

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).