

This publication supercedes Information Letter No. 39, dated August 19, 1974 which should be destroyed.

DETERMINING ELECTRICITY USED IN THE PRODUCTION
OF TANGIBLE PERSONAL PROPERTY FOR SALE

Purchases of electricity for use directly and exclusively in the production* of tangible personal property for sale are exempt from New York State and local sales taxes, except the 4% tax imposed in New York City.

When electricity is purchased for consumption for both taxable and exempt purposes and the use of the electricity is recorded on a single meter, the purchaser may allocate the use of the electricity according to its taxable and exempt consumption. The allocation arrived at can be used as the basis for claiming a credit or refund of taxes paid on purchases of electricity used in an exempt manner until such time when variations occur affecting the use of electricity (e. g. the addition of new equipment). At such time a new allocation should be computed. The allocation can also be used as a basis for determining the amount of tax due when an Exempt Use Certificate or Direct Payment Permit has been issued to a utility company to enable it to purchase electricity without the payment of sales taxes.

When claiming a refund or credit of sales taxes paid on exempt purchases, an electrical engineer's survey, showing computations, must be submitted in substantiation of the allocation made for use of electricity for both exempt and taxable purposes. In lieu of an electrical engineer's survey, computations using the guidelines that follow may be submitted. All computations forming the basis for a claim for refund or credit should be submitted with Form AU-11 (Application For Credit or Refund of State and Local Sales or Use Tax).

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To determine the portion of purchases of electricity qualifying for exemption from sales tax, the ratio of kilowatt-hours of exempt use to total kilowatt-hours of use must be calculated. The resulting ratio is then applied to electricity purchases to determine the amount qualifying for exemption.

$$\frac{\text{Kilowatt-Hours Exempt Use Per Month}}{\text{Kilowatt-Hours All Purposes Per Month}} = \frac{\text{Proportion of Purchases}}{\text{Qualifying for Exemption}}$$

Kilowatt-hours of use is determined by multiplying kilowatts per hour of operation by hours of operation. Methods for determining kilowatts per hour of operation and average hours of operation are outlined as follows.

*See Regulation Section 528.13(b)(1)(ii).

CALCULATING KILOWATTS PER HOUR OF OPERATION

Motors

Horsepower Known:

Multiply the number of horsepower by 746 and divide by 1,000 to determine approximate kilowatts used per hour of operation.

$$\frac{\text{Horsepower X 746}}{1,000} = \text{Kilowatts Per Hour}$$

Horsepower Not Known:

Multiply volts by amperes indicated on manufacturer's name plate and divide by 1,000 to determine approximate kilowatts used per hour of operation.

$$\frac{\text{Volts X Amperes}}{1,000} = \text{Kilowatts Per Hour}$$

Lights

For incandescent bulbs, add rated wattages and divide by 1,000. For fluorescent lights, add rated wattages plus an additional 20% of rated wattages,* then divide by 1,000.

$$\text{Incandescent Lights: } \frac{\text{Watts}}{1,000} = \text{Kilowatts Per Hour}$$

$$\text{Fluorescent Lights: } \frac{\text{Watts} + .20 (\text{Watts.})}{1,000} = \text{Kilowatts Per Hour}$$

Devices Other Than Motors or Lights

For these devices, use wattage rating given by manufacturer and divide by 1,000 to obtain approximate kilowatts used per hour of operation.

$$\frac{\text{Watts}}{1,000} = \text{Kilowatts Per Hour}$$

DETERMINING AVERAGE HOURS OF OPERATION

When determining monthly hours of operation, variations in use throughout the year must be taken into consideration. Approximate hours of use for each month of the year must be added and the results divided by twelve.

$$\frac{\text{Total Hours Per Year}}{12} = \text{Average Hours Per Month}$$

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*NOTE: The additional 20% of rated wattage is attributable to the energy usage of the fluorescent lamp ballasts.

The following is a simplified example of a worksheet for determining the portion of purchases of electricity qualifying for exemption when a single meter records both exempt and taxable use.

	<u>Kilowatts Per Hour of Operation</u>	<u>Average Hours of Operation Per Month</u>	=	<u>Average Kilo- watt-Hours Per Month</u>	<u>Total</u> _____
<u>All Exempt Usage</u>					
Production Machine #1	10	100		1000	
Production Machine #2	10	100		1000	
Other	10	100		1000	
Total Exempt Usage					3000(A)
<u>All Taxable Usage</u>					
Air Conditioners	10	300		3000	
General Lighting	10	300		3000	
Office Equipment	10	300		3000	
Space Heaters	10	300		3000	
Other	10	300		<u>3000</u>	
Total Taxable Usage					<u>15000(B)</u>
Total - All Usages					18000(C)

$$\frac{3000}{18000} \text{ or } \frac{A}{C} = \text{Proportion of Electricity Purchase Qualifying for Exemption}$$

Note: Once the exempt portion (percentage) has been established, that percentage must be applied against the actual electricity purchased for any given period for which you are requesting a credit or refund. Any time a change in production occurs (addition or deletion of production equipment, etc.), the exempt percentage must be recomputed.