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PRODUCTION MACHINERY EXEMPTIONS UNDER THE ONTARIO RETAIL SALES TAX ACT

A manufacturer is a person who manufactures, fabricates, produces or assembles goods for sale where the fair value of the goods sold to others is more than \$5,000 in the fiscal year or, the fair value of goods manufactured for own use is more than \$50,000 in the fiscal year. Under section 7(1) 40 the act exempts machinery and equipment as may be prescribed by the Minister that are purchased for the use of a manufacturer

- Directly in the manufacture or production of tangible personal property,
- Directly in and exclusively for research into or the development of goods to be manufactured or produced by any person,
- Directly in and exclusively for research into or the development of manufacturing or production processes for use by any person, or
- Directly in and exclusively for more than one of the purposes described in any of the above.

A person, other than the manufacturer, may purchase production machinery for a manufacturer exempt of ORST. As an example, if a contractor is constructing a plant, he may purchase production machinery tax-exempt.

Installation of Production Machinery

Equipment without operators, scaffolding and construction tools purchased or rented to install production machinery are subject to ORST. Safety equipment to protect employees during the installation of production machinery is also ORST taxable.

Equipment rented with operators is exempt of ORST as a non-taxable service.

Installed Production Machinery

The production machinery exemption starts when raw materials are received at the production site and ends at the first storage for finished goods. Material handling equipment used primarily to move materials to first storage through the

production process to the first finished goods storage qualifies as production equipment. Fork-lift trucks, cranes, slings, conveyor systems, locomotives, etc. are examples of material handling equipment.

Included in the machinery exemption, are catwalks, platform and walkways used to provide worker access to exempt production equipment or to the work in process. Weigh scales used to measure materials for the next phase of the production process is ORST exempt. Columns and supports primarily used for production machinery are included in the exemption. If the production use is more than 50%, columns and supports that are also used to support building structures may still be considered as exempt production machinery. Effective June 18, 2002, reinforced concrete may be exempt if used exclusively (90% or more) as a foundation that forms an integral part of exempt production machinery.

Computers and software used to control the production process are exempt of ORST. The following conditions may lead to an ORST exemption:

- a) Starting and /or stopping the entire production line or a particular piece of production machinery on the line.
- b) Increasing or decreasing the temperature, duration, humidity of a part of the production process.
- c) Controlling the quantity of raw materials or processing materials being introduced into the production process.
- d) Monitoring vital production processes or production machinery to allow the human operator to make adjustments to the production process or production machinery on a real-time basis.

Electrical equipment and the heating, ventilating and air conditioning equipment (HVAC) are exempt if used to control the temperature or moisture content of work in process or for controlling the temperature of production equipment. An example would include air conditioners used in control rooms to maintain the temperature of the process computers.

Repair and maintenance equipment for servicing production equipment is exempt of ORST. Included in this exemption are repair parts, tools, welding equipment, ladders, man lifts, work benches used to fabricate repair parts, and fork-lift trucks used to move repair parts to the production machinery.

Equipment used directly to detect, prevent, measure, treat, reduce or remove pollutants to water, soil or air is exempt of ORST. Storage tanks for disposal of waste, piping, smoke stacks, exhaust fans, and noise reduction panels are a few examples of exempt pollution control apparatus and equipment.

Safety devices and equipment used in the prevention of accidents in the manufacture of tangible personal property is exempt of ORST. This exemption is

restricted to production employees. Warning Signs to warn against a specific condition in a confined production area are exempt. Fire equipment located in the manufacturing area, such as fire hoses, sprinklers, and extinguishers, used to prevent fire from spreading are exempt from ORST. Rubber mats and matting used in production areas for use in preventing production personnel from slipping on waste caused by the production process are also exempt.

If you require further information, please review Ontario Retail Sales Tax Guide #400 or contact the nearest Ontario Ministry of Finance Tax Office.