Predominant Use Studies

CAPSTAN
our strength. your tax savings.

WHAT is a Predominant Use Study?

- Utilities like electricity and natural gas are exempt from sales & use tax if they are predominantly used for manufacturing or related activities. However, many eligible firms are still paying these taxes
- A Predominant Use Study identifies sales and use tax erroneously paid on exempt utilities.
- The study benefits taxpayers in two major ways:
  - For the future: Sales & use tax exemption saves money on utility bills moving forward
  - Retroactive Recovery: Cash refund for sales & use tax already paid (36-48 months back, depending on state legislation)

WHY Consider a Predominant Use Study?

- Improved Cash Flow: Refund of 3-4 years of utility payments provides an immediate liquidity boost without impacting operations
- Assessment and Alignment: ERP coding, vendor invoices, and exemption certificates will be reviewed and coordinated, creating a system you can trust moving forward
- Process is easy to navigate, with engineering professionals guiding you throughout
- No-Risk, Contingent Approach: You only pay if you receive benefit. No benefit, no charge

WHO Can Benefit from a Predominant Use Study?

- Application, qualification, and process for claims are state-specific, and the exemption is available in 42 states
- Eligible industries also vary by state, and each situation will be evaluated independently in the context of state-specific legislation
- In many states, taxpayers in the following industries may benefit from a Predominant Use Study:
  - Manufacturing
  - Construction & Fabrication Companies
  - Healthcare & Life Science Firms
  - Food Processing & Packaging
  - Data Centers & Large Commercial Users

WHEN Should a Predominant Use Study Be Performed?

- If you've never commissioned a study before, now is the time – the sooner you begin, the sooner you can recoup past spending and optimize utility taxes moving forward
- If you've had a study before, some states require another study when "significant changes" in your operations arise. Significant changes could include:
  - Merger/Acquisition
  - Expansion to New Locations
  - Change in Utility Vendors
- Some states also require a new study every several years, even if nothing has changed
- We'll review your state's requirements and create a plan to keep you compliant

EXAMPLE:

- A 150,000 SQFT manufacturing facility in Texas consumes 14MM kWh and 77K MCF of natural gas annually:
  - Annual Cost of Electricity: $1.2MM
  - Annual Cost of Natural Gas: $800,000/year
- At an 8.25% tax rate, their annual utility bill is $165,000.
- After a Predominant Use Study, the facility benefitted two-fold:
  - Immediate refund of $660,000 [representing the last 4 years of payments]
  - Sales & use tax exemption moving forward, saving them $165K annually in future

215-885-7510 | capstantax.com

©2026 Capstan Tax Strategies. All rights reserved.