701—215.14(423) Exemption for the sale of computers, computer peripherals, machinery, equipment, replacement parts, supplies, and materials used to construct or self-construct computers, computer peripherals, machinery, equipment, replacement parts, and supplies used for certain manufacturing purposes. The sales price of computers, computer peripherals, machinery, equipment, replacement parts, supplies, and materials used to construct or self-construct computers, computer peripherals, machinery, equipment, replacement parts, and supplies is exempt when used for an exempt manufacturing purpose. Rule 701—215.21(423) exempts the purchase of fuel used in such computers, computer peripherals, machinery, and equipment. Rule 701—215.22(423) exempts the service of designing or installing new industrial machinery and equipment.

215.14(1) *Generally.* The sales price of computers, computer peripherals, machinery, equipment, replacement parts, supplies, and materials used to construct or self-construct computers, computer peripherals, machinery, equipment, replacement parts, and supplies 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 (as described in rule 701—215.15(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, computer peripherals, machinery, and equipment used in processing by a manufacturer, including test equipment used to control quality and specifications of the product (as described in rule 701—215.16(423)).

c. Directly and primarily used in research and development of new products or processes of processing (as described in rule 701—215.17(423)).

d. Directly and primarily used in recycling or reprocessing of waste products (as described in rule 701—215.19(423)).

e. 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 (as described in rule 701—215.20(423)).

f. Fuel used in creating heat, power, steam, or for generating electrical current, or from the sale of electricity, consumed by computers, computer peripherals, machinery, or equipment used in an exempt manner described in paragraphs 215.14(1)*"a"* through *"e"* (as described in rule 701—215.21(423)).

215.14(2) *Computers, computer peripherals, machinery, equipment, replacement parts, supplies, and materials used to construct or self-construct computers, computer peripherals, machinery, equipment, replacement parts, and supplies.*

a. *Computers and computer peripherals.* "Computer" and "computer peripheral" mean the same as defined in Iowa Code section 423.1.

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. The term includes not only the basic unit of the machinery but also any adjunct or attachment necessary for the basic unit to accomplish its intended function. "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. 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. "Machinery" does not include tangible personal property that becomes a structure or a part of real property after installation.

c. *Equipment.* In general usage, "equipment" refers to devices or tools used to produce a final product or achieve a given result. Exempt "equipment" under these rules includes tables on which property is assembled on an assembly line, if those tables are directly and primarily used in processing by a manufacturer. "Equipment" does not include tangible personal property that becomes a structure or a part of real property after installation.

d. *Replacement parts.* "Replacement part" means the same as defined in Iowa Code section 423.3(47)*"d."*

e. *Supplies.* "Supplies" means the same as defined in Iowa Code section 423.3(47)*"d."*

f. Materials used to construct or self-construct computers, computer peripherals, machinery, equipment, replacement parts, and supplies. "Materials used to construct or self-construct computers, computer peripherals, machinery, equipment, replacement parts, and supplies" means tangible personal property that is incorporated into a computer, computer peripheral, machinery, equipment, replacement part, or supply when the computer, computer peripheral, machinery, equipment, replacement part, or supply is constructed or assembled.

g. Exclusions. Sales of the following property, or materials used to construct or self-construct the following property, are not exempt under rules 701—215.14(423) through 701—215.20(423), regardless of how the property is used.

(1) Land.

(2) Intangible property.

(3) Hand tools. "Hand tool" means a tool that can be held in the hand or hands and is powered by human effort.

(4) Point-of-sale equipment, computers, and computer peripherals. "Point-of-sale equipment, computers, and computer peripherals" means input, output, and processing equipment, computers, and computer peripherals 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. Point-of-sale equipment, computers, and computer peripherals do not include equipment, computers, and computer peripherals used primarily for depositing or withdrawing funds from financial institution accounts.

(5) Certain centrally assessed industrial machinery, equipment, computers, and computer peripherals. 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—215.14(423) through 701—215.20(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—215.14(423) through 701—215.20(423).

(6) 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—215.14(423) through 701—215.20(423), unless the vehicle is directly and primarily used in recycling or reprocessing of waste products (as described in rule 701—215.19(423)).

h. Examples. When used for an exempt purpose under rules 701—215.14(423) through 701—215.20(423), the following items may be exempt computers, computer peripherals, machinery, equipment, replacement parts, or supplies. This list is not all-inclusive.

(1) Coolers, including coolers that do not change the nature of materials stored in them.

(2) Equipment that eliminates bacteria.

(3) Palletizers.

(4) Storage bins.

(5) Property used to transport raw, semifinished, or finished goods.

(6) Vehicle-mounted cement mixers.

(7) Self-constructed machinery and equipment.

(8) Packaging and bagging equipment, including conveyor systems.

(9) Equipment that maintains an environment necessary to preserve a product's integrity.

(10) Equipment that maintains a product's integrity directly.

(11) Quality control equipment.

(12) Water used for cooling.

215.14(3) *Leased and rented property.* The exemptions under rules 701—215.14(423) through 701—215.22(423) apply to property regardless of how it is sold, including leased or rented property. The lease of computers, computer peripherals, machinery, equipment, replacement parts, or supplies may be exempt from sales and use tax if the lessee uses the property in an exempt manner under rules 701—215.14(423) through 701—215.20(423). Additionally, a lessor's purchase of computers, computer

peripherals, machinery, equipment, replacement parts, or supplies for lease or resale may be an exempt sale for resale under Iowa Code section 423.3(2).

215.14(4) *Recordkeeping.* Individuals claiming an exemption must always be able to prove they qualify for the exemption. To claim the exemptions described in this rule, purchasers must be able to prove that computers, computer peripherals, machinery, equipment, replacement parts, supplies, and materials used to construct or self-construct the same are used for an exempt purpose under rules 701—215.14(423) through 701—215.20(423). When both exempt and nonexempt machinery and equipment are used in the same facility, replacement parts and supplies used in the machinery and equipment are exempt under these rules only to the extent the purchaser can prove which replacement parts and supplies were used in the exempt machinery and equipment. Detailed, contemporaneous records should be maintained to verify that qualifying property is used for an exempt purpose. The precise records required may vary from purchaser to purchaser. Computers, computer peripherals, machinery, equipment, replacement parts, supplies, and materials used to construct or self-construct the same are not exempt under rules 701—215.14(423) through 701—215.20(423) if the property is not used for an exempt purpose.

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

[**ARC 8160C**, IAB 7/24/24, effective 8/28/24]