

Sales Tax - Machinery and Machine Tools

What is the sales tax manufacturing machinery and machine tools exemption?

Purchases of machinery or machine tools and parts thereof are exempt from state sales and use tax when the machinery will be used in manufacturing. To qualify the machinery must:

- Be used in Colorado
- Be used directly and predominantly to manufacture tangible personal property for sale or profit. (If the item is used for research and development, repair or maintenance it does not qualify as direct manufacturing use, and if these uses prevent the machine from being predominantly used in manufacturing, the machine is disqualified.)
- Be of a nature that would have qualified for the federal investment tax credit under the definition of section 38 property found in the Internal Revenue Code of 1954, as amended in 1986. This includes tangible personal property with a useful life of one year or more and limits qualifying purchases of used equipment to a maximum of \$150,000 annually,
- Be included on a purchase order or invoice totaling more than \$500,
- Be capitalized.

"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.

"Manufacturing" means the operation of producing an item of tangible personal property different from and having a distinctive name, character, or use from raw materials.

Enterprise Zones: Machinery used solely and exclusively in a designated enterprise zone does not have to be capitalized to qualify for the exemption. Materials for construction or repair of machinery or machine tools are also exempt from the state sales and use tax if the machinery is used exclusively in an enterprise zone.

Local Taxes: Cities, counties and special districts may or may not exempt manufacturing equipment from local sales taxes. Refer to publication [DRP 1002](#) for a list of localities that exempt this equipment from local sales tax. Special districts that impose sales tax on manufacturing equipment may not impose use tax on the equipment (see Ball Corporation, v. Colorado Department of Revenue).