

3-7-11-17 Ways & Means
S. 3/27/97 Do Pass

JAN 31 1997

WAYS & MEANS CALENDAR

HOUSE FILE 126
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO HF 67)

Passed House, Date 2/11/97 (P.274) Passed Senate, Date 4-9-97 (P.1087)
Vote: Ayes 96 Nays 1 Vote: Ayes 43 Nays 6
Approved April 30, 1997

A BILL FOR

1 An Act relating to the state sales and use tax exemption on
2 certain computers, machinery, equipment, and fuel.
3 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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HF 126

1 Section 1. Section 422.45, subsection 27, Code 1997, is
2 amended by striking the subsection and inserting in lieu
3 thereof the following:

4 27. a. The gross receipts from the sale or rental of
5 computers, machinery, and equipment, including replacement
6 parts, and materials used to construct or self-construct
7 computers, machinery, and equipment if such items are any of
8 the following:

9 (1) Directly and primarily used in processing by a
10 manufacturer.

11 (2) Directly and primarily used to maintain the integrity
12 of the product or to maintain unique environmental conditions
13 required for either the product or the computers, machinery,
14 and equipment used in processing by a manufacturer, including
15 test equipment used to control quality and specifications of
16 the product.

17 (3) Directly and primarily used in research and
18 development of new products or processes of processing.

19 (4) Computers used in processing or storage of data or
20 information by an insurance company, financial institution, or
21 commercial enterprise.

22 (5) Directly and primarily used in recycling or
23 reprocessing of waste products.

24 (6) Pollution control equipment used by a manufacturer,
25 including but not limited to that required or certified by an
26 agency of this state or of the United States government.

27 b. The gross receipts from the sale of fuel used in
28 creating heat, power, steam, or for generating electrical
29 current, or from the sale of electricity, directly and
30 primarily used in processing by a manufacturer.

31 c. However, the gross receipts from the sale or rental of
32 the following shall not be exempt from the tax imposed by this
33 division:

34 (1) Hand tools.

35 (2) Point-of-sale equipment and computers.

1 (3) Industrial machinery, equipment and computers,
2 including pollution control equipment, within the scope of
3 section 427A.1, subsection 1, paragraphs "h" and "i".

4 d. As used in this subsection:

5 (1) "Commercial enterprise" includes businesses and
6 manufacturers conducted for profit and includes centers for
7 data processing services to insurance companies, financial
8 institutions, businesses, and manufacturers but excludes
9 professions and occupations and nonprofit organizations.

10 (2) "Financial institution" means as defined in section
11 527.2.

12 (3) "Insurance company" means an insurer organized or
13 operating under chapter 508, 514, 515, 518, 518A, 519, or 520,
14 or authorized to do business in Iowa as an insurer or a
15 licensed insurance agent under chapter 522.

16 (4) "Manufacturer" means as defined in section 428.20, but
17 also includes contract manufacturers. A contract manufacturer
18 is a manufacturer that otherwise falls within the definition
19 of manufacturer under section 428.20, except that a contract
20 manufacturer does not sell the tangible personal property the
21 contract manufacturer processes on behalf of other
22 manufacturers.

23 (5) "Processing" means a series of operations in which
24 materials are manufactured, refined, purified, created,
25 combined, or transformed by a manufacturer, ultimately into
26 tangible personal property. Processing encompasses all
27 activities commencing with the receipt or producing of raw
28 materials by the manufacturer and ending at the point products
29 are delivered for shipment or transferred from the
30 manufacturer. Processing includes but is not limited to
31 refinement or purification of materials; treatment of
32 materials to change their form, context, or condition;
33 maintenance of the quality or integrity of materials,
34 components, or products; maintenance of environmental
35 conditions necessary for materials, components, or products;

1 quality control activities; and construction of packaging and
2 shipping devices, placement into shipping containers or any
3 type of shipping devices or medium, and the movement of
4 materials, components, or products until shipment from the
5 processor.

6 EXPLANATION

7 This bill rewrites the Code provision exempting certain
8 computers, machinery, equipment, electricity, and other items
9 related to the manufacturing process from the state sales and
10 use tax by defining those manufacturing activities which give
11 rise to the exemption.

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House

A fiscal note for House File 126 is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note is available from the Legislative Fiscal Bureau to members of the Legislature upon request.

House File 126 rewrites the law exempting certain computers, machinery, equipment, electricity, and other items related to the manufacturing process from the State sales and use tax by defining those manufacturing activities which give rise to the exemption.

FISCAL IMPACT

House File 126 is expected to result in a decrease in revenues to the General Fund of approximately \$4.0 million in FY 1998 and subsequent fiscal years.

SOURCES

Department of Management
Association of Business and Industry (LSB 1676hv, JAM)

FILED FEBRUARY 3, 1997 BY DENNIS PROUTY, FISCAL DIRECTOR

HOUSE FILE 126
FISCAL NOTE

A fiscal note for House File 126 is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note is available from the Legislative Fiscal Bureau to members of the Legislature upon request.

House File 126 rewrites the law exempting certain computers, machinery, equipment, electricity, and other items related to the manufacturing process from the State sales and use tax by defining those manufacturing activities which give rise to the exemption.

FISCAL IMPACT

House File 126 is expected to result in a decrease in revenues to the General Fund of approximately \$4.0 million in FY 1998 and subsequent fiscal years.

SOURCES

Department of Management
Iowa Taxpayers Association (LSB 1676hv.2, JAM)

FILED FEBRUARY 10, 1997 BY DENNIS PROUTY, FISCAL DIRECTOR

HOUSE FILE 126
FISCAL NOTE

REQ. BY SENATOR DOUGLAS

A fiscal note for House File 126 as amended by Amendment S-3337 is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note is available from the Legislative Fiscal Bureau to members of the Legislature upon request.

House File 126 rewrites the law exempting certain computers, machinery, equipment, electricity, and other items related to the manufacturing process from the State sales and use tax by defining those manufacturing activities which give rise to the exemption.

Amendment S-3337 expands the sales tax exemption on computer purchases to professions, occupations, and nonprofit organizations. Currently, sales tax receipts from computer purchases total approximately \$2.5 million annually. This fiscal note assumes S-3337 would reduce this amount by approximately 50.0%.

FISCAL IMPACT

House File 126 is expected to result in a decrease in revenues to the General Fund of approximately \$4.0 million in FY 1998 and subsequent fiscal years.

Amendment S-3337 would result in a decrease in revenues to the General Fund of approximately \$1.3 million in FY 1998. The impact is expected to grow faster than sales tax receipts generally because computer and related purchases are expected to comprise a larger share of total taxable sales over time.

SOURCES

Department of Management
Iowa Taxpayers Association
Legislative Tax Model

(LSB 1676HV.3, JAM)

FILED APRIL 7, 1997

BY DENNIS PROUTY, FISCAL DIRECTOR

HOUSE FILE 126

H-1011

- 1 Amend House File 126 as follows:
- 2 1. Page 2, line 6, by striking the words "and
- 3 includes" and inserting the following: ", nonprofit
- 4 organizations, and".
- 5 2. Page 2, line 8, by striking the words "and
- 6 manufacturers" and inserting the following: ",
- 7 manufacturers, and nonprofit organizations,".
- 8 3. Page 2, line 9, by striking the words "and
- 9 nonprofit organizations".

By CHAPMAN of Linn

H-1011 FILED FEBRUARY 4, 1997

lost 2-11-97 (p. 275)

HOUSE FILE 126

S-3337

- 1 Amend House File 126 as follows:
- 2 1. Page 2, line 6, by inserting after the word
- 3 "profit" the following: ", professions and
- 4 occupations, nonprofit organizations,".
- 5 2. Page 2, by striking lines 8 and 9 and
- 6 inserting the following: "institutions, businesses,
- 7 professions and occupations, nonprofit organizations,
- 8 and manufacturers."

By TOM VILSACK

S-3337 FILED APRIL 2, 1997

lost 4/9/97 (p. 1087)

HOUSE FILE 126

AN ACT
RELATING TO THE STATE SALES AND USE TAX EXEMPTION ON
CERTAIN COMPUTERS, MACHINERY, EQUIPMENT, AND FUEL.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

Section 1. Section 422.45, subsection 27, Code 1997, is amended by striking the subsection and inserting in lieu thereof the following:

27. a. The gross receipts from the sale or rental of computers, machinery, and equipment, including replacement parts, and materials used to construct or self-construct computers, machinery, and equipment if such items are any of the following:

- (1) Directly and primarily used in processing by a manufacturer.
- (2) 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.
- (3) Directly and primarily used in research and development of new products or processes of processing.
- (4) Computers used in processing or storage of data or information by an insurance company, financial institution, or commercial enterprise.
- (5) Directly and primarily used in recycling or reprocessing of waste products.
- (6) 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.

b. The gross receipts from the sale of fuel used in creating heat, power, steam, or for generating electrical

current, or from the sale of electricity, directly and primarily used in processing by a manufacturer.

c. However, the gross receipts from the sale or rental of the following shall not be exempt from the tax imposed by this division:

- (1) Hand tools.
- (2) Point-of-sale equipment and computers.
- (3) Industrial machinery, equipment and computers, including pollution control equipment, within the scope of section 427A.1, subsection 1, paragraphs "h" and "i".

d. As used in this subsection:

- (1) "Commercial enterprise" includes businesses and manufacturers conducted for profit and includes centers for data processing services to insurance companies, financial institutions, businesses, and manufacturers but excludes professions and occupations and nonprofit organizations.
- (2) "Financial institution" means as defined in section 527.2.
- (3) "Insurance company" means an insurer organized or operating under chapter 508, 514, 515, 518, 518A, 519, or 520, or authorized to do business in Iowa as an insurer or a licensed insurance agent under chapter 522.
- (4) "Manufacturer" means as defined in section 428.20, but also includes contract manufacturers. A contract manufacturer is a manufacturer that otherwise falls within the definition of manufacturer under section 428.20, except that a contract manufacturer does not sell the tangible personal property the contract manufacturer processes on behalf of other manufacturers.
- (5) "Processing" means a series of operations in which materials are manufactured, refined, purified, created, combined, or transformed by a manufacturer, ultimately into tangible personal property. Processing encompasses all activities commencing with the receipt or producing of raw materials by the manufacturer and ending at the point products are delivered for shipment or transferred from the

manufacturer. Processing includes but is not limited to refinement or purification of materials; treatment of materials to change their form, context, or condition; maintenance of the quality or integrity of materials, components, or products; maintenance of environmental conditions necessary for materials, components, or products; quality control activities; and construction of packaging and shipping devices, placement into shipping containers or any type of shipping devices or medium, and the movement of materials, components, or products until shipment from the processor.

RON J. CORBETT
Speaker of the House

MARY E. KRAMER
President of the Senate

I hereby certify that this bill originated in the House and is known as House File 126, Seventy-seventh General Assembly.

ELIZABETH ISAACSON
Chief Clerk of the House

Approved April 30, 1997

TERRY E. BRANSTAD
Governor