



Do Manufacturers Pay Iowa Sales Tax When They Buy Machinery & Equipment?

Information for businesses
from the

IOWA  Department of **REVENUE**

What is the Definition of a Manufacturer?

A manufacturer is 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 packing of meats with an intent to sell at a gain or profit.

It also includes a contract manufacturer that processes tangible personal property on behalf of other manufacturers.

What Types of Businesses are Considered Manufacturers?

Examples of Businesses that Qualify as Manufacturers:

- bookbinders
- newspaper publishers
- printers
- producers of drugs or agricultural supplies
- lumber millers
- those engaged in quarrying or mining*

*Quarrying and mining businesses are considered manufacturers with respect to activities performed after raw materials are severed from the ground. These activities can include crushing, washing, sizing, and blending of aggregate materials.

What Types of Businesses are Not Considered Manufacturers?

Examples of Businesses that are NOT Manufacturers:

- construction contracting
- data processing
- medical doctors
- restaurants
- farmers
- those providing transportation for hire
- those who remanufacture or rebuild tangible personal property, such as automobile engines

What is Considered to be Machinery?

Machinery Includes:

- the basic unit of the machinery
- any attachment necessary for the basic unit to function
- all devices used or required to control, regulate, or operate a piece of machinery
 - directly connected with or
 - an integral part of the machinery and
 - 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

Machinery Does NOT Include:

- buildings designed specifically to house or support machinery

What is Considered to be Equipment?

Equipment Includes:

- tables on which property is assembled on an assembly line
- chairs used by assembly line workers
- coolers that do not change the nature of materials stored in them
- equipment that eliminates bacteria
- palletizers
- storage bins
- property used to transport raw, semifinished, or finished goods within a manufacturing plant
- vehicle-mounted cement mixers if used by a manufacturer, not a contractor (May be subject to a 5% one-time registration fee as part of a vehicle subject to registration)
- packaging and bagging equipment, including conveyor systems
- quality control equipment
- core and mold-making equipment and sand-handling equipment directly and primarily used in the mold-making process by a foundry
- containers, pallets, packing cases, shipping cases, wrapping materials and similar items used for packaging or facilitating the transportation of tangible personal property to be sold at retail or for resale

So When Can a Manufacturer Claim an Exemption on Machinery & Equipment?

Sales, leases, or rentals of the following are exempt from tax:

- machinery & equipment directly and primarily used in processing by a manufacturer
- machinery & equipment directly and primarily used to maintain a manufactured product's integrity or to maintain any unique environmental conditions required for the product
- machinery & equipment directly and primarily used to maintain unique environmental conditions required for other machinery or equipment used in processing by a manufacturer
- test equipment directly and primarily used by a manufacturer in processing to control the quality and specifications of a product
- machinery & equipment directly and primarily used in research and development of new products or processes
- machinery & equipment directly and primarily used in recycling or reprocessing of waste products
- pollution control equipment used by a manufacturer. It is not necessary that the equipment be "directly and primarily" used in any kind of processing
- materials used to construct or self-construct any machinery or equipment listed above

What Do You Mean by Directly Used?

Property is directly used only if it is used to initiate, sustain, or terminate the transformation of any activity. **To determine if property is directly used, consider the following:**

- physical proximity of the property in question to the activity in which it is used
- 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
- active causal relationship between the use of the property in question and the activity involved

Just because a particular piece of property may be essential to the activity because its use is required by law or practical necessity does not, of itself, mean that the property is directly used.

What Isn't Considered Directly Used?

Not directly used are machinery and equipment used:

- exclusively for the comfort of workers, such as air cooling, air conditioning, and exhaust systems
- in support operations, such as a machine shop in which production machinery is assembled, maintained, or repaired
- by administrative, accounting, and personnel departments
- by plant security, fire prevention, first aid, and hospital stations
- in plant cleaning, disposal of scrap and waste, plant communications, lighting, safety, or heating

What Do You Mean by Primarily Used?

Equipment is primarily used in manufacturing / processing when it is used **more than 50%** of the time in those activities.

What is Included in Manufacturing / Processing?

Manufacturing / processing begins with receiving or producing raw materials and ends at the point the products are delivered for shipment or transferred from the manufacturer. This is sometimes referred to as “door-to-door processing.”

The following are included:

- refinement or purification of materials
- treatment of materials to change their form, context, or condition
- maintenance of the quality or integrity of materials, components, or products
- maintenance of environmental conditions necessary for materials, components, or products
- quality control activities
- construction of packaging and shipping devices
- placement into shipping containers or any type of shipping device or medium
- movement of materials, components, or products until shipment from the manufacturer

What About Replacement Parts?

A part that meets the requirements below is exempt from tax:

- A replacement part is any machinery or equipment part substituted for another part that is:
 - broken
 - worn out
 - obsolete
 - unable to perform its intended function

- The part must:
 - materially add to the value of industrial machinery and equipment
 - appreciably prolong the lives of industrial machinery and equipment
 - keep them in their ordinarily efficient operating condition
 - **have a useful life of one year or more**

Are Supplies Exempt Too?

No, supplies are not replacement parts.

Examples of taxable supplies:

- drill bits
- grinding wheels
- punches
- taps
- reamers
- saw blades
- lubricants
- coolants
- sanding discs
- sanding belts
- air filters

How Do Manufacturers Claim Exemption When They Qualify?

- A seller must obtain a completed [exemption certificate](#) (pdf) from the purchaser to verify the purchase qualifies for exemption.
- See [Exemption Certificates: How and When to Use Them](#) (pdf).

Questions?

- For more information see [Iowa Sales and Use Tax on Manufacturing and Processing](#).
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