

PROPERTY TAX EXEMPTION FOR MANUFACTURING MACHINERY AND EQUIPMENT

Under sec. 70.11(27)(b), Wis. Stats., "machinery and specific processing equipment; and repair parts, replacement machines, safety attachments and special foundations for that machinery and equipment; that are used exclusively and directly in the production process in manufacturing tangible personal property, regardless of their attachment to real property, but not including buildings" are exempt from property tax.

The statute specifies that the exemption is to be strictly construed and provides definition of "building," "machinery," "manufacturing," "production process," "used directly," and "used exclusively," among other terms.

To qualify for the machinery and equipment (M&E) exemption, a business must first be classified as "manufacturing." These are activities that are classified as "manufacturing" in the Standard Industrial Classification Manual. In addition, mining, photo finishing laboratories, scrap metal processing, wastepaper processing and hazardous waste facilities are defined to be manufacturing activities. [See attached for a complete list of manufacturing activities.] A business owned by a manufacturer but not classified manufacturing does not qualify for the M&E exemption.

Once classified manufacturing, the property must be used exclusively and directly in the manufacturing production process to be exempt. The production process begins with the conveyance of raw materials to the first work point and ends with the conveyance of the finished product to the place of first storage. Thus, receipt, inspection and storage of raw materials and storage of finished products are not part of the production process.

To be used directly in the production process means that the qualifying property must cause a physical or chemical change in raw materials or cause a movement of raw materials. Equipment used only to preserve or protect raw materials is considered taxable storage equipment. The property may not be used for other purposes more than 5% of its total use.

Exempt items include the following:

- Machinery and specific processing equipment
- Repair parts
- Replacement machines
- Safety attachments
- Special foundations for qualifying machinery and equipment
- Parts of buildings that are part of the production process, e.g. kilns, malt aging silos, graving docks used as conveyers, work platforms or measuring instruments
- Equipment used for storing work in process less than three days
- Forklifts/conveyers used at least 95% of time for moving material along production line
- Quality control equipment used for testing the product manufactured
- Power wiring
- Motors, compressors and computers that exclusively power or operate exempt machines
- Process piping
- Packaging equipment, including in-house printing of labels, instructions, manuals
- Hand tools used with exempt machines
- Computers used in manufacturing process

Taxable items include the following:

- Boilers, generators, transformers
- Quality control equipment of raw materials received
- Shipping and receiving equipment
- Raw material storage equipment, e.g. racks, tanks, silos, refrigeration
- Finished product storage equipment, including refrigeration
- Storage equipment for work in process stored for more than three days
- Forklifts and shelving used in warehouses
- Equipment to maintain and repair production machines, buildings and grounds
- Communication equipment
- Research and development equipment used for new products or improving existing products
- Pilot plants involved with prototype development where sample products are not sold to customers
- Creative work by authors, artists, ad agencies, photographers, etc.

In addition to the M&E exemption, there are separate exemptions for waste treatment facilities and computers.

Attachment: Manufacturing Activities

- Metal mining
- Mining and quarrying of nonmetallic minerals, except fuels
- Food and kindred products
- Tobacco manufacturers
- Textile mill products
- Apparel and other finished products made from fabrics and similar materials
- Lumber and wood products
- Furniture and fixtures
- Paper and allied products
- Printing, publishing, and allied industries
- Chemicals and allied products
- Petroleum refining and related industries
- Rubber and miscellaneous plastic products
- Leather and leather products
- Stone, clay, glass and concrete products
- Primary metal industries
- Fabricated metal products, machinery and transportation equipment
- Machinery
- Electrical and electronic machinery, equipment and supplies
- Transportation equipment
- Measuring, analyzing and controlling instruments; photographic, medical and optical goods; watches and clocks
- Photofinishing laboratories
- Scrap processors
- Processors of waste paper, fibers or plastics
- Hazardous waste treatment facilities