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Mission Statement:

The statutory mission of the Iowa Department of Revenue is to serve Iowans and support state government by collecting all taxes required by law, but no more.

**Iowa Sales/Use Tax Changes Effective July 1, 2016
on Certain Computers, Machinery, Equipment,
Replacement Parts, and Supplies**



Newly enacted Iowa legislation makes several changes to the existing sales and use tax exemption found in Iowa Code section 423.3(47).

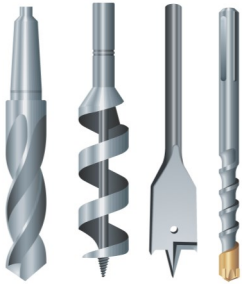
Effective July 1, 2016 the sales and use tax exemption for certain computers, machinery, equipment, and replacement parts will be expanded to include “supplies,” a category of items used in the manufacturing process that has been considered taxable under administrative rule. The legislation has created new definitions for both “replacement parts” and “supplies.”

Replacement Part Defined

The new definition of replacement part is:

Tangible personal property other than computers, machinery, equipment, or supplies, regardless of the cost or useful life of the tangible personal property, that meets all of the following conditions:

- *The item replaces a component of a computer, machinery, or equipment, which component is capable of being separated from the computer, machinery, or equipment;*
- *The item performs the same or similar function as the component it replaced; and*
- *The item restores the computer, machinery, or equipment to an operational condition, or upgrades or improves the efficiency of the computer, machinery, or equipment.*



Supplies Defined

The new definition of supplies is:

Tangible personal property, other than computers, machinery, equipment, or replacement parts, that meets one of the following conditions:

- *The item is to be connected to a computer, machinery, or equipment and requires regular replacement because the property is consumed or deteriorates during use; or*
- *The item is used in conjunction with a computer, machinery, or equipment and is specially designed for use in manufacturing specific products and may be used interchangeably and intermittently on a particular computer, machine, or piece of equipment; or*
- *The item comes into physical contact with other tangible personal property used in processing and is used to assist with or maintain conditions necessary for processing; or*
- *The item is directly and primarily used in an activity described in Iowa Code section 423.3(47)“a”, subparagraphs (1) through (6), including but not limited to prototype materials and testing materials.*

Examples of Supplies

Beginning July 1, 2016, some of the items that may qualify as exempt “supplies” when used with exempt computers, machinery, or equipment, include but are not limited to:

- Saw blades
- Drill bits
- Filters
- Jigs
- Dies
- Tools, but not hand tools
- Cutting fluids
- Oils
- Coolants
- Lubricants

Qualifications for Exemption

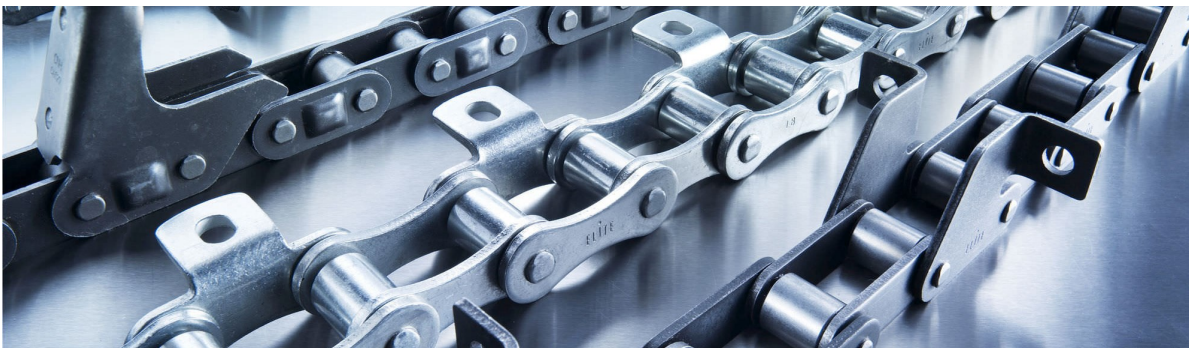
Under the new law, the qualifications for items to be considered exempt have not changed. In order to be purchased exempt from the sales and use tax, *computers, machinery, equipment, replacement parts, supplies, and materials used to construct or self-construct those items must still meet one or more of the following criteria:*

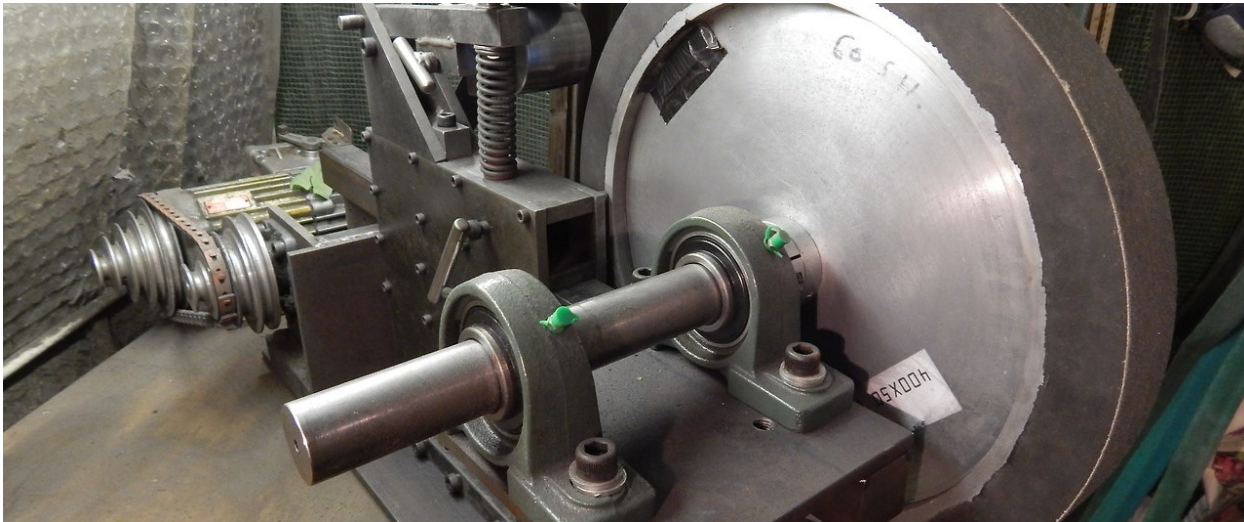
- The items are directly and primarily used in processing by a manufacturer.
- The items are directly and primarily used to maintain the integrity of the product or to maintain unique environmental conditions that are required either for the product itself or for the computers, machinery, and equipment used in processing by a manufacturer. This includes test equipment that is used to control the quality and specifications of the product.
- The items are directly and primarily used in research and development of new products or processes of processing.
- The items are computers used in the processing or storage of data or information by an insurance company, financial institution, or commercial enterprise.
- The items are directly and primarily used in the recycling or reprocessing of waste products.
- The items are pollution-control equipment used by a manufacturer, including but not limited to pollution-control equipment that is required by or must be certified by an agency of the State of Iowa or of the United States government.

The Iowa Department of Revenue (IDR) has begun the process of revising its administrative rules to reflect the recent legislative changes. You may view the actual legislation, 2016 Iowa Acts, House File 2433, at

<https://www.legis.iowa.gov/legislation/BillBook?ga=86&ba=hf2433>

The pertinent language is found in Division II of the bill.





Questions?

Email: idr@iowa.gov

Postal Mail:

Taxpayer Services
Iowa Department of Revenue
P.O. Box 10457
Des Moines, IA 50306-0457

Or call:

1-800-367-3388
515-281-3114

TDD - Deaf and hearing assistance: 515-242-5942
Monday - Friday 8 a.m. to 4:15 p.m.

Vision Statement

Iowa will be a state where it is easy to understand and comply with tax obligations.

<https://tax.iowa.gov>