This Week in State Tax (TWIST)

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Pennsylvania: Commonwealth court says beef processing not manufacturing for purposes of local business privilege tax

The Commonwealth Court of Pennsylvania recently addressed whether a beef processing operation qualifies for the manufacturing exclusion under the Local Tax Enabling Act (LTEA), which would exempt its receipts from a local Business Privilege Tax (BPT). Affirming the trial court, the Commonwealth Court concluded that converting live cattle into cuts of boxed beef does not "substantially transform" the original material into a "new, different, and useful article," and therefore falls outside the LTEA manufacturing exclusion.

The dispute arose from a local school district audit of the taxpayer and related businesses, which resulted in an assessment of additional BPT for tax years 2014- 2022. The taxpayer operates a large-scale facility that slaughters and processes hundreds of cattle per day into boxed beef products. After the school district denied its request for the manufacturer exclusion, the taxpayer appealed to the trial court, which found that the taxpayer applies labor and skill but does not engage in manufacturing, concluding that its operations "start and end with beef." The taxpayer appealed to the Commonwealth Court of Pennsylvania.

Under the LTEA, a business qualifies as a manufacturer only if skill, labor, and science are involved, and a new, different, and useful product is created. There was no dispute that the taxpayer’s process involved skill and labor. The taxpayer argued that its operation differs from older "dead carcass" precedents because it begins with live animals; transforming a live animal into packaged edible beef and offal is a substantial transformation rather than mere processing. The court disagreed, relying on a long line of Pennsylvania meatpacking decisions holding that fabricating a carcass into cuts of meat does not create a new or different product. The key factor, the court emphasized, is the degree of transformation, not whether the process begins with a live animal. Because the taxpayer's cuts remained beef "to be used as food," the operation did not meet the transformation requirement. The court also rejected the taxpayer's claim that the assessment violated the Uniformity Clause of the Pennsylvania constitution, arguing that the district improperly treated an industrial-scale bakery as an exempt manufacturer while denying the taxpayer the same status. The court determined that a bakery transforms raw ingredients into commercially different baked goods, whereas a meat processing operation that "starts and ends with beef" does not.

For more information on *Nicholas Meat, LLC v. Keystone Central School District*, please contact Robert Weyman or Andrew Stocker.