

Use Tax in Iowa (by Eric M Brewer, CPA)

As most people are aware, Iowa imposes a sales tax on the purchase of taxable services and tangible personal property sales occurring within Iowa. Retailers doing business in Iowa that sell taxable services or tangible personal property are responsible for collecting, reporting and remitting sales tax to the Iowa Department of Revenue. This responsibility applies not only to Iowa based businesses, but also applies to out-of-state companies “doing” business within the state of Iowa. But what happens if a business makes a purchase that should be taxable and no sales tax is collected? The state of Iowa refers to this situation as Iowa use tax.

Simply put, Iowa use tax is the sales tax and local option sales tax (LOST) that should have been collected on a purchase but wasn't. Below are several ways that a business could find itself subject to Iowa use tax:

Items purchased for resale

When a business purchases items that are intended to be resold, the purchases are exempt from sales tax when purchased (the supplier should require a sales tax exemption certificate). The business would then be responsible for collecting sales tax when it sells the item. However, when a business internally uses an item that had been originally purchased for resale (or withdrawn out of the business for personal use) it would be subject to Iowa use tax.

For example, a chiropractic office offers back cushions for sale to its patients. The purchase of the back cushion from the supplier should be made as a tax exempt purchase for resale. When the back cushion is sold to a patient, the chiropractic office should collect, report and remit the sales tax. However, if the chiropractic office subsequently uses the back cushion internally, the chiropractic office would be subject to Iowa use tax. Essentially, the office is responsible for paying the sales tax it would have paid if it had simply went out and purchased the item for its own internal use.

Items purchased out-of-state

If a business goes to another state and purchases taxable services or tangible personal property that is brought back to Iowa, the business may be responsible for Iowa use tax. As a general rule, if the sales tax paid in another state is more than what would be paid in Iowa, then no Iowa use tax would be required. If the other state in which the purchase was made does not have a sales tax or the sales tax is less than Iowa's rate, the business would be responsible for the difference between the sales tax rates applied in the two states.

For example, a Chiropractor drives to another state and purchases an adjusting table for use at its Iowa office. When the table is purchased, the vendor charged state sales tax of 4%. Since the item is being brought back to Iowa for use, it would be subject to Iowa use tax on the difference between the other state's sales tax rate (4%) and Iowa's sales tax rate (6%). Because the transaction occurred out-of-state, local option sales tax wouldn't apply – even if the chiropractic office is physically located in a jurisdiction subject to local option sales tax.

Items purchased from out-of-state vendors

It is not uncommon for businesses to make purchases over the internet or through a catalogue from an out-of-state business. While some of the internet and catalogue companies collect sales tax, others do not. In situations where sales tax has not been collected, but the transaction would have been subject to Iowa sales tax, the business would be subject to Iowa use tax.

For example, a chiropractic office uses the internet to order a new adjusting table for use at its Iowa office. The table is delivered to its office, but Iowa sales tax was not collected by the vendor of the table. In this situation, the office would be responsible for remitting Iowa use tax. If the chiropractic office is located in a jurisdiction subject to local option sales tax, then the chiropractic office would also be subject to additional tax equal to the local option sales tax. It is important to note that if the vendor in this example collected Iowa sales tax but didn't collect local option sales tax, the chiropractic office may still be responsible for the uncollected local option sales tax.

Items purchased from transient vendors

When items are purchased through a transient vendor (trade shows, traveling salespersons, etc), Iowa sales tax is still required to be collected. Occasionally, these vendors have not registered with the state and consequently, sales tax is never collected. The business making the purchase would be subject to Iowa use tax.

For example, a Chiropractor attends a trade show in Iowa and decides to purchase an adjusting table for their Iowa office from a transient vendor, but no sales tax is collected. Since the purchase is subject to Iowa sales tax, the chiropractic office would be responsible for Iowa use tax (and local option sales tax if applicable).

If an Iowa business finds itself subject to Iowa use tax, there are several ways the tax can be reported and remitted to the state:

- If the business is already maintains a sales tax permit, the business can simply report the Iowa use tax as part of its regular sales tax reporting.
- If a business does not have a sales tax permit but anticipates frequently needing to report Iowa use tax, the business can apply for a use tax permit through Iowa's Business Tax Registration process.

- If a business only has a periodic Iowa use tax requirement, it can mail the amount of tax and a description of items purchased directly to the Iowa Department of Revenue

There is generally a three year record retention period as it relates to filed sales and use tax returns and generally a three year period in which returns can be examined. However, the three year period relates to FILED returns. If a sales or use tax return has not been filed, then the statute of limitations has not started and therefore, the examination period is unlimited. The three year statute also does not apply if a return was fraudulently filed.

For any readers wondering about Iowa use tax as it relates to personal purchases, the answer is yes. Purchases by individuals are subject to Iowa use tax just the same as any business.

For a nonexclusive list of taxable services, taxable tangible personal property and nontaxable exempt items, please visit the state of Iowa's web site at www.iowa.gov/tax. Every business may have a unique situation. Consequently, readers should consult a tax professional regarding the specifics of their situation.