

Sales & Use Tax Exemptions

Manufacturing Machinery & Equipment

Leased or purchased machinery, equipment, replacement parts, and accessories that have a useful life of more than six months, and that are used or consumed in the manufacturing, processing, fabricating, or repairing of tangible personal property for ultimate sale, are exempt from state and local sales and use tax. Tangible personal property that becomes an ingredient or component of an item manufactured for sale, as well as taxable services performed on a manufactured product to make it marketable are exempt. The exemption also applies to tangible personal property that makes a chemical or physical change in the product being manufactured and is necessary and essential in the manufacturing process, as well as semiconductor fabrication and pharmaceutical biotechnology cleanrooms and equipment. Texas businesses are exempt from paying state sales and use tax on labor for constructing new facilities.

Natural Gas & Electricity

Texas companies are exempt from paying state sales and use tax on electricity and natural gas used in manufacturing, processing, or fabricating tangible personal property. The company must complete a "predominant use study" that shows that at least 50 percent of the electricity or natural gas consumed by the business directly causes a physical change to a product.

Property Tax Rule 9.105

The Texas Comptroller of Public Accounts offers a refund of state franchise and sales/use taxes paid by companies owning certain abated property. A company who meets the following three conditions may **apply for a refund**: (1) paid property taxes to a school district on property that is located in a reinvestment zone established under Chapter 312, (2) is exempt in whole or in part from property tax imposed by a city or county under a tax abatement agreement established under Chapter 312 and (3) is not in a tax abatement agreement with a school district.

The refund is equal to the amount of property taxes that would not have been paid had the company entered into a school district abatement agreement with terms identical to the city or county abatement agreement, not to exceed the net state sales and use taxes and state franchise taxes paid or collected and remitted during that calendar year. The refund amount may also be limited by a statewide appropriation per year for this refund program.

Chapter 380 Financing

Chapter 380 of the Local Government Code provides legislative authority for Texas municipalities to provide a grant or a loan of city funds or services in order to promote economic development. Cities have utilized the provisions under this law to provide a wide array of incentives that have drawn

businesses and industries to locales throughout Texas. This statute basically provides for loans and grants of city funds, as well as the use of city staff, city facilities, or city services at minimal or no charge. Whether a city provides any such incentive is completely discretionary. A city may provide a Chapter 380 grant in the form of a municipal sales or property tax rebate tax rebate.

Enterprise Zones

The Texas Enterprise Zone Program also offers opportunities for sales and use tax refunds.