



## IOWA SALES AND USE TAX

### **I. A Hard-Fought System**

Since its creation in 1934, Iowa's sales tax has been a consumer levy tax. In other words the seller must collect the tax from the purchaser and is prohibited from "absorbing" the tax. Sales tax applies to the sale of tangible personal property sold at retail and to certain enumerated services. Therefore sales for resale are excluded from the tax base. Long standing tax theory suggests that taxes should not apply to production inputs. In essence production inputs are sales for resale as they constitute a cost element in the production of a final product.

Many years and countless hours of hard work have been invested in clarifying and fine-tuning production input exemptions from Iowa's sales and use tax. Furthermore, Iowa's statutes create a sales and use tax system that is reasonably competitive compared to other states. For these reasons we do not feel changes to the sales and use tax code are necessary at this time. However, measures should be taken to alleviate the ongoing administrative struggles concerning the proper interpretation of Iowa law, thus resulting in the need for "clarifying bills" year after year.

### **II. Definition Clarified**

To minimize the number of bills necessary to clarify the industrial processing definitions for sales tax exemption purposes, we recommend modifying Iowa's current definitions. This reconstruction will eliminate the "tax by regulation" that has crept into the Iowa system and eliminate the need to bring forward specific language year after year. The State Industrial Processing Study Committee will be issuing an annual report along with proposed legislation in January 2006.

### **III. Streamlined Sales Tax System (Streamlined Sales Tax Project)**

ITA has actively participated on the Iowa Streamlined Sales Tax Advisory Council established by the Iowa General Assembly in 2003, as well as at the national project level. The Iowa Advisory Council will be providing an annual report along with proposed legislation necessary to maintain Iowa's compliance with the SST agreement. ITA will release its position paper following this annual report.

### **IV. Expanding the Sales Tax Base**

Expanding the sales tax base to include professional services will negatively impact business. Because businesses are by far the largest consumers of professional services, imposition of a sales tax will significantly increase the cost of doing business in Iowa. Smaller and newer businesses will be impacted the hardest. We strongly urge the legislature to move cautiously and be mindful of unintended consequences that may result from an expansion in the base.

### **V. Burden of Proof**

Current case law suggests a need for clarification as to who has the burden of proving whether an item is eligible for exemption. We recommend that the Department of Revenue, rather than the taxpayer, bear the burden of proof in cases involving matters that are crucial to Iowa's businesses (e.g., the manufacturing and processing exemptions).

### **VI. Conclusion**

ITA will continue to offer assistance to legislators as they review Iowa's sales and use tax system. Furthermore, the ITA Sales and Use Tax Committee will continue to explore legislation which refines current processing exemptions and clarifies who bears the burden of proof.

It is our conclusion that the basic sales and use tax law in Iowa is satisfactory. There are areas that require clarification such as the machinery and equipment sales tax exemption. We further suggest that any significant restructuring or expansion of the sales and use tax could work against everyone's goal of economic growth in Iowa.