

Iowa Sales Tax in Review #3

Service Call Fees

Service call fees: Flat fee is taxable (due to being based on labor charge), whereas a mileage charge (\$.00/mile) or trip fee is not taxable. Trip fee must be based on distance.

Handling Charge now Exempt

In Iowa, delivery charges are exempt from sales tax, as long as they are separately stated, reasonable in amount, and related to the cost of transportation. Delivery charges are currently defined as "...charges assessed by a seller of personal property for preparation and delivery to a location designated by the purchaser of personal property including, but not limited to, transportation, shipping, postage, handling, crating and packing charges."

Handling charges now fall under the definition of delivery charges and are exempt from tax on that basis. Under prior law, if the words "handling charge" were used, it was considered a labor charge and subject to sales tax. Reference:

www.state.ia.us/tax/news/enew0905.html

Are churches and nonprofit organizations exempt from tax?

Nonprofit entities, churches and religious organizations are *not* automatically exempt from paying state sales tax on taxable goods and services. This is true even if these entities remain exempt from the payment of state and federal income taxes. State sales tax must be paid unless some other general sales tax exemption applies. Local option sales tax must also be paid on purchases made in jurisdictions that impose the tax. In other words, a nonprofit corporation, church or other religious organization is treated the same as any other private citizen for sales and use tax purposes when purchasing goods and taxable services at retail.

However, sales of items to any private nonprofit educational institution used for educational purposes are exempt. An "educational institution" means an institution that primarily functions as a school, college, or university with students, faculty, and an established curriculum. The faculty of an educational institution must be associated with the institution, and the curriculum must include basic courses that are offered every year. "Education institution" also includes an institution primarily functional as a library. When tangible personal property or services are shared by a parochial school and church, the primary use determines if the purchase is taxable. Reference:

www.state.ia.us/tax/educate/78595.html

Ask Before You Sell!

An item may be taxable to one buyer and not another.

For example, the sale of a skid loader is:

1. Exempt when sold to a farmer if it will be used directly and primarily in agricultural production.
2. Subject to the 5 percent state rate only when sold to a construction contractor who will use it directly and primarily in new construction, reconstruction, alteration, expansion or remodeling of real property or structures.
3. Subject to the state rate and any local option sales tax when sold to most other customers.

We sent some people to a training class at one of our suppliers. The bill for the training class included sales tax. Should it have been taxed?

Training is a service that is exempt from sales tax. However, if books, manuals, etc. are purchased separately as part of the training, those tangible materials are subject to sales tax.

Every once in a while we ship a part to a farmer out of state. Should we charge sales tax?

No. Even though the farmer is out of state, the Iowa law applies. The place of sale is considered to take place in Iowa. If the part is exempt to Iowa farmers it is exempt to out of state farmers.

Should sales tax be charged to anyone for warranty work? They knew the customer didn't pay, but wondered if it's to be charged to the distributor or manufacturer for replacement parts and/or labor.

No sales tax is collected on warranty work. It is presumed that any applicable sales tax was collected at the time the warranty was put into effect. If the warranty was included with the original purchase, tax would have been collected on the sale if the item purchased was subject to sales tax. If the warranty was purchased separately and sales tax was applicable, then it was collected at that time. If there's a deductible on the warranty (e.g. consumer is responsible for the first \$50 of warranty work) then sales tax is collected on the deductible amount only.