
**ALABAMA DEPARTMENT OF REVENUE
REVENUE RULING 2023-002**

This document may not be used or cited as precedent. Ala. Code 1975, § 40-2A-5(a).

To: Taxpayer Company

From: Vernon Barnett
Commissioner of Revenue

Date: August 9, 2023

FACTS¹

Company A manufactures pipe at a facility in Alabama. Pipe is manufactured first by heating iron until it is molten. Next, the molten iron is poured into a rotating mold and undergoes centrifugal casting. After the pipe is cast, the pipe must undergo various heat treatments, referred to herein as the annealing process, to transform the cast pipe.

The annealing process involves multiple steps that take place in the various zones of the annealing ovens. First, the cast pipe is rapidly heated to 1800 degrees F (“Zone One”). Next, the pipe is held at that temperature for 15 minutes (“Zone Two”). The pipe is then cooled with circulating air to 1375 degrees F (“Zone Three”). Finally, the pipe is slowly cooled from 1375 degrees F to 1200 degrees F by using circulating heated air (“Zone Four”). The multi-step annealing process transforms the cast pipe.

Currently, Company A uses a furnace to heat the iron into a molten state for casting. Company A also currently uses natural gas to generate heat for the annealing ovens that are used to transform the cast pipe. Company A plans to install an electric induction melting holders and furnaces (collectively, “the furnaces”) to replace its current furnace system. The induction melting furnaces will utilize coils carrying alternating electric current to generate heat to melt the iron for casting the pipes. Company A also plans to install electric annealing ovens that use a combination of electric resistance heating and electric induction heating to replace its current natural-gas fired annealing ovens.

QUESTION PRESENTED

Will the electricity used for heating in the induction furnaces and the electricity used for heating in Zone One, Zone Two and Zone Four of the annealing ovens qualify for the exclusion from utility gross receipts tax provided in Ala. Code 1975, § 40-21-83(5), provided that the electricity is separately metered?

¹ The facts upon which this revenue ruling is based are stated herein. To the extent that any relevant facts asserted by the requestor were omitted or were misstated or if stated, were misleading, this revenue ruling may be invalidated by the Department in whole or in part or withdrawn as the circumstances may require.

ANALYSIS

Ala. Code 1975, § 40-21-82(a) levies a “privilege or license tax against every utility furnishing electricity ... in the State of Alabama.” The tax is “determined by the application of rates against gross sales or gross receipts.” Id. Ala. Code 1975, § 40-21-83(5) provides an exclusion from utility gross receipts tax for the gross receipts or gross sales derived from “[t]he furnishing of electricity to a manufacturer or compounder for use in an electrolytic or electrothermal manufacturing or compounding process.” To qualify for the exclusion, the electricity must be separately metered. Ala. Admin. Code r. 810-6-5-.26(8)(c).

Ala. Admin. Code 810-6-5-.26(5)(j) defines the term “electrothermal” as “heat produced by electricity.” The former Administrative Law Division of the Department has further defined the term “electrothermal manufacturing” as “the manufacture of a product by the application or direct use of electrically produced heat.” As described in the facts provided by Company A, the electricity that will be used in the induction furnaces will directly heat the iron and transform it into a molten state, enabling the iron to be centrifugally cast into pipe. Following the casting of the pipe, electricity will be used in Zone One, Zone Two, and Zone Four of the annealing ovens to produce heat that is directly used to transform the cast pipe. Thus, the pipe product is manufactured by the application or direct use of electrically produced heat in both the induction melting furnaces and the annealing ovens. Consequently, the electricity used for heating in the induction furnace and annealing ovens to manufacture the pipe qualifies for the exclusion in § 40-21-83(5).

CONCLUSION

The electricity used for heating in the induction furnaces and the electricity used for heating in Zones One, Two and Four of the annealing ovens will qualify for the exclusion provided in § 40-21-83(5), provided that the electricity must be separately metered.



VERNON BARNETT, Commissioner
Alabama Department of Revenue