

Iowa Department of Revenue

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AUG 27 2007

HOUSE OF REPRESENTATIVES

August 23, 2007

Michael Marshall  
Secretary of the Senate  
Iowa Senate  
State Capitol  
LOCAL

Mark Brandsgard  
Chief Clerk of the House  
Iowa House of Representatives  
State Capitol  
LOCAL

Dear Secretary Marshall and Chief Clerk Brandsgard:

On behalf of the members of the Iowa Industrial Processing Exemption Study Committee, it is my pleasure to provide the enclosed 2006 Report. House File 313 requires the report to be filed with the General Assembly. Should you or legislators have questions or comments about the report, or the Study Committee, please do not hesitate to contact me.

As required by Section 7A.11A this report is being submitted by hard copy and by electronic copy.

Yours truly,

Mark R. Schuling  
Director

MRS/bm  
Enclosure

**State of Iowa Industrial Processing**  
**Exemption Study Committee**

**2006 Annual Report**

August 6, 2007

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 completed by the Committee during 2006. A list of the Committee's members is attached to this report.

### **History of the Committee**

The Committee was originally formed by the Iowa General Assembly during 2003 as part of House File 692. In June 2004, the Iowa Supreme Court addressed a challenge to Governor Vilsack's line item veto of various sections of House File 692 unrelated to the Committee and ruled that "no portion of HF 692 became law because the entire bill did not receive the affirmative approval of both the Legislature and Governor" (*see Representative Christopher C. Rants and Senator Stewart E. Iverson, Jr. vs. Thomas J. Vilsack*, 684 N.W.2d 193 (Iowa 2004)). As a result, the Court's ruling nullified the existence of the Committee. However, the members of the Committee continued to meet during 2004 and the first part of 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.

### **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 General Assembly and listed in House File 313. From 2003 through 2005, the Committee focused on identifying and addressing several opportunities to make improvements to the sales and use tax processing exemptions provided under Iowa's current statutes. A description and summary of these activities was provided in the Committee's 2005 Annual Report.

During 2006, the Committee decided to focus on studying potential alternatives for more comprehensive reform of Iowa's sales and use tax processing exemptions, including examining the statutes and regulations in other states and analyzing the advantages and disadvantages of adopting similar laws in Iowa. A subcommittee

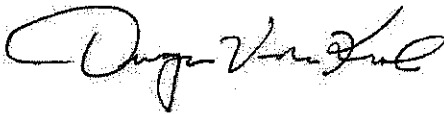
was formed to research and review the sales and use tax laws in other states and to begin drafting a summary of how Iowa's industrial processing exemptions might be restructured.

Members of the Committee spent many hours during 2006 in committee and subcommittee meetings researching, drafting, and discussing potential changes to Iowa's sales and use tax processing exemptions. Meetings and conference calls of the full committee were held on the following dates: February 17, 2006; March 27, 2006; June 27, 2006; August 10, 2006; September 12, 2006; and October 24, 2006. In addition, the subcommittee to study comprehensive reform of Iowa's sales and use tax processing exemptions met on the following dates: June 12, 2006; July 21, 2006; and September 29, 2006. Alternatives for comprehensive reform remain under consideration by the full Committee.

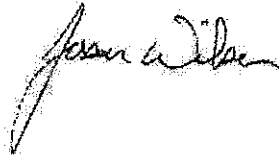
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It has been honor for us to chair this Committee during 2006. The members of the Committee include many of Iowa's foremost experts in the area of sales and use taxes, and we thank them for the contributions they have made to this Committee's accomplishments. We look forward to continuing this good work in 2007 and beyond.

Sincerely,



Dwayne Vande Krol  
Co-Chair



Jason Wilson  
Co-Chair

Attachment

August 2007

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