

■ Manufacturer's Purchase Credit

TO: Taxpayers Whose Purchases Qualify for the Manufacturing Machinery and Equipment Exemption

If you purchase manufacturing machinery and equipment that qualify for the existing Illinois Sales Tax exemption on or after January 1, 1995, you may be eligible to receive a credit from us to apply against your Illinois Sales Tax (Use Tax or Service Use Tax) liability. You may use this credit only on purchases of production-related tangible personal property (including items related to research and development) that do not qualify for the manufacturing machinery and equipment exemption.

How much credit will I receive?

The credit you receive will be based on a percentage of the 6.25 percent Illinois Sales Tax that would have been due on the exempted machinery and equipment if the exemption had not existed.

The percentage that will apply will be as follows:

- 15 percent for purchases made on or after January 1, 1995, but before July 1, 1995,

- 25 percent for purchases made on or after July 1, 1995, but before July 1, 1996,
- 40 percent for purchases made on or after July 1, 1996, but before July 1, 1997, and
- 50 percent for purchases made on or after July 1, 1997.

What items qualify as "production-related tangible personal property"?

For an item to qualify, it must be used or consumed in a production facility.

For example, the credit may be used to pay state tax on items such as machinery and equipment used in production, materials incorporated into real estate in a manufacturing facility, and computers used by a manufacturer for research and development.

The credit may not be used to pay state tax on such items as office equipment used in administrative or management functions. Also excluded are items, such as vehicles, that are required to be titled or registered with a unit of government.

How do I earn and report the credit?

To earn the credit, you must complete and file Form ST-16, Report of Manufacturer's Purchase Credit Earned, no later than the last day of the second

month following the month in which you purchased the exempted items. If you do not file within this period, you will forfeit the credit.

On Form ST-16, you must provide

- the date you purchased the exempted items,
- the Illinois Business Tax (IBT) number of the seller from whom you bought the exempted items,
- the purchase price you paid,
- the amount of tax that would have been due if the items had not been exempt,
- the percentage that is appropriate for the purchase date (see "How much credit will I receive?"), and
- the amount of credit.

Note: Missing information could result in the reduction of the amount of your credit.

How may I use this credit?

- You may apply this credit towards only your Illinois Sales Tax obligations when you purchase qualifying production-related tangible personal property. You must pay any additional locally imposed sales and use taxes, such as home rule taxes and mass transit taxes, directly to the seller at the time of purchase.

- In general, you may not use this credit to offset other liabilities; however, you may be allowed to use it to satisfy tax liabilities revealed in an audit that are related to your use of the Manufacturing Machinery and Equipment Exemption or the Manufacturer's Purchase Credit. You may not use this credit to offset any penalty or interest liabilities.
- You must use this credit no later than the last day of the second calendar year following the year in which you earned the credit.
- You may not transfer this credit to another party.

When I buy production-related tangible personal property, what must I do?

To use a Manufacturer's Purchase Credit, you must complete and provide the seller with the upper portion of Form ST-16-C, Manufacturer's Purchase Credit Certificate, containing the following information:

- the name of your business,
- the date of purchase,
- your Illinois Business Tax (IBT) number,
- the total amount of the purchase,
- the tax due,
- the amount of credit being used,
- the remaining tax due, if any, and

- your signature, certifying that you have a Manufacturer's Purchase Credit sufficient to cover all or part of the 6.25 percent Illinois Sales Tax liability against which you are applying the credit.

You must then copy the above information from the upper portion of the form to the lower portion, taking care to record the seller's IBT number on the lower portion. You must then give the upper portion to the seller and retain the lower portion for your records. Using the information on the lower portion of Form ST-16-C, you must complete and file Form ST-17, Report of Manufacturer's Purchase Credit Used, no later than the last day of the second month following the month in which the credit was used.

What must the seller of production-related tangible personal property do?

The seller will receive the upper portion of Form ST-16-C, Manufacturer's Purchase Credit Certificate, from the buyer at the time of purchase. The seller must keep this form in his or her books and records.

Using the information on Form ST-16-C, the seller must complete and file Form ST-18, Retailer's Credit Report, as an attachment to Form ST-1, Sales and Use Tax Return.

The amount on Line 16 of Form ST-1 must be reduced by the total credit amount in Line E of Form ST-18.

How can the credit be used by businesses that have separate IBT numbers for more than one division?

An Illinois Business Tax (IBT) number identifies each business account. When a credit is earned, it is assigned to the IBT number of its associated account. The credit may be used only by the account identified by the IBT number to which the credit has been assigned.

Can the buyer use the credit towards self-assessed Use or Service Use Tax?

Yes. Forms ST-16-C, ST-17, and ST-18 contain specific instructions for buyers who must self-assess Use or Service Use Tax on purchases of production-related tangible personal property.

Questions?

If you have questions or need more information, please call or write us. Our telephone numbers and address are printed at the bottom of this bulletin.



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