enhancement Parts

### Manufacturers, Fabricators, and Processors

---

---

#### Component and Enhancement Parts

**Component and enhancement parts** are:

- (1) Parts that did not previously exist on the machine and are new to the machine; **or**
- (2) Separate parts purchased for assembly into a machine, but **not** machines onto themselves.

Component and enhancement parts may expand the capability of a machine or add a new function to the machine.

---

#### Replacement and Repair Parts

**Replacement and repair parts** are parts that replace existing parts of machinery, perform the same functions, and have essentially the same capabilities as the parts being replaced.

---

#### Manufacturers

Manufacturers qualify:

- For a full exemption under Conn. Gen. Stat. §12-412(34) on component, enhancement, replacement, and repair parts for machinery used directly in a manufacturing production process; **and**
- Under the MRA, for a partial exemption on component, enhancement, replacement, and repair parts for:
  - Tools that qualify for full exemption under Conn. Gen. Stat. §12-412(18);
  - Machinery that does not qualify for full exemption under Conn. Gen. Stat. §12-412(34); **and**
  - Equipment and tools that qualify for partial exemption under the MRA.

---

#### Fabricators

Fabricators qualify:

- Under the MRA, for a partial exemption on component, enhancement, replacement, and repair parts for:
  - Tools qualifying for full exemption under Conn. Gen. Stat. §12-412(18); **and**
  - Machinery, equipment, and tools that qualify for a partial exemption under the MRA.

#### Processors

Processors qualify under the MRA for a partial exemption on component, enhancement, replacement, and repair parts for machinery, equipment, and tools that qualify for a partial exemption under the MRA.

---

#### Full Exemption

Under Conn. Gen. Stat. §12-412(34) a full exemption for component, enhancement, replacement, and repair parts is available to qualifying manufacturers.

This section provides a full exemption for parts by including them under the definition of machinery:

*... includes all of its component parts and contrivances, such as belts, pulleys, shafts, moving parts, operating structures and equipment or devices, which component parts and contrivances are used or required to control, regulate or operate the machinery or to enhance or alter its productivity or functionality, whether such component parts and contrivances are purchased separately or in conjunction with such machine and all replacement and repair parts for the basic machine or for its component parts and contrivances, whether such replacement or repair parts are purchased separately or in conjunction with such machine....*

The full exemption is available for component, enhancement, replacement, and repair parts of machinery used directly in a manufacturing production process **whether or not** those parts are sold in the same transaction with the basic machine.

A full exemption for component and enhancement parts is available under Conn. Gen. Stat. §12-412(73) to manufacturers or persons who assemble the parts on behalf of manufacturers into or onto a qualifying machine **before** that machine is used directly in a manufacturing process. This exemption does **not** apply to repair or replacement parts.

Conn. Gen. Stat. §12-412(73) provides a full exemption for:

**Component parts for assembly of manufacturing machinery.** *The sales of any part of a machine purchased exclusively for the purpose of assembling a machine for use directly in a manufacturing production process, provided the purchaser submits a certified statement at the time of such purchase, on a form prepared by the commissioner of revenue services, certifying that such part is purchased exclusively for use in a machine to be assembled by the purchaser, or someone acting on behalf of the purchaser; and that such machine shall be used directly in a manufacturing production process. The purchaser shall prepare a record of the use of such part which shall be maintained by the purchaser for a period of not less than three years following the date of purchase.*

Component and enhancement parts qualify for this exemption **only** when purchased exclusively for assembly into or onto qualifying machinery prior to the time the machine is put into actual production. However, either a manufacturer or a person assembling machinery on behalf of a manufacturer may purchase component and enhancement parts under this exemption. If a new machine and the component and enhancement parts are purchased at the same time from the same vendor or different vendors, the component and enhancement parts are exempt if they are purchased exclusively for assembly into or onto the machine to enhance the function in some way. The exemption does not extend to purchases of replacement parts for some future time. The exemption applies through the assembly and testing stages to the time when the assembled machine is ready to be used in production. This exemption does not apply to other component or enhancement parts purchased separately. The purchaser need not be a manufacturer as long as the machine will be used in the manufacturing production process.

---

## Software

Canned or prewritten software is a component or enhancement part of machinery used directly in a manufacturing production process. Canned software purchased at any time by a manufacturer for use on qualifying machinery qualifies for a full exemption under Conn. Gen. Stat. §12-412(34). Canned software purchased in a separate transaction from qualifying machinery for assembly into new machinery

qualifies for full exemption under Conn. Gen. Stat. §12-412(73) provided the purchase is made **and** the software is assembled into the machine before the machine is used in actual production, whether the software is purchased by a manufacturer or by a person assembling a machine on behalf of a manufacturer. See *Section VIII*.

A qualifying manufacturer or a person who assembles component or enhancement parts on behalf of a qualifying manufacturer must complete and issue **CERT-101, Machinery, Component Parts, and Replacement and Repair Parts of Machinery Used Directly in a Manufacturing Process**, to the supplier to claim a full exemption on purchases of component, enhancement, replacement, or repair parts under Conn. Gen. Stat. §12-412(34) or §12-412(73). The qualifying entity must attest to the exempt use of the certificate. See *Section XIV*.

---

## Partial Exemption

The purchase of a component, enhancement, replacement, or repair part may not qualify for a full exemption under Conn. Gen. Stat. §12-412(34) or Conn. Gen. Stat. §12-412(73) because the machinery onto which the part is assembled was not purchased by a manufacturer or will not be used in a manufacturing process. However, under the MRA a partial exemption is available to manufacturers, fabricators, and processors for parts for qualifying machinery, equipment, and tools. For purposes of calculating the tax, the partial exemption on component, enhancement, replacement, and repair parts is a 50% reduction of the sales price.

The partial exemption is provided for component, enhancement, replacement, and repair parts of machinery by including them under the definition of machinery. Conn. Gen. Stat. §12-412i(b)(4) defines **machinery** as:

*...the basic machine itself, including all of its component parts and contrivances such as belts, pulleys, shafts, moving parts, operating structures and all equipment or devices used or required to control, regulate or operate the machinery, including without limitation, computers and data processing equipment, together with all replacement and repair parts therefor, whether purchased separately or in conjunction with a complete machine, and regardless of whether the machine or component parts thereof are assembled by the taxpayer or another party.*

The MRA also provides a partial exemption for component, enhancement, replacement, and repair parts of qualifying equipment and tools. While not specifically stated, this interpretation can be drawn from the MRA's partial exemption of materials, tools, and fuels that are:

- Used in a process preparatory or related to the manufacturing, processing, or fabricating of tangible personal property to be sold, **or**
- Used or consumed in the manufacturing, processing, or fabricating of tangible personal property to be sold.

Therefore, parts purchased for qualifying tools and equipment also qualify for a partial exemption under the MRA.

Component, enhancement, replacement, and repair parts qualify for a partial exemption under the MRA whether they are purchased in the same transaction with or separately from qualifying machinery, equipment, or tools. A partial exemption for parts is available through the assembly and testing stages of qualifying machinery, equipment, or tools as well as during actual production. Parts purchased separately for assembly into a machine that would qualify for exemption under the MRA had it been purchased fully assembled also qualify for the MRA exemption.

All software, whether canned, custom, or customized, purchased in the **same transaction** with the machine on which the software is used or as component parts to be assembled into or onto a new machine may qualify for a partial exemption under the MRA. Canned or prewritten software purchased in the same **or** a separate transaction from the purchase of machinery is treated as the purchase of a component or enhancement part. See *Section VIII*.

A qualifying manufacturer, fabricator, or processor must complete and issue **CERT-109, Partial Exemption for Machinery, Equipment, or Repair and Replacement Parts**, to the supplier to claim a partial exemption on purchases of component, enhancement, replacement, or repair parts under the MRA. The qualifying entity must attest to the exempt use of the certificate. See *Section XIV*.

## Repair and Maintenance Services

Neither the full nor the partial exemption applies to services. Most maintenance and repair services are fully taxable at 6%.

### Example

A processor purchases a machine partially exempt under the MRA. The machine breaks down and needs to be repaired. The repair parts cost \$250 and repair labor is \$120. The processor completes and issues **CERT-109, Partial Exemption for Machinery, Equipment, or Repair and Replacement Parts**, to the supplier to purchase the repair parts under the MRA partial exemption. The repair is taxable as follows:

Repair parts	\$250.00
Less:	
The MRA partial exemption (50%)	- 125.00
<b>Adjusted gross receipts</b>	<b>\$125.00</b>
<b>Adjusted gross receipts</b>	<b>\$125.00</b>
Apply 6% sales tax	<u>x .06</u>
Sales tax due on repair parts	\$7.50
Repair labor	\$120.00
Apply 6% sales tax	<u>.06</u>
Sales tax due on repair labor	\$7.20
Repair parts sales tax	7.50
Repair labor sales tax	<u>+ 7.20</u>
<b>Total sales tax due</b>	<b>\$14.70</b>

However, a full exemption is allowed under Conn. Gen. Stat §12-412(104) for the sales, use, or other consumption of:

- (A) **Calibration services** for machinery, equipment, or instrumentation used in a manufacturing production process. **Calibration services** mean independent inspection services performed to verify accuracy in the provision, calibration, or recalibration of equipment used to test, measure, monitor, or gauge any quality, process, or environmental equipment used in conjunction with maintaining quality standards or meeting regulatory requirements; **or**
- (B) Other sales, use, or other consumption of services or compliance practices associated with registration and compliance of quality management and quality assurance standards as part of standards created by the International Organization of Standards.



## Applicable Certificates

**CERT-101**, *Machinery, Component Parts, and Replacement and Repair Parts of Machinery Used Directly in a Manufacturing Process*

**CERT-109**, *Partial Exemption for Machinery, Equipment, or Repair and Replacement Parts*

## References

**Conn. Gen. Stat. §12-412(34)**  
*Machinery used in manufacturing*

**Conn. Gen. Stat. §12-412(73)**  
*Component parts for assembly of manufacturing machinery*

**Conn. Gen. Stat. §12-412(104)**  
*Calibration services.*

**Conn. Gen. Stat. §12-412i**  
*Partial exemption for materials, tools, fuels, machinery and equipment used in manufacturing*

**Special Notice 93(1.1)**, *The Manufacturing Recovery Act of 1992 — Exemption for Purchases of Property Used in Manufacturing, Processing and Fabricating*

## Section VI Summary

	<b>Replacement, Repair, Component, and Enhancement Parts Purchased By</b>	<b>Full Exemption From Sales and Use Taxes Available Under</b>	<b>Partial Exemption From Sales and Use Taxes Available Under</b>
<b>Prior to use in production only</b>	A nonmanufacturer or the manufacturer for assembly to create a new manufacturing machine	Conn. Gen. Stat. §12-412(73) <b>(M)bb</b>	
<b>Prior to or during use in production</b>	A manufacturer for assembly by the manufacturer or a nonmanufacturer onto or into machinery fully exempt under Conn. Gen. Stat. §12-412(34) <b>whether or not purchased with machinery</b>	Conn. Gen. Stat. §12-412(34) <b>(M)</b>	
	Any person for assembly onto or into machinery partially exempt under the MRA		Conn. Gen. Stat. §12-412i <b>(M,F,P)</b>
	Any person for assembly onto or into equipment partially exempt under the MRA		Conn. Gen. Stat. §12-412i <b>(M,F,P)</b>
	Any person for assembly onto or into a tool fully exempt under Conn. Gen. Stat. §12-412(18)		Conn. Gen. Stat. §12-412i <b>(M,F)</b>
	Any person for assembly onto or into a tool partially exempt under the MRA		Conn. Gen. Stat. §12-412i <b>(M,F,P)</b>
Table Key:            Manufacturer = M            Fabricator = F            Processor = P			

---

---

## Section VII Labor and Services

### Manufacturers, Fabricators, and Processors

---

---

Certain enumerated services are subject to tax in the State of Connecticut. This section focuses on common services related to manufacturing, fabricating, and processing. A complete list of taxable services can be found in Conn. Gen. Stat. §12-407(a)(2). The full and partial manufacturing exemptions apply only to tangible personal property, not to services. Taxable charges for services include overhead expenses for items used and consumed by the service provider such as telephone, airfare, mileage, and meals.

---

#### Services to Real Property

This section focuses on services to real property as they apply to commercial property, industrial property, and the new construction of the property. See **Informational Publication 2006(35)**, *Building Contractors' Guide to Sales and Use Taxes*, and Conn. Agencies Regs. §12-407(2)(i)(1)-1.

Manufacturers, fabricators, and processors are the consumers of and must pay tax on all services to real property provided at their industrial plants, machine shops, warehouses, or any other commercial or industrial site unless the services provided qualify as services rendered in the construction of new real property.

Any business including a manufacturer, fabricator, or processor doing business with a nonresident contractor may be held personally liable for payment of any state taxes owed by the nonresident contractor in fulfilling the contract. Nonresident contractors doing business in the State of Connecticut must post a bond or make a deposit with the Commissioner of Revenue Services to secure payment of Connecticut taxes. See IP 2006(35) and **Special Notice 2005(12)**, *Nonresident Contractor Bonds and Deposits*.

Services to **commercial or industrial real property** include but are not limited to:

Air conditioning	Masonry
Carpentry	Painting
Carpeting	Paving
Clean room	Plastering
Demolition	Plumbing
Electrical	Refuse removal
Elevator work	Roofing
Escalator work	Sandblasting
Excavating	Siding
Fencing (chain link)	System/unit installation*

Flooring	Structural inspection
Foundation work	Ventilation
Heating	Wallpapering
Lighting systems	Welding
Management	

- \* The installation of **systems/units** that become affixed to real property is a service to real property unless the systems/units qualify as machinery used directly in the manufacturing production process. Installation of machinery used directly in the manufacturing production process is **not** a service to real property even if it is permanently affixed to real property.

Systems/units include but are not limited to:

Alarm systems
Central air conditioning units
Central vacuuming units
Furnaces including boilers and burners
Modular lighting units
Pumps
Refrigeration units
Water heaters

Services to **industrial or commercial real property** exclude services rendered in the **voluntary** evaluation, prevention, treatment, containment, or removal of hazardous waste, as defined in Conn. Gen. Stat. §22a-115, or other contaminants of air, water, or soil. See **Special Notice 95(17)**, *Certain Environmental Services Excluded from Sales and Use Taxes*.

---

#### Taxability of Services to Real Property

Services to real property are taxable when provided to **commercial** and **industrial property**. Charges for services include the actual charge for labor plus any markup on materials, overhead expenses, and reimbursed expenses incorporated into the final bill. Services connected with the construction of new commercial or industrial real property are not subject to tax. Real property refers to land, buildings, and materials permanently affixed to land and buildings.

**Commercial property** is real property where buying, selling, or leasing of goods or services usually takes place. This category includes but is not limited to restaurants, retail stores, office buildings, gas stations and similar property, and the yards and grounds surrounding the establishments including warehouses and garages.

**Industrial property** is real property where manufacturing or fabricating activities take place. Industrial property includes the industrial plant and the yard and grounds surrounding the industrial plant including warehouses and shipping docks.

**New construction** includes services directly connected with:

- The construction of a new building;
- The construction of a new addition that expands the cubic footage of an existing building;
- The replacement of the entire internal structure of a building including new floors, support columns, walls, mechanical, and electrical systems;
- Site improvements to the real property that put the property to a new use, such as the construction of roadways, concrete or asphalt walkways, and parking lots; **or**
- The initial finish work to the interior of a building if there was no previous use of the space.

With a few exceptions, new construction generally ends when the Certificate of Occupancy (C.O.) is issued.

---

## Maintenance, Landscaping, and Janitorial Services

Maintenance, landscaping, and janitorial services are subject to tax under Conn. Gen. Stat. §§12-407(a)(37)(X), 12-407(a)(37)(V), and 12-407(a)(37)(Y) whether the services are to existing property or new construction. Manufacturers, fabricators, and processors are the consumers of and must pay tax on all charges for maintenance to real property, landscaping, and janitorial services provided at their industrial plant, machine shop, warehouse, or any other commercial or industrial site including all grounds. Services rendered in the care and maintenance of the buildings or grounds are taxable. These services include but are not limited to janitorial work, the installation of fences (other than chain link fences or fences to contain livestock on a farm) and walls, snow plowing, lawn mowing, pruning, cleaning gutters or drains, and the installation of irrigation/sprinkler systems. The installation of chain link fences is taxable as a service to commercial or industrial property.

---

## Fabrication Labor

Conn. Gen. Stat. §12-407(a)(2)(C) imposes tax on fabrication labor. The term **fabrication labor** applies to the labor rendered in:

*...the producing, fabricating, processing, printing or imprinting of tangible personal property for a consideration for consumers who furnish either directly or indirectly the materials used in the producing, fabricating, processing, printing or imprinting...*

While fabrication labor is subject to tax, the labor may be purchased exempt from tax when physically incorporated into a finished product to be sold. To purchase fabrication labor exempt from tax, a manufacturer, fabricator, or processor must issue a *Connecticut Sales and Use Tax Resale Certificate* to the provider of the services.

---

### Example

A manufacturer of hinges hires a subcontractor to plate the hinges. Because the manufacturer will be selling the hinges, the plating labor may be purchased exempt from tax as the labor is incorporated into the product.

---

## Installation Labor

The installation of systems/units that are affixed to real property is a service to real property. Services to existing commercial and industrial real property are taxable. However, the installation of qualifying machinery and equipment used in a fabricating, processing, or manufacturing production process is not subject to tax. Installation labor for qualifying machinery and equipment is not a service to real property under Conn. Gen. Stat. §12-407(a)(37)(I) even if the machinery or equipment is affixed to the real property if:

- (a) The installation is of machinery and the machinery qualifies for either a full exemption under Conn. Gen. Stat. §12-412(34) or a partial exemption under the MRA; **or**  
The installation is of equipment and the equipment qualifies for a partial exemption under the MRA; **and**
- (b) The labor charges rendered in the installation of machinery or equipment are separately stated from other services to real property provided at the facility.

Exempt installation is limited to those services necessary to make the machinery operable.

If the machinery or equipment is relocated inside an industrial manufacturing plant, the reinstallation of the machinery is not taxable even if the machinery or equipment is affixed to the real property under the conditions stated above.

---

### Example 1

A manufacturer hires a contractor to relocate a machine used in the manufacturing production process to another location in the manufacturing plant. The machine is currently installed on a concrete pad. As part of the reinstallation, the contractor removes the existing concrete pad from the production floor and relocates the machine onto a new concrete pad. The labor to create a new concrete pad and reinstall the machine onto the concrete pad in the new location is not subject to tax.

---

### Example 2

A fabricator purchases machinery qualifying for a partial exemption under the MRA for the fabrication of finished products to be sold. An electrical contractor installs the machinery and provides all electrical work necessary. In addition to running a dedicated electrical line to the new machine, the electrician also rewires the entire production area as the wiring is outdated and poses a potential fire hazard. The labor to install the machine, including running the dedicated electrical line to the machine, is not subject to tax. However, rewiring the entire production area is a service to real property and is, therefore, fully taxable. Labor charges for the installation of the machine must be separately stated from the charges for rewiring the production area.

---

### Example 3

A processor purchases equipment qualifying for a partial exemption under the MRA. In addition to the installation of the equipment, the processor has a new ventilation system installed to improve the air quality in the plant for the benefit of the employees. The labor to install the equipment is not subject to tax. However, the installation of the ventilation system for the benefit of the employees is a service to real property and is fully taxable. Labor charges to install the equipment must be separately stated from the charges to install the ventilation system.

---

## Assembly Labor

Assembly labor is fabrication labor and is subject to tax. However, if tangible personal property is exempt under Conn. Gen. Stat. §12-412 where it is sold fully assembled and ready for use, the charges for labor to assemble the component parts of the property into a functioning unit are not taxable.

If component or enhancement parts are purchased fully exempt under Conn. Gen. Stat. §12-412(34) or §12-412(73), the labor by an independent contractor to assemble the parts into or onto manufacturing machinery is not taxable as fabrication labor under Conn. Gen. Stat. §12-407(a)(2)(C). This applies to component parts assembled to create a new machine as well as to component and enhancement parts assembled onto a fully assembled machine.

If component or enhancement parts are purchased partially exempt under the MRA, the labor by an independent contractor to assemble the parts into or onto machinery, equipment, or tools is not taxable as fabrication labor under Conn. Gen. Stat. §12-407(a)(2)(C). This applies to component parts assembled to create a new machine as well as to component or enhancement parts assembled onto a fully assembled machine.

## Repair Labor

Under Conn. Gen. Stat. §12-407(a)(37)(CC), repair and maintenance services to machinery, equipment, and tools are subject to tax as repair and maintenance services to any item of tangible personal property. This includes the sale of any contract of warranty or service for the item. Repair services to machinery, equipment, and tools may also be taxable under Conn. Gen. Stat. §12-407(a)(37)(Q) as repair services to any electrical or electronic device. Conn. Agencies Regs. §12-407(2)(i)(DD)-1 defines the term **repair** as:

*...to mend or bring back to working order or operating condition an item of tangible personal property that is broken, damaged, malfunctioning or defective. The term "repair" does not include the service of installing new parts or accessories that are not replacements for existing parts or accessories.*

See Conn. Agencies Regs. §§12-407(2)(i)(DD)-1 and 12-407(2)(i)(Q)-1.

**Repair and maintenance services** include but are not limited to:

- Cleaning machinery, equipment, or tools;
- Maintaining or repairing machinery, equipment, or tools;
- Replating grinding wheels;
- Sharpening cutting tools; **and**
- Retipping saw blades.

---

## Maintenance, Repair, and Warranty Contracts

Conn. Gen. Stat. §12-407(a)(37)(CC) imposes tax on any repair or maintenance service to any item of tangible property including **any contract of warranty or service related to any item**. Any renewal or exercise of an option to extend the terms of the contract is subject to tax.

---

## Calibration Services

Conn. Gen. Stat. §12-412(104) exempts:

*Sales, use or other consumption of (A) calibration services for machinery, equipment or instrumentation used in a manufacturing production process; or (B) other sales, use or other consumption of services or compliance practices associated with registration and compliance of quality management and quality assurance standards as part of standards created by the International Organization of Standards.*

*For purposes of this subdivision, "calibration services" means independent inspection services performed to verify accuracy in the provision, calibration or recalibration of equipment used to test, measure, monitor or gage any quality, process or environmental equipment used in conjunction with maintaining quality standards or meeting regulatory requirements.*

---

## **Engineering Services**

Engineering services including engineering consulting services are not enumerated as taxable services under Conn. Gen. Stat. §12-407(a)(2) and are not subject to tax.

---

## **Business Analysis, Management, Management Consulting, and Public Relation Services**

In general, business analysis, management, management consulting, and public relations services are subject to tax under Conn. Gen. Stat. §12-407(a)(37)(J) if they relate to a service recipient's core business activities, as defined in subsection (h) of Conn. Agencies Regs. §12-407(2)(i)(J)-1, or human resource management activities, as defined in subsection (i) of the regulation. (For example, workplace safety training.) Refer to Conn. Agencies Regs. §12-407(2)(i)(J)-1.

---

## **Environmental Consulting Services**

Environmental consulting services are not subject to tax because they are statutorily excluded from taxable business management consulting services. Some examples of nontaxable environmental consulting services include designing a remedial plan to remove hazardous materials or providing training to the employees of a manufacturer to ensure compliance with state environmental laws.

See **Special Notice 95(17)**, *Certain Environmental Services Excluded from Sales and Use Taxes*.

## **Applicable Certificates**

*Connecticut Sales and Use Tax Resale Certificate*

**CERT-104**, *Services Certificate for New Construction*

## **References**

**Conn. Gen. Stat. §12-407(a)(2)**

*Definitions*

**Conn. Gen. Stat. §12-410**

*Presumptions and resale certificates*

**Conn. Gen. Stat. §12-412**

*Exemptions*

**Conn. Gen. Stat. 12-412(104)**

*Calibration Services*

**Conn. Agencies Regs. §12-407(2)(i)(J)-1**

*Business analysis, business management, business management consulting and business public relations services*

**Conn. Agencies Regs. §12-407(2)(i)(DD)-1**

*Repair or maintenance services to tangible personal property and contracts of maintenance, repair or warranty*

**Conn. Agencies Regs. §12-407(2)(i)(Q)-1**

*Repair services to any electrical or electronic device*

**Announcement 2006(7)**, *Purchases of Tangible*

*Personal Property by Contractors for Construction Contracts With Qualified Entities*

**Special Notice 95(17)**, *Certain Environmental Services*

*Excluded from Sales and Use Taxes*

**Special Notice 2005(12)**, *Nonresident Contractor*

*Bonds and Deposits*

**Informational Publication 2006(35)**, *Building*

*Contractors' Guide to Sales and Use Taxes*

## Section VII Summary

Services	Performed With Respect To	Taxability
Services to existing commercial or industrial real property	Land, buildings, and materials permanently affixed to land and buildings other than machinery exempt under Conn. Gen. Stat. §12-412(34) and machinery and equipment partially exempt under the MRA	Fully taxable at 6%
Maintenance to real property, landscaping, and janitorial services	Land and buildings of existing real property or new construction	Fully taxable at 6%
Fabrication labor	Materials	Fully taxable at 6% unless labor is incorporated into finished product to be sold
Installation labor	Machinery and equipment	Not subject to tax
Assembly labor	Component parts	Exempt from tax when performed to qualifying property
Repair and maintenance services excluding calibration services	Machinery, equipment, and tools (all tangible personal property)	Fully taxable at 6%
Engineering services	Manufacturing, processing, and fabrication	Not subject to tax
Business analysis, management, management consulting, and public relation services	Manufacturing, processing, and fabrication	Fully taxable at 6% if they relate to a service recipient's core business activities or human resource management activities
Environmental consulting services	Manufacturing, processing, and fabrication	Not subject to tax

---

---

## Section VIII Computers, Software, and Computer Services

### Manufacturers, Fabricators, and Processors

---

---

#### Computers

The sale, lease, or rental of computers is subject to tax as the sale of tangible personal property. However, computers may qualify for a full or partial exemption under Conn. Gen. Stat. §12-412(34), §12-412(73), or §12-412i.

#### Full Exemption

A full exemption for computers qualifying as machinery used directly in the **manufacturing production process** is provided under Conn. Gen. Stat. §12-412(34). A full exemption for computers as component parts of machinery used directly in the manufacturing production process is provided under Conn. Gen. Stat. §12-412(34) and §12-412(73). A full exemption for purchases of computers as machinery or component parts of machinery is available only to qualifying manufacturers or to individuals who assemble the component parts on behalf of qualifying manufacturers into or onto a machine or assemble them to create a new machine.

**Qualifying computers** include those used:

- As component parts of machinery purchased exclusively for assembling or building a machine used directly in a manufacturing production process or for installation into or onto a new machine;
- Exclusively during the manufacturing production process to test (other than destructive testing) or measure materials and products being manufactured;
- As computer-aided design/computer aided manufacturing (CAD/CAM) machinery or any computers used exclusively to:
  - Control or monitor an activity during the manufacturing production process; **or**
  - Design a product as well as control or monitor an activity during the manufacturing production process **and** that are **directly linked with machinery** that either:
    - (1) Directly transforms or has a direct effect upon the form, composition, or character of raw materials being manufactured into a product possessing a new name, nature, and use that is intended for sale; **or**
    - (2) Is used predominantly (more than 50%) on the production line to perform an activity during the manufacturing production process.

---

#### Example

A computer used exclusively to monitor the polishing of copper wire being manufactured and is directly linked to a machine that will cut the wire to a 12 inch length qualifies for full exemption.

**Nonqualifying computers** include but are not limited to computers used:

- To control or monitor machinery used directly in the manufacturing production process as described in (1) or (2) above that is also used for administrative purposes;

---

#### Example

A computer used on a production line to control the output of a machine used in the manufacturing production process and is also used to maintain inventory control.

- Exclusively to design a product that are not linked to production machinery; **and**

---

#### Example

A computer-aided design system that stands alone.

- To control or monitor an activity occurring **prior** to the first production process or **following** the completion of the manufacturing production process.

---

#### Example

A computer used to control or monitor machinery that cases and loads manufactured products onto delivery trucks.

Computers not meeting the requirements for a full exemption may still qualify for a partial exemption under the MRA.

#### Partial Exemption

A partial exemption for computers qualifying as machinery, equipment, or component parts of machinery or equipment is provided under the MRA. Manufacturers, fabricators, and processors may be eligible for a partial exemption on purchases of these qualifying computers.

Machinery qualifying for a partial exemption under the MRA includes operating structures and all equipment or devices used or required to control, regulate, or operate the machinery including without limitation computers and data processing equipment. Computers that do not qualify for a full exemption may qualify for a partial exemption. In addition, computer and data processing



equipment used or required to control, regulate, or operate machinery qualifying for a full or partial exemption need not be linked directly to the machinery to qualify for a partial exemption.

**Qualifying computers** include computers used primarily (chiefly):

- In research and development for manufacturing, processing, or fabricating tangible personal property;
- In measuring or testing for manufacturing, processing, or fabricating tangible personal property; **and**
- At any stage of the manufacturing, processing, or fabricating processes from the time any raw materials are received to the time the product is ready for delivery or storage including overpacking and crating.

**Nonqualifying computers** include but are not limited to computers used primarily (chiefly) in:

- Administration;
- General management;
- Sales;
- Any other activity not constituting manufacturing, processing, or fabricating;
- Retail-based manufacturing, processing, or fabricating which includes any establishment primarily engaged in business:
  - As a retailer of tangible personal property which manufactures, processes, or fabricates tangible personal property as an incidental part of its business;
  - Is a retailer of services which manufactures, processes, or fabricates tangible personal property as an incidental part of its business; **or**
  - Furnishing, preparing or serving food, meals, or drinks which manufactures, processes, or fabricates tangible personal property as an incidental part of its business.

**Retail-based establishments** include but are not limited to retailers such as:

Restaurants; grocery stores; caterers; meat and fish markets; bakeries, candy, nut, and confectionery stores that process food products primarily for direct sale on the premises to consumers; photographic studios; artists; tailors; establishments that primarily perform fabricating or processing on the property of others on a retail basis (such services are taxable under Conn. Gen. Stat. §12-407(a)(2)(C) or (a)(2)(G));

- Beyond the scope of the qualifying process; **and**

---

#### **Example**

Computers used to monitor the loading of the packaged product into storage or delivery vehicles.

---

- For testing or inspection for:
  - Efficiency surveys;
  - Management studies;
  - Consumer surveys;
  - Other market research, advertising, or promotional activities; **or**
  - Research in connection with literary, historical, or similar projects.

---

#### **Software**

Charges for the sale, lease, rental, licensing, or upgrading of **prewritten** software are subject to tax as the sale of tangible personal property when a retailer provides tangible personal property to a purchaser. The software may qualify for a full or partial exemption under Conn. Gen. Stat. §§12-412(34), 12-412(73) or 12-412i as a component part of qualifying machinery and equipment or as computer services purchased in connection with qualifying machinery and equipment.

The manufacturing exemptions, both full and partial, apply only to tangible personal property. Services purchased in a separate transaction from the sale of tangible personal property are not eligible for any of the manufacturing exemptions. Because the sale of custom software is the sale of computer services, it is subject to tax at the 1% rate. In addition, when **canned** software is delivered electronically and the retailer provides no tangible personal property to the purchaser, charges for the sale, lease, rental, licensing, or upgrading of canned software are taxable at the 1% rate as computer and data processing services.

#### **Canned Software**

**Canned or prewritten software** means all software other than custom software held or existing for general or repeated sale, license, or lease. Software initially developed as custom software for in-house use and subsequently sold, licensed, or leased to unrelated third parties is canned or prewritten software.

#### **Full Exemption**

Canned software is a component or enhancement part of machinery used directly in the manufacturing production process when the vendor provides tangible personal property to the purchaser. Manufacturers may purchase canned software exempt from tax under Conn. Gen. Stat. §12-412(34) whether or not the canned software

is purchased from the same vendor and whether or not it is purchased in the same transaction with qualifying machinery on which the software is to be used.

Under Conn. Gen. Stat. §12-412(73), a manufacturer or a person who assembles component parts on behalf of a manufacturer may purchase:

- Canned software as a component part of qualifying machinery for assembly into or onto an existing machine if the machine has not yet been put into actual production; **or**
- Canned software and other component parts to be assembled in creating a new machine that will be used directly in a manufacturing production process.

Canned software qualifies for this exemption only when purchased exclusively for assembly into or onto qualifying machinery before the machine is put into actual production when the vendor provides tangible personal property to the purchaser.

### Partial Exemption

Manufacturers, fabricators, and processors may purchase canned software partially exempt from tax when the vendor provides tangible personal property to the purchaser if the canned software is used:

- Or required to control, regulate, or operate machinery qualifying for a partial exemption under the MRA;
- In research and development for manufacturing, processing, or fabricating tangible personal property;
- In measuring or testing for manufacturing, processing, or fabricating tangible personal property; **or**
- At any stage of manufacturing, processing, or fabricating from the time any raw materials are received to the time the product is ready for delivery or storage including overpacking and crating.

Canned software installed in a computer not directly linked to machinery used in actual production qualifies for a partial exemption.

### Custom Software

*Custom software* is a computer program prepared to the special order of a single customer.

Custom software may sometimes be prepared from prewritten software that has had substantial modifications to its functions or the purpose of the program. The software may have been changed to such a degree that it bears little resemblance to any but the most basic functions of the prewritten software on which it was based.

The process of designing, creating, and developing custom software or adapting or modifying existing software to the particular needs of a customer are computer and data processing services taxable at the 1% rate. Charges for upgrades of custom software are charges for computer and data processing services.

Any charges such as license fees for the mere use and possession of custom software stated separately from charges for taxable computer and data processing services or prewritten software are not subject to sales and use taxes.

Custom software purchased in a transaction separate from the machinery is the purchase of computer and data processing services and the services involved in its creation are taxable at the rate of 1% as computer and data processing services. Manufacturing exemptions, both full and partial, apply only to tangible personal property. Services purchased in a separate transaction from the sale of tangible personal property are not eligible for any of the manufacturing exemptions.

### Full Exemption

Under Conn. Gen. Stat. §12-412(34), qualifying manufacturers may purchase custom computer software services fully exempt **only** when the custom software is purchased in the same transaction and from the same vendor as machinery used directly in the manufacturing production process. Under Conn. Gen. Stat. §12-407(a)(8) and (9), the **sales price** and **gross receipts** include any services which are part of the sale. Charges for computer and data processing services to create custom software that is part of the sale of manufacturing machinery are included in the sales price or gross receipts of the machinery and are fully exempt.

### Partial Exemption

Manufacturers, fabricators, and processors may purchase custom computer software partially exempt **only** when the custom software is purchased in the same transaction and from the **same** vendor as the machinery and equipment qualifying for a partial exemption under the MRA. Conn. Gen. Stat. §12-407(a)(8) and (9) provide that **sales price** and **gross receipts** include any services which are part of the sale. When charges for computer and data processing services to create custom software that is part of the sale of manufacturing machinery are included in the gross receipts or sales price of the machinery, the charges are also included in the partial exemption.

## Computer and Data Processing Services

Under Conn. Gen. Stat. §12-407(a)(37)(A), computer and data processing services are subject to tax at the rate of 1%. Computer and data processing services include but are not limited to providing computer time; storing and filing of information; retrieving or providing access to information; designing, implementing, or converting systems; computer consulting services; conducting feasibility studies; customizing canned software; and developing or creating custom computer software. Manufacturers, fabricators, and processors are consumers of computer and data processing services and must pay tax on the services except in those limited instances described in *Computers* and *Software* in this section.

## Applicable Certificates

**CERT-100**, *Materials, Tools, and Fuel.*

**CERT-109**, *Partial Exemption for Machinery, Equipment, or Repair and Replacement Parts*

## References

**Conn. Gen. Stat. §12-407(a)(35), (36), (37)(A)**  
*Canned and prewritten software, custom software and computer and data processing services*

**Conn. Gen. Stat. §12-412(34)**  
*Machinery used in manufacturing*

**Conn. Gen. Stat. §12-412(73)**  
*Component parts for assembly of manufacturing machinery*

**Conn. Gen. Stat. §12-412i**  
*Partial exemption for materials, tools, fuels, machinery and equipment used in manufacturing*

**Conn. Agencies Regs. §12-412(34)-1**  
*Machinery used directly in a manufacturing production process*

**Special Notice 93(1.1)**, *The Manufacturing Recovery Act of 1992 — Exemption for Purchases of Property Used in Manufacturing, Processing and Fabricating*

**Policy Statement 2006(8)**, *Sales and Use Taxes on Computer-Related Services and Sales of Tangible Personal Property*

**Announcement 94(10.2)**, *Rulings Related to Computer and Data Processing Services Obsolete by Court Decision*

## Section VIII Summary

	Computers		Canned Software (Tangible personal property)		Custom Software Canned Software Sold Without Tangible Personal Property (Computer services)	
	Full Exemption	Partial Exemption	Full Exemption	Partial Exemption	Full Exemption	Partial Exemption
<b>Manufacturer</b>	Available when qualifying as machinery or component parts (Conn. Gen. Stat. §12-412(34)), and component parts for assembly into production machinery (Conn. Gen. Stat. §12-412(73)) <b>CERT-101</b>	Available when qualifying as machinery and equipment or component parts of machinery and equipment (Conn. Gen. Stat. §12-412i) <b>CERT-109</b>	Available when qualifying as component parts of machinery (Conn. Gen. Stat. §12-412(34)) and component parts for assembly into production machinery (Conn. Gen. Stat. §12-412(73)) <b>CERT-101</b>	Available when qualifying as component parts of machinery and equipment (Conn. Gen. Stat. §12-412i) <b>CERT-109</b>	Available when qualifying as component parts of machinery only when purchased in the same transaction with machinery (Conn. Gen. Stat. §12-412(34)) <b>CERT-101</b>	Available when qualifying as component parts of machinery and equipment only when purchased in the same transaction with machinery and equipment (Conn. Gen. Stat. §12-412i) <b>CERT-109</b>
<b>Fabricator</b>	Not available	Available when qualifying as machinery and equipment or component parts of machinery and equipment (Conn. Gen. Stat. §12-412i) <b>CERT-109</b>	Not available	Available when qualifying as component parts of machinery and equipment (Conn. Gen. Stat. §12-412i) <b>CERT-109</b>	Not available	Available when qualifying as component parts of machinery and equipment only when purchased in the same transaction with machinery and equipment (Conn. Gen. Stat. §12-412i) <b>CERT-109</b>
<b>Processor</b>	Not available	Available when qualifying as machinery and equipment or component parts of machinery and equipment (Conn. Gen. Stat. §12-412i) <b>CERT-109</b>	Not available	Available when qualifying as component parts of machinery and equipment (Conn. Gen. Stat. §12-412i) <b>CERT-109</b>	Not available	Available when qualifying as component parts of machinery and equipment only when purchased in the same transaction with machinery and equipment (Conn. Gen. Stat. §12-412i) <b>CERT-109</b>

---

---

## Section IX      **Research and Development** **Manufacturers, Fabricators, and Processors**

---

---

*Research and development* means an experimental or laboratory activity that has as its ultimate goal the development of:

- New products;
- New uses for existing products; **or**
- Improvement of methods for producing products.

Research and development does **not** include testing or inspection for quality control purposes; efficiency surveys; management studies; consumer surveys or other market research; advertising or promotional activities; or research for literary, historical, or similar projects.

Machinery, equipment, materials, tools, and fuel used in research and development are **not** eligible for full exemption from tax but may be eligible for partial exemption under the MRA when purchased by manufacturers, fabricators, or processors.

---

### **Partial Exemption**

Purchases of materials, tools, and fuels used or consumed in an **industrial plant** in any process preparatory to or related to manufacturing, processing, or fabricating tangible personal property to be sold are partially exempt from tax under the MRA. The partial exemption includes purchases of materials, tools, and fuels used in research and development. A business solely engaged in research and development may qualify as an industrial plant under the MRA as long as the business is conducting research and development of products to be manufactured, fabricated, or processed for sale. See definition of industrial plant, for purposes of the MRA partial exemption, on Page 27.

Unlike materials, tools, and fuels which must be used or consumed in an industrial plant, machinery and equipment need not be used or consumed in an industrial plant to qualify for partial exemption under the MRA. A business solely engaged in research and development qualifies for a partial exemption under the MRA for machinery and equipment as long as the business is conducting research and development of products to be manufactured, fabricated, or processed for sale.

To qualify as equipment under the MRA partial exemption, items used in qualifying research and development activities must be **essential** to the activities. Equipment is essential if the research and development process cannot proceed without it. A piece of equipment required by law or practical necessity does not of itself render the item essential for purposes of the partial exemption.

---

### **Applicable Certificates**

**CERT-108**, *Partial Exemption of Materials, Tools, and Fuels*

**CERT-109**, *Partial Exemption for Machinery, Equipment, or Repair and Replacement Parts*

### **References**

**Conn. Gen. Stat. §12-412i**

*Partial exemption for materials, tools, fuels, machinery and equipment used in manufacturing*

**Conn. Gen. Stat. §12-412(89)**

*Machinery, equipment, tools, materials, supplies and fuel used in the biotechnology industry*

**Special Notice 93(1.1)**, *The Manufacturing Recovery Act of 1992 — Exemption for Purchases of Property Used in Manufacturing, Processing or Fabricating*

**Policy Statement 98(8)**, *Exemption from Sales and Use Taxes for Items Used Directly in the Biotechnology Industry*

---

---

## Section X Testing and Measuring

### Manufacturers, Fabricators, and Processors

---

---

Tools and machinery used for testing and measuring activities may qualify for a full exemption under Conn. Gen. Stat. §12-412(18) and §12-412(34). Machinery, equipment, materials, tools, and fuels used for testing and measuring activities may qualify for a partial exemption under the MRA. However, only tangible personal property is exempt under Conn. Gen. Stat. §§12-412(18) and (34) and the MRA. Under Conn. Gen. Stat. §12-412(104), calibration services for machinery, equipment, or instrumentation used in a manufacturing production process are fully exempt from tax.

#### Full Exemption for Tools and Machinery Tools

A full exemption from tax for tools used in testing and measuring is available only to qualifying **manufacturers** and **fabricators**. To qualify for a full exemption, tools, including nondestructive testing devices, must be used directly in an industrial plant to check the performance or output (products) of machinery used directly in the actual fabrication or manufacturing of finished products to be sold. For example, a tool used for nondestructive testing for quality control purposes before packaging the product qualifies for a full exemption. Destructive testing devices include tools that damage or destroy the materials or products being tested and do not qualify for the full exemption. Tools used **prior** to the start or **following** the completion of the fabrication or manufacturing process do not qualify for the full exemption. For example, a tool used to inspect finished products when refabrication is not practicable does not qualify for a full exemption.

#### Machinery

A full exemption from tax for machinery used in testing and measuring is available only to qualifying **manufacturers**. Machinery used exclusively during the manufacturing production process to test (other than destructive testing) or measure materials and products being manufactured is exempt from tax. Machinery used in destructive testing is machinery that damages or destroys the materials or products being tested and does not qualify for a full exemption. To qualify for the full exemption, the measuring or nondestructive testing

conducted during the manufacturing production process may be on either a continuous or random basis. For example, machinery used in nondestructive testing for quality control purposes before packaging the products qualifies for the full exemption. However, machinery used in testing, measuring, weighing, inspecting, and storing materials **prior** to the start or **following** the completion of the manufacturing production process does not qualify for a full exemption.

A full exemption is **not** available for materials, equipment, or fuel used in testing and measuring activities.

#### Partial Exemption for Machinery, Equipment, Materials, Tools, and Fuels

A partial exemption from tax for machinery, equipment, materials, tools, and fuels used in testing and measuring is available to qualifying manufacturers, fabricators, processors, and qualifying independent contractors. Machinery and tools not qualifying for a full exemption, as well as equipment, materials, and fuels used in measuring and testing, are eligible for a partial exemption under the MRA.

Machinery and equipment used to measure and test with respect to manufacturing, processing, or fabricating goods are partially exempt. Materials, tools, and fuels used or consumed in an industrial plant to measure or test goods to be sold are partially exempt. Measuring and testing that qualify for a partial exemption under the MRA includes **both** nondestructive and destructive measuring or testing and the alignment and calibration of machinery, equipment, and tools for manufacturing, processing, or fabricating tangible personal property. Additionally, activities such as weighing and testing materials upon receipt qualify for a partial exemption.

An independent contractor performing the activities of measuring and testing for manufacturers, processors, or fabricators may qualify to purchase machinery and equipment partially exempt under the MRA. Independent contractors may also qualify for a partial exemption for materials, tools, and fuels if the activities are conducted at an **industrial plant** as defined on Page 27.

## Applicable Certificates

- CERT-100**, *Materials, Tools, and Fuel*
- CERT-101**, *Machinery, Component Parts, and Replacement and Repair Parts of Machinery Used Directly in a Manufacturing Process*
- CERT-108**, *Partial Exemption of Materials, Tools, and Fuels*
- CERT-109**, *Partial Exemption for Machinery, Equipment, or Repair and Replacement Parts*

## References

- Conn. Gen. Stat. §12-412(18)**  
*Production materials*
- Conn. Gen. Stat. §12-412(34)**  
*Machinery used in manufacturing*
- Conn. Gen. Stat. §12-412(104)**  
*Calibration services exemptions*
- Conn. Gen. Stat. §12-412i**  
*Partial exemption for materials, tools, fuels, machinery and equipment used in manufacturing*
- Conn. Agencies Regs. §12-412(18)-1**  
*Materials, tools and fuel used directly in an industrial plant in the actual fabrication of finished products to be sold*
- Conn. Agencies Regs. §12-412(34)-1**  
*Machinery used directly in a manufacturing production process*
- Special Notice 93(1.1)**, *The Manufacturing Recovery Act of 1992 — Exemption for Purchases of Property Used in Manufacturing, Processing and Fabricating*

---

---

## Section XI Air Pollution Control and Waste Treatment Manufacturers, Fabricators, and Processors

---

---

In general, items of tangible personal property used or consumed in air pollution control and waste treatment facilities are subject to tax. However, Conn. Gen. Stat. §12-412(21) and §12-412(22) provide a full exemption from tax for certain equipment and supplies, certified as approved by the Department of Environmental Protection (DEP), used or consumed in air pollution control and waste treatment facilities. Operators of air pollution control and waste treatment facilities include but are not limited to manufacturers, fabricators, and processors. These operators may purchase approved air pollution control and waste treatment equipment and supplies fully exempt from tax.

Conn. Gen. Stat. §12-412(21) provides a full exemption for:

**Personal property for incorporation into or used in waste treatment facilities.** *Sales of and the storage, use or other consumption of tangible personal property acquired for incorporation into or used and consumed in the operation of facilities for the treatment of industrial waste before the discharge thereof into any waters of the state or into any sewerage system emptying into such waters, the primary purpose of which is the reduction, control or elimination of pollution of such waters, certified as approved for such purpose by the commissioner of environmental protection. For the purposes of this subdivision “industrial waste” means any harmful thermal effect or any liquid, gaseous or solid substance or combination thereof resulting from any process of industry, manufacture, trade or business or from the development or recovery of any natural resource.*

Conn. Gen. Stat. §12-412(22) provides a full exemption for:

**Personal property incorporated into or consumed in air pollution control facilities.** *Sales of and the storage, use or other consumption of tangible personal property or supplies acquired for incorporation into or used and consumed in the operation of facilities, the primary purpose of which is the reduction, control or elimination of air pollution, certified as approved for such purpose by the commissioner of environmental protection. Said commissioner may certify to*

*a portion of such tangible personal property or supplies acquired for incorporation in such facilities to the extent that such portion shall have as its primary purpose the reduction, control or elimination of air pollution.*

---

### Air Pollution Control

A full exemption is available under Conn. Gen. Stat. §12-412(22) to manufacturers, processors, fabricators, or any business for tangible personal property or supplies incorporated into or used and consumed in the operation of air pollution control facilities to reduce, control, or eliminate air pollution.

**Air pollution control facility** is not limited to a building exclusively used for air pollution control but could be that portion of a manufacturing plant used to control air pollution. The term **facility** is defined as more of a process than a place, the process being to reduce, control, or eliminate air pollution.

Tangible personal property or supplies incorporated into or used and consumed in the operation of an air pollution control facility must be approved by the DEP to qualify for a full exemption from tax.

### Preapproved Equipment and Consumables

The following items of air pollution control equipment and consumables have been **preapproved** by the DEP for use in air pollution control facilities and qualify for a full exemption from tax:

- Activated carbon adsorption or carbon adsorbers
- Ammonia
- Bags
- Breakaway couplings \*
- Catalysts
- Catalytic afterburner with or without heat exchanger
- Centrifugal collector
- Coaxial hose \*
- Combustion modification to meet NO<sub>x</sub> RACT
- Control equipment to meet CTGS, RACT, or other regulatory requirements
- Cyclone, including multiple cyclone
- Desulfurization
- Direct flame afterburner
- Dry limestone injection
- Electrostatic precipitator
- Fabric filter
- Flares



Flue gas recirculation  
 Gas scrubber  
 Gravity collector  
 Limestone  
 Mist eliminator  
 Nitrogen blanket  
 Reagents - for example lime, carbon, etc.  
 Reagent scrubbing processes  
 Refrigerated condensers  
 Retrofit kit \*  
 Selective catalytic or non-catalytic reduction  
 Spray booth filters  
 Staged combustion  
 Steam or water injection, water sprays  
 Thermal afterburner with or without HX  
 Tray-type gas adsorption column  
 Ultrasonic water sprays  
 Urea  
 Vapor lock balance recovery system \*  
 Vapor recovery nozzle \*  
 Vapor recovery system (including condensers) \*  
 Vapor return piping \*  
 Water wash  
 Wet electrostatic precipitators  
 Wet scrubber or adsorber, for example Venturi, etc.  
 Whip hose \*

\* Stage II Vapor Recovery Equipment

**See Policy Statement 99(2), Tax Exemptions for Certain Air Control Pollution Equipment.**

The DEP must approve in writing items not listed above as preapproved. Call the Engineering and Technical Services Division of the DEP's **Air Management Bureau** at 860-424-4152 to obtain written approval or write to:

Director of Engineering and Enforcement  
 Bureau of Air Management  
 Connecticut Department of Environmental  
 Protection  
 79 Elm Street  
 Hartford CT 06106-5127

To claim an exemption for preapproved qualifying air pollution control items, present the retailer of the items with a properly completed **CERT-117, Purchases of Tangible Personal Property Incorporated Into or Consumed in Air Pollution Control Facilities**. Attach a copy of the written approval from the DEP if the item is not on the preapproved list.

## Waste Treatment

A full exemption from tax is available to operators of waste treatment facilities including but not limited to manufacturers, processors, and fabricators. The exemption is for tangible personal property incorporated into or used and consumed in the operation of facilities for the treatment of industrial waste before the discharge into any waters of the state or into any sewerage system emptying into the waters to reduce, control, or eliminate pollution of the waters. This tangible personal property must be approved for this purpose by the DEP to be exempt.

**Waste treatment facility** is not limited to a building exclusively used for waste treatment but could be that portion of a manufacturing plant used to treat industrial waste before discharge into Connecticut waters. The term **facility** is defined more as a process than a place, the process being to reduce, control, or eliminate pollution of Connecticut waters.

Tangible personal property or supplies incorporated into or used and consumed in the operation of a waste treatment facility must be approved by the DEP to qualify for a full exemption.

## Preapproved Equipment and Consumables

The following items of water pollution control equipment and consumables have been **preapproved** by the DEP for use in water pollution control facilities and qualify for a full exemption from tax:

Activated carbon filters  
 Air stripping/off gas treatment systems  
 Ammonia removal systems  
 Bag and strainer filters  
 Biological wastewater treatment systems  
 (activated sludge, trickling filters, RBCs, etc.)  
 Chemical feed and storage tanks  
 Color removal systems for waste water  
 Cyanide destruction systems  
 Dechlorination chemicals  
 (sulfur dioxide, sodium sulfite, etc.)  
 Dechlorination equipment  
 Defoamers  
 Diffusers  
 Disinfection chemicals  
 (chlorine, bromine, ozone, etc.)  
 Disinfection systems (oxidation, ultra-violet)  
 Dissolved air flotation systems  
 Electrolytic recovery systems  
 Equalization tanks  
 Evaporators  
 Flow meters and recorders  
 Gravity clarifiers  
 Grit separators

Heat exchangers  
Hexavalent chromium reduction systems  
Ion exchange equipment and materials  
Liquid level sensing devices and alarms  
Membrane filtration systems  
Metals precipitation systems  
Mixers and agitators  
Neutralization tanks and systems  
Oil/water separators  
Oily waste demulsification chemicals  
(sulfuric acid, calcium chloride, etc.)  
Oily waste demulsification systems  
ORP meters  
Oxidizing agents  
(calcium hypochlorite, chlorine gas, etc.)  
pH adjustment chemicals (lime, caustic, acid, etc.)  
pH adjustment systems  
pH meters and recorders  
Phase separation systems  
Phosphorous removal equipment and chemicals  
Recycling systems for non-contact cooling water  
Reducing agents (sodium metabisulfate, sulfur dioxide,  
ferrous sulfate, etc.)  
Reverse osmosis systems for waste water reuse  
or discharge  
Sand and multimedia filters  
Settling and flocculating agents  
(alum, lime, ferric chloride, polymers, etc.)  
Settling tanks and sedimentation basins  
Sludge collection and conveyance systems  
Sludge dewatering devices and conditioning chemicals  
Sludge handling and storage facilities used solely for  
sludge (tanks, pumps, agitators, etc.)  
Sludge incinerators and composting facilities  
Sludge stabilization and conditioning systems (anaerobic  
digestion, heat treatment, etc.)  
Spill control equipment and structures including only:  
underground seepage protection, cathodic protection  
of underground tanks, leak detection equipment, liquid  
level sensing devices, automatic solenoid valves,  
alarms, collisions protection, diversionary structures,  
dikes, berms, retention basins, and slick booms  
Temperature meters and recorders  
Wastewater analysis equipment  
Wastewater collection and conveyance systems for  
process wastewater\* and blowdown from heating and  
cooling equipment where minor inputs of sanitary  
sewage are understood to be present and acceptable.

\* As defined in Conn. Agencies Regs. §22a-430-3, this definition does not include stormwater.

**See Policy Statement 99(3), Tax Exemptions for Certain Water Pollution Control Equipment.**

The DEP must approve in writing items not listed above as preapproved. Call the Permitting, Enforcement and Remediation Division of DEP's **Bureau of Water Management** at 860-424-2848 to obtain written approval or write to:

Bureau of Water Management  
Permitting, Enforcement and Remediation  
Division  
Connecticut Department of Environmental  
Protection  
79 Elm Street  
Hartford CT 06106-5127

To claim an exemption for preapproved qualifying water pollution control items, present the retailer of the items with a properly completed **CERT-124, Purchases of Tangible Personal Property Incorporated Into or Consumed in Water Pollution Control Facilities**. Attach a copy of the written approval from DEP if the item is not on the preapproved list.

### **Labor and Services**

The exemptions described above apply only to tangible personal property. Services to existing industrial, commercial, and income producing real property are subject to tax with the exception of services rendered in the voluntary evaluation, treatment, containment, or removal of hazardous waste or other contaminants of air, water or soil. Therefore, services to existing real property involving air pollution control and waste treatment facilities, such as the installation of approved air pollution control or waste treatment equipment are not subject to tax. Likewise, environmental consulting services are not subject to tax. See **Informational Publication 2006(35), Building Contractors' Guide to Connecticut Sales and Use Taxes**, and **Special Notice 95(17), Certain Environmental Services Excluded From Sales and Use Taxes**.

## Applicable Certificates

**CERT-117**, *Purchases of Tangible Personal Property Incorporated Into or Consumed in Air Pollution Control Facilities*

**CERT-124**, *Purchase of Tangible Personal Property Incorporated Into or Consumed in Water Pollution Control Facilities*

## References

**Conn. Gen. Stat. §12-412(21)**

*Personal property for incorporation into or used in waste treatment facilities*

**Conn. Gen. Stat. §12-412(22)**

*Personal property incorporated into or consumed in air pollution control facilities*

**Conn. Gen. Stat. §12-407(a)(2)**

*Definitions*

**Policy Statement 99(2)**, *Tax Exemptions for Certain Air Pollution Control Equipment*

**Policy Statement 99(3)**, *Tax Exemptions for Certain Water Pollution Control Equipment*

**Informational Publication 2006(35)**, *Building Contractors' Guide to Connecticut Sales and Use Taxes*

**Special Notice 95(17)**, *Certain Environmental Services Excluded From Sales and Use Taxes*

---

---

## Section XII Containers and Packaging Materials

### Manufacturers, Fabricators, and Processors

---

---

The purchase of containers and packaging materials is subject to tax. However, certain containers and packaging materials are exempt under Conn. Gen. Stat. §12-412(14). Manufacturers, fabricators, processors, or any business can purchase qualifying containers and packaging materials fully exempt from tax.

Under Conn. Gen. Stat. §12-412(14) tax does not apply to the sale of and the storage, use, or other consumption of:

**Containers.** (A) *Nonreturnable containers ... when sold without the contents to persons who place the contents in the container and sell the contents together with the container...*

---

#### Nonreturnable Containers and Packaging Materials

Any business can purchase certain nonreturnable empty containers and parts of the containers including packing and shipping materials fully exempt from tax when **all** the following conditions are met:

- The container must be nonreturnable;
- The container must be purchased without its contents;
- The contents must be placed in the container by the purchaser; **and**
- The contents must be sold together with the container.

Examples of nonreturnable containers and parts of the containers, including packing and shipping materials, include but are not limited to bags, barrels, bottles, boxes, cans, carboys, cartons, cones, crates, cylinders, drums, excelsior and other packing and crating material used as cushioning or padding inside containers to protect fragile articles, gummed tape, kegs, descriptive labels, labels other than shipping labels, lumber, pallets, sacks, shrink wrap, spools, strapping, tubes, twine and wrapping paper.

Shipping labels, security labels, tags or devices, and price tags do **not** qualify for an exemption and are therefore taxable.

When a manufacturer does not pack and ship its own products, the manufacturer may contract with a third party such as a packer, shipper, or fulfillment house to pack and ship the products. In this case, the manufacturer may purchase qualifying nonreturnable containers and packaging material exempt from tax.

A manufacturer may purchase qualifying nonreturnable containers, including parts of containers and packing and shipping materials used with qualifying nonreturnable containers, exempt from tax by issuing to the seller or packer a completed *Connecticut Sales and Use Tax Resale Certificate*.

---

#### Returnable Containers

Returnable containers are subject to tax. Returnable containers, including those for which a deposit has been taken, are containers customarily returned to the seller by the buyer of the contents of the container for reuse by the seller.

Returnable containers **do not include** nonrefillable beverage containers. Therefore, a beverage container not designed to be refilled and reused in its original shape may be purchased on a resale basis provided the manufacturer purchases the container empty, fills it, and sells the container with its contents. Such a container is not treated as a taxable returnable container even though it is returnable for deposit under the *bottle bill*.

---

#### Example

A returnable soda can; **or**  
A returnable plastic soda bottle

---

#### Applicable Certificates

*Connecticut Sales and Use Tax Resale Certificate*

#### References

**Conn. Gen. Stat. §12-412(14)**  
*Containers*

**Policy Statement 94(1)**, *Purchases of Containers and Packaging Material by Packers, Shippers and Fulfillment Houses*

---

---

## Section XIII Industries With Specific Statutory Exemptions Manufacturers, Fabricators, and Processors

---

---

The following industries may qualify for a full or partial exemption under Conn. Gen. Stat. §§12-412(18), 12-412(34), and 12-412i and are also afforded other full exemptions from tax on purchases of certain items.

### Printers

Conn. Gen. Stat. §12-412(71) provides a full exemption for:

**Machinery, equipment, tools, materials and supplies used in commercial printing.** *ales of and the storage, use or other consumption of machinery, equipment, tools, materials and supplies used predominantly in the production of printed material by a commercial printer or publisher. For purposes of this subsection, “the production of printed material” is defined to include all processes necessary to convert manuscript copy into printed material, including but not limited to, layout, color separation and typesetting.*

Conn. Gen. Stat. §12-412(72) provides a full exemption for:

**Machinery, equipment, tools, materials and supplies for typesetting, color separation, finished copy, or similar products.** *Sales of and the storage, use or other consumption of machinery, equipment, tools, materials and supplies used predominantly in the production of typesetting, color separation, finished copy with type proofs and art work or similar content mounted for photomechanical reproduction, or other similar products to be sold for use in the production of printed materials.*

For these two exemptions, *predominantly* means more than 50%.

### Commercial Printers

Commercial printers generally perform work on a job or custom basis, but may also in some cases sell the product themselves. Commercial printers are actively and primarily in the business of printing as described in Group Nos. 275 through 279 of *Standard Industrial Classification (SIC) Manual*, 1987, or Industries 323110 through 323122 of the *North American Industry Classification System (NAICS) United States*, 1997, which has replaced the SIC manual.

Commercial printers include but are not limited to those engaged in the following processes as a trade or business:

- Lithographing (maps, posters, wrappers, etc.)
- Offset printing
- Photo-offset printing
- Photolithographing
- Gravure (circulars, telephone directories, etc.)
- Printing of manifold business forms
- Screen printing on glass, plastics, paper, metal, textiles, or apparel
- Printing of greeting cards
- Printing of blankbooks
- Printing of looseleaf binders
- Book binding
- Typesetting
- Platemaking

Establishments primarily engaged in providing photocopying services are **not** commercial printers. Print shops such as in-house print shops that do not sell their product are not actively engaged in the business of printing and do not qualify for this exemption.

### Publishers

Publishers are primarily engaged in the business of preparing and distributing, whether by sale or otherwise, books, periodicals, newspapers, and other printed materials including but not limited to items listed in Industry Group Nos. 271 through 274 of the SIC Manual or Industries 511110, 511120, 511130, 511140, 511191, 511199, and 512230 of the NAICS manual but excluding items specifically listed elsewhere in the SIC Manual or the NAICS Manual. Publishers may have in-house printing facilities or they may use independent contractors to do the actual printing of the material being published.

### Prepress Production

Prepress production includes the production of typesetting, color separation, finished copy with type proofs and art work or similar content mounted for photomechanical reproduction, or other similar products to be sold for use in the production of printed materials.

## Exemption for Purchases by Commercial Printers and Publishers

Qualifying commercial printers and publishers can purchase machinery, equipment, tools, materials, and supplies used predominantly in the production of printed material exempt from tax by issuing a properly completed **CERT-120, Machinery, Equipment, Tools, Materials, and Supplies Used in the Production of Printed Materials or in Prepress Production**, to the vendor. Only a qualified entity may issue CERT-120 and must attest to its exempt use. See *Section XIV*.

The production of printed material includes all processes necessary to convert manuscript copy into printed material including but not limited to layout, color separation, typesetting, and plate making. The production of printed material also includes the press or printing stage and bindery process. Activities occurring after the completion of the process, such as sorting, handling, casing, loading, addressing, or delivering printed materials, are taxable.

See **Policy Statement 2001(7), Purchases of Machinery, Equipment, Tools, Materials, and Supplies by Commercial Printers and Publishers**.

### Applicable Certificate

**CERT-120, Machinery, Equipment, Tools, Materials, and Supplies Used in the Production of Printed Material or in Prepress Production**

## Metal Casting Foundries and Pattern Shops

Conn. Gen. Stat. §12-412(65) provides a full exemption for:

**Molds, dies, patterns and sand handling equipment for metal casting foundries.** *The purchase and sale by metal casting foundries of molds, dies, patterns and sand handling equipment.*

Conn. Gen. Stat. §12-412(66) provides a full exemption for:

**Molds, dies and patterns for pattern shops and metal casting foundries.** *The sale by pattern shops of molds, dies and patterns to metal casting foundries or their customers for use in such foundries, and the purchase and use of such items by pattern shops in connection with any such sales.*

## Applicable Certificate

**CERT-100, Materials, Tools, and Fuel Certificate\***

\* The purchaser must attach a statement to CERT-100 that it is claiming an exemption under Conn. Gen. Stat. §12-412(65) or §12-412(66), as applicable. Only a qualified entity may issue CERT-100 and must attest to its exempt use. See *Section XIV*.

## Aircraft Manufacturing, Repair, and Overhaul

Conn. Gen. Stat. §12-412(76) provides a full exemption for:

**Aircraft repair or replacement parts.** *Sales of and the storage, use or other consumption of repair or replacement parts exclusively for use (A)(i) in aircraft owned or leased by a certificated air carrier or (ii) in aircraft having a maximum certificated takeoff weight of six thousand pounds or more or (B) in the significant overhauling or rebuilding of aircraft or aircraft parts or components on a factory basis.*

Conn. Gen. Stat. §12-412(77) provides a full exemption for:

**Aircraft repair services.** *Sales of aircraft repair services when such services are rendered in connection with (A)(i) aircraft owned or leased by a certificated air carrier or (ii) aircraft having a maximum certificated takeoff weight of six thousand pounds or more or (B) with the significant overhauling or rebuilding of aircraft or aircraft parts or components on a factory basis.*

Conn. Gen. Stat. §12-412(78) provides a full exemption for:

**Materials, tools, fuel, machinery, and equipment in an aircraft manufacturing facility.** *On or after July 1, 1993, sales of and the storage, use or other consumption by an aircraft manufacturer operating an aircraft manufacturing facility in this state of materials, tools, fuel, machinery and equipment used in such facility. For the purposes of this subsection, (A) "machinery and equipment" means tangible personal property (i) which is installed in an aircraft manufacturing facility operated by an aircraft manufacturer and (ii) the predominant use of which is for the manufacturing of aircraft or aircraft parts or components or for the significant overhauling or rebuilding of aircraft or aircraft parts or components on a*

*factory basis and (B) "aircraft manufacturing facility" means that portion of a plant, building or other real property improvement used for the manufacturing of aircraft or aircraft parts or components or for the significant overhauling or rebuilding of aircraft or aircraft parts or components on a factory basis.*

See **Special Notice 93(23)**, *Aircraft Manufacturing, Repair, and Overhaul*.

### **Applicable Certificates**

**CERT-110**, *Aircraft Repair Services - Aircraft Repair and Replacement Parts*

**CERT-111**, *Machinery, Equipment, Materials, Tools, and Fuel Used by an Aircraft Manufacturer Operating an Aircraft Manufacturing Facility*

---

### **Optical Lens Fabrication**

Conn. Gen. Stat. §12-412(81) provides a full exemption for:

**Machinery, equipment, tools, and materials used in fabricating optical lenses.** *Sales of and the storage, use or consumption of machinery, equipment, tools, and materials used exclusively in the fabrication of optical lenses.*

Retail-based establishments that fabricate optical lenses, including eyeglass lenses, on their premises may purchase their machinery, equipment, tools, and materials to be used exclusively in the fabrication of optical lenses exempt from tax.

### **Applicable Certificate**

No certificate currently exists. To claim an exemption, the purchaser must present a statement to the seller certifying under penalty of false statement that the purchaser is claiming an exemption under Conn. Gen. Stat. §12-412(81).

---

### **Commercial Photographic Film Processing**

Conn. Gen. Stat. §12-412(88) provides full exemption for:

**Commercial photographic film and paper processing materials.** *Sales of and the storage, use or consumption of machinery, equipment, tools and materials used exclusively in the commercial processing of photographic film and paper.*

This does not apply to equipment generally regarded as photocopying machinery or to items used by commercial photographers or photographic studios.

### **Applicable Certificate**

No certificate currently exists. To claim exemption the purchaser must present a statement to the seller certifying under penalty of false statement that the purchaser is claiming exemption under Conn. Gen. Stat. §12-412(88).

---

### **Biotechnology Industry**

Conn. Gen. Stat. §12-412(89) provides full exemption for:

*Sales of and the storage, use or other consumption of machinery, equipment, tools, materials, supplies and fuel used directly in the biotechnology industry. For the purposes of this subsection, "biotechnology" means the application of technologies, such as recombinant DNA techniques, biochemistry, molecular and cellular biology, genetics and genetic engineering, biological cell fusion techniques, and new bioprocesses, using living organisms, or parts of organisms, to produce or modify products, to improve plants or animals, to develop microorganisms for specific uses, to identify targets for small molecule pharmaceutical development, to transform biological systems into useful processes and products or to develop microorganisms for specific uses.*

See **Policy Statement 98(8)**, *Exemption from Sales and Use Taxes for Items Used Directly in the Biotechnology Industry*.

### **Applicable Certificate**

**CERT-129**, *Exemption for Items Used Directly in the Biotechnology Industry*

---

### **Fuel Cell Manufacturing**

Conn. Gen. Stat. §12-412(113) provides a full exemption for:

(A) *Sales to, and the storage, use or other consumption by, a fuel cell manufacturing facility in this state of materials, tool, fuel, machinery and equipment used in such facility.*

(B) *For purpose of this subdivision, (i) "fuel cell" means a device that directly or indirectly produces electricity directly from hydrogen or hydrocarbon fuel through a noncombustive electro-chemical process, (ii) "machinery and equipment" means tangible personal property which is installed in a fuel cell manufacturing facility operated by a fuel cell manufacturer,*

*and the predominant use of which is for the manufacturing of fuel cells, and (iii) "fuel cell manufacturing facility" means that portion of a plant, building or real property improvement used for the manufacturing of fuel cell parts or components or for the significant overhauling or rebuilding of such parts or components on a factory basis.*

---

## References

**Conn. Gen. Stat. §12-412(65)**

*Molds, dies, patterns and sand handling equipment for metal casting foundries*

**Conn. Gen. Stat. §12-412(66)**

*Molds, dies and patterns for pattern shops and metal casting foundries*

**Conn. Gen. Stat. §12-412(71)**

*Machinery, equipment, tools, materials and supplies used in commercial printing*

**Conn. Gen. Stat. §12-412(72)**

*Machinery, equipment, tools, materials and supplies for typesetting, color separation, finished copy, or similar products*

**Conn. Gen. Stat. §12-412(76)**

*Aircraft repair or replacement parts*

**Conn. Gen. Stat. §12-412(77)**

*Aircraft repair services*

**Conn. Gen. Stat. §12-412(78)**

*Materials, tools, fuel, machinery and equipment in an aircraft manufacturing facility*

**Conn. Gen. Stat. §12-412(81)**

*Machinery, equipment, tools and materials used in fabricating optical lenses*

**Conn. Gen. Stat. §12-412(88)**

*Commercial photographic film and paper processing materials*

**Conn. Gen. Stat. §12-412(89)**

*Machinery, equipment, tools, materials, supplies and fuel used in the biotechnology industry*

**Conn. Gen. Stat. §12-412(113)**

*Material, tools, fuel, machinery, and equipment used in a fuel cell manufacturing facility*

**Policy Statement 2001(7)**, *Purchases of Machinery, Equipment, Tools, Materials, and Supplies by Commercial Printers and Publishers*

**Policy Statement 98(8)**, *Exemption from Sales and Use Taxes for Items Used Directly in the Biotechnology Industry*

**Special Notice 93(23)**, *Aircraft Manufacturing, Repair and Overhaul*



---

---

## Section XIV Sales and Certificates

### Manufacturers, Fabricators, and Processors

---

---

The sales tax is imposed on retailers for the privilege of doing business in the State of Connecticut. As a seller of goods or taxable services in Connecticut, a business is required by law to charge and collect the Connecticut sales tax. Connecticut's sales tax rate is 6% and applies to the retail sale, lease, or rental of goods and taxable services except that the sales tax rate on computer and data processing services is 1%. Manufacturers, fabricators, and processors making sales in this state must hold a valid *Sales and Use Tax Permit*. If the business is not registered with DRS, it must complete and submit **Form REG-1, Business Taxes Registration Application**.

---

#### Sales of Goods

In general, all sales, leases, and rentals of goods in Connecticut are subject to tax except sales specifically exempted from tax by statute and sales made for resale.

---

#### Sales of Services

Services are subject to tax only if they are specifically enumerated as taxable by statute. Charges for the following commonly used services that may be sold or purchased by your business are taxable except when rendered by an employee for his or her employer. The list is not all inclusive; for an extensive list of taxable services, refer to Conn. Gen. Stat. §12-407(a)(2) or contact the DRS Taxpayer Services Division.

- Advertising or public relations services including layout, art direction, graphic design, mechanical preparation, or production supervision not related to the development of media advertising or not related to the development of cooperative direct mail advertising;
- Business analysis, management, management consulting and public relations services;
- Computer and data processing services taxable at a reduced rate of 1%;
- Credit information and reporting services;
- Employment agencies and agencies providing personnel services;
- Janitorial services;
- Landscaping and horticulture services;

- Lobbying or consulting services;
- Locksmith services;
- Maintenance services to real property;
- Motor vehicle repair services;
- Private investigation, protection, patrol work, watchman, and armored car services;
- Repair services to electrical or electronic devices except calibration services exempted by Conn. Gen. Stat. §12-412(104);
- Repair or maintenance services to tangible personal property except calibration services exempted by Conn. Gen. Stat. §12-412(104);
- Services to industrial, commercial, and income-producing real property including but not limited to management, electrical, plumbing, painting, carpentry, structural inspection, and refuse removal. Services to industrial, commercial, or income-producing real property do not include services rendered in the voluntary evaluation, prevention, treatment, containment, or removal of hazardous waste or other contaminants of air, water, or soil. Income-producing property does not include property used exclusively for residential purposes in which the owner resides and which contains no more than three dwelling units or a housing facility for low and moderate income families;
- Sign painting and lettering services;
- Space for storage;
- Stenographic services;
- Telecommunications services;
- Telephone answering services;
- Warranty and service contracts for any item of tangible personal property; **and**
- Window cleaning services.

---

#### Sales Price

The sales price of goods or taxable services is the total cost paid by the purchaser to the seller including any charges by the seller to the purchaser for shipping or delivery. However, sales price does not include any cash discounts taken at the time of sale or early payment discounts.

## Shipping or Delivery Charges

Charges by a seller for shipping or delivery connected with the sale of taxable goods or services are subject to tax regardless of whether the charges are separately stated in a written contract or the shipping or delivery is provided by the seller or a third party.

In some instances, one charge for shipping or delivery applies to both taxable and nontaxable goods. To calculate the portion of the charge subject to tax, the purchaser may prorate the charge using the same measure (for example, weight or sales price) used to determine the shipping charge.

---

### Example 1

A delivery fee of \$100 is charged for shipment of 150 lbs. of taxable and nontaxable goods (\$.67 per lb.). The taxable goods weigh 80 lbs. The portion of the delivery charge attributed to the delivery of the taxable goods is \$53.60 (80 lbs. x \$.67 per lb.). Therefore, only \$53.60 of the \$100 delivery fee is included in the sales price subject to tax.

---

### Example 2

A delivery fee of \$30 is charged for shipment of \$200 of taxable and nontaxable merchandise (\$.15 per dollar value of merchandise). The cost of the taxable merchandise is \$120. The portion of the freight charge attributed to the delivery of the taxable merchandise is \$18 (\$120 x \$.15). Therefore, only \$18 of the \$30 delivery fee is included in the sales price subject to tax.

---

## Cash Discounts

Cash discounts taken at the time of sale and early payment discounts paid during the discount period are excluded from sales and use taxes.

---

### Example

A vendor offers a 2% discount from the sales price if payment is made within 10 days. If the customer pays (cash or credit) at the time of sale or within the early payment discount period, tax is computed on the price of the item less the 2% discount as follows:

Sales price	\$1000.00
Less 2% discount	- 20.00
<b>Adjusted sales price</b>	<b>\$980.00</b>
<b>Adjusted sales price</b>	<b>\$980.00</b>
Apply 6% sales or use tax	+ 58.80
<b>Total amount due</b>	<b>\$1038.80</b>

---

See **Policy Statement 96(2)**, *The Treatment of Early Payment Discounts*.

## Exemption Certificates

Some sales made by a business are exempt because the goods or services being sold are statutorily exempt or excluded from tax. Other sales are exempt because the purchaser is an organization exempt by statute from paying tax on certain purchases of taxable goods and services.

A business that sells goods or services exempt from tax must keep accurate records to support the exemption or the business may be liable for payment of the tax plus interest and penalty. Many, but not all, exemptions require the use of a specific certificate which must be completed by the purchaser and provided to the seller. The seller and purchaser must keep the exemption certificates for at least six years.

An exemption certificate may be issued for a single exempt purchase and most may be used for a continuing line of purchases of the same type provided the certificate is marked *Blanket Certificate*. A blanket certificate is usually valid for three years from the date it is issued if during that time the exemption remains in effect.

On certain certificates, the blanket period may be less than the standard three-year period.

---

## Responsible Parties

Both the purchaser and seller have responsibilities when issuing or accepting exemption certificates.

### Purchaser's Responsibilities

The purchaser is responsible for ensuring the exemption certificate is:

- The appropriate exemption certificate;
- Filled out in its entirety;
- Signed by an owner or officer of the business;
- Issued in good faith\*; **and**
- Maintained for at least six years along with records that substantiate the information on the certificate.

### Seller's responsibilities

The seller is responsible when accepting an exemption certificate for ensuring the certificate is:

- The appropriate exemption certificate;
- Filled out in its entirety;
- Signed by an owner or officer of the business;
- Accepted in good faith\*; **and**
- Maintained for at least six years along with bills, invoices, or records of purchases made under the certificate.

\* **Good faith.** A purchaser should issue an exemption certificate **only** if it can claim in good faith that the statements made on the certificate are true and accurate. A seller should accept an exemption certificate **only** if it can accept in good faith that the statements made by the purchaser are true and accurate. If the seller has reason to believe that the information on the certificate is incorrect and does not charge the tax, the seller is liable for payment of the tax plus penalty and interest. Likewise, a purchaser who gives a false or fraudulent exemption certificate is subject to the payment of the tax plus penalties and interest and may also be subject to civil and criminal penalties. Refer to the appropriate exemption certificate for additional information and instructions.

For transactions where a contractor is purchasing exempt property for use by a qualifying exempt user, refer to **Announcement 2006(7)**, *Purchases of Tangible Personal Property by Contractors for Construction Contracts With Qualified Entities*.

### Statutory Exemptions for Sales of Goods

Most exemptions from tax are included under Conn. Gen. Stat. §12-412. The following is a partial listing of goods that are exempt from tax by statute. This list is not intended to be all-inclusive. It includes exemptions specific to manufacturers, fabricators, and processors. Contact the DRS Taxpayer Services Division for more information.

- **Machinery used in manufacturing:** *Conn. Gen. Stat. §12-412(34)*. (See *Section II*.) The purchaser must complete **CERT-101**, *Machinery, Component Parts, and Replacement and Repair Parts of Machinery Used Directly in a Manufacturing Process*. Only a qualified entity may issue CERT-101 and must attest to its exempt use.
- **Production materials, tools, and fuel:** *Conn. Gen. Stat. §12-412(18)*. (See *Section III*.) The purchaser must complete **CERT-100**, *Materials, Tools, and Fuel*. Only a qualified entity may issue CERT-100 and must attest to its exempt use.
- **Gas or electricity for residential use and certain manufacturing, fabricating, or agricultural production:** (See *Section III*.) A full exemption from tax on the first \$150 in electric charges to a business for any month of service is also available. *Conn. Gen. Stat. §12-412(3)*. The purchaser must complete **CERT-115**, *Exempt Purchases of Gas, Electricity, and Heating Fuel*.
- **Fuel for heating purposes in residential dwellings or in certain buildings used directly in agricultural production, fabrication of a finished product to**

**be sold, or an industrial manufacturing plant:** *Conn. Gen. Stat. §12-412(16)*. (See *Section III*.) The purchaser must complete **CERT-115**, *Exempt Purchases of Gas, Electricity, and Heating Fuel*.

- **Water, steam, and telegraph services when delivered to consumers through mains, lines, pipes, or bottles:** *Conn. Gen. Stat. §12-412(3)*. No certificate currently exists.
- **Partial exemption for machinery and equipment used in manufacturing, fabricating, and processing:** *Conn. Gen. Stat. §12-412i* (the MRA). (See *Section IV*.) The purchaser must complete **CERT-109**, *Partial Exemption for Machinery, Equipment, or Repair and Replacement Parts*. Only a qualified entity may issue CERT-109 and must attest to its exempt use.
- **Partial exemption for materials, tools and fuels used in manufacturing, fabricating, and processing:** *Conn. Gen. Stat. §12-412i* (the MRA). (See *Section V*.) The purchaser must complete **CERT-108**, *Partial Exemption of Materials, Tools and Fuels*. Only a qualified entity may issue CERT-108 and must attest to its exempt use.
- **Component parts for the assembly of manufacturing machinery:** *Conn. Gen. Stat. §12-412(73)*. (See *Section VI*.) The purchaser must complete **CERT-101**, *Machinery, Component Parts, and Replacement and Repair Parts of Machinery Used Directly in a Manufacturing Process*. Only a qualified entity may issue CERT-101 and must attest to its exempt use.
- **Pollution control equipment used in the operation of air pollution control facilities approved by DEP:** *Conn. Gen. Stat. §12-412(22)*. (See *Section XI*.) The purchaser must complete **CERT-117**, *Purchases of Tangible Personal Property Incorporated Into or Consumed in Air Pollution Control Facilities*.
- **Waste treatment equipment used in the operation of facilities for the treatment of industrial waste that are approved by DEP:** *Conn. Gen. Stat. §12-412(21)*. (See *Section XI*.) The purchaser must complete **CERT-124**, *Purchases of Tangible Personal Property Incorporated Into or Consumed in Water Pollution Control Facilities*.
- **Machinery, equipment, tools, materials, and supplies used in commercial printing:** *Conn. Gen. Stat. §12-412(71)*. **Machinery, equipment, tools, materials and supplies for typesetting, color separation, finished copy, or similar products:** *Conn. Gen. Stat. §12-412(72)*. (See *Section XIII*.) See **Policy Statement 2001(17)**,

*Purchases of Machinery, Equipment, Tools, Materials and Supplies by Commercial Printers and Publishers.* The purchaser must complete **CERT-120, Machinery, Equipment, Tools, Materials, and Supplies Used in the Production of Printed Material or in Prepress Production.** Only a qualified entity may issue CERT-120 and must attest to its exempt use.

- **Printed material manufactured for a purchaser in Connecticut to be delivered for use outside the state within 30 days following delivery:** *Conn. Gen. Stat. §12-412(31).* The purchaser must complete a *Printed Material Certificate.* This certificate cannot be used as a blanket certificate.
- **Commercial trucks, truck tractors, tractors, semitrailers, and vehicles used in combination therewith that have a gross vehicle weight rating in excess of 26,000 pounds or are operated actively and exclusively for the carriage of interstate freight pursuant to a certificate or permit from the Interstate Commerce Commission or its successor agency:** *Conn. Gen. Stat. §12-412(70).* The purchaser must complete **CERT-105, Commercial Motor Vehicle Purchased Within Connecticut for Use Exclusively in the Carriage of Freight in Interstate Commerce.**
- **Machinery, equipment, tools, materials, supplies, and fuel directly in the biotechnology industry:** *Conn. Gen. Stat. §12-412(89).* (See *Section XIII.*) The purchaser must complete **CERT-129, Exemption for Items Used Directly in the Biotechnology Industry.** Only a qualified entity may issue CERT-129 and must attest to its exempt use.
- **Any item of clothing or protective equipment worn by an employee for protection during the course of the employee's employment:** *Conn. Gen. Stat. §12-412(91).* See *Section III* and **Policy Statement 2004(4), Sales and Use Tax Exemption for Safety Apparel.**

---

## Sale and Leaseback Arrangements

Under *Conn. Gen. Stat. §12-407(a)(3)(B)*, tax does not apply to the original sale of tangible personal property in a sale and leaseback arrangement if within 120 days from the original sale the original purchaser sells or contracts to sell the property to a retailer that will lease it back to the original purchaser in a taxable lease. See **Special Notice 2002(15), Sales and Use Taxes on Sale and Leaseback Arrangements.**

## Out-of-State Sales and Purchasers

### Title Passes Outside Connecticut

All sales of tangible personal property and certain services are subject to Connecticut sales and use taxes unless specifically exempted or excluded from tax by statute. All sellers of the property or services are liable for collection of sales tax unless an exemption or resale certificate is issued at the time of purchase to exempt the sale from tax. However, sales of tangible personal property where title passes **outside the boundaries** of the State of Connecticut are not subject to Connecticut sales tax. The seller may be liable for collection of the other jurisdiction's sales or use tax (if nexus is established with that jurisdiction) or the purchaser may be liable for a use tax in that jurisdiction, or the seller may be required to collect Connecticut use tax if the seller is located outside Connecticut and has nexus with Connecticut. The purchaser may also be liable for use tax in Connecticut if the purchaser intends to use the property in Connecticut at the time of purchase and then so uses it.

### Title Passes in Connecticut

Out-of-state manufacturers, fabricators, and processors that do not have to register in Connecticut because they are not engaged in business in Connecticut can issue a Connecticut exemption certificate or a *Connecticut Sales and Use Tax Resale Certificate* when making purchases in Connecticut for use or resale, as applicable, outside of Connecticut if all other requirements of the exemption or resale certificate are met. The purchaser may use the tax identification number issued by the state in which it does business when completing the certificate. If the purchaser has no tax identification number because the home state does not have a sales tax, the federal identification number should be provided.

---

#### Example

A Massachusetts manufacturer attends an auction in Connecticut. The manufacturer purchases a machine that qualifies for a full exemption under *Conn. Gen. Stat. §12-412(34)* and will be used directly in the manufacturing production process at its industrial plant in Massachusetts. To qualify for a full exemption on the purchase of machinery, the manufacturer issues a completed **CERT-101, Machinery, Component Parts, and Replacement and Repair Parts of Machinery Used Directly in a Manufacturing Process,** to the auctioneer.

---

## Buy Connecticut Provision

Conn. Gen. Stat. §12-408c allows a refund of sales and use taxes paid or an exemption from sales and use taxes where a business purchases tangible personal property from Connecticut retailers that is eventually shipped out of Connecticut for exclusive use by the purchaser outside Connecticut. Tangible personal property purchased from Connecticut retailers may be either stored in Connecticut and subsequently shipped out of Connecticut; processed, fabricated, or manufactured into; attached to; or incorporated into other tangible personal property subsequently shipped outside Connecticut.

### Refund Claim Requirements and Restrictions

The Buy Connecticut provision imposes certain restrictions and requirements that taxpayers must satisfy in order to file claims for refunds.

The provision applies only to businesses, including sole proprietors of businesses or single-member limited liability companies, and not to individuals.

To obtain refunds of use tax paid, a business must purchase tangible personal property from a Connecticut retailer for use or consumption in its trade, occupation, business, or profession and must eventually ship the property outside of Connecticut by common or contract carrier. Businesses are not allowed to transport tangible personal property purchased under this provision out of Connecticut in their own vehicles or in vehicles owned by the retailers of the property.

The business must own the property at the time it is shipped outside Connecticut and must use the property exclusively outside Connecticut after shipment for as long as it owns the property. Any use of tangible personal property in Connecticut for which a sales and use tax refund has been issued **prior** to its shipment out of Connecticut, other than storage or use in the course of being processed, fabricated, manufactured, or incorporated into other tangible personal property, subjects the property to use tax on its purchase price as of the date of use. Likewise, any use of tangible personal property by the purchaser in Connecticut **after** its initial shipment out of Connecticut subjects the property to use tax as of the date of use.

The property must be shipped out of Connecticut within three years from the date of its purchase. If the property remains in Connecticut beyond three years from the date of its purchase and a refund has been issued, the business that purchased the property becomes liable for use tax on the purchase price of the property as of three years after the date of purchase.

## Refund Procedures

All claims for refund of taxes paid on tangible personal property purchased under the Buy Connecticut Provision during a calendar year **must** be filed by **April 1** of the next calendar year. All refund claims must be filed on **Form AU-526, Sales and Use Tax Refund Application for Purchases Made Under the "Buy Connecticut" Provision**, and must be accompanied by supporting documentation. DRS requires the taxpayer to retain records supporting refund claims including but not limited to proof that the tax was paid and shipping documents for six years from the date on which the claims were filed.

### Buy Connecticut Exemption Permit

Conn. Gen. Stat. §12-408c(b)(2) allows DRS to issue permits to taxpayers to purchase tangible personal property exempt from tax from Connecticut retailers.

The tangible personal property purchased with an exemption permit may be stored in Connecticut for up to three years from the date of its purchase. Any use of tangible personal property in Connecticut, other than storage or use in the course of being processed, fabricated, manufactured, or incorporated into other tangible personal property, subjects the property to use tax on its purchase price as of the date of use. If property remains in Connecticut beyond three years from the date of its purchase, the business that purchased the property using the Buy Connecticut permit becomes liable for use tax on the purchase price of the property as of three years after the date of purchase.

Any business registered to pay Connecticut sales and use taxes that wishes to obtain a Buy Connecticut permit must make application to DRS. In deciding whether to issue a permit, DRS may take into consideration an applicant's history of compliance with sales and use taxes and other taxing statutes, including its payment and audit histories, and the nature of the taxpayer's business.

If the application is approved, DRS will issue the business a numbered permit that will entitle the business to make exempt purchases using **CERT-132, Sales and Use Tax Exemption for Purchases Made Under the Buy Connecticut Provision**. The permit is valid from the date it is issued through the end of the calendar year in which it was issued. The business must apply to DRS for a new permit no later than December 1 to request a permit for the following year.

The business must provide **either** a copy of its exemption permit and a completed CERT-132 to a retailer each time it makes a purchase or issue the retailer a blanket certificate for a continuing line of exempt purchases. A blanket certificate remains in effect from the date of the first purchase in the calendar year until the end of the calendar year unless the business makes a written revocation before the expiration of the period.

A business that has been issued an exemption permit must submit a report with each **Form OS-114, Sales and Use Tax Return**, that the business is required to file. Businesses who have made exempt purchases must complete and submit **Schedule OS-114A**.

Conn. Gen. Stat. §12-408c does not apply to tangible personal property that becomes an ingredient or component part of tangible personal property intended to be sold as a finished product by the purchaser. That property may be purchased exempt under Conn. Gen. Stat. §12-412(18).

Printed material that has been manufactured in Connecticut to the special order of a purchaser and which, within 30 days following delivery to the purchaser, is to be delivered for use outside Connecticut may be purchased exempt under Conn. Gen. Stat. §12-412(31).

Printed material may also qualify for the Buy Connecticut provision for items that are separately billed. If the items will not be mailed to addresses outside Connecticut within 30 days as Conn. Gen. Stat. §12-412(31) requires, but will be sent to addresses outside Connecticut by common carrier or contract carrier within three years from the date of purchase as Conn. Gen. Stat. §12-408c requires, the purchaser may obtain a refund of tax paid to the mailing service provider for the items. The purchaser may also apply for a permit to purchase the items without tax under Conn. Gen. Stat. §12-408c(b).

See **Special Notice 2001(5)**, *The "Buy Connecticut" Provision*.

## Organizations With Exemptions

Certain organizations and entities are entitled by statute to make purchases without payment of tax. These exempt organizations include:

- The State of Connecticut, its political subdivisions (cities and towns), and Connecticut state and municipal agencies, including Connecticut public schools, may purchase goods and services exempt from tax by issuing **CERT-134, Exempt Purchases by Qualifying Governmental Agency**. The exemption

does not apply to other states, their political subdivisions, or agencies.

- The United States government and its agencies and instrumentalities may purchase goods and services exempt from tax by issuing CERT-134. The exemption does not apply to foreign governments, their states, political subdivisions, or agencies.
- Federally recognized Indian tribes with tribal lands located within Connecticut and their enrolled members may purchase goods exempt from tax **for their exclusive use on their reservation** when the purchase takes place on their reservation. Presently these are only the Mashantucket Pequot and Mohegan Tribes. Services are exempt when the benefit of the service, under Connecticut law, occurs on the reservation and the tribe or an enrolled member is the purchaser. The tribe or an enrolled member may purchase goods and services by issuing **CERT-127, Exempt Purchases by an Enrolled Member or by the Tribal Government of the Mashantucket Pequot Tribe or Mohegan Tribe**. Contractors providing goods or services for construction projects on the reservation may issue **CERT-128, Exempt Purchases by Contractors in Connection with Construction Projects in Indian Country of the Mashantucket Pequot or Mohegan Tribes**.
- Farmers that have been issued a *Farmer Tax Exemption Permit* by DRS may purchase qualifying goods, but not services, used exclusively in agricultural production. See **Informational Publication 2008(19)**, *Farmer's Guide to Sales and Use Taxes, Motor Vehicle Fuels Tax, Estimated Income Tax, and Withholding Tax*.
- Fishermen that have been issued a *Fisherman Tax Exemption Permit* by DRS may purchase qualifying goods to be used directly in the fishing industry. See **Informational Publication 2009(15)**, *Fisherman's Guide to Sales and Use Taxes and Estimated Income Tax*.
- Qualifying nonprofit charitable, religious, and educational organizations may purchase goods and services for the exclusive use of the organization by issuing **CERT-119, Purchases of Tangible Personal Property and Services by Qualifying Exempt Organizations**, and attaching a copy of the exempt organization's Connecticut tax exempt permit or the organization's federal determination letter or group letter. See **Special Notice 95(10)**, *1995 Legislative Changes Affecting Exempt Purchases by Exempt Organizations*.

## Sales for Resale

Purchasers of goods or services who intend to resell them or physically incorporate them into another product or service to be sold must issue either a *Connecticut Sales and Use Tax Resale Certificate* or the Multistate Tax Commission's *Uniform Sales and Use Tax Certificate — Multijurisdiction*, or pay tax to the seller. A seller of goods or services may only accept a resale certificate from another retailer if the certificate can be accepted in good faith. If the purchaser does not issue a resale certificate to the seller, tax must be collected. A seller is never required to accept a resale certificate.

Retailers making sales in Connecticut may not accept a resale certificate or exemption certificate of another state furnished by the purchaser. DRS accepts the Multistate Tax Commission's *Uniform Sales and Use Tax Certificate — Multijurisdiction* as a valid resale certificate. This certificate is not valid as an exemption certificate for any purpose other than as a resale certificate.

A purchaser issuing a Connecticut sales and use tax resale certificate to a seller must be a person or business who:

- Is engaged in the business of selling tangible personal property or taxable service;
- Was issued a *Sales and Use Tax Permit* by DRS or by a revenue agency of another jurisdiction. See Page 60; **and**
- At the time of purchase, intends to resell the goods or services without any use or change in the regular course of business; to resell the goods as an integral or component part of a final product to be sold; or resell services enumerated in Conn. Gen. Stat. §12-407(a)(2)(I) as an integral, inseparable, component part of services enumerated under Conn. Gen. Stat. §12-407(a)(2)(I).

Contractors purchasing materials, such as lumber, nails, etc., for use in construction projects may **not** issue a resale certificate for these goods. Contractors are considered the consumers of materials and **must** pay sales tax to the seller at the time of purchase.

A business should accept a resale certificate **only** if it can accept in good faith that the statements made by the purchaser are true and accurate. A seller that has reason to believe the information on the certificate is incorrect and does not charge the sales tax may be held liable for payment of the tax plus penalties and interest. Likewise, a purchaser who gives a false or fraudulent resale certificate will be held liable for payment of the tax plus penalties and interest and also may be subject to civil and criminal penalties.

See **Informational Publication 2009(15)**, *Notice to Retailers on Sales and Use Tax Resale Certificates*, and **Informational Publication 2009(16)**, *Getting Started in Business: Understanding Connecticut Taxes*.

## Applicable Certificates and Forms

*Connecticut Sales and Use Tax Resale Certificate*

**REG-1**, *Business Taxes Registration Application*

**CERT-100**, *Materials, Tools, and Fuel*

**CERT-101**, *Machinery, Component Parts, and Replacement and Repair Parts of Machinery Used Directly in a Manufacturing Process*

**CERT-108**, *Partial Exemption of Materials, Tools, and Fuels*

**CERT-109**, *Partial Exemption for Machinery, Equipment, or Repair and Replacement Parts*

**CERT-115**, *Exempt Purchases of Gas, Electricity, and Heating Fuel*

**CERT-117**, *Purchases of Tangible Personal Property Incorporated into or Consumed in Air Pollution Control Facilities*

**CERT-119**, *Purchases of Tangible Personal Property and Services by Qualifying Exempt Organizations*

**CERT-120**, *Machinery, Equipment, Tools, Materials, and Supplies Used in the Production of Printed Material or in Prepress Production*

**CERT-124**, *Purchases of Tangible Personal Property Incorporated Into or Consumed in Water Pollution Control Facilities*

**CERT-127**, *Exempt Purchases by an Enrolled Member or by the Tribal Government of the Mashantucket Pequot Tribe or Mohegan Tribe*

**CERT-128**, *Exempt Purchases by Contractors in Connection with Construction Projects in Indian Country of the Mashantucket Pequot or Mohegan Tribes*

**CERT-129**, *Exemption for Items Used Directly in the Biotechnology Industry*

**CERT-132**, *Sales and Use Tax Exemption for Purchases Made Under the Buy Connecticut Provision*

**CERT-134**, *Exempt Purchases by Qualifying Governmental Agencies*

## References

**Conn. Gen. Stat. §12-410**

*Presumptions and resale certificates*

**Conn. Gen. Stat. §12-407(a)(2)**

*Definitions*

**Conn. Gen. Stat. §12-408**

*The sales tax. Imposition and rate*

**Conn. Gen. Stat. §12-408c**

*Refund of taxes for certain purchases in this state for sole use or consumption outside this state*

**Informational Publication 2009(16)**, *Getting Started in Business: Understanding Connecticut Taxes*

**Informational Publication 2008(19)**, *Farmer's Guide to Sales & Use Taxes, Motor Vehicle Fuels Tax, Estimated Income Taxes, and Withholding Taxes*

**Informational Publication 2009(14)**, *Fisherman's Guide to Sales and Use Taxes and Estimated Income Tax*

**Informational Publication 2009(15)**, *Notice to Retailers on Sales and Use Tax Resale Certificates*

**Special Notice 2002(15)**, *Sales and Use Taxes on Sale and Leaseback Arrangements.*

**Special Notice 2002(9.1)**, *Sales and Use Taxes on the Furnishing of Space for Storage*

**Special Notice 2001(5)**, *The "Buy Connecticut" Provision*

**Special Notice 95(10)**, *1995 Legislative Changes Affecting Exempt Purchases by Exempt Organizations*

**Policy Statement 94(7)**, *Fabrication and Installation of Stock and Custom Cabinets*

**Policy Statement 96(2)**, *The Treatment of Early Payment Discounts*

**Policy Statement 2004(4)**, *Sales and Use Tax Exemption for Safety Apparel*



---

---

## Section XV The Connecticut Use Tax

### Manufacturers, Fabricators, and Processors

---

---

Conn. Gen. Stat. §12-411 imposes use tax at the rate of 6% on the storage, acceptance, consumption, or any other use of tangible personal property and certain enumerated services in the State of Connecticut. Under Conn. Gen. Stat. §12-412i, the MRA, the use tax is computed on 50% of the sales price for purchases of machinery and equipment materials, tools, and fuels. The use tax rate on computer and data processing services is 1%.

Any individual or business that purchases taxable goods or services for use in Connecticut without paying Connecticut sales tax **must** pay the use tax. If no tax was paid because the purchase was made from an out-of-state seller and delivered into Connecticut, the use tax is equivalent to the Connecticut sales tax that would have been due on the sale if it had occurred in Connecticut. The seller may be required to collect Connecticut use tax if the seller has nexus with Connecticut. If another jurisdiction's tax was paid on a purchase made and picked up in that jurisdiction, the use tax due is limited to the amount, if any, by which the Connecticut tax exceeds the tax already paid.

Goods or services not subject to Connecticut sales tax are not subject to the use tax. Therefore, qualifying manufacturers, fabricators, or processors purchasing tangible personal property exempt from Connecticut sales tax are not liable for a Connecticut use tax on the purchases. However, the improper use of an exemption certificate may lead to a use tax liability.

---

#### Example

A nonmanufacturing business purchases machinery fully exempt by improperly issuing **CERT-101**, *Machinery, Component Parts, and Replacement and Repair Parts of Machinery Used Directly in a Manufacturing Production Process*, to its supplier. The business is liable for the use tax and interest accrued on the purchase of the machinery. In addition, it may be liable for all fines and penalties imposed for improper use of the certificate.

---

Use tax applies to:

- Any purchase made by a business for taxable goods and taxable services except for purchases made for resale;
- The purchase or lease of assets used by the business such as furniture, equipment, machines, instruments, and computers;

- The purchase of consumable goods such as office supplies, paper, stationery items, certain publications, packaged software, and books; **and**
- Services used by the business such as vehicle repair, personnel training, landscaping, janitorial or snow removal services.

A resale certificate may only be used to purchase goods or services intended for resale in the regular course of business. See the discussion on resale certificates on Page 60. Goods and services used in carrying on business or consumed by the business are subject to use tax.

The use of a Connecticut sales and use tax resale certificate may lead to a later use tax liability if:

- (a) A business purchases inventory for resale and subsequently consumes or uses it in the business; **or**

---

#### Example

A computer distributor takes a computer from inventory to do billing for the business. The business owes use tax on the price it paid for the computer.

---

- (b) A business purchases items for resale and subsequently gives them away in a promotion.

---

#### Example

A distributor of office supplies sends out pens and pencils (purchased for resale) as part of its advertising. The business owes use tax on the price it paid for the pens and pencils.

---

However, under Conn. Gen. Stat. §12-413(4), no use tax due if a business purchases items for resale and those items are subsequently donated to

*(A) the United States, the state of Connecticut or any of the political subdivisions thereof, or its or their respective agencies, or (B) any organization that is exempt from federal income tax under Section 501(a) of the Internal Revenue Code of 1986, or any subsequent corresponding internal revenue code of the United States, as from time to time amended, and that the United States Treasury Department has expressly determined, by letter, to be an organization that is described in Section 501(c)(3) of said internal revenue code.*

## Sales Price Subject to Use Tax

The **sales price** of goods or services subject to use tax is the total cost, including any charges by the seller to the purchaser for shipping or delivery, paid by the business to the seller. Refer to *Sales Price* on Page 57.

---

## Remitting Business Use Tax

When purchasing taxable goods or services, a business must pay sales tax directly to the seller unless the purchase is intended for resale **or** the purchase is otherwise exempt from tax. However, when a business determines certain purchases it made exempt from tax are in fact subject to use tax, the business must remit the tax on those goods and services directly to DRS on Form OS-114 for the reporting period in which the taxable purchases were made.

See **Informational Publication 2003(31)**, *Q & A on the Connecticut Use Tax for Businesses and Professions*, and **Informational Publication 2009(16)**, *Getting Started in Business: Understanding Connecticut Taxes*.

## Applicable Certificates and Forms

*Connecticut Sales and Use Tax Resale Certificate*

**REG-1**, *Business Taxes Registration Application*

**OS-114**, *Sales and Use Tax Return*

## References

**Conn. Gen. Stat. §12-410**

*Presumptions and resale certificates*

**Conn. Gen. Stat. §12-411**

*The use tax*

**Conn. Gen. Stat. §12-413(4)**

*Property donated to governmental entity or tax-exempt organization*

**Informational Publication 2006(11)**, *Getting Started in Business: Understanding Connecticut Taxes*

**IP 2003(31)**, *Q & A on the Connecticut Use Tax for Businesses and Professions*

# Appendix A — Index of Tax Publications

## Certificates

<u>CERT #</u>	<u>Date</u>	<u>Name of Certificate</u>
CERT-100	01/05	Materials, Tools, and Fuel
CERT-101	01/05	Machinery, Component Parts, and Replacement and Repair Parts of Machinery Used Directly in a Manufacturing Production Process
CERT-104	01/05	Services Certificate for New Construction
CERT-105	01/05	Commercial Motor Vehicle Purchased Within Connecticut for Use Exclusively in the Carriage of Freight in Interstate Commerce
CERT-108	01/05	Partial Exemption of Materials, Tools, and Fuels
CERT-109	01/05	Partial Exemption for Machinery, Equipment, or Repair and Replacement Parts
CERT-110	07/06	Aircraft Repair Services Aircraft Repair and Replacement Parts
CERT-111	01/05	Machinery, Equipment, Materials, Tools, and Fuel Used by an Aircraft Manufacturer Operating an Aircraft Manufacturing Facility
CERT-115	01/05	Exempt purchases of Gas, Electricity, and Heating Fuel
CERT-116	07/08	Exempt Petroleum Products Certificate
CERT-117	01/05	Purchases of Tangible Personal Property Incorporated Into or Consumed in Air Pollution Control Facilities
CERT-119	05/04	Purchases of Tangible Personal Property and Services by Qualifying Exempt Organizations
CERT-120	01/05	Machinery, Equipment, Tools, Materials, and Supplies Used in the Production of Printed Material or in Prepress Production
CERT-124	01/05	Purchases of Tangible Personal Property Incorporated Into or Consumed in Water Pollution Control Facilities
CERT-127	01/05	Exempt Purchases by an Enrolled Member or by the Tribal Government of the Mashantucket Pequot Tribe or Mohegan Tribe
CERT-128	02/02	Exempt Purchases by Contractors in Connection with Construction Projects in Indian Country of the Mashantucket Pequot or Mohegan Tribes
CERT-129	01/05	Exemption for Items Used Directly in the Biotechnology Industry
CERT-130	08/03	Sales and Use Tax Exemption for Purchases by Water Companies
CERT-131	08/03	Exemption for Projects of the Connecticut Resources Recovery Authority and Solid Waste-To-Energy Facilities
CERT-132	01/05	Sales and Use Tax Exemption for Purchases Made Under the Buy Connecticut Provision
CERT-134	06/04	Exempt Purchases by Qualifying Governmental Agencies
_____		Connecticut Sales and Use Tax Resale Certificate
_____		Printed Material Certificate
Affidavit SUT-16a-3	04/91	Exemption Certificate - Airplane Manufactured by and Purchased from a Connecticut Airplane Manufacturer within the State of Connecticut for Use Exclusively without the State of Connecticut

## Administrative Pronouncements

<b>Notice #</b>	<b>Date</b>	<b>Name of Notice</b>
<b>2005 Special Notices</b>		
SN 2005(12)	10/05	Nonresident Contractor Bonds and Deposits
<b>2002 Special Notices</b>		
SN 2002(9.1)	09/02	Sales and Use Taxes on the Furnishing of Space for Storage
SN 2002(15)	12/02	Sales and Use Taxes on Sale and Leaseback Arrangement
<b>2001 Special Notices</b>		
SN 2001(5)	09/01	The "Buy Connecticut" Provision
<b>1999 Special Notices</b>		
SN 99(7)	06/99	1999 Legislation Affecting Sales and Use Taxes and the Admissions, Cabaret and Dues Tax
<b>1998 Special Notices</b>		
SN 98(6)	04/98	Exemption From Sales and Use Taxes for Projects of the Connecticut Resources Recovery Authority and Solid Waste-to-Energy Facilities
SN 98(8)	09/98	1998 Legislation Affecting Sales and Use Taxes; Admissions, Cabaret and Dues Tax; and the Motor Vehicle Rental Surcharge
<b>1997 Special Notices</b>		
SN 97(10)	01/98	Exemption From Sales and Use Taxes for Tangible Personal Property and Services Purchased by Water Companies
<b>1995 Special Notices</b>		
SN 95 (10)	07/95	1995 Legislative Changes Affecting Exempt Purchases by Exempt Organizations
SN 95(17)	10/95	Certain Environmental Services Excluded From Sales and Use Taxes
<b>1993 Special Notices</b>		
SN 93(1.1)	02/94	The Manufacturing Recovery Act of 1992 Exemption for Purchases of Property Used in Manufacturing, Processing and Fabricating
SN 93(2)	04/93	Sales and Use Tax Charges Made by Services Providers After AirKaman, Inc. v. Groppo and 1992 Conn. Pub. Acts 17 (May Special Session)
SN 93(23)	09/93	Aircraft Manufacturing, Repair and Overhaul
<b>2009 Policy Statements</b>		
PS 2009(2)	04/09	Retailer's Acceptance of U.S. Government "GSA SmartPay" and "GSA SmartPay 2" Credit Cards for Exempt Purchases
<b>2008 Policy Statements</b>		
PS 2008(2)	01/08	Requests for the Issuance of a Ruling
<b>2007 Policy Statements</b>		
PS 2007(2)	06/07	Your Rights as a Connecticut Taxpayer
PS 2007(7)	11/07	Taxation of Services by Employment Agencies and Agencies Providing Personnel Services
<b>2006 Policy Statements</b>		
PS 2006(8)	03/07	Sales and Use Taxes on Computer-Related Services and Sales of Tangible Personal Property

<b>Notice #</b>	<b>Date</b>	<b>Name of Notice</b>
<b>2004 Policy Statements</b>		
PS 2004(2)	10/04	Sales and Use Taxes on Internet Access Services and On-Line Sales of Goods and Services
PS 2004(4)	11/04	Sales and Use Tax Exemption for Safety Apparel
<b>2001 Policy Statements</b>		
PS 2001(1)	02/02	Procedures for Retailers Claiming Credit for Sales Tax Previously Paid on Worthless Accounts Receivable
PS 2001(7)	07/01	Purchases of Machinery, Equipment, Tools, Materials, and Supplies by Commercial Printers and Publishers
<b>2000 Policy Statements</b>		
PS 2000(4)	05/00	Sales and Use Taxes on Charges for Personnel Training Services
PS 2000(8)	12/00	Procedures in Handling Requests for Issuance of Technical Advice Memoranda
<b>1999 Policy Statements</b>		
PS 99(2)	06/99	Tax Exemptions for Certain Air Pollution Control Equipment
PS 99(3)	06/99	Tax Exemptions For Certain Water Pollution Control Equipment
<b>1998 Policy Statements</b>		
PS 98(8)	12/98	Exemption from Sales and Use Taxes for Items Used Directly in the Biotechnology Industry
<b>1996 Policy Statements</b>		
PS 96(2)	04/96	The Treatment of Early Payment Discounts
<b>1994 Policy Statements</b>		
PS 94(1)	02/94	Purchases of Containers and Packaging Materials by Packers, Shippers and Fulfillment Houses
PS 94(3.2)	07/96	Gas and Electricity Purchased for Residential Use or for Use in Agricultural Production, in the Fabrication of Finished Products to be Sold, or in an Industrial Manufacturing Plant
PS 94(7)	12/94	Fabrication and Installation of Stock and Custom Cabinets
<b>1993 Policy Statements</b>		
PS 93(4)	12/93	New Audit Examination Policy for Retail Transactions
<b>2009 Informational Publications</b>		
IP 2009(16)	04/09	Getting Started in Business: Understanding Connecticut Taxes
IP 2009(15)	03/09	Notice to Retailers on Sales and Use Tax Resale Certificates
IP 2009(14)	03/09	Fisherman's Guide to Sales and Use Taxes and Estimated Income Tax
<b>2008 Informational Publications</b>		
IP 2008(19)	07/08	Farmer's Guide to Sales and Use Taxes, Motor Vehicle Fuels Tax, Estimated Income Tax, and Withholding Tax
IP 2008(29)	12/08	Business Taxes
<b>2006 Informational Publications</b>		
IP 2006(12)	04/06	Q & A on Purchases of Vessels
IP 2006(35)	03/07	Building Contractors' Guide to Sales and Use Taxes

<b>Notice #</b>	<b>Date</b>	<b>Name of Notice</b>
<b>2003 Informational Publications</b>		
IP 2003(26)	10/03	Q & A on Sales and Use Taxes for a New Business
IP 2003(31)	11/03	Q & A on the Connecticut Use Tax for Businesses and Professions
<b>2001 Informational Publications</b>		
IP 2001(20)	09/01	Q & A Concerning Freedom of Information Act Requests
<b>2000 Informational Publications</b>		
IP 2000(27)	02/01	Procedures to Request Disclosure of Tax Return and Tax Return Information
<b>1998 Informational Publications</b>		
IP 98(7)	04/98	Understanding Connecticut Taxes Clearly
<b>2006 Announcements</b>		
AN 2006(7)	02/06	Purchases of Tangible Personal Property by Contractors for Construction Contracts With Qualified Entities
<b>2000 Announcements</b>		
AN 2000(8)	01/01	Rulings and Administrative Pronouncements Obsolete by Sales and Use Tax Regulations on Enumerated Services
<b>1996 Announcements</b>		
AN 96(4)	08/96	The Sales and Use Tax Manual is Obsolete
<b>1994 Announcements</b>		
AN 94(10.2)	03/05	Rulings Related to Computer and Data Processing Services Obsolete by Court Decision

---

---

## Notes

---

---

# Connecticut Taxpayer Assistance

## Taxpayer Service Center

Connecticut tax filers can file most tax returns, extensions, and estimates, at no charge over the Internet using the **Taxpayer Service Center (TSC)**. Also visit the **TSC** to pay amounts due and review or modify your Connecticut tax account information online.

For more information about the **TSC**, visit the DRS website at [www.ct.gov/DRS](http://www.ct.gov/DRS).



	Tax Information	Forms and Publications
<b>Telephone</b>	For telephone assistance, call our Taxpayer Services Division at <b>1-800-382-9463</b> (Connecticut calls outside the Greater Hartford calling area only) or <b>860-297-5962</b> (from anywhere) and select <b>Option 6</b> during business hours to speak with a representative.	<b>1-800-382-9463</b> (Connecticut calls outside the Greater Hartford calling area only) and select <b>Option 2</b> ; or <b>860-297-4753</b> (from anywhere).
<b>Write</b>	Department of Revenue Services Taxpayer Services Division 25 Sigourney St Ste 2 Hartford CT 06106-5032	Department of Revenue Services Forms Unit 25 Sigourney St Ste 2 Hartford CT 06106-5032

## Walk-in Offices

Free personal taxpayer assistance and forms are available by visiting our offices. Walk-in assistance at ALL DRS locations is available Monday through Friday, 8:30 a.m. to 4:30 p.m.

**Bridgeport**  
10 Middle St.  
203-336-7890

**Norwich**  
2 Cliff St.  
860-425-4123

**Hamden**  
3074 Whitney Ave.  
Building #2  
203-287-8243

**Waterbury**  
55 West Main St.  
Suite 100  
203-805-6789

**Hartford**  
25 Sigourney St.  
860-297-5962

All calls are answered at our Customer Service Center in Hartford, not at the local office. Call CONN-TAX for directions to DRS offices. If you require special accommodations, please advise the DRS representative.

### Federal Tax Information

For questions about **federal taxes**, visit [www.irs.gov](http://www.irs.gov) or call the Internal Revenue Service (IRS) at 1-800-829-1040.

To order **federal tax forms**, call 1-800-829-3676.

### Statewide Services

Visit the ConneCT website at [www.ct.gov](http://www.ct.gov) for information on statewide services and programs.