
The primary purpose of this rule making is to amend rules that are related to the definition of machinery and equipment for purposes of the manufacturing exemption found in Iowa Code section 423.3(47). This exemption and its related rules have been the subject of substantial confusion and controversy. Most recently, the Department has received a petition for rule making with regard to the exemption. Under the Department’s previous rules, many items that might ordinarily be thought of as machinery and equipment are considered real property and are therefore taxed as building materials, making the items ineligible for the manufacturer’s machinery and equipment exemption under the rules established pursuant to Iowa Code section 423.3(47). The amendments implement a policy that eliminates, to the extent permitted by Iowa Code section 423.3(47), administratively burdensome distinctions that do not reflect modern manufacturing in Iowa.

Notice of Intended Action was published in IAB Vol. XXXVIII, no. 7, p. 487, on September 30, 2015, as ARC 2178C. Amended Notice of Intended Action was published in IAB Vol. XXXVIII, no. 10, p. 780, on November 11, 2015, as ARC 2239C. The Department allowed public comments until 4:30 p.m. on December 1, 2015. The Department held a public hearing on that date. Fifty-one persons signed the attendance sheet for the public hearing, and fourteen persons spoke at the hearing. Of those persons speaking, seven supported the adoption of ARC 2239C, and seven opposed its adoption.

The Department received 16 written public comments regarding these amendments. Of those written comments, 11 supported the adoption of the amendments, and 5 opposed their adoption. The Department has received many questions from local governments about the impact of the amendments on local government funding.

These amendments are identical to those published under Amended Notice.

After analysis and review of this rule making, the Department finds that the changes to the program are likely to have a positive impact on jobs. These amendments expand the number of items that qualify as exempt computers, machinery, or equipment. The Department estimates that, between 2017 and 2021, manufacturers will reduce their sales and use tax burden by $37 million to $41 million annually under the amendments. The Department also estimates that manufacturers will reduce their local option sales tax burden by $5 million to $6 million annually between 2017 and 2021. Reducing the tax burden on business inputs for manufacturers is likely to have a positive impact on jobs.

These amendments are intended to implement Iowa Code sections 423.2(1)“b” and “c,” 423.3(47), and 423.3(48).

These amendments will become effective on February 10, 2016. The following amendments are adopted.

**ITEM 1.** Amend paragraph 15.3(3)“a,” definition of “Fuel consumed in processing,” as follows:

“*Fuel consumed in processing*” includes fuel used in grain drying, or providing heat or cooling for livestock buildings, fuel used for generating electric current, fuel consumed in implements of husbandry engaged in agricultural production, as well as fuel used in “processing” as defined in rules 701—18.29(422,423) and 701—18.58(422,423), and 701—230.15(423). See rule 701—17.2(422) for a detailed description of “fuel used in processing.” See rule 701—17.3(422,423) for extensive discussion regarding electricity and steam used in processing.
ITEM 2. Amend subrule 18.29(7) as follows:

18.29(7) Other department rules concerned with processing. Various sections of the Iowa Code set out activities which are defined by statute to be “processing.” The rules interpreting these statutes for the purposes of sales and use tax law are the following:

a. 701—15.3(422,423) Certificates of resale, processing, and fuel used in processing Exemption certificates, direct pay permits, fuel used in processing, and beer and wine wholesalers.

b. 701—17.2(422) Fuel used in processing—when exempt.

c. 701—17.3(422,423) Electricity, steam, or other taxable services to be used in the processing of tangible personal property intended to be sold ultimately at retail are exempt from sales tax. Processing exemptions.

d. 701—17.9(422,423) Sales of breeding livestock, fowl, and certain other property used in agricultural production. See 701—subrules 17.9(4), 17.9(5), 17.9(6), and 17.9(7) for processing exemptions.

e. 701—17.14(422,423) Chemicals, solvents, sorbents, or reagents used in processing.

f. 701—18.3(422,423) Chemical compounds used to treat water.

g. 701—18.45(422,423) Sale or rental of computers, industrial machinery and equipment; refund of and exemption from tax paid for periods prior to July 1, 1997.

h. 701—18.58(422,423) Sales or rentals of machinery, equipment, and computers and sales of fuel and electricity to manufacturers and sales or rentals of computers to commercial enterprises for periods on and after July 1, 1997, but before July 1, 2016.

i. 701—26.2(422) Enumerated services exempt. See 701—subrule 26.2(2) for the processing exemption.

j. 701—28.2(423) Processing of property defined.

k. 701—33.3(423) Fuel consumed in creating power, heat, or steam for processing or generating electric current.

l. 701—33.7(423) Property used to manufacture certain vehicles to be leased.

m. For property sold as part of a contract entered into on or after July 1, 2016, computers, machinery, and equipment used for an exempt purpose under Iowa Code section 423.3(47). See rules 701—230.14(423) to 701—230.22(423).

ITEM 3. Amend rule 701—18.58(422,423), introductory paragraph, as follows:

701—18.58(422,423) Exempt sales or rentals of computers, industrial machinery and equipment, and exempt sales of fuel and electricity on and after July 1, 1997, but before July 1, 2016. The sale or rental of machinery, equipment, or computers used by a manufacturer in processing; the sale or rental of a computer used in the processing or storage of data or information by an insurance company, financial institution, or commercial enterprise; and the sale or rental of various other types of tangible personal property are, under certain circumstances, exempt from tax as of July 1, 1997, but before July 1, 2016. For sales that occur as part of a contract entered into on or after July 1, 2016, see rules 701—230.14(423) to 701—230.22(423).

ITEM 4. Amend rule 701—219.11(423) as follows:

701—219.11(423) Distinguishing machinery and equipment from real property. A construction contract may include many activities, but it does not include a contract for the sale and installation of machinery or equipment. Machinery and equipment includes property that is tangible personal property when it is purchased and remains tangible personal property after installation. Generally, tangible personal property can be moved without causing damage or injury to itself or to the structure, it does not bear the weight of the structure, and it does not in any other manner constitute an integral part of a structure. Manufactured machinery and equipment which does not become permanently annexed to the realty remains tangible personal property after installation. For exemptions related to the sale of computers, machinery, and equipment if the sale occurs as part of a contract entered into on or after July 1, 2016, see rules 701—230.14(423) to 701—230.22(423).
219.11(1) The following is a list of property which that, under normal conditions, remains tangible personal property after installation. The list is nonexclusive and is offered for illustrative purposes only:

a. Furniture, radio and television sets and antennas, washers and dryers, portable lamps, home freezers, portable appliances and window air-conditioning units.

b. Portable items such as casework, tables, counters, cabinets, lockers, athletic and gymnasium equipment, and other related easily movable property attached to the structure.

c. Machinery, equipment, tools, appliances, and materials used exclusively as such by manufacturers, industrial processors and others performing a processing function with the items, including:

   (1) Computers, machinery, and equipment directly and primarily used in processing by a manufacturer (see rule 701—230.15(423)).

   (2) Computers, machinery, and equipment directly and primarily used to maintain the integrity of the product or to maintain unique environmental conditions required for either the product or the computers, machinery, and equipment used in processing by a manufacturer (see rule 701—230.16(423)).

   (3) Computers, machinery, and equipment directly and primarily used in research and development of new products or processes of processing (see rule 701—230.17(423)).

   (4) Computers used in processing or storage of data or information by an insurance company, financial institution, or commercial enterprise (see rule 701—230.18(423)).

   (5) Computers, machinery, and equipment directly and primarily used in recycling or reprocessing of waste products (see rule 701—230.19(423)).

   (6) Pollution-control equipment used by a manufacturer, including but not limited to that required or certified by an agency of Iowa or the United States government (see rule 701—230.20(423)).

d. Office, bank, and savings and loan association furniture and equipment, including office machines.

e. Radio, television, and cable television station equipment, but not broadcasting towers.

f. Certain equipment used by restaurants and in institutional kitchens; for instance, dishwashers, stainless steel wall cabinets, stainless steel natural gas stoves, stainless steel natural gas convection ovens, and combination ovens and steamers with stands. This paragraph is not applicable to similar items used in residential kitchens. See Petition of Taylor Industries Inc. (Dkt No. 94-30-6-0367, 3-14-95).

219.11(2) The following is a list of property which that, under normal conditions, becomes a part of realty. The list is nonexclusive and is offered for illustrative purposes only:

a. Boilers and furnaces.

b. Built-in household items such as kitchen cabinets, dishwashers, sinks (including faucets), fans, garbage disposals, and incinerators.

c. Buildings, and structural and other improvements to buildings, including awnings, canopies, foundations for machinery, floors (including computer room floors), walls, general wiring and lighting facilities, roofs, stairways, stair lifts, sprinkler systems, storm doors and windows, door controls, air curtains, loading platforms, central air-conditioning units, building elevators, sanitation and plumbing systems, decks, and heating, cooling and ventilation systems.

d. Fixed (year-round) wharves and docks.

e. Improvements to land including patios, retaining walls, roads, walks, bridges, fencing, railway switch tracks, ponds, dams, ditches, wells, underground irrigation systems, drainage, storm and sanitary sewers, and water supply lines for drinking water, sanitary purposes, and fire protection. Reference rule 701—18.35(422,423) See rule 701—226.10(423) relating to drainage tile.

f. Mobile and modular homes installed on foundations.

g. Planted nursery stock.

h. Residential water heaters, water softeners, intercoms, garage door opening equipment, pneumatic tube systems, and music and sound equipment (except portable equipment).

i. Safe deposit boxes, drive-up and walk-up windows, night depository equipment, remote TV auto teller systems, vault doors, and camera security equipment (except portable equipment).
j. Seating in auditoriums and theaters and theater stage lights (except portable seating and lighting).

k. Silos and grain storage bins.

l. Storage tanks constructed on the site.

m. k. Swimming pools (wholly or partially underground (except portable pools)).

m. l. Truck platform scale foundations.

m. m. Walk-in cold storage units that become a component part of a building.

ITEM 5. Amend rule 701—219.12(423) as follows:

701—219.12(423) Tangible personal property which that becomes structures. Items which that are manufactured as tangible personal property can, by their nature, become structures. However, the determination is factual and must be made on an item-by-item basis. For exemptions related to the sale of computers, machinery, and equipment occurring as part of a contract entered into on or after July 1, 2016, see rules 701—230.14(423) to 701—230.22(423). The following is a listing of criteria which that courts have used in making such a determination:

1. The degree of architectural and engineering skills necessary to design and construct the structure.

2. The overall scope of the business and the contractual obligations of the person designing and building the structure.

3. The amount and variety of materials needed to complete the structure, including the identity of materials prior to assembly and the complexity of assembly.

4. The size and weight of the structure.

5. The permanency or degree of annexation of the structure to other real property which would affect its mobility.

6. The cost of building, moving or dismantling the structure.

7. For property sold as part of a contract entered into on or after July 1, 2016, computers, machinery, or equipment used for an exempt purpose under Iowa Code section 423.3(47) remains tangible personal property. See rules 701—230.14(423) to 701—230.22(423).

Example. A farm silo, which is a prefabricated glass-lined structure, is intended to be permanently installed. The prefabricated glass-lined structure is 70 feet high and 20 feet around, weighs 30 tons, and is affixed to a concrete foundation weighing 60 tons which is set in the ground specifically for the purpose of supporting the silo. The assembly kit includes 105 steel sheets and 7000 bolts. The silo can be removed without material injury to the realty or to the unit itself at a cost of $7,000. In view of its massive size, the firm and permanent manner in which it is erected on a most substantial foundation, its purpose and function, the expense and size of the task and the difficulty of removing it, the silo is considered a structure and not machinery or equipment. Wisconsin Department of Revenue v. A. O. Smith Harvestore, 240 N.W.2d 357 (Wisc. 1976).

The above criteria are intended only to be a summation of factors which the department will consider in determining whether or not a project involves construction. The following cases are used as reference material: Wisconsin Department of Revenue v. A. O. Smith Harvestore Products, Inc., 240 N.W.2d 357 (Wisc. 1976); Prairie Tank or Construction Co. v. Department of Revenue, 364 N.W.2d 963 (I.I. 1977); Levine v. State Board of Equalization, 299 P.2d 738 (Calif. 1956); State of Alabama v. Air Conditioning Engineers, Inc., 174 So.2d 315 (Ala. 1965); A. S. Schulman Electric Company v. State Board of Equalization, 122 Cal. Rptr 278 (Calif. 1975); Western Pipeline Constructors, Inc. v. J. M. Dickinson, 310 S.W.2d 455 (Tenn.); and City of Pella Municipal Light Plant, Order of the Director of Revenue, June 16, 1975.

ITEM 6. Amend subrule 219.13(3) as follows:

219.13(3) “On or connected with.” The term “on or connected with” is broad and should be used to convey generally accepted meaning. Therefore, in a specific situation, the facts relating thereto are controlling in determining whether the exemption is applicable. “On or connected with” does not
connote that those things connected have to be primary or subsidiary to the construction, reconstruction, alteration, expansion or remodeling of the real property.

\(a\). \textbf{Incidental relationship.} An incidental relationship can qualify the activity for exemption if the relationship forms an intimate connection with the construction activity. For example, the service of excavating and grading relating to the clearing of land to begin construction of a building would qualify for the exemption; however, excavating and grading land without motive toward construction would not qualify for exemption even though at some later date plans to construct a building were created and a structure was actually erected.

\(b\). \textbf{Proximity in time.} The presence of a time relationship can also be a factor in determining the applicability of exemption. For example, tax would not apply to separate labor charges relating to the installation of production machinery and institutional kitchen equipment in a building while remodeling of the real property was in progress. (Tax could apply to the sales price of the production machinery and equipment; reference rule 701—18.58(422,423) institutional kitchen equipment; see rule 701—230.14(423)). However, if a year after all construction activity has ended, the owner decides to install a piece of production machinery institutional kitchen equipment in the building, any taxable enumerated services relating thereto would be subject to tax. Further, if, following construction, the land is graded for the purpose of seeding a new lawn, the exemption would be applicable. However, if the lawn does not grow and the land is regraded the following year, the exemption would not be applicable. Reference 701—subrule 18.58(5) for the exemption regarding the installation of new industrial machinery and equipment. Therefore, the motive behind the activity and the course of events that could reasonably be expected to occur would be a further consideration in determining if the exemption is applicable.

\(c\). \textbf{Physical proximity.} A physical relationship is also a factor that should be evaluated. If a building is constructed to house machinery, any enumerated services relating to the installation of that machinery would be exempt from tax. For example, piping joining two pieces of equipment housed in separate buildings would qualify for exemption if the equipment in either building was installed while such new construction, reconstruction, alteration, expansion or remodeling to the structure was also taking place to house the equipment.

\(d\). \textbf{Totality of the facts and circumstances.} On the other hand, an incidental relationship, a time relationship, and close physical proximity may not be enough to support the conclusion that a taxable service is performed in connection with new construction or reconstruction. For example, a homeowner hires a general contractor to add a new room to an existing home (which is new construction; see 219.13(2) ‘d’). The existing home is in need of a number of the repairs described in subrule 219.13(1); for example, it is in need of rewiring and replacement of a broken window. The general contractor rewrites the home and repairs the window in addition to building the new room. The taxable services which the general contractor performs while rewiring the home and repairing the window are not performed in connection with the construction of the new room simply because those services happen to be performed at the same time and on the same home as the new construction. If the addition of the new room were the cause of the need for the taxable service (e.g., the window was broken during construction of the new room) and not just a convenient occasion for performance of the service, that performance would be exempt from tax. The department would like to emphasize that facts and motives are important in the determination of the taxability of services relating to construction activities. However, it should also be noted that taxes on enumerated services are applicable to repair or installation work that is not a construction activity. Refer to subrule 219.13(1) relating to persons who make repairs or perform enumerated services for more information.

\textbf{ITEM 7.} Amend rule 701—230.5(423) as follows:

\textbf{701—230.5(423) Exempt sales of gases used in the manufacturing process.} Sales of argon and other similar gases to be used in the manufacturing process are exempt from tax. For the purposes of this rule, only inert gases are gases which that are similar to argon. An “inert gas” is any gas which that is normally chemically inactive. It will not support combustion and cannot be used as either a fuel or as an oxidizer. Argon, helium, neon, krypton, radon, and xenon are inert gases. Oxygen, hydrogen, and
methane are nonexclusive examples of gases which are not inert. These sales are exempt only if the gas is purchased by a “manufacturer,” for use in “processing,” as those terms are defined in subsections 701—18.58(422,423) subrules 230.15(3) and 230.15(4).

This rule is intended to implement Iowa Code section 423.3(51).

ITEM 8. Adopt the following new rule 701—230.14(423):

701—230.14(423) Exemption for the sale of computers, machinery, and equipment, including replacement parts, and materials used to construct or self-construct computers, machinery, and equipment used for certain manufacturing purposes if the sale occurs as part of a contract entered into on or after July 1, 2016. Rules 701—230.14(423) to 701—230.20(423) exempt the sales price of computers, machinery, and equipment used in an exempt manufacturing purpose. Rule 701—230.21(423) exempts the purchase of fuel used in such machinery and equipment. Rule 701—230.22(423) exempts the service of designing or installing such machinery and equipment. Rules 701—230.14(423) to 701—230.22(423) apply to sales of such products occurring as part of a contract entered into on or after July 1, 2016. For sales occurring as part of a contract entered into prior to July 1, 2016, see rule 701—18.58(422,423). A sale occurs as part of a contract entered into prior to July 1, 2016, if the purchaser enters into a contract with a retailer to purchase the product and the contract date is prior to July 1, 2016, or if the purchaser enters into a contract with a contractor, subcontractor, or builder to construct or assemble the property and the contract date is prior to July 1, 2016.

230.14(1) Generally. The sales price of computers, machinery, and equipment, including replacement parts, and materials used to construct or self-construct computers, machinery, and equipment is exempt from sales and use tax if the property is any of the following:

a. Directly and primarily used in processing by a manufacturer (see rule 701—230.15(423)).

b. Directly and primarily used to maintain the integrity of the product or to maintain unique environmental conditions required for either the product or the computers, machinery, and equipment used in processing by a manufacturer, including test equipment used to control quality and specifications of the product (see rule 701—230.16(423)).

c. Directly and primarily used in research and development of new products or processes of processing (see rule 701—230.17(423)).

d. Computers used in processing or storage of data or information by an insurance company, financial institution, or commercial enterprise (see rule 701—230.18(423)).

e. Directly and primarily used in recycling or reprocessing of waste products (see rule 701—230.19(423)).

f. Pollution-control equipment used by a manufacturer, including but not limited to that required or certified by an agency of this state or of the United States government (see rule 701—230.20(423)).

g. Fuel used in creating heat, power, steam, or for generating electrical current, or from the sale of electricity, consumed by computers, machinery, or equipment used in an exempt manner described in paragraph “a,” “b,” “c,” “e,” or “f” (see rule 701—230.21(423)).

230.14(2) Computers, machinery, and equipment, including replacement parts, and materials used to construct or self-construct computers, machinery, and equipment.

a. Computers. A “computer” is an electronic device that accepts information in digital or similar form and manipulates the information for a result based on a sequence of instructions. A computer includes all devices fastened to it by means of signal cables or any communication medium that serves the function of a signal cable. Nonexclusive examples of devices fastened by a signal cable or other communication medium are terminals, printers, display units, card readers, tape readers, document sorters, optical readers, and card or tape punchers. A computer also includes any operating system or executive program, but not application software, purchased as part of the sale of the computer for which the operating system or executive program operates. For purposes of this paragraph, “operating system or executive program” means computer software that is fundamental and necessary to the functioning of a computer. The operating system or executive program controls the operation of a computer by managing the allocation of all system resources, including the central processing unit, main and secondary storage, input/output devices, and the processing of programs. This is in contrast to
application software, which is a collection of one or more programs used to develop and implement the specific applications that the computer is to perform and which calls upon the services of the operating system or executive program. Application software, or an operating system or executive program priced separately or sold at a later time from the computer for which the operating system or executive program operates, may be taxable as “prewritten computer software.” See rule 701—211.1(423).

b. Machinery. “Machinery” is any mechanical, electrical, or electronic device designed and used to perform some function and to produce a certain effect or result. Machinery also includes all devices used or required to control, regulate, or operate a piece of machinery, provided such devices are directly connected with or are an integral part of the machinery and are used primarily for control, regulation, or operation of machinery. Jigs, dies, tools, and other devices necessary to the operation of or used in conjunction with the operation of what would be ordinarily thought of as machinery are also considered to be machinery. All property that is in the nature of machinery (other than structural components of a building or other inherently permanent structure) is considered tangible personal property even if located outside of a building. A structure that is essentially machinery remains tangible personal property for purposes of this paragraph. For more information on distinguishing machinery from buildings and other constructed realty, see subparagraph 230.14(2)”f”(1).

c. Equipment. In general usage, “equipment” refers to devices or tools used to produce a final product or achieve a given result. Equipment includes supplies that do not qualify as “replacement parts,” such as drill bits, grinding wheels, punches, taps, reamers, saw blades, lubricants, coolants, sanding discs, sanding belts, and air filters. All property that is in the nature of equipment (other than structural components of a building or other inherently permanent structure) is considered tangible personal property even if located outside of a building. A structure that is essentially equipment may remain tangible personal property for purposes of this paragraph. For more information on distinguishing equipment from buildings and other constructed realty, see subparagraph 230.14(2)”f”(1).

d. Replacement parts. “Replacement part” means tangible personal property other than computers, machinery, or equipment, regardless of the cost or useful life of such tangible personal property. A replacement part can be separated from the computer, machinery, or equipment. A “replacement part” is a part or component of a computer, machinery, or equipment that came with the original item purchased or has been added over time to improve or restore the computer, machinery, or equipment.

e. Materials used to construct or self-construct computers, machinery, and equipment. “Materials used to construct or self-construct computers, machinery, and equipment” means tangible personal property that is incorporated into a computer, machinery, or equipment when the computer, machinery, or equipment is constructed or assembled. Materials used to construct a structure that is essentially machinery or equipment are exempt from sales and use tax so long as the machinery or equipment is used in an exempt manner under rules 701—230.14(423) to 701—230.20(423).

f. Exclusions. Sales of the following property, or materials used to construct or self-construct the following property, are not exempt under rules 701—230.14(423) to 701—230.20(423) regardless of how the property is used.

(1) Constructed realty.

1. Generally. Iowa Code section 423.2(1)”b” and “c” imposes sales and use tax upon building materials, supplies, and equipment used for the erection of buildings or other realty. However, Iowa Code section 423.3(47) exempts from sales and use tax certain computers, machinery, and equipment as well as items used to construct or self-construct certain computers, machinery, and equipment. Determining whether constructed items are realty or exempt computers, machinery, or equipment under Iowa Code section 423.3(47) ultimately depends on the use of the items. In general, exempt computers, machinery, and equipment under Iowa Code section 423.3(47) are tangible personal property when purchased, and they remain tangible personal property after installation. Materials used to construct realty remain taxable when purchased by the contractor, subcontractor, or builder under Iowa Code section 423.2(1)”b” and “c.” For more information about sales and use tax on construction activities, see 701—Chapter 219.
2. Distinguishing constructed realty from tangible personal property. For purposes of rules 701—230.14(423) to 701—230.22(423), an item remains tangible personal property after installation if all of the following apply:
   - The item can be removed without causing material damage or injury to the item or to the building that houses it or the real property upon which it is located;
   - The item does not bear the weight of a building or other realty;
   - The item does not in any other manner constitute an integral part of a building or other realty; and
   - The item is used in an exempt manner under rules 701—230.14(423) to 701—230.20(423).

3. Buildings. Buildings are constructed realty. A “building” is any structure or edifice enclosing a space within its walls, and usually covered by a roof, the purpose of which is, for example, to provide shelter or housing for machinery or equipment or to provide working, office, parking, display, or sales space. Materials used to construct a building or any other realty are not exempt under rules 701—230.14(423) to 701—230.20(423), even if the realty is specially designed to house exempt computers, machinery, or equipment.

4. Examples.
   - Property that, under normal conditions, remains tangible personal property after installation for purposes of rules 701—230.14(423) to 701—230.22(423) includes, but is not limited to:
     - Storage tanks that rest upon a foundation and are secured with bolts.
     - Industrial piping systems directly and primarily used in processing.
     - Cooling towers directly and primarily used in processing.
     - Structural steel, if exposed and used to support other computers, machinery, or equipment.
   - Property that, under normal conditions, becomes constructed realty after installation for purposes of rules 701—230.14(423) to 701—230.22(423) includes, but is not limited to:
     - Underground storage tanks constructed on site.
     - Foundations made of concrete or other materials, regardless of whether they are used exclusively as platforms for machinery and equipment.
     - Cooling towers primarily used to cool a building or other constructed realty.
     - Structural steel, if used to construct a building or other constructed realty.

5. Point-of-sale equipment and computers. “Point-of-sale equipment and computers” means input, output, and processing equipment used to consummate a sale and to record or process information pertaining to a sale transaction at the time the sale takes place and is located at the counter, desk, or other specific point where the transaction occurs.

6. Certain centrally assessed industrial machinery, equipment, and computers. Property that is centrally assessed by the department of revenue under Iowa Code sections 428.24 to 428.29 or chapters 433, 434, 437, 437A, 437B, and 438 does not qualify for exemption under rules 701—230.14(423) to 701—230.20(423). Property used but not owned by persons whose property is defined by such provisions of the Iowa Code, which would be assessed by the department of revenue if the persons owned the property, also does not qualify for exemption under rules 701—230.14(423) to 701—230.20(423).

7. Vehicles subject to registration. The general sales and use tax does not apply to vehicles subject to registration under Iowa Code chapter 321. Instead, such vehicles are subject to the fee for new registration under Iowa Code section 321.105A. Vehicles subject to registration are not exempt from the fee for new registration under rules 701—230.14(423) to 701—230.20(423), unless the vehicle is directly and primarily used in recycling or reprocessing of waste products (see rule 701—230.19(423)).

   g. Examples. When used for an exempt purpose under rules 701—230.14(423) to 701—230.20(423), the following items may be exempt computers, machinery, or equipment. This list is not all-inclusive.
   
   (1) Coolers, including coolers that do not change the nature of materials stored in them.
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230.15(3);
Primarily used (see subrule 230.15(2));
Used in processing (see subrule 230.15(3)); and
Used by a manufacturer (see subrule 230.15(4)).
230.15(2) Directly and primarily used.
a. Directly used.
(1) Generally. Property is “directly used” only if it is used to initiate, sustain, or terminate an exempt activity. In determining whether any property is “directly used,” consideration should be given to the following factors:
1. The physical proximity of the property to the exempt activity;
2. The temporal proximity of the use of the property to the use of other property that is directly used in the exempt activity; and
3. The active causal relationship between the use of the property and the exempt activity. The fact that a particular piece of property may be essential to the conduct of the activity because its use is required either by law or practical necessity does not, of itself, mean that the property is directly used.
(2) Examples. The following property typically is not directly used in an exempt manner:
1. Property used exclusively for the comfort of workers, such as air cooling, air conditioning, or ventilation systems.
2. Property used in support operations, such as a machine shop, where production machinery is assembled, maintained, or repaired.
3. Property used by administrative, accounting, or personnel departments.
4. Property used by security, fire prevention, first aid, or hospital stations.
5. Property used in communications or safety.

230.14(3) Leased and rented property. The exemptions under rules 701—230.14(423) to 701—230.22(423) apply to property regardless of how it is sold, including leased or rented property. The lease of computers, machinery, or equipment may be exempt from sales and use tax if the lessee uses the property in an exempt manner under rules 701—230.14(423) to 701—230.20(423). Additionally, a lessor’s purchase of computers, machinery, or equipment for lease may be an exempt sale for resale under Iowa Code section 423.3(2).

ITEM 9. Adopt the following new rule 701—230.15(423):

701—230.15(423) Exemption for the sale of property directly and primarily used in processing by a manufacturer if the sale occurs as part of a contract entered into on or after July 1, 2016. The sales price of computers, machinery, and equipment, including replacement parts, and materials used to construct or self-construct computers, machinery, and equipment is exempt from sales and use tax when the property is directly and primarily used in processing by a manufacturer. For sales occurring as part of a contract entered into prior to July 1, 2016, see rule 701—18.58(422,423).

230.15(1) Required elements. To qualify for exemption under this rule, the purchaser must prove the property is:

a. Computers, machinery, or equipment, including replacement parts, or materials used to construct or self-construct computers, machinery, or equipment (see subrule 230.14(2));
   b. Directly used (see subrule 230.15(2));
   c. Primarily used (see subrule 230.15(2));
   d. Used in processing (see subrule 230.15(3)); and
   e. Used by a manufacturer (see subrule 230.15(4)).
b. **Primarily used.** The primary use of property is the activity or activities for which the property is used more than half of the time.

230.15(3) Processing.

a. **Generally.** “Processing” means a series of operations in which materials are manufactured, refined, purified, created, combined, transformed, or stored by a manufacturer, ultimately into tangible personal property. Processing encompasses all activities commencing with the receipt or producing of raw materials by the manufacturer and ending at the point products are delivered for shipment or transferred from the manufacturer. Processing includes, but is not limited to, refinement or purification of materials; treatment of materials to change their form, context, or condition; maintenance of the quality or integrity of materials, components, or products; maintenance of environmental conditions necessary for materials, components, or products; quality control activities; construction of packaging and shipping devices; placement into shipping containers or any type of shipping device or medium; and the movement of materials, components, or products until shipment from the processor. “Receipt or producing of raw materials” means activities performed upon tangible personal property only. With respect to raw materials produced from or upon real estate, “production of raw materials” is deemed to occur immediately following the severance of the raw materials from the real estate.

b. **The beginning of processing.** Processing begins with a processor’s receipt or production of raw material. Thus, when a processor produces its own raw material, it is engaged in processing. Processing also begins when a supplier transfers possession of raw materials to a processor.

c. **The completion of processing.** Processing ends when the finished product is transferred from the processor or delivered for shipment by the processor. Therefore, a processor’s packaging, storage, and transport of a finished product after the product is in the form in which it will be sold at retail are part of the processing of the product.

d. **Examples of the beginning, intervening steps, and the ending of processing.** Of the following, Examples A and B illustrate when processing begins under various circumstances; Example C demonstrates the middle stages of processing; and Example D demonstrates when the end of processing takes place.

**EXAMPLE A:** Company A manufactures fine furniture. Company A owns a grove of walnut trees that it uses as raw material. Company A’s employees cut the trees, transport the logs to Company A’s facility, store the logs in a warehouse to begin the curing process, and eventually take the logs to Company A’s sawmill. The walnut trees are real property while they are growing. Thus, no “production of raw materials” has occurred with regard to the trees until they have been severed from the soil and transformed into logs. Processing of the logs begins when they are placed on vehicles for transport to Company A’s factory. However, if the transport vehicles are “vehicles subject to registration,” they are not exempt from the fee for new registration under this rule (see subparagraph 230.14(2) “f”(7)).

**EXAMPLE B:** Company A from the previous example also buys mahogany logs from a supplier in Honduras. Company A uses its equipment to offload the logs from railroad cars at its facility. Company A then stores and saws the logs as previously described in Example A. Processing begins when Company A offloads the logs from the railroad cars.

**EXAMPLE C:** Company C is a microbrewery. It uses a variety of kettles, vats, tanks, tubs, and other containers to mix, cook, ferment, settle, age, and store the beer it brews. Company C also uses a variety of pipes and pumps to move the beer among the various containers involved in the activity of brewing. All stages of this brewing are part of processing, including fermentation or aging (the transformation of the raw materials from one state to another) as well as the storage of hops in a bin and the storage of beer prior to bottling (the holding of materials in an existing state). Any movement of the product between containers is also a part of processing.

**EXAMPLE D:** After the brewing process is complete, Company C places its beer in various containers, stores the beer, and moves the beer to Company C’s customers by a common carrier that picks up the beer at Company C’s facility. Company C’s activities of placing the beer into bottles, cans, and kegs, storing it after packaging, and moving the beer by use of a forklift to the common carrier’s pickup site are part of processing.
230.15(4) Manufacturer:

a. Generally. “Manufacturer” means a person that purchases, receives, or holds personal property of any description for the purpose of adding to its value by a process of manufacturing, refining, purifying, or combining of different materials, or by the packing of meats, with a view to selling the property for gain or profit, but also includes contract manufacturers. A “contract manufacturer” is a manufacturer that otherwise falls within the definition of manufacturer, except that a contract manufacturer does not sell the tangible personal property the contract manufacturer processes on behalf of other manufacturers. A business engaged in activities subsequent to the extractive process of quarrying or mining, such as crushing, washing, sizing, or blending of aggregate materials, is a manufacturer with respect to these activities. A person does not need to be primarily engaged in an activity listed in this subrule in order to qualify as a manufacturer for purposes of this rule.

b. Nonexclusive examples. Those who are in the business of printing, newspaper publication, bookbinding, lumber milling, and production of drugs and agricultural supplies are illustrative, nonexclusive examples of manufacturers. Construction contracting; repairing of tangible personal property (such as automobile engines); provision of health care; farming; transportation for hire; and the activities of restaurateurs, hospitals, medical doctors, and those who merely process data are illustrative, nonexclusive examples of businesses that ordinarily are not manufacturers.

   EXAMPLE A: Company A owns and operates a gravel pit. Company A sells the gravel extracted from the pit to others who use the gravel for surfacing roads and as an ingredient in concrete manufacture. Company A removes overlay and raw gravel from the pit and then transports the gravel to a plant where washing and sizing of the gravel take place. Company A is a manufacturer, but only with respect to those activities that occur after it extracts the gravel from the ground.

   EXAMPLE B: Company B owns a manufacturing plant. Company B also owns a machine shop where it uses a metal press machine to fabricate patterns. All of these patterns are used in Company B’s manufacturing plant as part of processing, and the metal press machine is used solely to fabricate these patterns. The sales price of the metal press machine is not exempt from sales and use tax under this rule because Company B does not use the metal press machine to manufacture a product for sale at a gain or profit. However, the computers, machinery, and equipment in Company B’s manufacturing plant may be exempt if they are directly and primarily used in processing.

   This rule is intended to implement Iowa Code section 423.3(47) “a”(1).

   ITEM 10. Adopt the following new rule 701—230.16(423):

701—230.16(423) Exemption for the sale of property directly and primarily used by a manufacturer to maintain integrity or unique environmental conditions if the sale occurs as part of a contract entered into on or after July 1, 2016. The sales price of computers, machinery, and equipment, including replacement parts, and materials used to construct or self-construct computers, machinery, and equipment is exempt from sales and use tax when the property is directly and primarily used to maintain the integrity of the product or to maintain unique environmental conditions required for either the product or the computers, machinery, and equipment used in processing by a manufacturer, including test equipment used to control quality and specifications of the product. For sales occurring as part of a contract entered into prior to July 1, 2016, see rule 701—18.58(422,423).

   230.16(1) Required elements. To qualify for exemption under this rule, the purchaser must prove the property is:

   a. Computers, machinery, or equipment, including replacement parts, or materials used to construct or self-construct computers, machinery, and equipment (see subrule 230.14(2));

   b. Directly used (see subrule 230.15(2));

   c. Primarily used (see subrule 230.15(2));

   d. Used by a manufacturer (see subrule 230.15(4)); and

   e. Used to maintain:

      (1) A manufactured product’s integrity;

      (2) Unique environmental conditions required for a manufactured product; or
(3) Unique environmental conditions required for other computers, machinery, or equipment directly and primarily used in processing by a manufacturer.

230.16(2) Example of property directly and primarily used to maintain integrity or unique environmental conditions. A manufacturer purchases a cooling tower to directly and primarily maintain the proper temperature of its machinery and equipment. The manufacturer uses such machinery and equipment directly and primarily in processing. Because the cooling tower maintains the environmental conditions necessary for machinery and equipment that is directly and primarily used in processing, the cooling tower and materials used to construct or self-construct the cooling tower are exempt from sales and use tax under this rule.

This rule is intended to implement Iowa Code section 423.3(47)“a”(2).

ITEM 11. Adopt the following new rule 701—230.17(423):

701—230.17(423) Exemption for the sale of property directly and primarily used in research and development of new products or processes of processing if the sale occurs as part of a contract entered into on or after July 1, 2016. The sales price of computers, machinery, and equipment, including replacement parts, and materials used to construct or self-construct computers, machinery, and equipment is exempt from sales and use tax when the property is directly and primarily used in research and development of new products or processes of processing. For sales occurring as part of a contract entered into prior to July 1, 2016, see rule 701—18.58(422,423).

230.17(1) Required elements. To qualify for exemption under this rule, the purchaser must prove the property is:

a. Computers, machinery, or equipment, including replacement parts, or materials used to construct or self-construct computers, machinery, and equipment (see subrule 230.14(2));

b. Directly used (see subrules 230.15(2) and 230.17(3));

c. Primarily used (see subrule 230.15(2)); and

d. Used in research and development (see subrule 230.17(2)) of:

   (1) New products; or

   (2) Processes of processing.

230.17(2) “Research and development” means experimental or laboratory activity that has as its ultimate goal the development of new products or processes of processing.

230.17(3) Property is used “directly” in research and development only if it is used in actual experimental or laboratory activity that qualifies as research and development under this rule.

230.17(4) Example of property directly and primarily used in research and development of new products or processes of processing. A hybrid seed producer maintains a research and development laboratory for use in developing new varieties of corn seed. The hybrid seed producer purchases the following items for use in its research and development laboratory: a laboratory computer for processing data related to the genetic structure of various corn plants, an electron microscope for examining the structure of corn plant genes, a steam cleaner for cleaning rugs in the laboratory offices, and a desktop computer for use by the laboratory receptionist. The laboratory computer and the microscope are “directly” used in the research in which the laboratory is engaged; the steam cleaner and the receptionist’s computer are not directly used in research. Therefore, the sales prices of the laboratory computer and the microscope are exempt from sales and use tax. The sales prices of the steam cleaner and the receptionist’s computer are not exempt from tax under this rule.

This rule is intended to implement Iowa Code section 423.3(47)“a”(3).

ITEM 12. Adopt the following new rule 701—230.18(423):

701—230.18(423) Exemption for the sale of computers used in processing or storage of data or information by an insurance company, financial institution, or commercial enterprise if the sale occurs as part of a contract entered into on or after July 1, 2016. The sales price of computers is exempt from sales tax when the computers are used in processing or storage of data or information by
an insurance company, financial institution, or commercial enterprise. For sales occurring as part of a contract entered into prior to July 1, 2016, see rule 701—18.58(422,423).

230.18(1) Required elements. To qualify for exemption under this rule, the purchaser must prove the property is:

   a. Computers (see paragraph 230.14(2)“a”);
   b. Used in processing or storage of data or information (see subrule 230.18(2)); and
   c. Used by:
      (1) An insurance company (see subrule 230.18(3));
      (2) A financial institution (see subrule 230.18(3)); or
      (3) A commercial enterprise (see subrule 230.18(3)).

230.18(2) Processing or storage of data or information. All computers store and process information. However, only if the “final output” for a user or consumer is stored or processed data will the computer be eligible for exemption from tax under this rule.

230.18(3) Insurance company, financial institution, or commercial enterprise.

   a. Insurance company. An insurance company is an insurer organized or operating under Iowa Code chapter 508, 514, 515, 518, 518A, 519, or 520 or an insurer authorized to do business in Iowa as an insurer or as a licensed insurance producer under Iowa Code chapter 522B. Excluded from the definition of “insurance company” are benevolent associations governed by Iowa Code chapter 512A, fraternal benefit societies governed by Iowa Code chapter 512B, and health maintenance organizations governed by Iowa Code chapter 514B. This list of exclusions is not intended to be exclusive.

   b. Financial institution. A financial institution is any bank incorporated under the provisions of any state or federal law, any savings and loan association incorporated under the provisions of federal law, any credit union organized under the provisions of any state or federal law, any corporation licensed as an industrial loan company under Iowa Code chapter 536A, and any affiliate of a bank, savings and loan association, credit union, or industrial loan company.

   c. Commercial enterprise. A commercial enterprise is a business or manufacturer conducted for profit, other than an insurance company or financial institution. “Commercial enterprise” includes centers for data processing services to insurance companies, financial institutions, businesses, and manufacturers, but excludes professions and occupations as well as nonprofit organizations. A hospital that is a not-for-profit organization is not a commercial enterprise. The term “profession” means a vocation or employment requiring specialized knowledge and often long and intensive academic preparation. The term “occupation” means the principal business of an individual, such as the business of farming. A professional entity that carries on any profession or occupation, such as an accounting firm, is not a commercial enterprise.

230.18(4) Examples of computers used in processing or storage of data or information by an insurance company, financial institution, or commercial enterprise. A health insurance company has four computers. Computer A is used to monitor the temperature within the insurance company’s building. Computer A transmits messages to the building’s heating and cooling systems, which tell the systems when to raise or lower the level of heating or air conditioning. Computer B is used to store patient records and to recall those records on demand. Computer C is used to tabulate statistics regarding the amount of premiums paid in and the amount of benefits paid out for various classes of insured. Computer D is used to train the insurance company’s employees to perform various additional tasks or to better perform work the employees can already do. Computer D uses various canned programs to accomplish this function. The final output of Computer A is neither stored nor processed information. Therefore, Computer A does not meet the definition of an exempt computer. The final output of Computer B is stored information. The final output of Computer C is processed information. The final output of Computer D is processed information consisting of the training exercises appearing on the computer monitor. The sales prices of Computers B, C, and D are exempt from sales and use tax as computers used in processing or storage of data or information by an insurance company.

This rule is intended to implement Iowa Code section 423.3(47)“a”(4).
ITEM 13. Adopt the following new rule 701—230.19(423):

701—230.19(423) Exemption for the sale of property directly and primarily used in recycling or reprocessing of waste products if the sale occurs as part of a contract entered into on or after July 1, 2016. The sales price of computers, machinery, and equipment, including replacement parts, and materials used to construct or self-construct computers, machinery, and equipment is exempt from sales and use tax when the property is directly and primarily used in recycling or reprocessing of waste products. For sales occurring as part of a contract entered into prior to July 1, 2016, see rule 701—18.58(422,423).

230.19(1) Required elements. To qualify for exemption under this rule, the purchaser must prove the property is:

a. Computers, machinery, or equipment, including replacement parts, or materials used to construct or self-construct computers, machinery, and equipment (see subrule 230.14(2));

b. Directly used (see subrule 230.15(2));

c. Primarily used (see subrule 230.15(2)); and

d. Used in:

(1) Recycling of waste products (see subrule 230.19(2)); or

(2) Reprocessing of waste products (see subrule 230.19(2)).

230.19(2) Recycling and reprocessing.

a. “Recycling” is any process by which waste or materials that would otherwise become waste are collected, separated, or processed and revised or returned for use in the form of raw materials or products. Recycling includes, but is not limited to, the composting of yard waste that has been previously separated from other waste. Recycling does not include any form of energy recovery.

b. “Reprocessing” is not a subcategory of processing. Reprocessing of waste products is an activity separate and independent from the processing of tangible personal property.

c. Recycling or reprocessing generally begins when the waste products are collected or separated. Recycling or reprocessing generally ends when waste products are in the form of raw material or another non-waste product. Activities that occur between these two points and are an integral part of recycling or processing qualify as recycling or reprocessing.

230.19(3) Examples.

a. Computers, machinery, and equipment that may be exempt from sales and use tax under this rule include, but are not limited to, compactors, balers, crushers, grinders, cutters, and shears if directly and primarily used in recycling or reprocessing.

b. End loaders, forklifts, trucks, conveyor systems, and other moving devices directly and primarily used in the movement of waste products during recycling or reprocessing may be exempt from sales and use tax under this rule.

c. A bin or other container used to store waste products before collection for recycling or reprocessing is not directly and primarily used in recycling or reprocessing, and its sales price is not exempt from sales and use tax under this rule.

d. A vehicle used directly and primarily for collecting waste products for recycling or reprocessing could be a vehicle used for an exempt purpose under this rule, and such a vehicle could be exempt from the fee for new registration. Thus, a garbage truck could qualify for this exemption if the truck is directly and primarily used in recycling; however, a garbage truck primarily used to haul garbage to a landfill does not qualify for exemption under this rule.

EXAMPLE A: Company A recycles household waste. Company A uses several machines in its facility to separate waste products into recyclable and nonrecyclable materials and to further separate the recyclable materials into paper, plastic, or glass. The sales prices of all separating machines are exempt from sales and use tax as machines directly and primarily used in recycling of waste products.

EXAMPLE B: Company B uses grinding machines to convert logs, stumps, pallets, crates, and other waste wood into wood chips. Company B then uses its trucks to deliver the wood chips to local purchasers. The sales prices of the grinding machines are exempt from sales and use tax as machines directly and primarily used in recycling or reprocessing of waste products. The trucks used to transport
the wood chips are not used in recycling or reprocessing because the wood chips are in their final form when loaded onto the trucks.

This rule is intended to implement Iowa Code section 423.3(47) “a”(5).

ITEM 14. Adopt the following new rule 701—230.20(423):

701—230.20(423) Exemption for the sale of pollution control equipment used by a manufacturer if the sale occurs as part of a contract entered into on or after July 1, 2016. The sales price of pollution control equipment, including but not limited to equipment required or certified by an agency of Iowa or of the United States government, is exempt from sales and use tax when the property is used by a manufacturer. For sales occurring as part of a contract entered into prior to July 1, 2016, see rule 701—18.58(422,423).

230.20(1) Required elements. To qualify for exemption under this rule, the purchaser must prove the property is:

a. Pollution control equipment (See subrule 230.20(2)); and
b. Used by a manufacturer (See subrule 230.15(4)).

230.20(2) “Pollution control equipment” is any disposal system or apparatus used or placed in operation primarily for the purpose of reducing, controlling, or eliminating air or water pollution. Pollution control equipment does not include any apparatus used to eliminate noise pollution. Liquid, solid, and gaseous wastes are included within the meaning of the word “pollution.” Pollution control equipment specifically includes, but is not limited to, any equipment the use of which is required or certified by an agency of this state or of the United States government. Wastewater treatment equipment, dust mitigation systems, and scrubbers used in smokestacks are examples of pollution control equipment. However, pollution control equipment does not include any equipment used only for worker safety, such as a gas mask.

EXAMPLE: A manufacturer constructs a wastewater treatment facility to treat wastewater from its manufacturing facility. The wastewater treatment facility uses aboveground piping and other equipment to divert wastewater from the local water treatment plant. The facility then converts wastewater into a biogas, which the manufacturer uses as an energy source in its manufacturing facility. The equipment used for the wastewater treatment facility is pollution control equipment used by a manufacturer. The sales price of the equipment is exempt from sales and use tax.

This rule is intended to implement Iowa Code section 423.3(47) “a”(6).

ITEM 15. Adopt the following new rule 701—230.21(423):

701—230.21(423) Exemption for the sale of fuel or electricity used in exempt property if the sale occurs as part of a contract entered into on or after July 1, 2016. The sales price of fuel or electricity consumed by property that is exempt from sales and use tax under rule 701—230.14(423), 701—230.15(423), 701—230.16(423), 701—230.17(423), 701—230.19(423), or 701—230.20(423) is also exempt from sales and use tax. The sales price of electricity or other fuel consumed by computers used in processing or storage of data or information by an insurance company, financial institution, or commercial enterprise remains subject to tax even if such computers are exempt under rule 701—230.18(423). For sales occurring as part of a contract entered into prior to July 1, 2016, see rule 701—18.58(422,423).

EXAMPLE: A manufacturer operates a power plant. The manufacturer uses energy from the power plant to operate machinery and equipment used directly and primarily in processing at its manufacturing facility. The fuel consumed in the manufacturer’s power plant is exempt from sales and use tax.

This rule is intended to implement Iowa Code section 423.3(47) “b.”

ITEM 16. Adopt the following new rule 701—230.22(423):

701—230.22(423) Exemption for the sale of services for designing or installing new industrial machinery or equipment if the sale occurs as part of a contract entered into on or after July 1, 2016. The sales price from the services of designing or installing new industrial machinery or equipment
is exempt from sales and use tax. The enumerated services of electrical or electronic installation are included in this exemption.

230.22(1) Required elements. To qualify for the exemption, the purchaser must prove the service is:

a. A design or installation service (see subrule 230.22(2));
b. Of new (see subrule 230.22(3)); and
c. Industrial machinery or equipment (see subrule 230.22(4)).

230.22(2) Design or installation services include electrical and electronic installation. “Design or installation” services do not include any repair service.

230.22(3) “New” means never having been used or consumed by anyone. The exemption does not apply to design or installation services on reconstructed, rebuilt, repaired, or previously owned machinery or equipment.

230.22(4) Industrial machinery or equipment.

a. Generally. “Industrial machinery or equipment” means machinery or equipment, as defined in subrule 230.14(2). The sale of industrial machinery or equipment must also qualify for exemption under any of the following:

1. Property used directly and primarily in processing by a manufacturer (see rule 701—230.15(423)).
2. Property used directly and primarily by a manufacturer to maintain the integrity of the manufacturer’s product or to maintain unique environmental conditions for computers, machinery, or equipment (see rule 701—230.16(423)).
3. Property used directly and primarily in research and development of new products or processes of processing (see rule 701—230.17(423)).
4. Property used directly and primarily in recycling or reprocessing of waste products (see rule 701—230.19(423)).
5. Pollution control equipment used by a manufacturer (see rule 701—230.20(423)).

b. Exclusions. The following property is not industrial machinery or equipment regardless of how the purchaser uses it:

1. Computers (see paragraph 230.14(2) “a”).
2. Supplies, including but not limited to drill bits, grinding wheels, punches, taps, reamers, saw blades, lubricants, coolants, sanding discs, sanding belts, and air filters.
3. Replacement parts (see paragraph 230.14(2) “d”).

230.22(5) Billing. The sales price for designing or installing new industrial machinery or equipment must be separately identified, charged separately, and reasonable in amount for the exemption to apply. The exemption applies to new industrial machinery or equipment regardless of how it is purchased, including leased or rented machinery or equipment.

EXAMPLE: Dealer sells and installs two new machines for Manufacturer. Manufacturer uses one machine on its production floor, where it is directly and primarily used in processing. Manufacturer uses the other machine in its machine shop, where it is not directly and primarily used in processing. Dealer gives an invoice to Manufacturer that separately itemizes the sales prices for each machine and each installation. The machine used on the production floor is new industrial machinery or equipment, and the sales prices of the machine and its installation are exempt from sales and use tax. The machine used in the machine shop is not new industrial machinery or equipment, and the sales prices of the machine and its installation are taxable.

This rule is intended to implement Iowa Code section 423.3(48).

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