

**Senate File 2336 - Introduced**

SENATE FILE 2336

BY FEENSTRA, ANDERSON,  
BERTRAND, SCHNEIDER,  
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and SINCLAIR

**A BILL FOR**

1 An Act relating to the sales tax exemption for the purchase  
2 of certain items used in certain manufacturing, research  
3 and development, data processing or storage, or recycling  
4 activities.

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

1 Section 1. Section 423.3, subsection 47, paragraph a,  
2 unnumbered paragraph 1, Code 2014, is amended to read as  
3 follows:

4 The sales price from the sale or rental of computers,  
5 machinery, ~~and equipment, including~~ replacement parts,  
6 supplies, and materials used to construct or self-construct  
7 computers, machinery, ~~and equipment, replacement parts, and~~  
8 supplies, if such items are any of the following:

9 Sec. 2. Section 423.3, subsection 47, paragraph d, Code  
10 2014, is amended by adding the following new subparagraphs:

11 NEW SUBPARAGRAPH. (7) "*Replacement part*" means tangible  
12 personal property other than computers, machinery, equipment,  
13 or supplies, regardless of the cost or useful life of the  
14 tangible personal property, that meets all of the following  
15 conditions:

16 (a) The tangible personal property replaces a component of  
17 a computer, machinery, or equipment, which component is capable  
18 of being separated from the computer, machinery, or equipment.

19 (b) The tangible personal property performs the same or  
20 similar function as the component it replaced.

21 (c) The tangible personal property restores the computer,  
22 machinery, or equipment to an operational condition, or  
23 upgrades or improves the efficiency of the computer, machinery,  
24 or equipment.

25 NEW SUBPARAGRAPH. (8) "*Supplies*" means tangible personal  
26 property, other than computers, machinery, equipment, or  
27 replacement parts, that meets one of the following conditions:

28 (a) The tangible personal property is to be connected  
29 to a computer, machinery, or equipment and requires regular  
30 replacement because the property is consumed or deteriorates  
31 during use, including but not limited to saw blades, drill  
32 bits, filters, and other similar items with a short useful  
33 life.

34 (b) The tangible personal property is used in conjunction  
35 with a computer, machinery, or equipment and is specially

1 designed for use in manufacturing specific products and may  
2 be used interchangeably and intermittently on a particular  
3 computer, machine, or piece of equipment, including but not  
4 limited to jigs, dies, tools, and other similar items.

5 (c) The tangible personal property comes into physical  
6 contact with other tangible personal property used in  
7 processing and is used to assist with or maintain conditions  
8 necessary for processing, including but not limited to cutting  
9 fluids, oils, coolants, lubricants, and other similar items  
10 with a short useful life.

11 (d) The tangible personal property is directly and  
12 primarily used in an activity described in paragraph "a",  
13 subparagraphs (1) through (6), including but not limited  
14 to prototype materials, testing materials, and application  
15 software.

16 EXPLANATION

17 The inclusion of this explanation does not constitute agreement with  
18 the explanation's substance by the members of the general assembly.

19 This bill relates to the sales tax exemption in Code section  
20 423.3(47) for the purchase or rental of certain items used in  
21 manufacturing, research and development, data processing or  
22 storage, or recycling activities.

23 Under current law, the exemption includes replacement  
24 parts. The bill amends the exemption to include materials  
25 used to construct or self-construct replacement parts. The  
26 bill defines "replacement part" for purposes of the exemption  
27 to mean tangible personal property other than computers,  
28 machinery, equipment, or supplies, regardless of the cost or  
29 useful life of the property, that replaces a component of a  
30 computer, machinery, or equipment, performs the same or similar  
31 function as that component, and restores or improves the  
32 computer, machinery, or equipment.

33 The bill also amends the exemption to include supplies  
34 and materials used to construct or self-construct supplies.  
35 "Supplies" is defined in the bill as tangible personal property

1 that is not a computer, machinery, equipment, or replacement  
2 part and that meets one of the following four conditions:

3 1. The tangible personal property is to be connected to  
4 a computer, machinery, or equipment and requires regular  
5 replacement because it is consumed or deteriorates during  
6 use. Examples of items that meet this requirement include saw  
7 blades, drill bits, filters, and other similar items with a  
8 short useful life.

9 2. The tangible personal property is used in conjunction  
10 with a computer, machinery, or equipment and is specially  
11 designed for use in manufacturing specific products and may  
12 be used interchangeably and intermittently on a particular  
13 computer, machine, or piece of equipment. Examples of items  
14 that meet this requirement include jigs, dies, tools, and other  
15 similar items.

16 3. The tangible personal property comes into physical  
17 contact with other tangible personal property used in  
18 processing and is used to assist with or maintain conditions  
19 necessary for processing. Examples of items that meet this  
20 requirement include cutting fluids, oils, coolants, lubricants,  
21 and other similar items with a short useful life.

22 4. The tangible property is directly and primarily used  
23 in an activity described in Code section 423.3(47)(a)(1)-(6).  
24 Examples of items that meet this requirement include prototype  
25 materials, testing materials, and application software.

26 By operation of Code section 423.6, an item exempt from the  
27 imposition of the sales tax is also exempt from the use tax  
28 imposed in Code section 423.5.