The Louisville Municipal Code (LMC) provides that the gross purchase price of articles sold after manufacturing, or after having been made to order, are taxable and subject to Louisville sales/use tax. This includes the gross value of all materials used, labor or service charges for work performed, and the profit thereon.

**Manufacturing Equipment and Tools**

Manufacturing equipment or tools used directly in manufacturing a product are not exempt from Louisville sales/use tax. If Louisville sales tax is not paid at the time of purchase, the manufacturer must remit use tax directly to the City on the cost of the equipment or tools purchased.

“Manufacturing” means the operation or performance of an integrated series of operations which places a product, article, substance, commodity, or other tangible personal property in a form, composition or character different from that in which it was acquired, whether for sale or for use by a manufacturer. The change in form, composition, or character must result in a different product having a distinctive name, character or use from the raw or prepared materials.

“Machinery” means any apparatus consisting of interrelated parts used to produce an article of tangible personal property. The term includes both the basic unit and any adjunct or attachment necessary for the basic unit to accomplish its intended function.

Direct use in manufacturing begins at the point at which raw material is moved from plant inventory on a contiguous plant site, and ends at the point at which manufacturing has altered the raw material to its completed form, including packaging, if required. Also, machinery used during the manufacturing process to move material from one direct production step to another in a continuous flow, or machinery used in testing during the manufacturing process, is deemed to be directly used in manufacturing.

**Exemptions**

The State of Colorado exempts the purchase of manufacturing equipment by manufacturers, but the City of Louisville does not.

The sale of any article, substance or commodity, or tangible personal property to a person engaged in the business of manufacturing or compounding raw materials for sale, profit, or use, is exempt from City sales tax provided all of the following conditions are met:

1. The tangible personal property is actually and factually transformed by the process of manufacturing or compounding resulting in a different product having a distinctive name, character and use;
2. The tangible personal property is manufactured or compounded to be a necessary and recognizable ingredient, component and constituent part of the finished product; and
3. The tangible personal property’s physical presence in the finished product is essential to the use of the product in the hands of the ultimate consumer.

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Manufacturing & Fabrication

The sale of tangible personal property to a person engaged in the business of food manufacturing is exempt from City sales tax provided all of the following conditions are met:

1. The tangible personal property becomes an integral or constituent part of a food product which is intended to be sold ultimately at retail for human consumption, or;
2. The tangible personal property is a chemical, solvent, agent, mold skin casing, or other material, used for the purpose of producing or inducing a chemical or physical change in a food product, or is used for the purpose of placing a food product in a more marketable condition, and is directly utilized and consumed, dissipated, or destroyed, to the extent it is rendered unfit for further use, in the processing of food product which is intended to be sold ultimately at retail for human consumption.

The purchase of electricity, coal, gas, fuel oil, steam, or coke for use in processing, manufacturing, mining or refining, is exempt from Louisville sales tax. The purchase of electricity, gas, coal, fuel oil or coke used for the lighting or heating of the manufacturing spaces or any other non-manufacturing spaces, such as offices, meeting rooms, etc., is not exempt from City sales tax.

Taxable Purchase Price of Finished Goods

The purchase price of prefabricated goods and materials is the complete manufactured cost, including all raw materials, labor, overhead and profit.

Manufacturing, fabricating or other processing labor is never exempt, even when separately stated. Manufacturers who sell finished products at retail must collect and remit Louisville sales tax on the purchase price. The purchase price must include the cost of all materials used and the labor or services performed, including fabrication, assembly, configuration, or testing of the tangible personal property.

Consumables and Supplies

Solvents, oils, gases, cleaners or similar, are not exempt and are subject to Louisville sales/use tax. Additionally, purchases of items or taxable services used, consumed, stored, or distributed in the City such as office supplies, office equipment, software, uniforms and furniture are subject to City sales/use tax.

Examples

Manufacturer A is a small furniture company specializing in hand-made items. Even though the company lists the price of the materials and fabrication labor separately on the customer invoice, the company must collect and remit Louisville sales tax on the aggregate purchase price of the materials and labor.

Manufacturer B purchases various computer components in large quantities, which are assembled into completed personal computers for resale. All of the component parts may be purchased at wholesale tax-exempt; however, if the manufacturer removes any of the component parts, or completed personal computers from inventory for its own use in the

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Manufacturing & Fabrication

For R&D purposes, the manufacturer must remit use tax to the City on the cost of the component parts used. Use tax does not need to be remitted on the fabrication labor.

Manufacturer C builds after-market automobile components and purchases aluminum, steel blanks, welding gases, welding gloves and diamond paste. The gases, welding gloves and diamond paste are supplies used and consumed in the manufacturing process, but they do not become necessary, recognizable ingredients, components, or constituent parts of the finished product, and therefore, are subject to City of Louisville sales/use tax.

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