UTAH SUPREME COURT

Morgan County v. Holnam, Inc.

29 P.3d 629 (Utah 2001) · Decided July 2, 2001

SUMMARY

Morgan County sought review of the Utah State Tax Commission's decision granting Holnam, Inc. a full manufacturing sales-and-use tax exemption for machinery and equipment purchased for an expanded cement plant. The Utah Supreme Court held that the equipment qualified as purchases for new or expanding operations rather than partially exempt normal operating replacements. The court affirmed the Commission's decision.

CASE DETAILS

COURT	Utah Supreme Court
WRITING FOR THE COURT	Chief Justice Howe; Associate Chief Justice Russon; Justice Durham; Justice Durrant; Justice Wilkins
JURISDICTION	Utah
DECIDED	July 2, 2001
DISPOSITION	affirmed
PROCEDURAL POSTURE	Morgan County intervened in the Utah State Tax Commission proceedings and sought judicial review of the Commission's denial of reconsideration after the Commission granted Holnam, Inc. a full manufacturing exemption from sales and use tax on machinery and equipment purchased for a new cement plant.
STANDARD OF REVIEW	The court reviews the Commission's interpretation of the statute for correctness, its interpretation of its own rule for reasonableness when the agency has interpretive authority, and factual findings under a substantial-evidence standard. Because the statute did not authorize the Commission to define normal operating replacements, the court reviewed that definition for correctness.
PRECEDENTIAL VALUE	Published Utah Supreme Court opinion; precedential.
PARTIES	Morgan County v. Holnam, Inc., Utah State Tax Commission

TOPICS

sales and use tax · tax · statutory interpretation · administrative law · appellate procedure

PRACTICE AREAS

state and local taxation | administrative law | appellate procedure

QUESTIONS PRESENTED

1. Whether machinery and equipment purchased for Holnam's new cement plant qualified for the full sales and use tax exemption applicable to equipment used in new or expanding operations.
2. Whether the purchases were instead normal operating replacements subject only to the statutory graduated exemption.
3. What standard of review applied to the Tax Commission's interpretations of the governing statute, its administrative rule, and the factual findings underlying the exemption determination.

HOLDINGS

1. The machinery and equipment purchased for Holnam's new plant qualified for the full manufacturing exemption because the plant was a new or expanding operation that increased production or capacity.
2. Equipment replacing machinery in a new plant is not necessarily a normal operating replacement; the Commission may distinguish expansionary replacements from replacements purchased in the ordinary course of business by examining the equipment's primary purpose.
3. The court reviews the Commission's interpretation of the statute for correctness; it reviews the Commission's interpretation of its own rule for reasonableness only when the agency has authority to interpret the governing provision. Because the statute did not authorize the Commission to define normal operating replacements, that definition was reviewed for correctness.

KEY QUOTATIONS

> *"Unless a distinction is made between equipment that is purchased for the purpose of increasing production or capacity and equipment purchased in the ordinary course of business that incidentally increases production or capacity, any equipment purchased that increases production or capacity could be considered a normal operating replacement and the third prong of the definition of new and expanding operations would be meaningless."* (at 633)

> *"We affirm the Commission's grant of the full manufacturing exemption."* (at 633)

FACTUAL BACKGROUND

Holnam operated a cement manufacturing plant in Utah that used a wet-process technology with an annual production capacity of approximately 850,000 tons. It constructed a substantially larger dry-process facility, which began producing clinker in November 1997 and had approximately twice the production capacity of the old facility. The Tax Commission audited Holnam and determined that machinery and equipment purchased for the new plant qualified for the full manufacturing exemption rather than only the partial exemption applicable to normal operating replacements.

PROCEDURAL HISTORY

The Tax Commission's Auditing Division assessed Holnam for sales and use tax deficiencies, including tax on machinery and equipment purchased for its new plant. Holnam petitioned for redetermination, and the Commission concluded that the purchases qualified for the manufacturing equipment exemption. Morgan County joined the Division's petition for reconsideration, which the Commission denied, and the County sought review in the Utah Supreme Court.

DISPOSITION

affirmed

CASES CITED

- Eaton Kenway v. Auditing Division, 906 P.2d 882 (Utah 1995)
- Chris & Dick's Lumber & Hardware v. Tax Commission, 791 P.2d 511 (Utah 1990)
- SF Phosphates Co. v. Auditing Division, 912 P.2d 384 (Utah 1998)
- Thorup Bros. Construction, Inc. v. Auditing Division, 860 P.2d 324 (Utah 1993)
- Allisen v. American Legion Post No. 134, 763 P.2d 806 (Utah 1988)
- Airport Hilton Ventures, Ltd. v. Utah State Tax Commission, 1999 UT 26, 976 P.2d 1197
- Crossroads Plaza Association v. Pratt, 912 P.2d 961 (Utah 1996)
- Rocky Mountain Energy v. State Tax Commission, 852 P.2d 284 (Utah 1993)