



This Week in State Tax (TWIST)

September 9, 2024



Virginia: Commissioner Determines Testing Equipment Qualifies for Manufacturing Exemption

The Tax Commissioner recently ruled that a manufacturer of electronic components used primarily in telecommunications was entitled to an exemption on purchases of property used directly in its manufacturing process. Initially, the department denied the taxpayer's refund request, stating the property was used for testing finished products and not in the manufacturing process. The Commonwealth exempts the purchase of machinery, tools, repair parts, or supplies from sales and uses tax if used directly in manufacturing or processing. The state defines "used directly" as being used in activities integral to the production of a product, including handling and storage of raw materials, control up to the last step of production, and production line testing and quality control. Virginia law further classifies equipment used for production line testing or quality control as exempt from tax.

Before the Commissioner, the taxpayer provided supplemental information demonstrating that the equipment was used for testing or quality control during the manufacturing process, before the product was placed into its housing and labeled. This indicated that the testing occurred before the final stage of assembly. The Commissioner determined that the taxpayer's property was used directly in its manufacturing process for quality control and testing during production. Therefore, the taxpayer was entitled to a refund. For information on [Ruling 24-69](#) (July 9, 2024), contact [Jeremy Jester](#).

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