

This Week in State Tax (TWIST)

January 26, 2026



Illinois: Equipment used in producing renewable natural gas from biogas not eligible for exemption

The Illinois Department of Revenue recently published [Private Letter Ruling ST 25-0008-PLR](#), addressing the exemption from Retailers' Occupation Tax (ROT) for machinery and equipment used in the manufacturing process. The company at issue develops and operates landfill-based waste-to-renewable energy projects. The company captures raw landfill gas (methane), cleans and refines it to pipeline-quality renewable natural gas, and then injects the renewable gas into local natural gas pipelines for transportation. The company requested the Department rule on whether this process qualifies as manufacturing under Illinois law, and if so, whether the machinery and consumables used in the process are exempt from ROT.

Illinois statutes define the manufacturing process as the production of tangible personal property by procedures commonly regarded as manufacturing, processing, fabricating, or refining, which substantially changes some existing material into a material with a different form, use, or name. Importantly, the exemption specifically excludes machinery and equipment used in the generation or treatment of natural or artificial gas for wholesale or retail sale that is delivered to customers through pipes, pipelines, or mains.

The Department concluded that the company's process for cleaning and treating methane gas to produce renewable gas mirrors the process of treating fossil natural gas. Each step of the company's process aligns with the treatment of natural gas under a plain reading of the statutory exception to the manufacturing exemption. Furthermore, since the company injects the renewable gas into pipeline for transportation, the process satisfies the second prong of the exception to the manufacturing exemption. As a result, the Department determined that the machinery used by the company in the process of capturing, treating and refining methane to pipeline-quality renewable natural gas does not qualify for the Illinois manufacturing exemption. For further questions on the Illinois manufacturing exemption, please contact [Drew Olson](#).

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