



State of Alabama Department of Revenue

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ALABAMA DEPARTMENT OF REVENUE REVENUE RULING 94-010

This document may not be used or cited as precedent. Ala.
Code §40-2A-5(a) (1993 Replacement Volume).

TO:

FROM: Commissioner of Revenue (Acting)
Alabama Department of Revenue

DATE: August 23, 1994

RE: Applicability of Computer Hardware and Repair Parts to
the Reduced One and One-Half Percent Machine Sales Tax
Rate.

ISSUES AND FACTS

The facts as represented by Requestor are as follows:

Company "A" is a manufacturer of custom built equipment and machinery for the foundry industry. Company "A" begins the equipment building process with a concept of equipment which must be engineered to carry loads, handle stress and move within tolerances. Company "A"'s design stage follows, where Company "A" looks for the best application for its products, and makes sure that no overlapping or wrong sizes exist, as Company "A"'s equipment must fit in existing buildings. Finally, the detail stage follows where every length, quantity, bolt hole, welding, etc. is put in its proper place. This information is sent directly to a burning machine which cuts material to specifications or the information goes to Company "A"'s electrostatic plotter, which manufactures a blueprint. This blueprint contains all the information necessary to continue the fabrication process through to a finished product. To accomplish this, Company "A" has installed a computer aided design network which allows Company "A" to integrate the workflow from initial concepts, through detailed design, to actual operations.

The issue is as follows:

Whether Company "A"'s computer hardware and repair parts used to manufacture the blueprint qualifies under Alabama Code, §40-23-2(3) (1993 Replacement Volume), for the reduced one and one-half percent machine rate.

LAW AND ANALYSIS

Ala. Code §40-23-2(3) (1993 Replacement Volume) provides:

Upon every person, firm or corporation engaged or continuing within this State in the business of selling at retail machines used in mining, quarrying, compounding, processing and manufacturing of tangible personal property an amount equal to one and one-half percent of the gross proceeds of the sale of such machines; provided, that the term 'machines', as herein used, shall include machinery which is used for mining, quarrying, compounding, processing, or manufacturing tangible personal property, and the parts of such machine attachments and replacements therefor, which are made or manufactured for use on or in the operation of such machines and which are necessary to the operation of such machines and are customarily so used.

Based on the particular facts of this case, Company "A"'s "Blueprint Producing Computer" does not qualify to be taxed at the reduced one and one-half percent machine rate. The computer's main function is to process data and release information and instructions (the blueprint) designed to assist plant personnel in performing their duties - the fabrication process. As the computer is not attached to production machinery, and does not participate in the physical production of Company "A"'s products, the computer does not qualify for the favorable tax rate.

HOLDING

Based upon the particular facts of this case, Company "A"'s Computer Hardware and Repair Parts do not qualify for the reduced sales and use tax rate of one and one-half percent.

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