**Private Letter Ruling**

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| **Ruling Number:** | **P-2004-001** |

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| **Tax Type:** | **Kansas Retailers' Sales Tax** |
| **Brief Description:** | **Manufacturing machinery and equipment; compressor in a pipeline compressor station.** |
| **Keywords:** |  |
| **Approval Date:** | **01/20/2004** |

**Body:**

January 20, 2004

XXXX  
XXXX  
XXXX

RE: You e-mail dated January 6, 2004

Dear XXXX:  
  
I have been asked to answer your e-mail sent earlier this month. In it, you ask if a compressor in a pipeline compressor station in XXXX County, Kansas, qualifies for a sales tax exemption as manufacturing machinery and equipment. The compressor is used to boost the pressure of natural gas in a pipeline. Without the increase in line pressure, the plant in Colorado could not treat the gas nor extract liquids from it.  
  
Please be advised that the purchase or lease of the compressor does not qualify for exemption as manufacturing machinery or equipment. The manufacturing machinery or equipment exemption does not extend to:

transportation, transmission and distribution equipment not primarily used in a production, warehousing or materials handling operation at the plant or facility, including the means of conveyance of natural gas, electricity, oil or water, and equipment related thereto, located outside the plant or facility. . . .*(K.S.A. 79-3606(kk)(5)(c)).*

The exemption statute also provides that:

"manufacturing or processing plant or facility" means a single, fixed location owned or controlled by a manufacturing or processing business that consists of one or more structures or buildings in a contiguous area where integrated production operations are conducted to manufacture or process tangible personal property to be ultimately sold at retail. Such term shall not include any facility primarily operated for the purpose of conveying or assisting in the conveyance of natural gas, electricity, oil or water. A business may operate one or more manufacturing or processing plants or facilities at different locations to manufacture or process a single product of tangible personal property to be ultimately sold at retail. . . . *(K.S.A. 79-3606(kk)(2)(C)).*

K.S.A. 79-3606(kk) does not extend machinery or equipment used to transport or convey natural gas that is located outside a plant. This includes pipeline compressors or other pipeline equipment. The exemption only applies when the machinery or equipment is located at a plant, which is statutorily defined to mean "a single, fixed location owned or controlled by a manufacturing or processing business that consists of one or more structures or buildings in a contiguous area where integrated production operations are conducted." By definition, a "plant" does not include a "facility primarily operated for the purpose of conveying or assisting in the conveyance of natural gas. . . ." Thus, even if a natural gas compressor station changes the natural gas in a way that can be construed as "processing," it cannot be exempt because pipeline compressors are "primarily operated for the purpose of conveying or assisting in the conveyance of natural gas. . . .". In addition, a pipeline compressor located in Kansas and a refinery located in Colorado are not in "a single, fixed location . . . that consists of one or more structures . . . in a contiguous area."  
  
Accordingly, the sales and lease of the compressor and all other pipeline equipment located in Kansas is subject to state and local Kansas sales tax. Its purchase and lease is not exempt under K.S.A. 79-3606(kk) nor any other sales tax exemption provision. Please note that the department has previously ruled that the fuel consumed in an engine that powers a compressor on an interstate pipeline is exempt from sales and use tax.  
  
This private letter ruling is based solely on the facts provided in your request. If it is determined that undisclosed facts were material or necessary to make an accurate determination by the department, this ruling is null and void. This private letter ruling will be revoked in the future by operation of law without further department action if there is a change in the statutes, administrative regulations, or case law, or a published revenue ruling, that materially affects this private letter ruling.

Sincerely,  
  
  
  
Thomas E. Hatten

Attorney/Policy & Research  
  
  
**Date Composed: 01/21/2004 Date Modified: 01/21/2004**