

House Study Bill 174 - Introduced

HOUSE FILE _____
BY (PROPOSED COMMITTEE ON
WAYS AND MEANS BILL BY
CHAIRPERSON SANDS)

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 2015, 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 2015, 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 in order to
21 restore the computer, machinery, or equipment to an operational
22 condition, or upgrade or improve the efficiency of the
23 computer, machinery, or equipment.

24 NEW SUBPARAGRAPH. (8) "*Supplies*" means tangible personal
25 property that meets one of the following conditions, other
26 than computers, machinery, equipment, or replacement parts,
27 and other than tangible personal property used in an activity
28 described in paragraph "a", subparagraph (4):

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

35 (b) The tangible personal property is used in conjunction

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

6 (c) The tangible personal property comes into physical
7 contact with other computers, machinery, equipment, or items
8 qualifying under subparagraph division (a) or (b) of this
9 subparagraph (8), and is used to assist with or maintain
10 conditions necessary for the use of those items, including but
11 not limited to cutting fluids, oils, coolants, lubricants, and
12 other similar items with a short useful life.

13 (d) The tangible personal property is directly and
14 primarily used in an activity described in paragraph "a",
15 subparagraph (1), (2), (3), (5), or (6), including but not
16 limited to prototype materials and testing materials.

17 EXPLANATION

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

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

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

34 The bill also amends the exemption to include supplies
35 and materials used to construct or self-construct supplies.

1 "Supplies" is defined in the bill as tangible personal property
2 that is not a computer, machinery, equipment, or replacement
3 part and that is not tangible personal property used in data
4 storage or processing, and that meets one of the following four
5 conditions:

6 1. The tangible personal property is to be connected to
7 a computer, machinery, or equipment and requires regular
8 replacement because it is consumed or deteriorates during use.
9 The bill lists saw blades, drill bits, filters, and other
10 similar items with a short useful life as examples.

11 2. The tangible personal property is used in conjunction
12 with a computer, machinery, or equipment and is specially
13 designed for use in manufacturing specific products and may
14 be used interchangeably and intermittently on a particular
15 computer, machine, or piece of equipment. The bill lists jigs,
16 dies, tools, and other similar items as examples.

17 3. The tangible personal property comes into physical
18 contact with other computers, machinery, equipment, or supplies
19 listed in paragraph 1 or 2 above, and is used to assist with or
20 maintain conditions necessary for use of those items. The bill
21 lists cutting fluids, oils, coolants, lubricants, and other
22 similar items with a short useful life as examples.

23 4. The tangible property is directly and primarily used in
24 an activity described in Code section 423.3(47)(a)(1), (2),
25 (3), (5), or (6). The bill lists prototype materials and
26 testing materials as examples.

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