

Josh Stein
Governor

McKinley Wooten, Jr.
Secretary

December 11, 2025

[redacted]

Re: [redacted]
Private Letter Ruling
[redacted]

Dear [redacted]:

The Department has completed its review of your request for a private letter ruling on behalf of [redacted] ("Taxpayer"). In making this written determination, the Department has considered the facts presented in your initial request as well as any supplemental information provided to the Department.

This private letter ruling is a written determination issued under N.C. Gen. Stat. § 105-264.2 and applies the tax law to a specific set of existing facts furnished by you on behalf of Taxpayer. This written determination is applicable only to Taxpayer and as such has no precedential value except to Taxpayer.

Overview and Relevant Facts

You advised that Taxpayer manufactures [redacted] with our milling machines." "[Taxpayer's] operations involve the transformation of raw materials into complex, high-precision [redacted] and components through a series of systematic and highly controlled manufacturing processes." You further state "[Taxpayer] maintain[s] over [redacted] for a variety of high precision, regulated markets, including:

- [redacted]
- [redacted]
- [redacted]
- [redacted]

You provide an example of Taxpayer's process stating the following:
"Production begins when an order [redacted] is generated via [redacted] our ERP system, through [redacted]. Upon order creation, the production team including machinists and programmers review all associated data to confirm that design revisions and customer requirements align precisely with the purchase order." "Upon receipt of raw materials from approved suppliers, all materials undergo a rigorous incoming inspection within our Quality Assurance (QA)

department. This process ensures conformity to our stringent quality standards prior to release for production. Inspection tools include [redacted] and advanced analytical instruments such as [redacted] analyzers, which validate [redacted]. Only materials that pass this inspection are approved for immediate use or inventory stocking."

"Our programming team utilizes [redacted] a CAD/CAM software platform, to transform 2D engineering drawings into detailed 3D models. These models are then post-processed into [redacted]. The post-processed code enables precise control over machine functions such as:

- [redacted]
- [redacted]
- [redacted]
- [redacted]

Our [redacted] machines both [redacted] are set up using high-precision [redacted] workholding solutions and [redacted] fixtures to ensure stability, repeatability, and optimized multi-part production.

…

Following programming, a turnover meeting is conducted between the programmer and machinist to review the [redacted] setup checklist. This standardized review ensures critical manufacturing details are aligned, [redacted]:

- [redacted]
- [redacted]
- [redacted]

The machinist then builds all cutting tools for the operation, including end mills, face mills, drills, and taps to name a few. These tools are prepared according to predefined tooling sheets to maintain consistency across production runs.

…

Machinists initiate the cutting process by securely fixturing the raw material in precision [redacted]. [redacted] machines then convert the raw material into finished parts in accordance with [redacted] manufacturing standards. Upon machining the first article, the part is thoroughly inspected [redacted]

- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]

Once the first article passes inspection, the remainder of the production lot proceeds, with quality checks conducted at regular intervals [redacted] to maintain dimensional accuracy and process control.

…

Completed parts are transferred to the deburring and finishing department, where the following processes are performed:

- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]

…

All finished parts are returned to the QA department for a comprehensive final inspection. This includes a four-eye review process to confirm dimensional conformance, drawing compliance, and readiness for downstream processes. Once inspection is complete, items are released into inventory in [redacted] and marked as ready for assembly.

…

When assembly orders are triggered, components are pulled, assembled, and tested in-house. Final assemblies undergo functional testing and receive a Certificate of Conformance, which documents:

- [redacted]
- [redacted]
- [redacted]

These certifications ensure regulatory and customer compliance across various industries."

ISSUE

Are purchases by Taxpayer of mill machinery and mill machinery parts and accessories for use in the production of [redacted] subject to North Carolina sales and use tax?

Applicable Statutes and References

North Carolina imposes State, local, and transit rates of sales and use tax on a retailer engaged in business in the State based on the retailer's net taxable sales of, or gross receipts derived from, tangible personal property, certain digital property, and taxable services. N.C. Gen. Stat. §§ 105-164.4, 105-164.6, 105-467, 105-468, 105-483, 105-498, 105-507.2, 105-509.1, 105-537 and Chapter 1096 of the 1967 Session Laws. North Carolina imposes a complementary use tax, in part, on items of tangible personal property purchased for storage, use, or consumption in this State.

N.C. Gen. Stat. § 105-164.13(5e) provides for an exemption for "[s]ales of mill machinery or mill machinery parts or accessories to any of the persons listed in [the] subdivision. For purposes of [the] subdivision, the term 'accessories' does not include electricity. The persons are:

a. A manufacturing industry or plant. A manufacturing industry or plant does not include (i) a delicatessen, cafe, cafeteria, restaurant, or another similar retailer that is principally engaged in the retail sale of food prepared by it for consumption on or off its premises or (ii) a production company.
b. A contractor or subcontractor if the purchase is for use in the performance of a contract with a manufacturing industry or plant.
c. A subcontractor if the purchase is for use in the performance of a contract with a general contractor that has a contract with a manufacturing industry or plant."

The Department publishes Sales and Use Tax Bulletins for the purpose of presenting the administrative interpretation and application of sales and use tax. The Department's Sales and Use Tax Bulletins are prima facie correct. N.C. Gen. Stat.§ 105-264(a).

Sales and Use Tax Bulletin 57-1 provides "The following classifications are based on the three principal activities of a manufacturing industry or plant and shall be followed by manufacturers purchasing tangible personal property that is used or consumed during the different phases of the operation of an industrial plant:

1. Production as a phase of industrial or manufacturing operations shall mean all steps performed in processing and refining rooms, and in other quarters and departments of a plant, where conditioning, treating, or other operations are done on ingredient materials as an actual routine on the assembly or processing line turning out a finished product of manufacture for sale. It also includes:

    a. The movement of raw materials or ingredients from an inventory or a stockpile located on the premises of the manufacturing facility to the assembly or processing line.

b. The movement of goods in process along the assembly or processing line including packaging prior to the good becoming a final product.

c. The movement of manufactured products from the assembly or processing line into shipping or storage areas and yards located on the premises of the manufacturing facility.

d. The work of experimentation and research performed on the manufactured products.

Purchases by a manufacturing industry or plant of machinery or parts or accessories for the machinery for use in 'production,' as defined above, are classified as mill machinery or mill machinery parts or accessories. Purchases by a manufacturing industry or plant of research and development equipment and supplies for quality control or the improvement of its manufactured products or for development of products which it will manufacture are classified as mill machinery or mill machinery parts or accessories. Items that are not classified as mill machinery or mill machinery parts or accessories when purchased by manufacturing industries and plants for use in their research and development areas include such items as desks, calculators, computers used for administrative purposes, and chairs which are subject to the general State, applicable local, and applicable transit rates of sales and use tax.

Production does not include any activity connected with the movement of raw materials or ingredients into inventory nor does it include 'distribution' or 'administration' as defined in the subsections below. Sales to manufacturing industries and plants of machinery, parts, or accessories for such machinery, and other tangible personal property used in the movement of raw materials or ingredients into inventory or in 'distribution' activities, as defined in the subsection below, or which are used for similar purposes are subject to the general State, applicable local, and applicable transit rates of sales and use tax.

2. Distribution with reference to manufacturing industries and plants shall mean any activity connected with the movement of manufactured products within storage warehouses, shipping rooms, and other such finished product storage areas and the removal of such products therefrom for sale or shipment. Machinery and equipment used to prepare property for shipment in the shipping room, warehouse, or other distribution locations separate and apart from the production process, as the term 'production' is defined in the subsection above, is subject to the general State, applicable local, and applicable transit rates of sales and use tax.

3. Administration with reference to manufacturing industries and plants shall mean and include the administrative work of offices, promotion of sales, and collection of accounts. Sales of administrative equipment and supplies, such as office equipment, paper, pens, pencils, stamps, paper cutters, printer form, file cabinets, scissors, staplers, desk trays, and other miscellaneous tangible personal property generally sold for office use, furniture, and fixtures are subject to the general State, applicable local, and applicable transit rates of sales and use tax."

Ruling

Based on the information furnished, Taxpayer's applies a manufacturing process to create [redacted] and components. Taxpayer states that it takes raw materials and converts them into [redacted] used in specialized and specific industries. Taxpayer describes a detailed process of converting these materials into [redacted]. The [redacted] are ordered and sold to customers of Taxpayer. As a result, the Department determines the raw materials purchased by Taxpayer are converted into a new and different article for sale. Thus, Taxpayer's may purchase of mill machinery and mill machinery parts and accessories for use in the production phase of creating the described [redacted] exempt from sales and use tax. For additional guidance in determining whether

specific purchases qualify, Taxpayer should review Sales and Use Tax Bulletin 57-1. Importantly, any equipment used prior to or subsequent to the “production” phase of manufacturing operations does not qualify for exemption and is subject to the applicable rates of sales and use tax.

This ruling is based solely on the facts submitted to the Department of Revenue for consideration of the transactions described. If the facts and circumstances given are not accurate, or if they change, then Taxpayer may not rely on it. If Taxpayer relies on this ruling and the Department discovers, upon examination, that the fact situation of the Taxpayer is different in any material aspect from the facts and circumstances given in this ruling, then the ruling will not afford Taxpayer any protection. It should be noted that this document is not to be cited as precedent and that a change in statute, a regulation, or case law could void this ruling.

Issued on behalf of the Secretary of Revenue
By the Sales and Use Tax Division