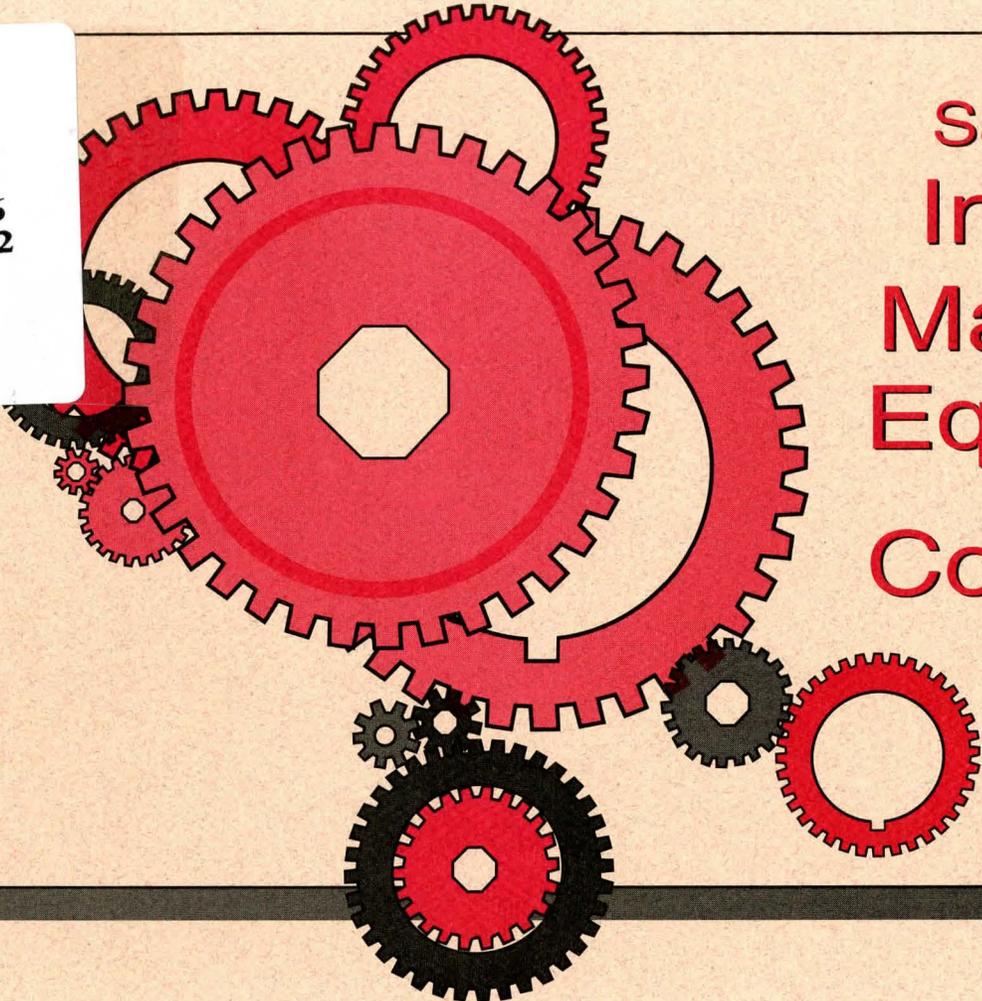


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Sales Tax on Industrial Machinery, Equipment and Computers

Iowa Department of
REVENUE and FINANCE

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THE UNIVERSITY OF CHICAGO
DEPARTMENT OF CHEMISTRY
540 EAST 57TH STREET
CHICAGO, ILLINOIS 60637

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JAN 15 1964

FROM
DR. J. H. GOLDSTEIN

TO
DR. R. M. MAYER

RE
POLYMERIZATION OF STYRENE

ATTENTION
DR. R. M. MAYER

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I. GENERAL INFORMATION

Iowa sales or use tax is imposed on the gross receipts of the sales of tangible personal property to consumers and users. Certain services are also subject to tax.

Iowa use tax is applied after the transaction takes place and only on goods and services that have not yet been subjected to sales tax. In most cases, these are purchases made from an out-of-state supplier not collecting Iowa tax. If the goods or services are for use in Iowa, the purchaser or user of them is responsible for reporting and remitting the use tax.

If your business makes these types of purchases, you are required to file consumer's use tax returns with the Iowa Department of Revenue and Finance. No registration fee is charged and no permit is issued, although a consumer's use tax number is assigned. Contact Taxpayer Services to arrange to file consumer's use tax returns.

II. DEFINITIONS

A. "Commercial enterprise" includes businesses and manufacturers conducted for profit. It includes centers for data processing services to insurance companies, financial institutions, businesses, and manufacturers, but excludes professions and occupations and nonprofit organizations.

Note: A hospital that is a not-for-profit organization is not a commercial enterprise. Also, a professional corporation which carries on any business which is a profession or occupation is not a commercial enterprise.

"Professions" means a vocation or employment requiring specialized knowledge and often long and intensive academic preparation.

"Occupations" means the principal business of an individual. Included within the meaning of occupations is the business of farming.

B. "Directly used" Property is directly used only if it is used to initiate, sustain, or terminate the transformation of any activity. In determining whether any property is "directly used," consideration should be given to the following factors:

1. The physical proximity of the property in question to the activity in which it is used;
2. The proximity of the time of use of the property in question to the time of use of other property used before and after it in the activity involved; and
3. The active causal relationship between the use of the property in question and the activity involved. The fact that a particular piece of property may be essential to the conduct of the activity because its use is required either by law or



practical necessity does not, of itself, mean that the property is directly used.

C. “Financial institution” is a bank incorporated under Iowa Code or federal law; a savings and loan association incorporated under Iowa Code or federal law; a credit union organized under Iowa Code or federal law; or any corporation licensed as an industrial loan company under Iowa Code.

Note: Excluded from the meaning of the term are loan brokers governed by Iowa Code and production credit associations.

D. “Insurance company” means an insurer organized or operating under Iowa Code or authorized to do business in Iowa as an insurer. An insurance company must have 50 or more persons employed in Iowa, excluding licensed insurance agents.

Note: Fraternal and beneficial societies governed by Iowa Code and health maintenance organizations governed by Iowa are not insurance companies. This list is not intended to be exclusive.

E. “Manufacturer” means any person, firm, or corporation who purchases, receives, or holds personal property for the purpose of adding to its value by any process of

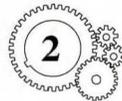
manufacturing, refining, purifying, combining of different materials, or by packing of meats with an intent to sell at a gain or profit.

F. “Pollution control equipment” means any disposal system or apparatus used or placed in operation *primarily* for the purpose of reducing, controlling or eliminating air or water pollution. The term does not include any apparatus used to eliminate “noise pollution.” Liquid, solid and gaseous wastes are included within the meaning of the word “pollution.”

G. “Processing” means an operation or series of operations whereby tangible personal property is subjected to some special treatment by artificial or natural means which changes its form, context, or condition, and results in marketable tangible personal property.

H. “Processing or storage of data or information” Not only a computer, but machinery or equipment may be used in the processing or storage of data or information. All computers store and process information. However, the “final output” for the user or consumer must be stored or processed data in order for the computer to be exempt.

I. “Research and development” means experimental or laboratory activity which has as its ultimate goal the



development of new products, processes of manufacturing, refining, purifying, combining of different materials, or meat packing. The ultimate goal of research and development must be that of adding value to products. It does not include testing or inspection for quality control purposes, efficiency surveys, management studies, consumer surveys, advertising, promotions, or research in connection with literary, historical, or similar projects.

*Note: Machinery, equipment, and computers are used **directly** in research and development only if they are used in actual experimental or laboratory activity that qualifies as research and development.*

J. “Specified property” means property that is a computer or industrial machinery and equipment including pollution control equipment and depreciable replacement parts for that property.

The sale or rental of specified property is exempt if:

1. The property is subject to taxation as real property; and
2. The property is directly and primarily used in one of the following:
 - a. By a manufacturer in processing tangible personal property; or
 - b. In research and development of new products or processes of manufacturing, refining, purifying, combining of different materials or packing of meats

to be used for the purposes of adding value to products; or

c. In processing or storage of data or information by an insurance company, financial institution, or commercial enterprise.

3. To qualify for refund or exemption, a computer may be taxable as either commercial or industrial real estate. Machinery and equipment must be taxable as industrial real estate *only* to be similarly qualified. Research and development machinery and equipment that is not taxable as industrial real estate does not qualify for refund or exemption.

4. The following are examples of machinery which are not directly used in manufacturing; they are taxable:

a. Machinery used exclusively for the efficient use of other machinery. Examples are air cooling, air conditioning, and exhaust systems.

b. Machinery used in support operations, such as a machine shop, in which production machinery is assembled, maintained or repaired.

c. Machinery used by administrative, accounting, and personnel departments.

d. Machinery used by plant security, fire prevention, first aid, and hospital stations.

e. Machinery used in plant cleaning, disposal of scrap and waste, plant communications, lighting, safety, or heating.



The following specified property is taxable:

1. Property assessed by the Department of Revenue and Finance. For electric, gas, water, and other companies assessed under Iowa Code, only property owned by the company is assessed by the Department. For railroad, telephone, pipeline, and electric transmission lines companies, property leased to as well as owned by the company is assessed by the Department.
2. Hand tools - III Sale or Rental, item E.
3. Point-of-sale equipment - III Sale or Rental, item F.

Property exempt from taxation for property tax purposes relating to urban revitalization property and industrial machinery receiving partial exemption by ordinance are also eligible for exemption from sales and use taxes even though the property is not subject to taxation as real property. Urban revitalization property and industrial machinery receiving partial exemption by ordinance are further explained by contacting the Department. This property must meet other requirements in order to be exempt from sales and use taxes.

Lessor purchases of specified property: The lease of the equipment is exempt if the tangible personal property is also exempt. Contact Taxpayer Services if more information is needed on this topic.

III. SALE OR RENTAL

The sale or rental of industrial machinery and equipment, computers, replacement parts, and pollution control equipment used in manufacturing, research and development or in processing or storage of data or information by an insurance company, financial institution or commercial enterprise is, under certain circumstances, exempt from tax. The sale or rental of machinery, equipment, or computers *directly and primarily* used in the recycling or reprocessing of waste products is also exempt from tax.

All must meet the following requirements:

A. Manufacturer

To be exempt, they must be used *directly and primarily* by a manufacturer in processing tangible personal property or in research and development of new products or processes of manufacturing, refining, purifying, or combining different materials or packing of meats.

*Examples of businesses that **are** manufacturers:*

- printing
- newspaper publication
- bookbinding
- lumber milling
- production of drugs or agricultural supplies

*Examples of businesses that are **not** manufacturers:*

construction contracting
quarrying
remanufacture or rebuilding of tangible personal property
(such as automobile engines)
providing health care
farming
transportation for hire
mining
the activities of restaurateurs, hospitals and medical
doctors

B. Industrial Machinery and Equipment

To be exempt, industrial machinery and equipment must be assessed as industrial real property used *directly and primarily* in the manufacturing process.

“Industrial machinery and equipment” means machinery and equipment used by a manufacturer in a manufacturing establishment.

Machinery is any mechanical, electrical, or electronic device designed and used to perform some function and to produce a certain effect or result. The word includes not only the basic unit of the machinery but also any adjunct or attachment necessary for the basic unit to accomplish its intended function. The word also includes

all devices used or required to control, regulate, or operate a piece of machinery, provided such devices are *directly* connected with or are an *integral* part of the machinery and are used *primarily* for control, regulation or operation of machinery.

Jigs, dies, tools, and other devices necessary to the operation of or used in conjunction with the operation of what is ordinarily thought of as machinery are also considered to be machinery.

Machinery does not include buildings designed specifically to house or support machinery.

Equipment is any tangible personal property used in an operation or activity. Examples of equipment are tables on which property is assembled on an assembly line and chairs used by assembly line workers.

C. Computers

To be exempt, computers must be used in the processing or storage of data or information by an insurance company, financial institution or commercial enterprise or used in manufacturing.

“Computer” means stored program processing equipment and all devices fastened to it by means of signal cables or any communication medium that serves the function of a

signal cable. Examples of devices fastened by a signal cable or other communication medium are terminals, printers, display units, card readers, tape readers, document sorters, optical readers, and card or tape punchers.

Also included within the meaning of the word “computer” is any software consisting of an operating or executive program upon which the basic operating procedures of a computer are recorded and which serves as an interface with an application program. However, software consisting of an application program purchased separately from a computer is taxable.

The general sale, repeated sale, or rental of prewritten “canned” software is a transfer of tangible personal property to customers with little or no modification at the time of the transaction (purchased directly off the shelf) and is taxable.

Custom built software is specified, designed and created by a vendor to meet the specific particular needs of a customer. Custom software is considered to be a sale of a service rather than a sale of tangible personal property, and, therefore, is not taxable.

D. Replacement Parts

To be exempt, replacement parts must be eligible for depreciation for state and federal income tax purposes.

“Replacement parts” includes only those replacement parts which either materially add to the value of industrial machinery, equipment, or computers or appreciably prolong their lives. Replacement parts which only keep machinery, equipment, or computers in their ordinarily efficient operating conditions are taxable.

Included within the meaning of replacement parts is any part that is depreciable for state and federal income tax purposes; it may also be deducted as a current expense. As long as the cost is depreciable, the sale or lease of the replacement part is exempt from tax. However, the person claiming the exemption must show that the replacement part which was deducted as an expense could have been depreciated under state and federal income tax law.

E. Hand Tools

The sale of hand tools is taxable.

F. Point-of-Sale Equipment

Point-of-sale equipment is taxable. Computers used as point-of-sale equipment, such as cash registers and scanners, are taxable.



G. Public and Private Utilities

The sale or rental of industrial machinery, equipment, or computers, including pollution control equipment, to public and private utilities is taxable.

H. Pollution Control Equipment

The sale or rental of pollution control equipment is taxable unless the equipment is used *directly and primarily* by a manufacturer in processing.

I. Examples

1. Property *directly* used in research and development. Frontier Hybrid, Inc., maintains a research and development laboratory to develop a corn plant. It purchases the following items: a computer which will process data relating to the genetic structure of the various corn plants which Frontier Hybrid is testing, an electron microscope for examining the structure of corn plant genes, a steam cleaner for cleaning rugs in the laboratory offices, and a typewriter for use by the laboratory director's secretary. The computer and the microscope are directly used in the research; the steam cleaner and the typewriter only indirectly used. Therefore, purchase of the computer and microscope is exempt from tax; purchase of the steam cleaner and typewriter is taxable.

2. Property used in processing or storage of information or data.

A health insurance company has three computers. Computer A is used to monitor the temperature within the insurance company's building. The computer transmits messages to the building's heating and cooling system, telling it when to raise or lower the level of heating or air conditioning as needed. Computer B is used to store patient records and will recall those records on demand. Computer C is used to tabulate statistics regarding the amount of premiums paid in and the amount of benefit paid out for various classes of insured. The use of Computer B is for stored information. The final output of Computer C is processed information. The sale, lease, or use of Computers B and C is not taxable.

3. Property not used in manufacturing.

A plant located in Warren County manufactures widgets and fabricates its own patterns on a metal press machine in its machine shop located in Story County. The machine shop does not sell the patterns, and the metal press machine is used for no other purpose than to fabricate the patterns. The metal press machine is not directly used in manufacturing. The metal press machine is taxable.

IV. RECYCLING WASTE PRODUCTS

Industrial machinery, equipment, computers, and their replacement parts are exempt from tax if they are used *directly and primarily* in the recycling or reprocessing of waste products. This exemption became effective on July 1, 1989.

“Recycling” means any process by which waste, or materials which would otherwise become waste, are collected, separated, or processed and revised or returned for use in the form of raw materials or products. The term includes, but is not limited to, the composting of yard waste which has been previously separated from other waste. “Recycling” does not include any form of energy recovery.

A. Machinery and Equipment Used

Machinery or equipment used in the recycling or reprocessing of waste products includes, but is not limited to, compactors, balers, crushers, grinders, cutters, or shears *directly and primarily* used for this purpose. The sale of an endloader, forklift, truck, or other moving device is exempt from tax if the device is *directly and primarily* used in the movement of property which is an integral part of recycling or reprocessing. The sale of a bin which is only for storage ordinarily is taxable.

Certain limits for exemption placed upon industrial machinery and equipment are not applicable to machinery and equipment used in recycling or reprocessing. For example, machinery, equipment, or a computer used in recycling or reprocessing does not need to meet the requirement of being real property for the exemption to apply.

B. Examples

1. Recycling or reprocessing begins when waste or material which will become waste is collected or separated. A vehicle used directly and primarily for collecting waste could be a vehicle used for an exempt purpose. Thus, the purchaser of a garbage truck could claim this exemption if the truck were *directly and primarily* used in recycling and not, for instance, in hauling garbage to a landfill. Machinery or equipment used to segregate waste from material to be recycled or reprocessed or used to separate various forms of materials which will be reprocessed (glass and aluminum) can also be used at the beginning of recycling or reprocessing.

2. An operation or series of operations which do not actually recycle or reprocess waste may be exempt. For example, an endless belt which moves aluminum cans from a machine where they are shredded to a machine where the shredded aluminum is crushed into blocks is not taxable.

3. Any equipment used after the recycling or reprocessing ends is taxable. For instance, a corporation purchases a machine which grinds logs, stumps, pallets, crates and other waste wood into wood chips. After grinding, the wood chips are sold and transported to purchasers to various sites where the chips are dumped and spread out over the ground for use in erosion control. The machine which grinds the wood chips is a machine used in recycling. The truck which transports the wood chips from the machine to the sites is not used in reprocessing because, at the time the chips are placed in the truck, they are in the form in which they will be sold for use other than as a raw material in manufacturing, so recycling has ended.

V. DESIGN AND INSTALLATION _____

The services of design of new industrial machinery and equipment are exempt from sales tax. All installation charges are exempt from the sales tax if the following criteria are met:

- A.** The industrial equipment and machinery are *new*, not used, AND
- B.** The industrial equipment and machinery are subject to taxation as *real property*, AND
- C.** The industrial equipment and machinery are used in the *manufacturing* process.

New machinery and equipment designed or installed for rental as well as for sale are exempt. The gross receipts from design or installation must be separately identified, charged separately, and reasonable in amount for the exemption to apply.

Installation of reconstructed, rebuilt or repaired or previously owned machinery or equipment is taxable. A computer is not considered to be machinery or equipment, and its installation or design is taxable. For additional information concerning computers, see III Sale or Rental, item C.

If they do not qualify for each of the above, the following non-exclusive list of installation charges is taxable: electrical, plumbing, welding, and pipe fitting. Call Taxpayer Services for additional taxable installation services.

VI. MACHINE REPAIR OF ALL KINDS _____

The repair of machines of all kinds is taxable. There is no exemption for labor used to repair machines.

“Machine” includes all devices having moving parts and operated by hand, powered by a motor, engine, or other

form of energy. It is a mechanical device or combination of mechanical powers and devices used to perform some function and produce a certain effect or result.

VII. WARRANTIES AND MAINTENANCE CONTRACTS

A. “Mandatory warranty” is when the buyer, as a condition of the sale, is *required* to purchase the warranty or guarantee contract from the seller. The sale of replacement parts and materials to the seller furnishing them is a sale for resale and not taxable. Labor performed under a mandatory warranty that is connected with a taxable service is also exempt from tax.

B. “Optional warranty” is when the buyer is *not required* to purchase the warranty or guarantee contract from the seller. The sale of optional service or warranty contracts which provide for the furnishing of labor and materials and require the furnishing of any taxable service is considered a sale of tangible personal property. The gross receipts are taxable at the time of sale.

C. A preventive maintenance contract is a contract which requires only the visual inspection of equipment and no repair is or will be included. The gross receipts from the sale of a preventive maintenance contract are not subject to tax.

D. Additional charges for parts and labor furnished in addition to that covered by a warranty or maintenance contract are taxable if the service is taxable. Only parts (not labor) are subject to tax when a nontaxable service is performed, but the labor charge must be separately stated. The following specified property is taxable:

1. Property assessed by the Department of Revenue and Finance. For electric, gas, water, and other companies assessed under Iowa Code, only property owned by the company is assessed by the Department. For railroad, telephone, pipeline, and electric transmission lines companies, property leased to as well as owned by the company is assessed by the Department.
2. Hand tools - III Sale or Rental, item E.
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Property exempt from taxation for property tax purposes relating to urban revitalization property and industrial machinery receiving partial exemption by ordinance are also eligible for exemption from sales and use taxes even though the property is not subject to taxation as real property. Urban revitalization property and industrial machinery receiving partial exemption by ordinance are further explained by contacting the Department. This property must meet other requirements in order to be exempt from sales and use taxes.

Lessor purchases of specified property: The lease of the equipment is exempt if the tangible personal property is also exempt. Contact Taxpayer Services if more information is needed on this topic.

FURTHER INFORMATION _____

For further explanation of taxation of Industrial Machinery, Equipment and Computers, contact:

**IOWA DEPARTMENT OF REVENUE AND FINANCE
TAXPAYER SERVICES SECTION
P.O. BOX 10457
DES MOINES, IOWA 50306-0457**

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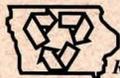
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