

5. Handout from Ms. Patty Heagel, Economic Development Director, City of Sioux City.

## **Job Loss and Competitive Disadvantages as a Border Community**

**October 26, 2005  
Patty Heagel  
Economic Development Director  
City of Sioux City**

Good Morning. Welcome again to one of Iowa's Great Places. I trust you had a pleasant evening in Sioux City. I wish to thank you again for the privilege of addressing this interim study committee regarding possible legislation that will create pilot areas that will serve to create more competitive playing arenas with our border communities in South Dakota and Nebraska. I would also like to thank the State's Department of Economic Development for their diligent efforts in carrying out the State's economic directives that they have been provided by the Legislature. May I also say that we very much appreciate the partnership we have with the State in those endeavors.

I also agree with testimony heard yesterday that suggests we are a unique tri-state region that can generate opportunities through collaboration that would not happen otherwise.

However, as we demonstrated yesterday on the bus tour, the unique tri-state region can also disproportionately encourage job growth in one or two areas over another. You also heard yesterday that we can ascribe to the idea that all economic activity is healthy for the region no matter which state the activity occurs. What I wish to demonstrate is that it does make a difference where that growth and activity occurs if it continually increases the imbalance of economic health among the communities.

John Meyers, City of Sioux City Finance Director, illustrated the strain Sioux City faces with low per capita value and higher property taxes. Our tax increment strategy has been extremely successful in providing the community with new, planned infrastructure and creating new taxable value, particularly in the commercial area. But it needs help. Sioux City is the metro hub of the tri-state region. Yet over 60% of the tax base is residential. The burden for providing the amenities, the shopping opportunities, the quality of life assets, the entertainment, the education and housing opportunities for most of the region's workforce rests mostly on the residential taxpayers themselves. We need to flip that 60+% to create a broader sustainable commercial and industrial base. Otherwise, the current trend becomes a self-perpetuating, vicious cycle of decline in Sioux City. This benefits no one. Without the vibrancy of Sioux City, many businesses will elect not locate or expand here, no matter what side of the river they are considering..

So, as a border community, we are seeing all types of businesses benefiting in one or more of the other tri-state locations. The trend is alarming. As we discussed yesterday, we are seeing job losses (those are jobs that were located in Iowa) in all arenas. We are losing manufacturing jobs, high tech jobs, value-added ag jobs, entrepreneur start up jobs and medical jobs. The business climate and the competitive incentives in Nebraska and South Dakota do not readily discriminate in business or job categories. Most of the

job losses cited were in Iowa's targeted industry clusters. The threat to the western Iowa border communities' competitiveness and viability is real. Again, as pointed out on the bus tour, we have companies that 1) existed in Sioux City but needed to update or expand and elected to move to South Dakota and/or Nebraska; 2) existed in one of our border communities, needed to expand, support the Greater Sioux City communities, but would not consider Iowa's business climate; and 3) were starting up or locating here and analyzed the best decision for their companies' investments and found that Iowa was not competitive.

Let me provide three current examples. You have all ready heard testimony from Ken Beekley on the trends between Woodbury County, Iowa and Union County, South Dakota. The business climate and its advantages in South Dakota are fairly straight forward. These examples are going to show you how the State of Nebraska has become one of our largest competitors. I have included in your materials information regarding the State of Nebraska incentive programs. Currently they have a number of tax incentive programs, most notably LB775. I have also included a copy of their newest program, adopted as LB312, that will provide a new "smorgasbord" of tax incentives. Some of the levels of assistance require job creation, some do not. Job creation wage levels can fluctuate from 60% of the state average to 125% of the state average.

Keeping this in mind, let's talk about three companies the City is currently negotiating with. The first company is an Iowa company located elsewhere in the state. Approximately two years ago the company was looking for an Iowa location to locate a second food processing plant. After much due diligence, Sioux City was still being considered as a great location for the new plant. As often happens, the company deferred its plans for several quarters. Recently, the company renewed its search of a site for a second plant. Good news, Sioux City has made the first cut again. The bad news is that the company has decided to look at six states. Earlier this week we were able to ascertain that Nebraska was one of the states and South Sioux City the community.

Let's talk about another Iowa company. This is a young company in a nearby community. The metal fabricator has grown quickly and is at 50 employees. They believe they will grow to 80 employees within the next two years. They have started to search for a new location to grow their business. Their average wages are approximately \$12.00 per hour. Some jobs are much higher, some are lower. They have approached the City for assistance. They have also visited South Sioux City and North Sioux City. This company does not qualify for any Iowa assistance. They could qualify for Enterprise Zone benefits if they locate within Sioux City's Zone, but only if the other Iowa community signs off.

A third company exists in Sioux City all ready. This company is a large employer and has the potential to grow. The company is considering the benefits of expanding their facility or building a new facility. The new facility represents a very significant capital investment. This company has an average wage of approximately \$12.00 per hour plus benefits. This company's wage rates are very competitive in its industry niche and is one of the highest paying employers in this industry in the region. However, much like Representative Hoffman suggested yesterday, this is not taken into consideration in the current Iowa Values Fund. Iowa laborshed studies provide the necessary industry-related wage rates. 130% of median wage may work for some industries, but not others. Those others may be paying in the top 10% of their industry but not qualify.

Now, let's compare these companies' opportunities in Nebraska. Please remember this number....Woodbury County's median hourly wage (100%) is \$13.92 per hour. The 130% wage level (which includes benefits) is \$18.06 per hour. I visited the State of Nebraska website to find Nebraska's wage thresholds. First, we need to note, not all the programs require wage thresholds, or for that fact, jobs. LB312 will provide wage credits on a sliding scale depending on the wage levels of the company. Again, anywhere from 60% to 125% of average rate. One program simply states a minimum wage of \$8.57 per hour. Found were the average starting wage rate thresholds in Nebraska. In the Omaha MSA, \$8.66/hour, in the Lincoln MSA, \$8.19/hour, in the rest of Nebraska, \$7.27/hour. Qualifying jobs in Nebraska is not a problem.

We are not suggesting that Iowa should favor such low wage rates. We believe Iowa should consider industry standards, laborshed studies, and reasonable expectations. Otherwise, we have nothing with which to use to compete. We believe it is imperative that the State of Iowa start experimenting with the best case options to provide border communities the opportunity to compete and experience healthy economic growth. Creating a pilot program for two border communities to determine if providing creative incentives for companies to offset the advantages to be elsewhere is critical. Until that occurs, we can only speculate and continue to lose opportunities.

We thank you for your consideration and hope we were able to impress upon you that Sioux City cannot compete. While we appreciate the uniqueness of our area and the opportunities it can bring, we also recognize our competition is not only the outlying communities in South Dakota and Nebraska. If a company likes what the Greater Sioux City area provides, our most difficult competition becomes our closest neighborhoods. Keep the jobs, keep the value, keep the opportunities in Iowa, keep them in Sioux City. Thank you.

## Summary of General Provision of Nebraska Tax Incentive Programs

☐ Nebraska passed new incentive legislation, LB 312. The Web site modifications are under construction.

Please note that this table provides general information. For more detailed information on the incentive programs, please refer to the program specific information. If you have any questions, please contact Mary Hugo at (402) 471-5790 or by e-mail at [Mary.Hugo@rev.ne.gov](mailto:Mary.Hugo@rev.ne.gov).

	<b>Employment &amp; Investment Growth Act LB775</b>	<b>Employment Expansion &amp; Investment Incentive Act LB1124, LB270 For 2003 tax years and earlier</b>	<b>Invest Nebraska Act LB620</b>	<b>Employment Expansion &amp; Investment Incentive Act LB608 For 2004 tax years and later</b>
<b>Application</b>	Required	No Application, File Form 3800N with tax return N/A	Required. None accepted on or after 6/1/05	Required
<b>Application Fee</b>	\$500		\$5,000	\$500
<b>Required levels</b>	<b>Option 1:</b> \$20 million net gain in qualified investment  <b>Option 2:</b> \$3 million in qualified investment and 30 new full-time equivalent employees  <b>Option 3:</b> \$10 million in qualified investment and 100 new full-time equivalent employees	\$75,000 net gain in qualified investment and 2 full-time equivalent, Nebraska resident employees.  In the following five years, you can earn credits for an increase in 2 full-time equivalent employees without an increase in investment. (Eliminated for tax year 2004 and later)	<b>Option 1:</b> \$10 million in qualified investment and 25 new full-time equivalent employees. 100% state average wage. Located outside Douglas, Lancaster, and Sarpy Counties  <b>Option 2:</b> <b>Metro Counties:</b> \$50 million in qualified investment and 500 new full-time equivalent employees, or \$100 million in qualified investment and 250 new full-time equivalent employees. 110% state average wage.  <b>Option 3:</b> <b>Alternative Benefit:</b> \$200 million in qualified investment and 500 new full-time equivalent employees. 120% state average wage. Applications only through 10/1/02	Located in a county of less than 25,000 inhabitants or in a designated enterprise zone.  \$250,000 in qualified investment and five new full-time equivalent, Nebraska resident employees earning the minimum required wage. For applications filed in calendar year 2005, the minimum required wage is \$8.57 per hour.
<b>Attainment period</b>	Up to 7 tax years	A single tax year	Up to 7 tax years	Up to 2 tax years

Entitlement period	7 tax years	A single tax year	Tax year of meeting levels and the next 108 months	2 tax years
Carryover period	8 tax years	5 tax years	8 tax years	N/A
Maintenance period	Entitlement period (6 tax years after qualification)	2 tax years after credits earned	Entitlement period (108 months after qualification)	3 tax years after credits earned
Eligible participant	A taxpayer, who is or whose owners are, subject to sales and use taxes and either an income tax or financial institutions tax.	A taxpayer, who is or whose owners are, subject to sales and use taxes and either an income tax or financial institutions tax or is exempt under section 521 of IRC.	A company who is, or whose owners are, subject to sales and use taxes and either an income tax or financial institutions tax or is exempt under section 521 of IRC.	A taxpayer who is subject to an income tax or financial institutions tax. A partnership, limited liability company, S corporation or joint venture.
Business Activities	LB775	LB270	LB620	LB608

Research &  
development

Data processing

Telecommunications

Insurance services

Financial services

Manufacturing of  
tangible personal  
property, TPP

Warehousing,  
distribution of TPP

Transportation of TPP

Retail sale of TPP if  
more than 20% is:

1. at wholesale

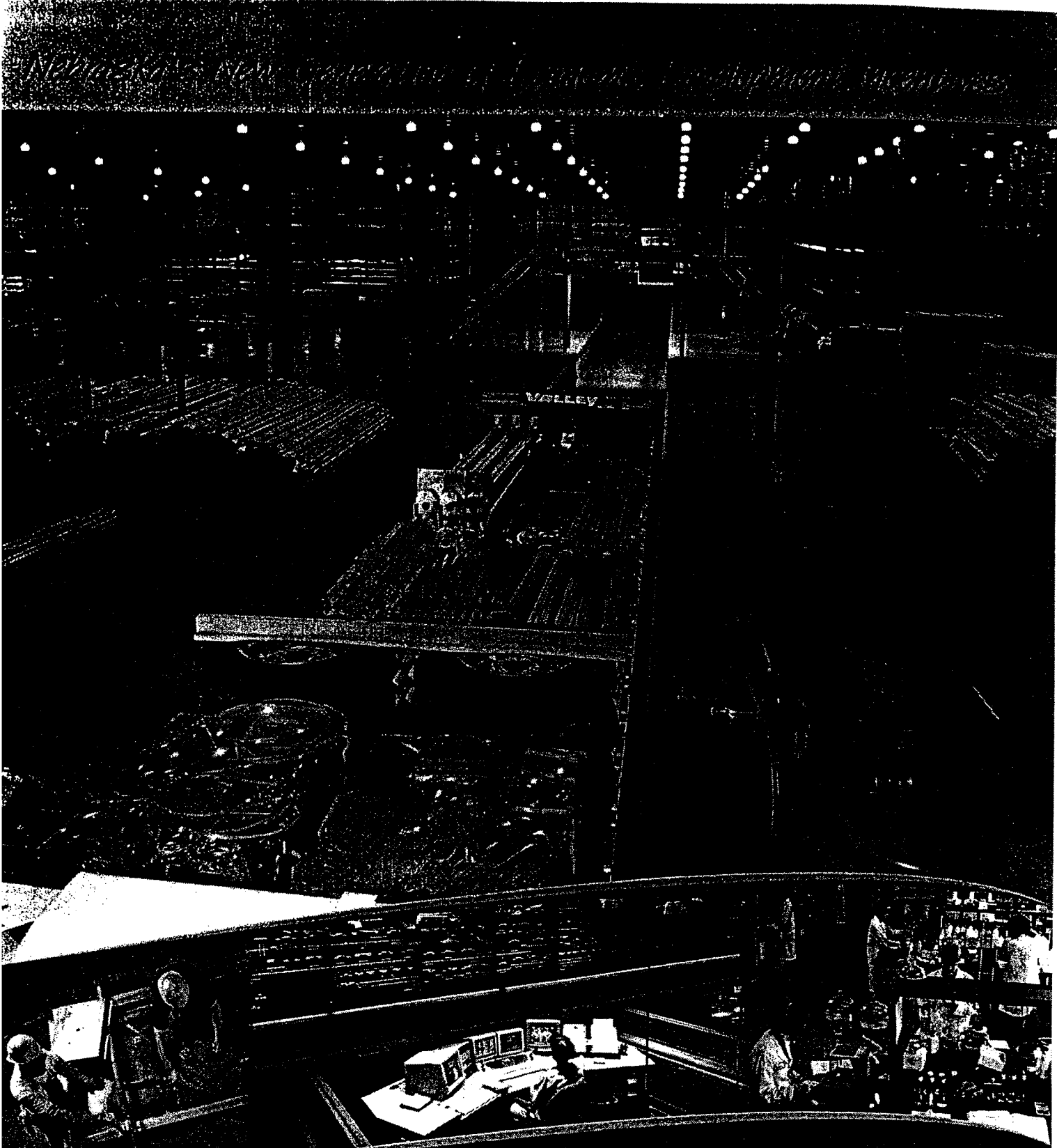
2. manufactured by seller				
3. sold to others in a qualified activity				
Administrative Management	Of any activity is qualified	Only of qualifying activities or retail activities is qualified	Of any activity is qualified	Of any activity is qualified
Restaurants				
Contractor and repair person				
Most retailers except those stated above				
Farming, ranching & livestock operation	Non-qualified	Qualified	Non-qualified	Non-qualified
<b>Benefits</b>	<b>LB775</b>	<b>LB270</b>	<b>LB620</b>	<b>LB608</b>
Direct refund of sales and use taxes paid on qualified property at the project or an aircraft used in connection with the project	Yes - Options 1, 2 & 3 Received during entitlement period for property placed in service in attainment and entitlement periods	N/A	N/A	N/A
Earn investment credit on qualified property	N/A - Option 1 Yes- Options 2 & 3 10% Investment credit earned on property placed in service after date of application and before the end of the entitlement period	Yes \$1,000 Investment credit earned for each \$75,000 net gain in qualified property available for use.	N/A - Options 1 & 2 Yes - Option 3 15% Investment credit earned on property placed in service after date of application and before the end of the entitlement period	Yes \$2,750 Investment credit earned for each \$50,000 net gain in qualified property available for use.
Earn credit on employment growth	N/A - Option 1 Yes - Options 2 & 3 5% compensation credit earned in the entitlement period on taxable wages of new, resident employees	Yes \$1,500 employment credit earned for each new full time equivalent employee	Yes - Options 1 & 2 N/A - Option 3 Wage benefit credit equal to a percentage of taxable wages of new employees. The percentage is from	Yes \$3,000 employment credit earned for each new full time equivalent employee

Personal property tax exemption on turbine-powered aircraft, mainframe business computers and six stated peripherals, and equipment involved directly in processing an agricultural product thru the sixteenth December 31 after the date of application..	N/A - Options 1 & 2 Yes - Option 3 Aircraft exemption may start the year after application. Mainframe computers, peripherals, and agricultural processing equipment exemption may start the year after reaching the required levels.	N/A	0% to 5% based on the average wage N/A	N/A
Ability to retain withholding from new employees working at the project	N/A	N/A	Yes - Options 1 & 2 N/A - Option 3	N/A
<b>Use of Credits</b>	<b>LB775</b>	<b>LB270</b>	<b>LB620</b>	<b>LB608</b>
Credit refund of sales and use taxes paid on otherwise non-refundable purchases at the project	N/A - Option 1 Yes - Options 2 & 3 During the entitlement and carryover period and to the extent of credits earned in a prior year	Yes On taxes paid on qualified property in the year the credits are earned and on all purchases in the carryover years	N/A	Refund of state sales and use taxes. Up to the amount paid on increased investment in the year the credits are earned.
Credit may be used to reduce income tax liability	N/A - Option 1 Yes - Options 2 & 3 Credits may be used after other non-refundable credits to pay up to 100% of NE unitary tax liability.	Yes Credits may be used after other non-refundable credits to pay up to 50% of NE unitary income tax liability.	Yes Credits may be used after other non-refundable credits to pay up to 100% of NE unitary income tax liability.	Yes Refundable credit by a taxpayer filing a NE income tax return.
Distribution of credits to owner, member, shareholder, etc. of flow through entity	N/A - Option 1 Yes - Options 2 & 3 Credits earned may be distributed in the same manner as income and used by the recipients to pay up to 100% of their NE income tax liability	Yes Credits earned may be distributed in the same manner as income and used by the recipients to pay up to 50% of their NE income tax liability.	Yes Credits earned may be distributed in the same manner as income and used by the recipients to pay up to 100% of their NE income tax liability	Yes Credits earned may be distributed in the same manner as income and used by the recipients as a refundable credit by a taxpayer filing an income tax return.

Qualified property is tangible, depreciable property or the components of such property	Except for aircraft, barges, motor vehicles, railroad rolling stock, and property rented to another party.	Except for motor vehicles, aircraft, railroad rolling stock or property acquired in any manner from a related party	Except for aircraft, barges, motor vehicles, railroad rolling stock, and property rented to another party.	Except for motor vehicles, aircraft, or railroad rolling stock.
Owned, qualified property	Valued at original cost.	Valued at original cost.	Valued at original cost.	Valued at original cost.
Rented, qualified property	Average net annual rent multiplied by a number of years, not to exceed 10 years or 3 years after the end of the entitlement period whichever is earlier	Annualized rental obligation multiplied by eight at each of the measuring points used for comparison	Average net annual rent multiplied by a number of years, not to exceed 10 years or 3 years after the end of the entitlement period whichever is earlier	Annualized rental obligation multiplied by eight at each of the measuring points used for comparison.

[Tax Incentives Home](#) | [Revenue Home Page](#)





# NEBRASKA *Advantage*

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# Receive Greater Returns On Your Investment in Nebraska

## Nebraska Advantage TIER ONE

## Nebraska Advantage TIER TWO

## Nebraska Advantage TIER THREE

### INVESTMENT JOB CREATION

\$1,000,000

\$3,000,000

0

10

30

0

Research and Development  
Scientific Testing  
Manufacturing  
Targeted Export Services  
(75% of sales outside Nebraska or to the U.S. Government)  
■ Software Development  
■ Computer Systems Design  
■ Product Testing Services  
■ Guidance or Surveillance Systems  
■ Technology Licensing

Research and Development  
Scientific Testing  
Data Processing  
Telecommunications  
Insurance  
Financial Services  
Manufacturing  
Distribution  
Storage/Warehousing  
Transportation  
Headquarters (administrative)  
Targeted Export Services  
(75% of sales outside Nebraska or to the U.S. Government)  
■ Software Development  
■ Computer Systems Design  
■ Product Testing Services  
■ Guidance or Surveillance Systems  
■ Technology Licensing

Research and Development  
Scientific Testing  
Data Processing  
Telecommunications  
Insurance  
Financial Services  
Manufacturing  
Distribution  
Storage/Warehousing  
Transportation  
Headquarters (administrative)  
Targeted Export Services  
(75% of sales outside Nebraska or to the U.S. Government)  
■ Software Development  
■ Computer Systems Design  
■ Product Testing Services  
■ Guidance or Surveillance Systems  
■ Technology Licensing

### QUALIFIED BUSINESSES

### INVESTMENT CREDITS

Yes - 15%

Yes - 10%

N/A

### WAGE CREDITS

Sliding Scale Job Credits on payroll of new employees, including teleworkers, whose wage is at least 60% of the Neb. average. Credit is:  
3% if 60% of Neb. average wage  
4% if 75% of Neb. average wage  
5% if 100% of Neb. average wage  
6% if 125% of Neb. average wage

Sliding Scale Job Credits on payroll of new employees, including teleworkers, whose wage is at least 60% of the Neb. average. Credit is:  
3% if 60% of Neb. average wage  
4% if 75% of Neb. average wage  
5% if 100% of Neb. average wage  
6% if 125% of Neb. average wage

Sliding Scale Job Credits on payroll of new employees, including teleworkers, whose wage is at least 60% of the Neb. average. Credit is:  
3% if 60% of Neb. average wage  
4% if 75% of Neb. average wage  
5% if 100% of Neb. average wage  
6% if 125% of Neb. average wage

### SALES TAX REFUND

Refund of sales tax on project's capital purchases

Refund of all Sales Tax on project's capital purchases

N/A

### OTHER

N/A

N/A

N/A

### USE OF CREDITS

Sales Tax, Income Tax, Employee Withholding (wage credit only)

Sales Tax, Income Tax, Employee Withholding (wage credit only)

Sales Tax, Income Tax, Employee Withholding (wage credit only)

### ATTAINMENT PERIOD

Up to 5 Years

Up to 7 Years

Up to 5 Years

### ENTITLEMENT PERIOD

5 to 7 Years

7 Years

5 to 7 Years

### CREDIT CARRYOVER PERIOD

Up to 5 Years

2 to 8 Years

Up to 5 Years

### APPLICATION FEE

\$1,000

\$2,500

\$1,000

## Nebraska Advantage TIER FOUR

\$10,000,000

100

Research and Development  
Scientific Testing  
Data Processing  
Telecommunications  
Insurance  
Financial Services  
Manufacturing  
Distribution  
Storage/Warehousing  
Transportation  
Headquarters (administrative)  
Targeted Export Services  
(75% of sales outside Nebraska  
or to the U.S. Government)  
■ Software Development  
■ Computer Systems Design  
■ Product Testing Services  
■ Guidance or Surveillance  
Systems  
■ Technology Licensing

Yes - 10%

Sliding Scale Job Credits on  
payroll of new employees,  
including teleworkers, whose  
wage is at least 60% of the Neb.  
average. Credit is:  
3% if 60% of Neb. average wage  
4% if 75% of Neb. average wage  
5% if 100% of Neb. average wage  
6% if 125% of Neb. average wage

Refund of all Sales Tax on  
project's capital purchases

Property Tax exemption on:  
turbine powered aircraft,  
mainframe computers,  
agricultural processing  
machinery, and personal  
property used in distribution  
facilities for up to 10 years

Sales Tax, Income Tax,  
Employee Withholding (wage  
credit only)

Up to 7 Years

7 Years

2 to 8 Years

\$5,000

## Nebraska Advantage TIER FIVE

\$10,000,000

(Maximum Employment)

Research and Development  
Scientific Testing  
Data Processing  
Telecommunications  
Insurance  
Financial Services  
Manufacturing  
Distribution  
Storage/Warehousing  
Transportation  
Headquarters (administrative)  
Targeted Export Services  
(75% of sales outside Nebraska  
or to the U.S. Government)  
■ Software Development  
■ Computer Systems Design  
■ Product Testing Services  
■ Guidance or Surveillance  
Systems  
■ Technology Licensing

N/A

N/A

Refund of all Sales Tax on  
project's capital purchases

N/A

Sales Tax, Income Tax,  
Employee Withholding (wage  
credit only)

Up to 7 Years

7 Years

N/A

\$2,500

## Nebraska Rural Advantage LEVEL ONE

\$125,000

2

Must be located in counties  
with population less than  
15,000, or in Federally  
Designated Enterprise Zones

Research and Development  
Scientific Testing  
Data Processing  
Telecommunications  
Insurance  
Financial Services  
Manufacturing  
Distribution  
Storage/Warehousing  
Transportation  
Headquarters (administrative)

Yes - \$2,750 of refundable  
credits per \$50,000 of  
qualifying investment

\$3,000 of refundable credits  
per full-time equivalent  
employee, including  
teleworkers

N/A

N/A

Credits may be used to reduce  
income tax liability, refund  
sales taxes, or as a direct  
refund

The year of application plus  
one year to achieve thresholds;  
must maintain investment and  
employment for 3 years

N/A

N/A

\$500

## Nebraska Rural Advantage LEVEL TWO

\$250,000

3

Must be located in counties  
with population less than  
25,000, or in Federally  
Designated Enterprise Zones

Research and Development  
Scientific Testing  
Data Processing  
Telecommunications  
Insurance  
Financial Services  
Manufacturing  
Distribution  
Storage/Warehousing  
Transportation  
Headquarters (administrative)

Yes - \$2,750 of refundable  
credits per \$50,000 of  
qualifying investment

\$3,000 of refundable credits  
per full-time equivalent  
employee, including  
teleworkers

N/A

N/A

Credits may be used to reduce  
income tax liability, refund  
sales taxes, or as a direct  
refund

The year of application plus  
one year to achieve thresholds;  
must maintain investment and  
employment for 3 years

N/A

N/A

\$500

*NEBRASKA'S NEW GENERATION OF ECONOMIC DEVELOPMENT INCENTIVES*

**Check out these other components in the Nebraska Advantage Economic Development Package:**

**Nebraska Customized Job Training Advantage...**

Provides a flexible and discretionary job training program that will provide \$15 million in customized job training assistance designated for 2006 and 2007. You can design your own training, or a statewide training team can assist with training needs assessments, training plans, curriculum development, and training instruction.

**Nebraska Research and Development Advantage...**

Offers a tax credit for research and development activities undertaken by any business entity. The credit is equal to 3 percent of research and development expenditures that are greater than the average of the previous two years research and development spending. An important feature -- businesses with little or no income may take advantage of the tax credit by receiving a sales tax refund or a refundable income tax credit.

**Nebraska Microenterprise Tax Credit Advantage...**

Provides a 20 percent refundable investment tax credit to micro businesses on new investment in targeted communities. Applicants may qualify for a maximum \$10,000 throughout the life of the program. The credit is geared to companies with five or fewer employees, including start-ups. Credits are approved through an application process with the Nebraska Department of Revenue and evaluated on expected local economic impact. The credits would apply to new expenditures for wages, buildings, and non-vehicle depreciable personal property.

**Additional Tax Savings**

- ♦ **Nebraska State and Local Sales Tax Exemptions of Manufacturing Machinery, Equipment and Related Services...**  
Exempts expenditures on manufacturing machinery, equipment, and related services from state and local sales taxes.
- ♦ **Inventory Tax Exemptions...**  
Business inventories are exempt from property and inventory taxes.

*Invest in Your Future with Nebraska's New Generation of Economic Development Incentives.*

# NEBRASKA *Advantage*

*For more information, contact:*

*Nebraska Department of Economic Development*

*301 Centennial Mall South*

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*Lincoln, NE 68509-4666*

*800-426-6505*

*Fax 402-471-3778*

*nebraska.advantage@ded.ne.gov*

*www.NebraskaAdvantage.biz*



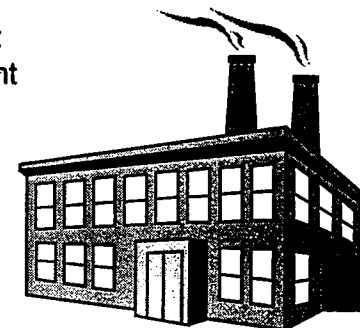
September 7, 2005  
Supersedes notice dated  
August 11, 2005

## Manufacturing Machinery and Equipment Exemption

**Beginning January 1, 2006**, the purchase, lease, or rental of manufacturing machinery and equipment by a person engaged in the business of manufacturing is exempt from sales and use tax. **Beginning January 1, 2006**, installation, repair, or maintenance services performed on manufacturing machinery and equipment are also exempt from tax.

**Manufacturing** means an action or series of actions performed upon tangible personal property, either by hand or machine, which results in the property being reduced or transformed into a different state, quality, form, property, or thing.

**Machinery and equipment** means any machinery or equipment purchased, leased, or rented by a person engaged in the business of manufacturing for use in manufacturing, including computers, software, and related peripheral equipment used to guide, control, operate, or measure the manufacturing process. If a machine has other uses in addition to its manufacturing use, the **manufacturing use must be greater than 50 percent of total use** to qualify for the exemption. Machinery and equipment used to produce chemical catalysts and solutions, steam, or electricity essential to the manufacturing process also qualify for the exemption. However, purchases of chemical catalysts and solutions themselves which are used in the manufacturing process remain subject to tax.



Qualifying machinery and equipment must be used by the manufacturer to:

- ❖ Produce, fabricate, assemble, process, finish, refine, or package tangible personal property;
- ❖ Transport, convey, handle, or store the manufactured goods, or the raw materials or components used in manufacturing such goods;
- ❖ Mold or shape the physical characteristics of the finished products or their packaging materials;
- ❖ Maintain the integrity of the products or maintain the unique environmental conditions required for either the products or the machinery and equipment itself; or
- ❖ Test or measure the product, the manufacturing process, or the quality of the finished products.

**Manufacturing does not include:** retail operations; the generation or transmission of electricity; the production or transmission of information, programming, or data; the preparation of food for immediate consumption; or the purification or transportation of water.

(See Reverse Side)

**Machinery and equipment** that **does not** qualify for the exemption includes, but is not limited to:

- ❖ Vehicles required to be registered for operation on the roads of Nebraska
- ❖ Repair shop equipment
- ❖ Tools powered by hand
- ❖ Security equipment or safety apparel
- ❖ Office equipment, including computers, software, and related equipment used for purposes other than manufacturing, e.g., by administrative departments
- ❖ Cleaning equipment

**Contractors operating under Option 2 or Option 3** are consumers of all manufacturing machinery and equipment installed for a customer and, therefore, must pay tax on purchases of such machinery and equipment, regardless of the fact the equipment will be used by a manufacturer. **Contractors operating under Option 1** may purchase qualifying machinery and equipment tax-free (for resale) and sell such items tax-free when the purchaser furnishes an exemption certificate as explained below.

**Claiming the exemption.** In order to purchase qualifying manufacturing machinery and equipment or installation, repair, or maintenance services exempt from tax, the manufacturer must furnish the seller with a properly completed Nebraska Resale or Exempt Sale Certificate, Form 13, with Section B completed. Purchasers may also use the Streamlined Certificate of Exemption.

**Date of sale.** The exemption applies to purchases made on and after January 1, 2006. Purchasers should use the date of the invoice in determining the date of the sale. For machinery and equipment that is fabricated or assembled in stages, the exemption applies to progress billings dated on and after January 1, 2006.

**Warranties, guarantees, and maintenance agreements.** Sales of warranties, guarantees, and maintenance agreements covering qualifying manufacturing machinery and equipment are exempt from tax. Option 2 and Option 3 contractors who repair manufacturing machinery and equipment that is covered under a warranty, guarantee, or maintenance agreement are required to pay tax on the repair parts used in the performance of such agreements even though the sale of the agreement itself is exempt from tax. Option 1 contractors can purchase the repair parts tax-free (for resale).

**Further information.** Additional information on this exemption is available on the department's Web site: **[www.revenue.ne.gov](http://www.revenue.ne.gov)** or call 1-800-742-7474 (toll free in Nebraska and Iowa) or 1-402-471-5729 if you are calling from outside of Nebraska or Iowa.