



HF 2433-Frequently Ask Questions

Background: The Iowa General Assembly passed and Governor Branstad signed HF 2433 in March, 2016. The bill does two things: couples Iowa's tax code for tax year 2015 with the federal tax law and codifies a sales tax exemption for supplies used in the manufacturing process. The Department of Revenue had many protests regarding the application of the existing sales tax exemptions for manufacturers. Because of this, ABI has advocated for a sales tax clarification since the 2013 legislative session when the Department of Revenue brought forward provisions in its policy bill. The language was, however, eliminated in the Iowa Senate. In 2014, the Iowa House passed the clarifying legislation on a large bipartisan basis, but once again, it did not pass the Iowa Senate. In the fall of 2015, the Department of Revenue proposed a new administrative rule intended to address the issue, which ABI supported. The rule caused consternation with some in the General Assembly, which encouraged the legislature to codify the 2014 ABI language.

Who does this legislation apply to? The legislation applies to Iowa companies who manufacture products.

What does the current law say? Currently, companies who manufacture products in Iowa do not have to pay sales and use tax on the machinery, equipment or replacement parts used in manufacturing. The concept is that manufactured goods should be taxed once, at the point of greatest value. Thus, outputs, not the inputs, should be taxed.

Why was the bill needed? The Iowa Department of Revenue for many years arbitrarily defined the difference between a replacement part and a supply. The definition made many items that should have been tax exempt subject to sales tax causing confusion for taxpayers and leading to protests at the Department of Revenue.

How does this bill help? House File 2433 clearly states, in Iowa code, that supplies used in the manufacturing process are also exempt from sales tax, regardless of cost or useful life. The bill should make administration of Iowa's tax laws easier for the taxpayer to understand and for the department to administer.

What is exempt? The bill lists the following supplies as exempt, including but not limited to:

- Jigs, dies, tools, and other similar items
- Cutting fluids, oils, coolants, lubricants, and other similar items with a short useful life
- Prototype materials and testing material

What about other items that aren't on the list? If the item in question is connected to, comes into physical contact, or directly and primarily used in manufacturing then the item is considered a supply and is exempt.



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What about replacement parts? Replacement parts are already exempt. The legislation clarifies the definition of replacement parts. A replacement part is tangible personal property that does ALL of the following: replaces a component that is capable of being separated, performs the same or similar function as the component it replaced, and restores the computer, machinery or equipment to an operational condition, or upgrades or improves the efficiency of the computer, machinery or equipment.

When does this take effect? The exemption for supplies will go into effect on July 1, 2016. The Department of Revenue will have to establish rules, and ABI will be working with the Department and legislators to ensure the rulemaking is within the spirit of the law.

For more information about HF 2433 and ABI public policy initiatives, please contact:

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Disclaimer: This document focuses on the portion of the legislation related to the sales and use tax exemption for manufacturers. We hope this document will serve as a guide and resource. If you would like legal or technical advice, it is best to contact an attorney or tax practitioner. ABI has several members who provide those services and we would be pleased to offer a referral.