



Utility Studies

An Opportunity To Reduce Sales and Use Taxes

EHTC State and Local Tax Services

INCOME & FRANCHISE TAX

- Tax Minimization Studies
- Business Structure Reviews
- Allocation and Apportionment Planning
- Combined, Consolidated, & Unitary Planning
- Nexus Studies
- Amended State Tax Returns from IRS Audits
- Single Business Tax Training

SALES & USE TAX

- Reverse Audits
- Compliance System Review
- Direct Pay & Compliance Agreements
- Exemption Certificate Documentation
- Industrial Processing / Manufacturing Exemption
- Utility Studies
- Nexus Studies
- Sales & Use Tax Training
- Transportation Company
- Procurement Company

PROPERTY (AD VOLOREM) TAX

- Real Property Tax Reviews
- Personal Property Tax Reviews

TAX AUDIT & APPEALS

- Sales & Use Tax Audit Defense & Appeals
- Income & Franchise Tax Audit Defense & Appeals
- Property Tax Audit Defense & Appeals
- State and Local Tax Litigation Support
- Merger & Acquisition Due Diligence Reviews
- Voluntary Disclosure

BUSINESS INCENTIVE SERVICES

- Business Relocation & Expansion Services
- Tax Credits, Exemptions, & Abatements
- Grants, Financing, & Infrastructure Assistance

Several states provide specific exemptions for certain kinds of utility consumption. The completion of a utility study can be an effective tool to reduce taxes for specific industries and taxpayers. The purpose of the utility study is to compile the data and information needed to effectively claim the exemption and to sustain the exemption in the event of an audit.

Exemptions Available

The following is a brief list of utility exemptions available in five Midwest states. Other states also offer various exemptions.

Michigan exempts that portion of utility expense consumed in an industrial processing activity. An industrial processing activity means the activity of converting or conditioning tangible personal property by changing the form, composition, quality, combination, or character of the property for ultimate sale at retail. The formula utilized in determining the exempt percentage of use must be reasonable. The scope of the examination includes not only assets directly used in production but also assets used indirectly such as computers.

Illinois considers the purchase and consumption of utilities as a consumable and does not provide a sales tax exemption. Consumables are considered subject to tax even though the utility is used directly in manufacturing.

Indiana allows an exemption from sales tax on electricity, natural gas, water and steam, predominately used in production activities. Predominate usage is defined as over 50% of total usage. Production activities include those activities to manufacture a product for resale. A utility study must be provided to the state to obtain the exemption.

Ohio allows an exemption from sales tax on utilities used in manufacturing. This exemption is directly allowed under Ohio Code and requires no formal study. Again, the method utilized in arriving at the percentage of exemption should be reasonable.

Kentucky allows exemption from sales tax on that portion of utilities consumed in the manufacturing process that exceed 3% of the total cost of production. This exemption requires a large usage of a given utility to qualify for exemption (i.e. bottlers, foundries). A utility study must be provided to the state to obtain this exemption.



About EHTC

Echelbarger, Himebaugh, Tamm & Co., P.C. (EHTC), a professional corporation was established in 1977 by Dennis M. Echelbarger. Since that time, our Firm has grown to become one of the largest, most successful, local accounting firms in the Greater Grand Rapids, Michigan area, and we are a recognized leader in the business community. Our success is based on building partnering relationships with our customers. We are large enough to serve a wide diversity of customers but small enough to maintain personalized attention.

EHTC's professional team is highly trained to provide technical and consulting services in the areas of accounting, taxes, and strategic planning to nonprofit, profit and service organizations and related entities.

Minimizing your tax liability requires careful, advance planning rather than preparing tax returns as deadlines near. Our tax professionals provide complete tax services and are assisted by our extensive tax library and the latest technology.

We pay careful attention to your unique circumstances such as your current requirements and your plans for the future. We then recommend a plan that best suits your needs while minimizing financial risk.

The Utility Study Process

The State and Local Tax (SALT) group at EHTC has developed a four-step process to complete a utility study.

Evaluation – Review of State Law

The Evaluation step of the utility study involves the review of state tax laws for the state where the facility is located. The available exemptions are often limited to specific types of activities for specific types of industries. Several states allow a complete exemption provided the utilities are used in the manufacturing process. Other states require a detail analysis to calculate a percentage of use for a particular utility.

Analysis of Business Activities

The Analysis of Business Activities requires a complete study and analysis of the business activities of the taxpayer. It is very important to completely understand the product fabricated, manufactured, or assembled as well as the method used to process the product. Once this business analysis is completed, the applicable state law is applied to the specific business activities to determine the specific utility purchase of utilities that may qualify for the sales and use tax exemption.

Quantification of the Exempt Purchases

The Quantification of the Exempt Purchases involves a two-step process to determine the actual amount qualifying for the exemption. The first step is to involve professional engineers to calculate the utility consumption in an exempt activity. The second step is to access accounting records and other company data to apply the exemption percentages to the utility amount to determine the correct amount of tax to be paid on utilities. This process may result in an overpayment of sales and use tax.

Filing Claims for Exemption or Refund

The final step in a utility study may involve two proactive tax results. Once the exempt utility percentage is determined, a claim for exemption can be made to the utility vendor. The result will be a reduced sales tax amount included on the utility invoice from the utility vendor.

Upon the completion of the utility study, if it is determined that the exemption percentage is higher than the previous exemption percentage; the taxpayer can calculate the refund amount and file a claim for refund with the vendor.