

701—215.3(423) Services used in processing.

215.3(1) Electricity, steam, or any taxable service is used in processing only when used in any operation that subjects raw material to some special treatment that changes, by artificial or natural means, the form, context, or condition of the raw material and results in a change of the raw material into marketable tangible personal property intended to be sold ultimately at retail. Rule 701—215.2(423) contains information about the expanded definition of “processing” allowed to manufacturers of food or food ingredients using taxable services. The following are nonexclusive examples of what would and would not be considered electricity, steam, or taxable services used in processing under this rule:

a. The sales price from the sale of electricity or steam consumed as power or used in the actual processing of tangible personal property intended to be sold ultimately at retail would be exempt from tax. The sales price of electricity or steam consumed for the purpose of lighting, ventilating, or heating manufacturing plants; warehouses; or offices is subject to tax. Also subject to tax is the sales price of any taxable services used to repair or replace defective or broken-down machinery and equipment.

b. The sales price from electricity used in the freezing of tangible personal property, ultimately to be sold at retail, to make the property marketable would be exempt from sales tax.

c. Electricity used merely in the refrigeration or the holding of tangible personal property for the purpose of preventing spoilage or to preserve the property in its present state would not be “used in processing” and, therefore, its sales price would be subject to tax.

215.3(2) Measurement of taxable and nontaxable use of electricity and steam. The exemption provided in the case of electricity or steam applies only upon the sales price from the sale of electricity or steam when the energy is consumed as power or is used in the processing of food products or other tangible personal property intended to be sold ultimately at retail, as distinguished from electricity or steam that is consumed for taxable purposes. When practical, electricity or steam consumed as power or used in processing must be separately metered and separately billed by the supplier thereof to clearly distinguish energy so consumed from electricity or steam that is consumed for purposes or under conditions in which the exemption would not apply. If it is impractical to separately meter electricity or steam which is exempt from that electricity or steam upon which tax will apply, the purchaser must furnish an exemption certificate to the supplier with respect to what percentage of electricity or steam in the case of each purchaser is subject to the exemption. The exemption certificate must be supported by a study showing how the percentage was developed. When a certificate and study are accepted by the supplier as a basis for determining exemption, any changes in the processing method, changes in equipment, or alterations in plant size or capacity affecting the percentage of exemption will necessitate the filing of a new and revised statement by the purchaser. When the electric or steam energy is separately metered, enabling the supplier to accurately apply the exemption in the case of processing energy, the purchaser need only file an exemption certificate since the supplier, under such conditions, will separately record and compute the consumption of energy which is exempt from tax apart from that energy which is subject to tax.

This rule is intended to implement Iowa Code section 423.3(50).

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