

MANUFACTURING

in Lehman's Terms

Incentives 101: Sales Tax Exemption for Manufacturing or Equipment



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The economy appears to be booming in North Dakota with many manufacturers looking to relocate their businesses in North Dakota, start anew, or expand. It is currently estimated that there are \$25 Billion worth of primary sector opportunities looking at North Dakota. I think we are seeing a post Covid-19 expansion as a result of a congested supply chain and OEMs looking to source product in the US coupled with North Dakota's business friendly environment and attractive business incentives. In previous newsletter, I have covered some of the low interest financing and tax incentives available to businesses looking to expand into North Dakota. I would be remiss, however, if I didn't include the *Sales Tax Exemption for Manufacturing or Recycling Machinery and Equipment and Primary Sector Business Computer and Telecommunication Equipment*. For this audience, I am going to primarily cover this incentive as it pertains to the manufacturing and equipment.

Century Code 57-39.2-04.3 (1) reads as such:

Gross receipts from sales of machinery or equipment used directly in manufacturing of tangible personal property for wholesale, retail, or lease are exempt from taxes under this chapter. To be exempt, the machinery or equipment must be used in a new manufacturing plant or in a physical or economic expansion of an existing manufacturing plant. Purchase of replacement machinery or equipment is not exempt unless it results in a physical or economic expansion of the plant.

This incentive includes both state and local sales tax. There are essentially two ways manufacturers can take advantage of this incentive. The first way would be to apply prior to the expansion activity. If approved, the North Dakota Office of the Tax Commissioner will issue a certificate the business can provide a copy to suppliers that qualifies the purchase is tax exempt. The other way would be to submit a claim for refund to the state tax department for processing. The claim will be reviewed and once approved, issue a check to refund the sales tax portion of your purchase. Depending on your situation, it may be best to get the letter prior to your purchases. In doing so, you wouldn't have to send receipts to the tax department, and it will

speed up the approval process. If you weren't aware of the sales tax exemption or just didn't get it in, please note that you have 3 years from the date on the receipt to submit for a refund.

To apply for an exemption, the project owner must submit a letter of application to the Tax Commissioner by email or mail. This letter can be found on the tax department [website](#). Alternatively, you can contact the tax department directly at 701-328-1246 or salestax@nd.gov.

This is a general overview of the sales tax exemption used for the purchase of manufacturing equipment. If you have expansion projects on the horizon, please reach out to your local developer or myself to ensure you are going through the proper steps as some of these programs need to be approved and in place prior to starting. For additional information regarding this or other incentives applicable to your manufacturing operation, please feel free to reach out and I will point you in the right direction. If you are considering an expansion or relocating to North Dakota, I would be happy to work with you to make that a reality!

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