



This Week in State Tax (TWIST)

November 3, 2025



Alabama: Preparing logs for chipping does not qualify as manufacturing

The Alabama Tax Tribunal recently held that a taxpayer's purchase of heavy equipment used to lift and move logs into position for wood chipping did not qualify for the reduced sales tax rate for equipment used in manufacturing. The taxpayer was in the business of producing wood chips it sold to paper mills. The taxpayer explained that upon receipt of the logs at its facility, the taxpayer moved the logs into a "wet yard" where the taxpayer used the equipment at issue to position the logs to receive a continuous treatment of water and unidentified chemicals to ensure their integrity through the manufacturing process. The Taxpayer then used cranes to move the logs into a debarking drum before being delivered to the chipper on a conveyor system.

At issue was whether the taxpayer's purchase of equipment to lift and move the large logs into position in the wet yard qualified for Alabama's reduced sales tax rate as purchases of machines used in the manufacture of tangible personal property. The Department of Revenue's regulation on material handling equipment provides that transportation equipment is taxable at the general rate of 4 percent up to the point where the materials go into "process," but that "the equipment feeding the first processing machine" is taxed under the machine levy of 1.5 percent. The taxpayer argued that "the equipment feeding the first processing machine" was the heavy equipment used to transport and position the logs in the wet yard, and the wet yard was the first processing machine used for continuous wetting and treatment to maintain the integrity of the raw materials.

The Tribunal rejected the taxpayer's argument for failing to produce evidence to support its claim that the wet yard and its continuous wetting/treatment system were part of the taxpayer's manufacturing process. Specifically, the Tribunal found that the taxpayer failed to provide evidence about the chemicals used, the treatment process, or its effect on the wood, and noted that the taxpayer's representatives had not visited the facility in over 10 years. The Tribunal also highlighted that the taxpayer's post-trial memorandum attempted to define the wet yard as the "first processing machine," but this was not supported by the record. Therefore, the Tribunal denied the claim. For more information on [Alabama Chips, Inc., v. State of Alabama DOR](#), contact [Scott Jackson](#).

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