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This Week in State Tax (TWIST)

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Iowa: Department rules cryptocurrency mining hardware does not qualify for manufacturing exemption

The Iowa Department of Revenue recently issued a declaratory order addressing whether a taxpayer's purchase of computer hardware used to mine Bitcoin qualifies for Iowa's sales tax exemption for property "directly and primarily used in processing by a manufacturer." Concluding that the taxpayer was neither engaged in "processing" nor acting as a "manufacturer" within the meaning of the statute, the Department determined that the taxpayer's purchase of the mining hardware was not exempt from Iowa sales tax.

The order arose from a petition filed by a taxpayer whose primary business activity is mining Bitcoin. The taxpayer was in the process of acquiring application-specific integrated circuit ("ASIC") hardware, which it described as computing equipment with no commercial use other than Bitcoin mining. Using the ASIC hardware, the taxpayer performs computations on unconfirmed Bitcoin transaction data and single-use variable numbers to produce a hash code. When a hash code meets the Bitcoin network's requirements, the taxpayer receives newly issued Bitcoin.

The Department first considered whether the taxpayer was engaged in "processing," defined by statute as “a series of operations in which materials are manufactured, refined, purified, created, combined, or transformed by a manufacturer, ultimately into tangible personal property.” The Department reasoned that the end product of the taxpayer's activity is a cryptocurrency that cannot be seen, weighed, measured, felt, or touched, and is therefore an intangible asset rather than tangible personal property. Nor did Bitcoin qualify as prewritten computer software, a form of tangible personal property; as Bitcoin provides no coded instructions causing a computer to perform a task. Because the exemption is limited to property used in activities that result in tangible personal property, the Department concluded that the taxpayer was not engaged in processing.

The Department next considered whether the taxpayer was a "manufacturer," defined as a business that adds value to personal property "by a process of manufacturing with a view to selling the property for gain or profit.” Looking to the statutory definition of "manufacturing," which refers to activities commonly understood within the ordinary meaning of the term, such as refining, purifying, combining materials, and packing meats; the Department found that the taxpayer engaged in none of these activities. Turning to the dictionary meaning of the term, the Department reasoned that the taxpayer was not creating a product or using raw materials to make something, but rather "unlocking" or "mining" Bitcoin using numerical inputs. The Department also rejected the taxpayer's argument that its mining was comparable to the extractive processes referenced in the statute, noting that the statutory language expressly excludes the extractive process itself from "manufacturing," and that the taxpayer did not assert it performed any post-extraction activity comparable to the crushing, washing, sizing, or

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blending of aggregate materials that the statute references.

Because the taxpayer was neither engaged in processing nor acting as a manufacturer, the Department held that the ASIC hardware was not directly and primarily used by a manufacturer in processing and therefore did not qualify for the sales tax exemption.

For more information on the Iowa Department of Revenue's declaratory order, please contact Crystal Hildebrand.

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