

Sales/Use:

Arkansas: State High Court Says Purchased Steel Grit Qualifies as Exempt Manufacturing Equipment

Case No. CV-19-934, Ark. (4/22/21). In a case involving a manufacturer of heavy-duty pipes for use by the oil and gas industry, the Arkansas Supreme Court (Court) recently affirmed a circuit court ruling in favor of the taxpayer, holding that its purchased steel grit qualified for state sales tax manufacturing exemptions under Ark. Code Ann. sections 26-53-114(a)(1) and 26-53-114(a)(2) as an “item of equipment” used in its manufacturing process. Among other arguments, the Arkansas Department of Finance and Administration asserted that steel grit does not possess the required continuing utility to be considered “equipment” for purposes of Arkansas’ manufacturing-machinery-and-equipment exemption because the grit begins to break down immediately and must continuously be added to the taxpayer’s blasting machine. Recognizing that the taxpayer’s grit recycles through its closed-loop blasting system and blasts multiple pipes without being integrated into the pipes it blasts or immediately consumed in the blasting process (*i.e.*, the grit survives for a number of cycles), the Court reasoned that to have “some continuing utility,” does not require the grit to last forever. A dissenting opinion follows. Please contact us with any questions.

URL: <https://opinions.arcourts.gov/ark/supremecourt/en/item/495895/index.do>

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