

House Study Bill 707 - Introduced

HOUSE FILE _____
BY (PROPOSED COMMITTEE ON
WAYS AND MEANS BILL BY
CHAIRPERSON HEIN)

A BILL FOR

1 An Act exempting from the sales and use tax certain sales of
2 computer peripherals, and rescinding related rules in the
3 Iowa administrative code.
4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 Section 1. Section 423.1, Code 2020, is amended by adding
2 the following new subsection:

3 NEW SUBSECTION. 10A. "*Computer peripheral*" means an
4 ancillary device connected to the computer digitally, by
5 cable, or by other medium, used to put information into or get
6 information out of a computer.

7 Sec. 2. Section 423.3, subsection 47, Code 2020, is amended
8 to read as follows:

9 47. a. The sales price from the sale or rental of
10 computers, computer peripherals, machinery, equipment,
11 replacement parts, supplies, and materials used to construct
12 or self-construct computers, computer peripherals, machinery,
13 equipment, replacement parts, and supplies, if such items are
14 any of the following:

15 (1) Directly and primarily used in processing by a
16 manufacturer.

17 (2) Directly and primarily used to maintain the integrity
18 of the product or to maintain unique environmental conditions
19 required for either the product or the computers, computer
20 peripherals, machinery, and equipment used in processing by a
21 manufacturer, including test equipment used to control quality
22 and specifications of the product.

23 (3) Directly and primarily used in research and development
24 of new products or processes of processing.

25 (4) Computers and computer peripherals used in processing
26 or storage of data or information by an insurance company,
27 financial institution, or commercial enterprise.

28 (5) Directly and primarily used in recycling or
29 reprocessing of waste products.

30 (6) Pollution-control equipment used by a manufacturer,
31 including but not limited to that required or certified by an
32 agency of this state or of the United States government.

33 b. The sales price from the sale of fuel used in creating
34 heat, power, steam, or for generating electrical current, or
35 from the sale of electricity, consumed by computers, computer

1 peripherals, machinery, or equipment used in an exempt manner
2 described in paragraph "a", subparagraph (1), (2), (3), (5), or
3 (6).

4 c. The sales price from the sale or rental of the following
5 shall not be exempt from the tax imposed by [this subchapter](#):

6 (1) Hand tools.

7 (2) Point-of-sale equipment, ~~and computers~~, and computer
8 peripherals.

9 (3) The following within the scope of section 427A.1,
10 subsection 1, paragraphs "h" and "i":

11 (a) Computers.

12 (b) Computer peripherals.

13 ~~(b)~~ (c) Machinery.

14 ~~(c)~~ (d) Equipment, including pollution control equipment.

15 ~~(d)~~ (e) Replacement parts.

16 ~~(e)~~ (f) Supplies.

17 ~~(f)~~ (g) Materials used to construct or self-construct the
18 following:

19 (i) Computers.

20 (ii) Computer peripherals.

21 ~~(ii)~~ (iii) Machinery.

22 ~~(iii)~~ (iv) Equipment, including pollution control
23 equipment.

24 ~~(iv)~~ (v) Replacement parts.

25 ~~(v)~~ (vi) Supplies.

26 (4) Vehicles subject to registration, except vehicles
27 subject to registration which are directly and primarily used
28 in recycling or reprocessing of waste products.

29 d. As used in [this subsection](#):

30 (1) "Commercial enterprise" means businesses and
31 manufacturers conducted for profit, for-profit and nonprofit
32 insurance companies, and for-profit and nonprofit financial
33 institutions, but excludes other nonprofits and professions and
34 occupations.

35 (2) "Financial institution" means as defined in section

1 527.2.

2 (3) *"Insurance company"* means an insurer organized or
3 operating under [chapter 508](#), [514](#), [515](#), [518](#), [518A](#), [519](#), or
4 [520](#), or authorized to do business in Iowa as an insurer or an
5 insurance producer under [chapter 522B](#).

6 (4) (a) *"Manufacturer"* means a business that primarily
7 purchases, receives, or holds personal property of any
8 description for the purpose of adding to its value by a process
9 of manufacturing with a view to selling the property for gain
10 or profit.

11 (b) *"Manufacturer"* includes contract manufacturers. A
12 contract manufacturer is a manufacturer that otherwise falls
13 within the definition of manufacturer, except that a contract
14 manufacturer does not sell the tangible personal property
15 the contract manufacturer processes on behalf of other
16 manufacturers.

17 (c) *"Manufacturer"* does not include persons who are not
18 commonly understood as manufacturers, including but not
19 limited to persons primarily engaged in any of the following
20 activities:

21 (i) Construction contracting.

22 (ii) Repairing tangible personal property or real property.

23 (iii) Providing health care.

24 (iv) Farming, including cultivating agricultural products
25 and raising livestock.

26 (v) Transporting for hire.

27 (d) For purposes of this subparagraph:

28 (i) *"Business"* means those businesses conducted for
29 profit, but excludes professions and occupations and nonprofit
30 organizations.

31 (ii) *"Manufacturing"* means those activities commonly
32 understood within the ordinary meaning of the term, and shall
33 include:

34 (A) Refining.

35 (B) Purifying.

1 (C) Combining of different materials.

2 (D) Packing of meats.

3 (E) Activities subsequent to the extractive process of
4 quarrying or mining, such as crushing, washing, sizing, or
5 blending of aggregate materials.

6 (iii) "*Manufacturing*" does not include activities occurring
7 on premises primarily used to make retail sales.

8 (5) "*Processing*" means a series of operations in which
9 materials are manufactured, refined, purified, created,
10 combined, or transformed by a manufacturer, ultimately
11 into tangible personal property. Processing encompasses
12 all activities commencing with the receipt or producing of
13 raw materials by the manufacturer and ending at the point
14 products are delivered for shipment or transferred from the
15 manufacturer. Processing includes but is not limited to
16 refinement or purification of materials; treatment of materials
17 to change their form, context, or condition; maintenance
18 of the quality or integrity of materials, components, or
19 products; maintenance of environmental conditions necessary for
20 materials, components, or products; quality control activities;
21 and construction of packaging and shipping devices, placement
22 into shipping containers or any type of shipping devices or
23 medium, and the movement of materials, components, or products
24 until shipment from the processor.

25 (6) "*Receipt or producing of raw materials*" means activities
26 performed upon tangible personal property only. With respect
27 to raw materials produced from or upon real estate, the receipt
28 or producing of raw materials is deemed to occur immediately
29 following the severance of the raw materials from the real
30 estate.

31 (7) "*Replacement part*" means tangible personal property
32 other than computers, computer peripherals, machinery,
33 equipment, or supplies, regardless of the cost or useful life
34 of the tangible personal property, that meets all of the
35 following conditions:

1 (a) The tangible personal property replaces a component of
2 a computer, computer peripheral, machinery, or equipment, which
3 component is capable of being separated from the computer,
4 computer peripheral, machinery, or equipment.

5 (b) The tangible personal property performs the same or
6 similar function as the component it replaced.

7 (c) The tangible personal property restores the computer,
8 computer peripheral, machinery, or equipment to an operational
9 condition, or upgrades or improves the efficiency of the
10 computer, computer peripheral, machinery, or equipment.

11 (8) "*Supplies*" means tangible personal property, other
12 than computers, computer peripherals, machinery, equipment, or
13 replacement parts, that meets one of the following conditions:

14 (a) The tangible personal property is to be connected to
15 a computer, computer peripheral, machinery, or equipment and
16 requires regular replacement because the property is consumed
17 or deteriorates during use, including but not limited to saw
18 blades, drill bits, filters, and other similar items with a
19 short useful life.

20 (b) The tangible personal property is used in conjunction
21 with a computer, computer peripheral, machinery, or equipment
22 and is specially designed for use in manufacturing specific
23 products and may be used interchangeably and intermittently on
24 a particular computer, computer peripheral, machine, or piece
25 of equipment, including but not limited to jigs, dies, tools,
26 and other similar items.

27 (c) The tangible personal property comes into physical
28 contact with other tangible personal property used in
29 processing and is used to assist with or maintain conditions
30 necessary for processing, including but not limited to cutting
31 fluids, oils, coolants, lubricants, and other similar items
32 with a short useful life.

33 (d) The tangible personal property is directly and
34 primarily used in an activity described in paragraph "a",
35 subparagraphs (1) through (6), including but not limited to

1 prototype materials and testing materials.

2 Sec. 3. RESCISSION OF ADMINISTRATIVE RULES.

3 1. The following Iowa administrative rules are rescinded as
4 of July 1, 2020:

5 a. 701 Iowa administrative code, rule 18.34, subrule 1,
6 paragraph "b", subparagraph (1).

7 b. 701 Iowa administrative code, rule 18.45, subrule 1,
8 definition of "computer".

9 c. 701 Iowa administrative code, rule 18.58, subrule 1,
10 definition of "computer".

11 d. 701 Iowa administrative code, rule 230.14, subrule 2,
12 paragraph "a".

13 2. As soon as practicable after July 1, 2020, the Iowa
14 administrative code editor shall remove the language of the
15 Iowa administrative rules referenced in subsection 1 of this
16 section from the Iowa administrative code.

17 EXPLANATION

18 The inclusion of this explanation does not constitute agreement with
19 the explanation's substance by the members of the general assembly.

20 This bill exempts from the sales and use tax certain sales of
21 computer peripherals. The bill exempts computer peripherals
22 in the same manner as computers are exempted from the sales
23 and use tax, and excludes from the exemption certain computer
24 peripheral sales in the same manner as computers are excluded
25 from the exemption.

26 The bill defines "computer peripheral" to mean an ancillary
27 device connected to the computer digitally, by cable, or by
28 other medium, used to put information into or get information
29 out of a computer.

30 The bill also makes changes to Code section 423.3(47) to
31 enhance the readability of the subsection.

32 By operation of Code section 423.6, an item exempt from the
33 imposition of the sales tax is also exempt from the use tax
34 imposed in Code section 423.5.

35 The bill also rescinds rules of the department of

H.F. _____

1 revenue relating to the definition of computer in the Iowa
2 administrative Code.