



Do I Pay Sales Tax When I Buy a Computer?

Information for businesses
from the

IOWA  Department of **REVENUE**

Questions?

email: idr@iowa.gov

Tax Advantage Seminar # 110

Is There a Sales Tax Exemption for Computers?

Sometimes

In certain situations, the purchase
of a computer is exempt
from Iowa sales tax.

What is Considered to be a Computer?

A “computer” includes the following:

- stored program processing equipment
- all devices fastened to it by means of signal cables or anything that serves the function of a signal cable
- an operating system or executive program purchased as part of the computer:
 - “operating system” or “executive program” means a computer program necessary to control the operation of a computer by managing the allocation of all system resources, including the central processing unit, main and secondary usage, input/output devices, and the processing of programs

What Does Devices Fastened to a Computer Include?

- central processing unit
- keyboards
- consoles
- monitors
- display units
- memory
- disk and tape drives
- terminals
- printers
- modems
- document sorters
- optical readers
- digitizers

What isn't Considered to be a Computer?

- Application software is not a computer.
- “Application software” means programs used to develop and implement the specific applications which the computer is to perform, and which calls upon the services of the operating system or executive program.

So When is a Computer Exempt from Sales Tax?

A computer is exempt when:

- used in processing or storage of data or information by an **insurance company/agent, financial institution, or commercial enterprise**
- directly and primarily used in processing by a **manufacturer**
- directly and primarily used to maintain a manufactured product's integrity or to maintain any unique environmental conditions required for the product
- directly and primarily used to maintain unique environmental conditions required for other machinery, equipment or computers used in processing by a manufacturer
- directly and primarily used in research and development
- directly and primarily used in recycling or reprocessing of waste products

Also exempt are:

- materials used to construct or self-construct any computer which would qualify for exemption if purchased as a finished unit
- replacement parts (expected useful life of one year or more)

What Do You Mean by a Commercial Enterprise?

“Commercial enterprise” includes businesses conducted for profit and includes centers for data processing services to insurance companies, financial institutions, businesses, and manufacturers.

What Isn't Considered a Commercial Enterprise?

“Commercial enterprise” does not include the following:

- professions (including professional corporations):
 - lawyer
 - doctor
 - CPA
- occupations:
 - farmer
- nonprofit organizations

When is a Computer Taxable?

Computers are taxable when sold to the following:

- individuals for personal use
- professions
- occupations
- most nonprofit organizations
- utility companies centrally assessed for property tax

Also taxable are:

- computers to be used as “point-of-sale” equipment; for example, cash registers
- computers whose final output is not stored or processed data
- supply items that are not replacement parts

What About Computer Software?

“Canned” software is taxable*:

- prewritten computer software which is offered for general or repeated sale

*unless transferred to the buyer electronically

“Custom” software is exempt:

- specified, designed, and created by a vendor at the specific request of a customer to meet a particular need

Questions?

- For more information see [Iowa Sales Tax on Computers](#)
- Call us: 8 a.m. - 4:15 p.m. CT
515-281-3114 or
1-800-367-3388 (Iowa, Omaha, Rock Island, Moline)
- E-mail us at idr@iowa.gov