Summary of SC98007, *Dreyer Electric Co. LLC v. Director of Revenue*
Appeal from the administrative hearing commissioner, Commissioner Renee T. Slusher
Argued and submitted February 25, 2020; opinion issued June 16, 2020

Attorneys: The director was represented by Julia E. Rives and Christopher R. Wray of the attorney general's office in Jefferson City, (573) 751-3321. Dryer was represented by Scott Fetterhoff of Lichteneffer, Weiss & Fetterhoff LLC in Jackson, (573) 243-8463, and Leah Robinson of Mayer Brown LLP in New York City, (212) 506-2799.

This summary is not part of the opinion of the Court. It has been prepared by communications counsel for the convenience of the reader. It neither has been reviewed nor approved by the Supreme Court and should not be quoted or cited.

Overview: The director of revenue seeks review of the administrative hearing commission's decision that a company was entitled to a sales tax refund for certain equipment the commission found was used in manufacturing. In a unanimous decision written by Judge Laura Denvir Stith, the Supreme Court of Missouri reverses the commission's decision and remands (sends back) the case for a determination of whether each type of disputed equipment qualifies for the tax exemption. The commission properly applied a three-factor test to determine some of the disputed items qualify for the tax exemption because they are used directly in manufacturing, but it failed to apply the test to make similar determinations regarding the remaining disputed items.

Facts: A sawmill hired Dreyer Electric Company LLC to install a new electrical system in one of its buildings following a fire. Ultimately, Dreyer sought a refund of nearly $6,400 in sales taxes it paid on the purchase of certain disputed items it used in the project. These items included soft starters to avoid power surges that could disrupt service for other electric customers; circuit breakers to stop electricity from flowing to various machines in the event of a malfunction; overload relays to stop machinery that overheats; as well as conduits, connectors, couplings, wires and other equipment. The director of revenue denied the refund claim, and Dreyer appealed to the administrative hearing commission. The commission found the disputed items constituted replacement equipment used directly in the manufacturing process; therefore, Dreyer was entitled to the sales tax refund. The director seeks this Court's review.

REVERSED AND REMANDED.

Court en banc holds: (1) The commission correctly applied a broad, three-factor "integrated plant" test to determine whether disputed items were "used directly in manufacturing" and exempt from sales tax. In applying the test, the commission correctly found the soft starters, circuit breakers and overload relays are necessary to operate the sawmill machinery safely and the starters, connectors, disconnectors, and power and control wires were necessary to power the manufacturing equipment; therefore, these items are part of the integrated sawmill process and fall within the statutory tax exemption.

(2) The commission erred in failing to consider whether each type of disputed equipment was exempt under the integrated plant doctrine, apparently assuming that because major equipment was exempt, every item was exempt. But disputed items such as electric outlets, lights, lamps, and heating items that are not part of the integrated process to produce the sawmill's products are not exempt. On remand, the commission can apply the analysis governing the integrated plant test to determine whether the remaining types of disputed items are used directly in manufacturing to qualify for the exemption.