

ALABAMA TAX TRIBUNAL

ALABAMA CHIPS, INC.,	§	
Taxpayer,	§	DOCKET NO. S. 24-0251-JP
v.	§	
STATE OF ALABAMA	§	
DEPARTMENT OF REVENUE.		

OPINION AND FINAL ORDER

This appeal involves the denial by the Alabama Department of Revenue of the Taxpayer's request for a refund of sales tax for the periods June 2020 through May 2023. A video trial was held on September 10, 2025. Joshua Brown and Chris Brown represented the Taxpayer. The Revenue Department was represented by Hilary Parks, and Ami Cheatham and Carolyn Mitchell also appeared for the Revenue Department.

Three issues were identified during trial. The first concerned sales tax that was paid by the Taxpayer to a company called Valmet for Valmet's supplying and sharpening of knives used by the Taxpayer in producing wood chips that were sold by the Taxpayer to the Taxpayer's customers. Valmet included sales tax on the invoices it submitted to the Taxpayer, and the Taxpayer paid the invoiced sales tax amounts despite the fact that the Taxpayer had not purchased the knives from Valmet. The second issue concerned the Taxpayer's claim that the purchases of certain pieces of equipment used to lift and move large logs into position to be chipped qualified for Alabama's reduced sales tax rate as purchases of machines used in the manufacturing of tangible personal property. The third issue related to the second issue, except it

involved the fuel used in the equipment referenced in the second issue.

During the trial, counsel for the Revenue Department agreed that the Taxpayer is due to be refunded the sales tax it paid to Valmet as referenced in the first issue. And the Taxpayer withdrew its refund claim concerning fuel referenced in the third issue.

Concerning the second (and only remaining) issue, the Taxpayer contends that large pieces of equipment such as log cranes, excavators, loaders, and forklifts were purchased for the exclusive use of moving logs through a manufacturing process once the logs entered the Taxpayer's wet yard processing area. (The Taxpayer's representatives acknowledged that the receiving of logs or raw timber at the Taxpayer's facility was a non-manufacturing operation.) Therefore, according to the Taxpayer, its purchases of such equipment should have been taxed not at the general sales tax rate of 4 percent, but at the reduced manufacturing rate of 1.5 percent, pursuant to Ala. Code § 40-23-2(3). That provision imposes a reduced rate on the retail sale of "machines used in mining, quarrying, compounding, processing, and manufacturing of tangible personal property..." Parts and attachments to such machines also are taxed at the reduced rate. *Id.*

The Revenue Department had granted the Taxpayer a partial refund prior to this appeal. However, the Revenue Department denied the request concerning the items of heavy equipment because it asserted that such equipment was not involved in manufacturing.

During the trial, the Taxpayer's representatives stated the following:

After logs were received at the Taxpayer's facility, they were brought to a "wet yard" where the logs were positioned by the equipment in issue to receive "continuous treatment" involving a chemical "to make sure the integrity of the raw materials is maintained." When questioned by the Revenue Department's attorney concerning the type of chemical, one of the Taxpayer's representatives referred to it "as a type of water ... not the type of water ... to drink though." Cranes then were used to move the logs into a debarking drum. From there, the logs were delivered to the chipper by a conveyor system and the chips were placed in piles. The wood chips are sold by the Taxpayer to paper mills.

During the trial, the Taxpayer's representatives asserted that the wet yard is not mere storage of the logs but is a facility "where raw timber is being treated continuously to maintain the integrity of the raw materials." Thus, the Taxpayer includes the wet yard as a part – apparently the beginning – of the manufacturing process. According to the Taxpayer, the Revenue Department considers the wet yard to be a storage area.

Following the trial, the Taxpayer submitted a Memorandum of Law in which it cites, among other things, Ala. Admin. Code r. 810-6-2-.47. That rule states in paragraph 3 that "[t]he general rule with reference to transportation equipment is that it is taxable at the general rate of 4% up to the point where the materials go into process," but that "the equipment feeding the first processing machine being taxed under the machine levy at 1½ %."

Here, from the Taxpayer's perspective, "the equipment feeding the first

processing machine” would be the items of heavy equipment in issue. And “the first processing machine” would have to be the Taxpayer’s continuous wetting/treatment system. The Taxpayer seems to acknowledge such in its post-trial memo, wherein it states that “the decisive question is whether the wet yard and its in-feed equipment are integral to manufacturing.” The memo further states:

The wet yard is not passive storage. It is a controlled conditioning system that maintains logs at the correct moisture level to preserve fiber integrity and ensure efficient debarking and chipping. Without this conditioning, the manufacturing process would fail or be materially impaired.

As such, the wet yard performs the same function as other recognized preparatory steps in manufacturing: it readies raw material for transformation. The loaders, conveyors, and pumps that move conditioned logs directly into the debarker are therefore “equipment feeding the first processing machine” within the meaning of Rule .47.

The shortcoming in the Taxpayer’s position is that there is no evidence in the record to support the claims asserted by the Taxpayer’s representatives that the wet yard and its continuous wetting/treatment system are a part of the Taxpayer’s manufacturing process. No evidence was provided as to what chemical is used to treat the logs or how the treatment process maintains the correct moisture level to preserve the integrity of the wood fibers to “ensure efficient debarking and chipping.” In fact, the Taxpayer’s representatives stated during trial that they have never been employees of the Taxpayer and have not been to this facility in more than 10 years.

The Taxpayer has not met its burden of proving its entitlement to a refund regarding its requested application of the machine rate to the Taxpayer’s purchases of

heavy equipment. *See Game Day Tents, LLC v. State of Alabama Department of Revenue*, No. S. 17-358-JP (Op. & Prel. Order, April 12, 2019). Therefore, the Taxpayer's request for relief as to this issue is denied. And, as noted, the Taxpayer withdrew its refund request regarding fuel purchases for the items of heavy equipment.

The Revenue Department is directed to refund to the Taxpayer the amount of sales tax paid erroneously by the Taxpayer concerning Valmet's supplying and sharpening of knives used by the Taxpayer in producing wood chips, plus any applicable interest, as described in the Tax Tribunal's Post-Trial Preliminary Order.

It is so ordered.

This Opinion and Final Order may be appealed to circuit court within 30 days, pursuant to Ala. Code § 40-2B-2(m).

Entered October 23, 2025.

/s/ Jeff Patterson

JEFF PATTERSON

Chief Judge

Alabama Tax Tribunal

jp:ml

cc: Joshua Brown
Chris Brown
Hilary Y. Parks, Esq.