

March 12, 2009

To Members of the Iowa General Assembly:

On behalf of the State Industrial Processing Exemption Study Committee (the "Committee"), we are pleased to submit this report summarizing the activities of the Committee during 2008 and discussing the Committee's plans for 2009.

History of the Committee

The Committee was originally formed by the Iowa General Assembly during 2003 as part of House File 692 in order to study and make recommendations related to Iowa's sales and use tax industrial processing exemptions. In 2004, the Committee's existence under State law was nullified as a result of an Iowa Supreme Court ruling that "no portion of HF 692 became law" because of an improper use of line-item veto power by then-Governor Vilsack to strike provisions unrelated to the Committee (see Rants v. Vilsack, 684 N.W. 2d 193 (Iowa 2004)). However, the members of the Committee continued to meet during 2004 and 2005 as a subcommittee of the Iowa Taxpayers Association.

During the 2005 legislative session, the Iowa General Assembly passed House File 313, which again established the Committee under state law. The Committee's members include representatives of the manufacturing industry, the Iowa Department of Revenue, the Iowa Attorney General's office, and accounting and law firms who specialize in the area of Iowa sales and use taxes. The Committee is required to make a report to the Iowa General Assembly each year through January 1, 2013.

Charge of the Committee

Under House File 313, the purpose of the Committee is to study and make recommendations regarding all of the following:

1. The current sales and use tax industrial processing exemption.
2. The corresponding administrative rules, including a review and recommendation of an administrative rules process relating to the industrial processing exemption prior to filing with the administrative rules review committee.
3. Other states' industrial processing exemptions.
4. Recommendations for change for issues including effectiveness and competitiveness.
5. Development of additional publications to improve compliance.

Activities of the Committee

The Committee has worked diligently to fulfill the responsibilities assigned to it by the Iowa General Assembly as listed in House File 313. The Committee's activities in previous years included in-depth review of the statutes and regulations related to Iowa's industrial processing exemptions, including drafting recommended improvements to those statutes and regulations. The Committee also completed a study related to the industrial processing exemptions offered by other states, resulting in an analysis of options for comprehensive reform of Iowa's exemptions. Please see the annual reports filed by the Committee for 2005 through 2007 for a more detailed discussion of these activities.

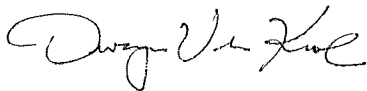
For 2008, the Committee met on December 10, 2008 to discuss regulatory and judicial developments during the year related to Iowa's industrial processing exemptions, as well as pending appeals and court cases that could impact Iowa's exemptions in the future. During this meeting, the Committee determined that its efforts for 2009 would be focused on developing recommendations for improvements to Iowa's industrial processing exemption statutes related to the following issues:

- Definitions of "manufacturer" and "processing;"
- Repair and replacement parts for manufacturing machinery and equipment;
- Software used to operate manufacturing machinery and equipment; and
- Transformers and other equipment used to provide electricity to manufacturing machinery and equipment.

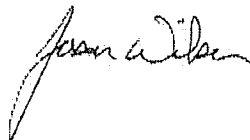
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It has been honor for us to chair this Committee during 2008. The members of the Committee include some of Iowa's foremost experts in the area of sales and use taxes, and we thank them for the contributions they have made to this Committee's accomplishments. We look forward to continuing this good work in 2009 and beyond.

Sincerely,



Dwayne Vande Krol
Co-Chair



Jason Wilson
Co-Chair