

## Department of Administrative Services - State Accounting Enterprise

Section	Procedure Number	Page Number	Effective Date
PRE-AUDIT	230.150	1 of 5	January 1, 2012
<b>Subject</b>	PAYMENT POLICIES TAXES		

The State of Iowa and its subsidiary departments, boards, and commissions are not subject to certain taxes. In other circumstances, state departments are required to pay the tax and then submit a claim for a refund.

### A. Summary of Various Taxes

1. **State Sales Tax** - Departments are exempt from payment of state sales tax by Section 423.3 of the Code of Iowa. Invoices for merchandise or services must have the state sales tax deducted before the claim is presented to the Department of Administrative Services-State Accounting Enterprise-Daily Processing (DAS-SAE) for payment, except in the following instances:

a. Departments are required to pay state sales taxes imposed in other states for goods and services **purchased** in that state, except in the following states or district:

- 1) District of Columbia
- 2) Illinois
- 3) Kentucky
- 5) North Dakota
- 4) South Dakota

The above-mentioned states are exempted from state sales tax when goods and services are purchased in Iowa by these states. Based on other individual state's statute, State of Iowa departments are required to pay state sales tax if goods and services are purchased in a state not mentioned above.

b. Departments are required to pay another state's sales tax on goods that are picked up in one state, (with the exceptions noted in section 1.a. above) but consumed in the State of Iowa. However, departments are not required to pay state sales tax on goods that are purchased in one state, but delivered to the State of Iowa.

c. Reimbursements to employees that have performed services on behalf of the State (such as travel) may be reimbursed for the costs (up to maximums allowed if applicable), including sales tax if the claim is payable to the individual.

2. **Local Option Sales Tax** - Local option sales tax is an extension of the state sales tax. Departments are exempt from paying the local option sales tax per Section 423B.5 of the Code of Iowa.

## Department of Administrative Services - State Accounting Enterprise

Section	Procedure Number	Page Number	Effective Date
PRE-AUDIT	230.150	2 of 5	January 1, 2012
<b>Subject</b>	PAYMENT POLICIES TAXES		

3. **State and Local Hotel/Motel Tax** - Lodging is not subject to the state sales tax or local option sales tax, but rather to a 5% state excise tax, and in some cases a local hotel/motel tax imposed by certain cities and counties. Departments are required to pay both the state excise and local hotel/motel taxes.

The following is a summary of the taxation of room rentals over the past few years: **Contracts made directly with Iowa state/local governmental entities and schools:**

**Prior to 7-1-08:** Contracts made directly with Iowa state/local governmental entities and schools were exempt from the 5% state excise tax (previously sales tax) on room rental, but were not exempt from the local hotel/motel tax.

**From 7-1-08 to 6-30-09:** Contracts made directly with Iowa state/local governmental entities and schools were exempt from both the 5% state excise and local hotel/motel tax.

**Beginning 7-1-09:** Contracts made directly with Iowa state/local governmental entities and schools are subject to both the 5% state excise and local hotel/motel taxes.

### **Contracts made directly with the federal government**

Contracts made directly with the federal government are exempt from both the state 5% excise tax and local hotel/motel tax throughout these various periods. However, rooms rented to federal government employees who are paying with cash, personal check, or personal credit card are subject to tax. This is true even if the employees will be reimbursed by the federal government.

### **Also exempt from state excise and local hotel/motel taxes during all periods:**

- Room rental contracts for periods of more than 31 consecutive days. To qualify for this exemption, the renter must contract to rent for a single period of more than 31 days and cannot accumulate these days.
- Renting of sleeping rooms in dormitories and in memorial unions at all universities and colleges located in Iowa.
- Renting of a room to the guest of a religious institution located on real property exempt from tax as the property of a religious institution, if the reason for renting the room is to provide a place for a religious retreat or function and not a place for transient guests generally.

### **All conference and banquet room rental is exempt from the following Iowa taxes:**

- The state 5% excise tax on room rental.
- Any local hotel/motel tax, which can be imposed at a rate up to 7%.
- The state 6% sales tax and any local option sales tax (LOST).

## Department of Administrative Services - State Accounting Enterprise

Section	Procedure Number	Page Number	Effective Date
PRE-AUDIT	230.150	3 of 5	January 1, 2012
<b>Subject</b>	PAYMENT POLICIES TAXES		

**These exemptions apply to** conference and banquet room rental in hotel and motels, as well as to freestanding conference centers and restaurant banquet rooms.

4. **Property Tax** - Departments are exempt from paying property tax per Section 427.1(1) of the Code of Iowa.
5. **Federal Tax** - Departments are exempt from paying federal taxes per Section 4253(i) of the 26 United States Code.
6. **Franchise Fee** - Departments are required to pay a franchise fee imposed on public utilities based on Section 364.2(4) of the Code of Iowa.
7. **Telephone Excise Tax** - Departments are exempt from paying excise tax imposed by telephone companies. This tax should be itemized on the telephone bill. The telephone company must provide an itemization if the tax is not specifically listed on the billing.
8. **Roamer Tax** - A roamer tax is a tax imposed by telephone companies when cellular telephone users utilize the phone across air spaces. Departments are exempt from paying the roamer tax. If it is not broken out on the billing, the telephone company should be able to provide the information.
9. **Other** - Occasionally vendors may charge departments other types of taxes or fees. See Procedure 230.250 for explanation of late fees and interest. If there are questions relating to any of these types of other charges, contact DAS-SAE-Daily Processing.
10. **Tax-Exemption Letter** – This link provides the [State Tax Exemption Letter](#) which departments should send to vendors who ask for the State's tax-exemption number.
11. **Taxable Charges Memo** – This link provides the [Non-Payable and Payable Taxes](#) information to State departments.

### **B. Construction Contracts**

Designated exempt entities signing construction contracts may issue exemption certificates to contractors and subcontractors, allowing them to purchase, or withdraw from inventory, building materials for the contract free from sales tax. **Contractors and subcontractors may NOT purchase building materials tax free without this special exemption certificate, even if their contract is with a designated exempt entity.** This special exemption certificate would also allow a manufacturer of building materials to consume materials in the performance of a construction contract with a designated exempt entity, without owing tax on the fabricated cost of those materials.

## Department of Administrative Services - State Accounting Enterprise

Section	Procedure Number	Page Number	Effective Date
PRE-AUDIT	230.150	4 of 5	January 1, 2012
<b>Subject</b>	PAYMENT POLICIES TAXES		

### Designated exempt entities include only the following:

- private nonprofit educational institution in Iowa
- nonprofit private museum in Iowa
- tax-certifying or tax-levying body or governmental subdivision of Iowa, including the state board of regents, state department of human services, state department of transportation
- municipally-owned solid waste facility which sells all or part of its processed waste as fuel to a municipally-owned public utility
- all divisions, boards, commissions, agencies, or instrumentalities of state, federal, county, or municipal government which do not have earnings going to the benefit of an equity investor or stockholder
- Habitat for Humanity
- rural water districts organized under Iowa Code Chapter 357A

**NOTE:** Nonprofit hospitals are NOT designated exempt entities.

### The exemption certificate process works as follows:

1. Designated exempt entities register contracts, including information on contractors and subcontractors, through an online application "Sales Tax Exemption Certificate", developed by the Iowa Department of Revenue located at their website <https://tax.iowa.gov/forms>
2. Designated exempt entities provide each contractor/subcontractor with an exemption certificate/authorization letter developed exclusively for this purpose. These are printed directly from the online application. The letter/certificate can be obtained only through this application.
3. Contractors and subcontractors provide a copy of the certificate to each of their material suppliers. This allows them to purchase building materials for the contract free from sales tax.
4. Suppliers should retain this certificate in their records for at least three years.

### The exemption certificate option benefits designated exempt entities in several ways:

- Contracts with designated exempt entities will not include Iowa sales tax, which will lower the dollar amount of bids.
- Designated exempt entities will not need to obtain Contractor Statements after the project is completed.
- Designated exempt entities will not need to apply to the Iowa Department of Revenue for a refund of Iowa sales tax.
- The exemption certificate process is an option; designated exempt entities may also use a claim for refund process.

## Department of Administrative Services - State Accounting Enterprise

Section	Procedure Number	Page Number	Effective Date
PRE-AUDIT	230.150	5 of 5	January 1, 2012
<b>Subject</b>	PAYMENT POLICIES TAXES		

**The claim for refund process works as follows:**

1. The contractor pays Iowa sales tax on all building materials and includes that cost in the bid.
2. The contractor then submits a "Contractor's Statement" (form 35-002) to the exempt entity documenting the amount of Iowa sales/use tax paid on the contract materials incorporated into real property. The Department of Revenue "Contractor's Statement" form is located on their website at <https://tax.iowa.gov/forms>
3. The exempt entity applies to the Iowa Department of Revenue for a refund of that tax by using the "Construction Contract Claim for Refund" (form 35-003) is located on their website at <https://tax.iowa.gov/forms>.

**NOTE: The claim for refund process must be used** when the contract is with businesses in economic development areas or rural water districts organized under Iowa Code Chapter 504A. They do not qualify as "designated exempt entities."

- a. Questions related to construction contracts are to be directed to the Department of Revenue (IDR) at (515) 281-3114.

**C. Refund on Iowa Motor Fuel Tax paid by State Departments**

State departments that pay these taxes are eligible to receive a refund from the Iowa Department of Revenue. Below is a summary of the process:

- a. State department submits an application for a refund permit to the Iowa Department of Revenue.
- b. Upon receipt of the application, IDR will issue the department a permit number. The department will receive instructions in the mail on how to file for the refund.
- c. The request for refund is made by telephone. Object 2721 is used to pay the tax originally.

Questions related to obtaining a refund on motor fuel taxes are to be directed to IDR at (515) 281-3114.