

Manufacturer's Purchases Credit

State of Illinois

Purchases of machinery and equipment used in the production process are eligible for a **State Sales Tax Exemption** as long as these purchases fall under the definition of "tangible personal property". This exemption not only creates immediate 6.25% savings, but also applies as a tax credit towards other purchases of tangible personal property which do not qualify for an exemption. This additional savings is known as the **Manufacturer's Purchases Credit (MPC)**. The credit is equivalent to 50% of the total yearly savings due to exemptions on machinery and equipment.

For an item to qualify as tangible personal property, it must be used or consumed in a production facility. Examples include machinery and equipment used in production, materials incorporated into real estate in a manufacturing facility, and computers used by a manufacturer for research and development. Purchases of these items are all exempt from the 6.25% State Sales Tax.

Items that do not qualify for the exemptions include office equipment used in administrative or management functions or vehicles titled or registered with a unit of government. Any property used or consumed in activities such as sales, purchasing, accounting, fiscal management, marketing, personnel recruitment or landscaping will not qualify as production related tangible personal property and are therefore not eligible for the tax exemption or the MPC.

Here's an example:

Company XYZ purchases a machine that qualifies for the State Sales Tax Exemption. The machine cost \$1,000 and the amount of State Sales Tax saved is \$62.50 (State Sales Tax = 6.25%). Assuming the company qualifies for a 50% MPC, Company XYZ now has a credit of \$31.25.

Company XYZ buys an additional machine that does not qualify for the State Tax Exemption. The Machine also cost \$1,000. The sales tax due on the machine is \$62.50. However, Company XYZ can apply a credit of \$31.25 towards the tax and only pay \$31.25 in State Sales Tax on this purchase.

The end result is a total purchase of \$2,000 in machinery with a total State Sales Tax liability of only \$31.25, or 1.56%.

For more information on the State Sales Tax Exemption or the Manufacturer's Purchase Credit, call the Illinois Department of Revenue at 800 732-8866 or 217 782-3336 or the Council of 100.