

REPLACEMENT PARTS AND SUPPLIES

Prior Law

Sales of computers, machinery, and equipment, including replacement parts, and materials used to construct or self-construct computers, machinery, and equipment were exempt from sales tax if the items were used for any of the following purposes:

- (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.

Previously, exempt replacement parts were presumed to have a useful life of at least one year.

The Department promulgated new administrative rules in ARC 2349C, which contained changes to the Department's interpretation of the sales tax exemption for certain computers, machinery, and equipment used for manufacturing purposes. ARC 2349 would have applied to items sold under a contract entered into on or after July 1, 2016.

New Provisions

2016 Iowa Acts House File 2433 amends the sales tax exemption, beginning July 1, 2016, to apply to computers, machinery, equipment, replacement parts, supplies, and materials used to construct or self-construct computers, machinery, equipment, replacement parts, and supplies if the item is used for any of the above purposes.

Under House File 2433, "replacement part" means tangible personal property other than computers, machinery, equipment, or supplies, regardless of the cost or useful life of the item, that meets all of the following conditions:

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

Also under House File 2433, “supplies” means tangible personal property, other than computers, machinery, equipment, or replacement parts, that meets one of the following conditions:

- (a) 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, including but not limited to saw blades, drill bits, filters, and other similar items with a short useful life;
- (b) 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, including but not limited to jigs, dies, tools, and other similar items;
- (c) 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, including but not limited to cutting fluids, oils, coolants, lubricants, and other similar items with a short useful life; or
- (d) 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.

Additionally, House File 2433 rescinds the changes to administrative rules contained in ARC 2349C. Because ARC 2349C was rescinded before its applicability date, ARC 2349C will not apply to any sales.

Sections Amended _____

Sections 6 and 7 of 2016 Iowa Acts House File 2433 amend changes to the Administrative Code contained in ARC 2349C. Sections 8 and 9 of House File 2433 amend Section 423.3, Code 2016.

Effective Date _____

Sections 6 and 7 of 2016 Iowa Acts House File 2433, rescinding changes to the Administrative Code contained in ARC 2349C, are effective March 21, 2016. Sections 8 and 9 of House File 2433, amending Section 423.3, Code 2016, are effective July 1, 2016.