

Sales/Use/Indirect:

Tennessee Appellate Court Holds for Taxpayer that Manufacturing Exemption Does Not Require Production of New Product

Case No. M2022-01019-COA-R3-CV, Tenn. Ct. App. (majority opinion, 9/6/23); *Case No. M2022-01019-COA-R3-CV*, Tenn. Ct. App. (dissenting opinion, 9/6/23). In a case involving a taxpayer who rented hygienically-clean textiles to its customers and challenged the revocation of three Tennessee industrial machinery tax exemption certificates that it previously had been issued, a Tennessee Court of Appeals (Court) affirmed the Tennessee Chancery Court for Davidson County – which had reversed an administrative law judge’s earlier ruling that ruled against the taxpayer – to hold that the taxpayer was entitled to the exemption under state law, because its operations constituted “manufacturing” that was necessary for processing tangible personal property. The Tennessee Department of Revenue unsuccessfully contended that while it agreed that the taxpayer subjects its textiles to a “rigorous and highly specialized cleaning process that makes them marketable,” this process does not constitute “processing” because “bar towels and uniforms are the same bar towels and uniforms before and after” the taxpayer’s sanitization process. In ruling for the taxpayer, the Court explained that unlike many other states, Tennessee’s industrial machinery exemption does not include a requirement that a taxpayer produce a new or substantially different product to qualify for the exemption. Rather, according to the Court, the Tennessee General Assembly chose to require only that the taxpayer use the “machinery, apparatus and equipment . . . primarily for [] the fabrication or processing of tangible personal property for resale and consumption off the premises.” A dissenting opinion follows. Please contact us with any questions.

URL: <https://www.tncourts.gov/sites/default/files/OpinionsPDFVersion/Majority%20Opinion%20-%20M2022-01019-COA-R3-CV.pdf>

URL: <https://pch.tncourts.gov/CaseDetails.aspx?id=85073&Number=True>

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