

Illinois Department of Revenue  
Regulations

Title 86 Part 130 Section 130.331 Manufacturer's Purchase Credit
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TITLE 86: REVENUE  
CHAPTER I: DEPARTMENT OF REVENUE

PART 130  
RETAILERS' OCCUPATION TAX

**Section 130.331 Manufacturer's Purchase Credit**

- a) Earning Manufacturer's Purchase Credit
  - 1) Effective January 1, 1995 through June 30, 2003, and beginning again on September 1, 2004 through August 30, 2014, a manufacturer may earn a credit when purchasing exempt manufacturing machinery and equipment. Effective July 1, 1996 through June 30, 2003, and beginning again on September 1, 2004 through August 30, 2014, a graphic arts producer may earn a credit when purchasing exempt graphic arts machinery and equipment. The credit is known as the Manufacturer's Purchase Credit or MPC. The amount of credit is limited to a percentage of the 6.25% State rate of tax that would have been incurred on the purchase of exempt manufacturing machinery and equipment. (See Section 130.325 and Section 130.330 of this Part.) By statute, MPC was repealed June 30, 2003 (Public Act 93-0024; effective June 20, 2003). Pursuant to Public Act 93-0840, effective July 30, 2004, MPC was reenacted without any specific sunset date. Subsequently, Public Act 96-116 was enacted to add a sunset date for MPC of August 30, 2014.
  - 2) The percentage of credit earned based upon exempt purchases increases over time as follows:
    - A) *15% for purchases made on or before June 30, 1995.*
    - B) *25% for purchases made after June 30, 1995, and on or before June 30, 1996.*
    - C) *40% for purchases made after June 30, 1996, and on or before June 30, 1997.*
    - D) *50% for purchases made on or after July 1, 1997. (Section 3-85 of the Use Tax Act)*
  - 3) The credit is earned at the time qualifying manufacturing machinery and equipment or qualifying graphic arts machinery and equipment is purchased. A qualifying purchase is considered to take place as of the date of invoice of that qualifying manufacturing machinery and equipment. The credit is considered to be earned on qualifying manufacturing machinery and equipment or qualifying

graphic arts machinery and equipment that is purchased under an installment contract or progress payment contract at the time that each installment or progress payment is invoiced. The amount of credit that is earned is based on the amount of tax that would have been due on that portion of the purchase price that is invoiced.

- 4) No credit is earned for exempt purchases under the expanded Enterprise Zone exemption, as described in Section 130.1951(b) of this Part, unless that purchase would also qualify as exempt under the Manufacturing Machinery and Equipment Exemption described in Section 130.330 of this Part or under the Graphic Arts Machinery and Equipment Exemption described in Section 130.325 of this Part.
  - 5) No credit is earned for a purchase of tangible personal property that qualifies as an occasional sale, as described in Section 130.110 (a) of this Part.
  - 6) No credit is earned for a purchase of tangible personal property that is purchased for resale. (See Section 130.210 (a) of this Part.)
- b) Using Manufacturer's Purchase Credit
- 1) The credit may be used to satisfy Use Tax or Service Use Tax liability incurred on the purchase of qualifying production related tangible personal property. (See Section 3-85 of the Use Tax Act [35 ILCS 105/3-85] and Section 3-70 of the Service Use Tax Act [35 ILCS 110/3-70].) *Credit earned prior to July 1, 2003 cannot be used after September 30, 2003. Credit earned on and after September 1, 2004 may only be used to satisfy tax liabilities for purchases of production related tangible personal property made on and after September 1, 2004 through August 30, 2014.* (Section 3-85 of the Use Tax Act and Section 3-70 of the Service Use Tax Act) The credit may be applied only to the 6.25% State rate of tax incurred. Prior to the credit being earned, credit may not be used on a qualifying purchase, except as provided in subsection (e)(7)(B). However, the credit may be used the same day that it is earned, but must be followed by proper reporting of the credit as set out in subsections (c), (d) and (e). For purposes of when to use accumulated Manufacturer's Purchase Credit, a manufacturer or graphic arts producer is always safe to use the credit in a month after the month in which the credit was earned.
  - 2) The credit is non-transferable and may not be used to satisfy the tax liability of any taxpayer other than the manufacturer or graphic arts producer that earned the credit. *Notwithstanding any other provision of this Section, the credit earned prior to July 1, 2003 cannot be used after September 30, 2003.* (Section 3-85 of the Use Tax Act and Section 3-70 of the Service Use Tax Act) Credit earned on and after September 1, 2004 may only be used to satisfy tax liabilities for purchases of production related tangible personal property made on and after September 1, 2004 through August 30, 2014.
    - A) A manufacturer or graphic arts producer may enter into a written contract with a construction contractor to authorize that construction contractor to utilize Manufacturer's Purchase Credit accumulated by the manufacturer or graphic arts producer for the purchase of tangible personal property to be installed into real estate within a manufacturing or graphic arts

production facility for use in a production related process. The written contract must specify the specific dollar amount of Manufacturer's Purchase Credit that the construction contractor is authorized to utilize on behalf of the manufacturer or graphic arts producer.

- B) To properly utilize the Manufacturer's Purchase Credit on behalf of the manufacturer or graphic arts producer when purchasing tangible personal property for installation into real estate within a manufacturing or graphic arts production facility for use in a production related process, the contractor must furnish the supplier with information stating:
    - i) The manufacturer's or graphic arts producer's name and address;
    - ii) The manufacturer's or graphic arts producer's registration or resale number; and
    - iii) A statement that a specific amount of Use Tax or Service Use Tax liability, not to exceed 6.25% of the selling price, is being satisfied with the Manufacturer's Purchase Credit.
  - C) To properly utilize the Manufacturer's Purchase Credit on behalf of the manufacturer or graphic arts producer when purchasing tangible personal property for installation into real estate within a manufacturing facility, the contractor must furnish the manufacturer or graphic arts producer with information stating:
    - i) Each vendor's or supplier's name and address (including, if applicable, either the vendor's or supplier's registration number or Federal Employer Identification Number);
    - ii) The date of purchase, purchase price and description of the tangible personal property purchased; and
    - iii) The amount of the Use Tax or Service Use Tax liability, not to exceed 6.25% of the selling price, that was satisfied by the Manufacturer's Purchase Credit utilized for each purchase.
  - D) A credit reported under a particular Illinois Business Tax number may not be transferred to a related but separately registered division or company.
- 3) Production related tangible personal property means:
- A) All tangible personal property used or consumed in a production related process by a manufacturer in a manufacturing facility in which a manufacturing process described in Section 2-45 of the Retailers' Occupation Tax Act takes place.
  - B) All tangible personal property used or consumed in a production related process by a graphic arts producer in a graphic arts production facility in which a graphic arts production process described in Section 2-30 of the Retailers' Occupation Tax Act takes place.

- C) All tangible personal property used or consumed by a manufacturer or graphic arts producer in research and development regardless of use within or without a manufacturing or graphic arts production facility. (See Section 3-85 of the Use Tax Act.)
- 4) By way of illustration and not limitation, the following uses of tangible personal property will be considered production related:
- A) Tangible personal property purchased by a manufacturer for incorporation into real estate within a manufacturing facility for use in a production related process; or tangible personal property purchased by a construction contractor for incorporation into real estate within a manufacturing facility for use in a production related process pursuant to a written contract described in subsection (b)(2)(A) of this Section.
  - B) Supplies and consumables used in a manufacturing facility, including fuels, coolants, solvents, oils, lubricants, cleaners and adhesives.
  - C) Hand tools, protective apparel and fire and safety equipment used or consumed in a manufacturing facility.
  - D) Tangible personal property used or consumed in a manufacturing facility for purposes of pre-production and post-production material handling, receiving, quality control, inventory control, storage, staging and packing for shipping or transportation.
  - E) Fuel used in a ready-mix cement truck to rotate the mixing drum in order to manufacture concrete or cement. However, only the amount of fuel used to rotate the drum will qualify. The amount of fuel used or consumed in transportation of the truck will not qualify as production related tangible personal property. The amount of fuel used in a qualifying manner to rotate the drum may be stated as a percentage of the entire amount of fuel used or consumed by the ready-mix truck.
  - F) Tangible personal property purchased by a graphic arts producer for incorporation into real estate within a graphic arts production facility for use in a production related process; or tangible personal property purchased by a construction contractor for incorporation into real estate within a graphic arts production facility for use in a production related process pursuant to a written contract described in subsection (b)(2)(A) of this Section.
  - G) Supplies and consumables used in a graphic arts production facility, including solvents, oils, lubricants, cleaners and adhesives. Paper and ink that is transferred to a customer does not qualify as production related tangible personal property.
  - H) Hand tools, protective apparel and fire and safety equipment used or consumed in a graphic arts production facility.
  - I) Tangible personal property used or consumed inside a graphic arts facility for purposes of preliminary or pre-press production, pre-production

material handling, receiving, quality control, inventory control, storage, staging, sorting, labeling, mailing, tying, wrapping and packaging.

- 5) By way of illustration and not limitation, the following uses of property will not be considered production related:
  - A) The use of trucks, trailers and motor vehicles that are required to be titled or registered pursuant to the Illinois Motor Vehicle Code [625 ILCS 5], and aircraft or watercraft required to be registered with an agency of State or federal government.
  - B) Office supplies, computers, desks, copiers and equipment that are used for sales, purchasing, accounting, fiscal management, marketing and personnel recruitment or selection activities, even if the use takes place within a manufacturing or graphic arts production facility.
  - C) Tangible personal property used or consumed for aesthetic or decorative purposes, including landscaping and artwork.
  - D) Tangible personal property used or consumed outside the manufacturing or graphic arts production facility, including tangible personal property listed in subsections (b)(4)(D) and (b)(4)(I) with the exception of tangible personal property used or consumed for research and development purposes.
  - E) Tangible personal property purchased by a construction contractor for incorporation into a manufacturing or graphic arts production facility, unless the purchase by the construction contractor was made on behalf of a manufacturer or graphic arts producer pursuant to a written contract described in subsection (b)(2)(A) of this Section.
  - F) Except as otherwise provided in subsection (b)(2) of this Section, tangible personal property transferred to a manufacturer's customer or the customer of a person that is engaged in graphic arts production. For example, paper and ink transferred to a customer by a de minimis serviceman as described in 86 Ill. Adm. Code 140.108 that is engaged in graphic arts production is not considered production related.
- 6) The credit may be used to satisfy the State portion (6.25%) of a Use Tax or Service Use Tax liability arising under audit where the liability established is the result of:
  - A) an erroneous claim of the Manufacturing Machinery and Equipment Exemption provided in Section 2-45 of the Retailers' Occupation Tax Act,
  - B) an erroneous claim of the Graphic Arts Machinery and Equipment Exemption provided in Section 2-5(4) of the Retailers' Occupation Tax Act, or
  - C) the manufacturer or graphic arts producer failing to self-assess and remit Use Tax or Service Use Tax on the purchase of production related tangible personal property.

(See Section 3-85 of the Use Tax Act and Section 3-70 of the Service Use Tax Act.) The credit may only be used to satisfy the State portion (6.25%) of a Use Tax or Service Use Tax liability incurred on the purchase of qualifying production related tangible personal property. Under no circumstances may the credit be used to satisfy penalty and interest or other tax liability incurred by the manufacturer or graphic arts producer.

- 7) Credit may be used to satisfy the State portion (6.25%) of a qualifying Use Tax or Service Use Tax liability incurred by a manufacturer or graphic arts producer on a purchase of production related tangible personal property when payment of tax must be made directly to the Department.
  - 8) The credit expires December 31st of the second calendar year following the calendar year in which the credit was earned. (See Section 3-85 of the Use Tax Act and Section 3-70 of the Service Use Tax Act.) However, for credit earned on or after June 30, 1995, the life of unreported credit may be extended during the period of an agreed extension of the statute of limitations as provided in subsection (e)(7).
  - 9) A manufacturer or graphic arts producer may use credit to satisfy Service Use Tax liability only when purchasing production related tangible personal property transferred incident to a sale of service.
  - 10) *Notwithstanding any other provision of this Section, the credit earned prior to July 1, 2003 cannot be used after September 30, 2003, including to satisfy an audit liability.* (Section 3-85 of the Use Tax Act and Section 3-70 of the Service Use Tax Act) *Notwithstanding any other provision of this Section, the credit earned on or after September 1, 2004 cannot be used on a purchase of production related tangible personal property made after August 30, 2014.*
- c) Reporting Manufacturer's Purchase Credit Earned or Used for Periods from January 1, 1995 through June 29, 1995
- 1) In order to validate credit earned as the result of a qualifying purchase of exempt manufacturing machinery and equipment or credit used on a qualifying purchase, the manufacturer must report credit earned to the Department in a timely manner. Failure to report credit earned will result in expiration of the credit as of the date earned.
  - 2) On forms prescribed or approved by the Department, a manufacturer must report credit earned or used by the last day of the second month following the month of creation or use of the credit. No credit report is required for any month in which a manufacturer neither earned nor used credit. Original invoices or copies of original invoices are not to be filed with the Department.
  - 3) Credit Use or Misuse Causing Expiration of Credit. Credit used, whether properly or improperly, expires upon use and cannot be recreated once used. The manufacturer may be liable for tax, penalty and interest on the purchase of production related tangible personal property where expired credit was used, in accordance with provisions of the Uniform Penalty and Interest Act [35 ILCS 735]. The following represent examples of uses of credit that will result in