

BILL ANALYSIS

Senate Research Center

H.B. 1855
By: Eiland (Ratliff)
Finance
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Engrossed

DIGEST

Section 151.318, Tax Code (Property Used in Manufacturing), exempts various items from the sales tax that are purchased for use in the manufacturing process. Subsection (c)(2) strictly excludes from exemption intraplant transportation equipment, other equipment, materials, and supplies, which are not used directly in the manufacturing process. In the recent *Tyler Pipe v. Sharp* and *Chevron Chemical v. Sharp* cases, the courts determined the comptroller's interpretation of the law regarding the taxable status of certain items used in the manufacturing process was too narrow, and substantially broadened the scope of the exemption. H.B. 1855 limits the sales tax exemption for manufacturing machinery and equipment to items that are directly used in the manufacturing process and that directly make or cause a chemical or physical change to the products being manufactured.

PURPOSE

As proposed, H.B. 1855 limits the sales tax exemption for manufacturing machinery and equipment to items that are directly used in the manufacturing process and that directly make or cause a chemical or physical change to the products being manufactured.

RULEMAKING AUTHORITY

This bill does not grant any additional rulemaking authority to a state officer, institution, or agency.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Section 151.318, Tax Code, by amending Subsections (a) and (c) and adding Subsections (r) and (s), to provide that certain items are exempted from taxes including tangible personal property directly used or consumed during actual manufacturing of tangible property if the use or consumption of the property is necessary to the manufacturing and directly makes or causes a chemical or physical change to certain products. Provides that actuators, steam production equipment and its fuel, in-process flow through tanks, cooling towers, generators, heat exchangers, electronic control room equipment, and certain computerized control units are exempted from taxes imposed by this chapter. Provides that the exemption does not include certain intraplant transportation equipment, or machinery and equipment or supplies used to maintain or store tangible personal property. Provides that a taxpayer claiming the exemption under this chapter has the burden of proof of the exemption. Provides that certain subsections do not apply to semiconductor fabrication cleanrooms and equipment.

SECTION 2. Effective date: October 1, 1997.

SECTION 3. Emergency clause.