

# Illinois – 2013 Manufacturer's Purchase Credit reporting deadline is June 30, 2014

May 15, 2014

## In brief

The deadline for filing 2013 Illinois Manufacturer's Purchase Credit (MPC) Reports is June 30, 2014. The MPC is earned upon the purchase of certain manufacturing or graphic arts machinery and equipment that are exempt from sales or use tax. The amount of the MPC is equal to 50% of the Illinois sales tax that otherwise would have been due on the qualifying purchase. The credit can be used to pay state sales or use tax on future purchases of qualifying production-related tangible personal property.

In order to avoid forfeiture of potential MPC tax savings, Illinois manufacturers and graphic arts producers should file the appropriate forms by the June 30, 2014, deadline.

## In detail

### Earning MPC

The credit is earned upon the purchase of exempt manufacturing machinery and equipment (MM&E) or exempt graphic arts machinery and equipment (GAME) in Illinois.

Qualifying MM&E is machinery and equipment that is primarily used for the manufacturing or assembly of tangible personal property for sale or lease.

Additionally, if the purchaser leases qualifying MM&E to a lessee-manufacturer that uses it in an exempt manner, the sale to the purchaser-lessor will qualify for the MPC.

Examples of qualifying MM&E include:

- machinery and components used in the manufacturing process
- repair parts for such machinery
- independent devices or tools essential to the manufacturing process
- chemicals that effect a direct and immediate change upon the product being manufactured.

Qualifying GAME is machinery and equipment that is primarily used within the graphic arts production process. There is no requirement that printed material be for sale or lease. GAME purchased by a company to produce its own printed

material qualifies for the MPC. Qualifying GAME is similar to MM&E, but also generally includes:

- power generation equipment for printing presses or bindery lines
- climate control equipment specially required for graphic arts production
- conveyor systems from production to packaging
- packaging equipment.

### Credit amount

The amount of MPC earned on a qualifying purchase is equal to 50% of the Illinois sales tax (6.25%) that would otherwise have been due on the qualifying purchase. For example, the

amount of MPC earned on a \$1,000 qualifying purchase is \$31.25.

### ***Using MPC***

The credit is utilized to satisfy the state use tax or service use tax liability on purchases of taxable production related tangible personal property in Illinois. Production related tangible personal property includes:

- all tangible personal property used or consumed by a manufacturer or graphic arts producer (1) in a production related process within a manufacturing or graphic arts facility or (2) in research or development
- tangible personal property purchased by a manufacturer, graphic arts producer, or construction contractor for incorporation into real estate within a production facility.

Examples of production related tangible personal property include:

- hand tools, protective apparel, and fire safety equipment used in a production facility
- supplies and consumables used in a production facility, e.g., oils, lubricants, adhesives, cleaners and solvents
- pre- and post-production materials handling, receiving, quality control, inventory control, storage, staging and packaging.

MPC can also be utilized to significantly reduce audit assessments.

The credit is non-transferrable and any applicable local sales and use tax amounts in excess of 6.25% are not satisfied by the use of MPC.

### ***Reporting MPC***

Form ST-16 'Annual Report of MPC Earned' and Form ST-17 'Annual Report of MPC Used' must be filed no later than June 30, 2014, in order to capture the benefit for the 2013

calendar year. Failure to file by the deadline will result in forfeiture of the credit. Additionally, earned but unused MPC expires December 31 two years from the end of the calendar year in which it was earned.

### ***The takeaway***

Illinois manufacturers and graphic arts producers should consider their eligibility for the MPC and assign resources in order to capture benefit by the June 30, 2014, deadline.

Taxpayer resources are needed to determine eligibility for the credit, calculate the credit, and develop a process for earning and using the credit going forward. The MPC is due to sunset on August 30, 2014. However, a bill is in place proposing an extension of the credit for several more years. Companies eligible for the MPC should act now to report and receive their benefit.

## ***Let's talk***

If you have any questions regarding the Illinois Manufacturer's Purchase Credit, please contact:

### ***State and Local Tax Services***

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