



Iowa Sales & Use Tax Basics

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Overview

- Tax Rate
- Sales Tax
- Local Option Sales Tax
- Use Tax
- Nexus
- Permit Requirements
- Return Filing and Tax Payments
- Reminders

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Sales Tax

Sales Tax

- Sales tax must be collected when a sale is sourced to Iowa:
 - If purchaser first possesses the product in Iowa;
 - If the product is delivered to Iowa; **or**
 - If the service is first used in Iowa.
- Sales tax is paid by the final consumer and collected by the retailer. It is then remitted to the state by the retailer.

What is Taxable?

- All tangible personal property, specified digital products, or enumerated services unless a specific exemption has been written into law.
- Common taxable services include:
 - appliance repair, cosmetology, electrical repair or installation, janitorial, lawn care and landscaping, interior decorating, and photography.
- Exemptions for taxes include:
 - Services performed on or connected with new construction, reconstruction, alteration, expansion, or remodeling of a building or structure
 - Services performed for an employer
 - Items purchased for resale



Local Option Sales Tax

Local Option Sales Tax (LOST)

- Retailers (including remote sellers) and marketplace facilitators required to have an Iowa sales tax permit must collect state sales tax and applicable local option sales tax on all taxable Iowa retail sales.
- LOST is an additional 1% sales tax that can be imposed by Iowa counties and cities
 - Applies when taxable sales are sourced to a jurisdiction imposing the tax
 - Does not require a special permit to collect
 - Applies to the same sales that are subject to sales tax

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Use Tax

Use Tax

- A 6% tax is imposed on the use of tangible personal property, specified digital products, and services in Iowa
- Use tax is generally due in two situations:
 - When a retailer should have collected sales tax and did not, the purchaser owes use tax
 - Certain transactions are exempt from sales tax but subject to use tax
 - i.e. airplanes
- Almost all sales tax exemptions apply to use tax
- Use tax may be:
 - collected by the retailer and remitted to the state
 - remitted to the state directly by the purchaser

Paying Use Tax

- Persons making taxable purchases on a regular basis should apply for a sales and use tax permit and report tax as “taxable purchases” on the return
- Persons who make taxable purchases but the retailer fails to collect sales tax:
 - Non-Permit Use Tax Return – a fillable online form to report use tax on taxable purchases and mail with a check

Tax Rate

- 6% State sales tax
- 1% Local option sales tax (LOST) for applicable Iowa counties and cities
 - Use <https://tax-mapper.iowa.gov/> to look up correct rates for any location in the state
- 6% State use tax
- Important Rules:
 - Tax cannot be absorbed (or paid) by the retailer
 - Sales tax can be included in the total sales price if posted

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Nexus

Nexus

- You are required to charge and collect sales tax if you have nexus (presence) in Iowa.
- There are two types of nexus:
 - Physical
 - Economic

Physical Nexus

- What creates physical nexus?
 - An office, warehouse, or other business property in Iowa
 - A representative located in Iowa permanently or temporarily:
 - an employee of the retailer or an independent contractor
 - Installation of products in Iowa
 - A construction contractor performing a contract in Iowa
 - Service work performed in Iowa
 - Delivery of products by your own trucks in Iowa
 - Leases of tangible personal property in Iowa

Economic Nexus

- What creates economic nexus?
 - Remote sellers (sellers with no physical nexus) that have \$100,000 or more of gross revenue from sales into Iowa
 - Marketplace facilitators that make or facilitate \$100,000 or more of gross revenue from Iowa
- Gross revenue includes exempt sales, wholesale sales, sales for resale, and sales made through marketplaces



Permit Requirements

Sales Tax Permit Requirements

- Any business with nexus in Iowa must register for a sales and use tax permit and collect Iowa sales tax and any applicable LOST

July 1, 2022 Permit Changes

New and existing permit holders:

- Only one permit needed for both sales and use tax
- Retailers with multiple Iowa locations still need a permit for each location
- Retailers may use multiple permits if they prefer to do so

Existing permit holders:

- Taxpayers with one sales and one consumer's use permit now only have one permit (their existing sales tax permit)
- No changes for all other taxpayers unless taxpayer requests to merge, cancel, consolidate

Use Tax Permit Requirements

- Retailers without physical presence in Iowa **and** whose gross revenue from Iowa sales is below the amount required to collect sales tax may collect use tax from their customers and report it as “sales subject to use tax” on the sales and use tax return
 - Formerly referred to as “retailer’s use tax”
- The sales and use tax law changes from 2019 require many sellers who previously remitted retailer’s use tax to obtain a sales tax permit instead.

Iowa Tax Permits

- Applications for all permits are on the Department's website or can be completed via GovConnectIowa
- It is illegal to make taxable sales without a permit
- Each retail location must have its own permit
- Once issued, a permit is effective until it is canceled by the retailer or revoked by the Department

Direct Pay Permits

- A direct pay permit allows qualified purchasers, users, and consumers of tangible personal property, specified digital products, or taxable services to remit sales and use tax, including any applicable local option tax (LOST), directly to the Department rather than to their suppliers.
- Only available to businesses with tax liability of \$8,000 each month
- More info: tax.iowa.gov/direct-pay-permits



Filing Information

Return Filing Frequencies

Two main options for filing frequency

Monthly:

- Taxpayers collecting \$1,200 or more in sales or use tax per calendar year
 - Must file returns and pay tax electronically
 - Due on the last day of the month following the month in which the tax was collected or accrued

Annually:

- Taxpayers under the \$1,200 threshold
 - May file and pay by paper

Other option: Seasonal filers

- For businesses that only make sales in 4 or less months per year but are over the annual filer threshold

Return Filing Frequencies

Excise taxes:

- Most excise taxes must be remitted monthly regardless of amount of tax collected
 - Hotel and motel, automobile rental, construction equipment

Water service excise tax (WET):

- Remains on its own permit and return
- Can be monthly or annual, using \$1,200 threshold
- Based on total WET, sales, and use tax collected per year

Tax Payment Frequencies

All sales and use tax due to be paid when a return is due

No more **required** monthly or semimonthly deposits

- Ability to make deposits will continue to exist in GovConnectIowa



Reminders

Reminders

- Statute of limitations is 3 years
- Tax permits do not need to be posted
- Iowa has no “exempt numbers”
- Permits are not a license to buy exempt
- Exemption certificates can be found on the Department’s website

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and suspension of any penalty or interest for taxpayers whose principal residence or business is located in these counties.

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