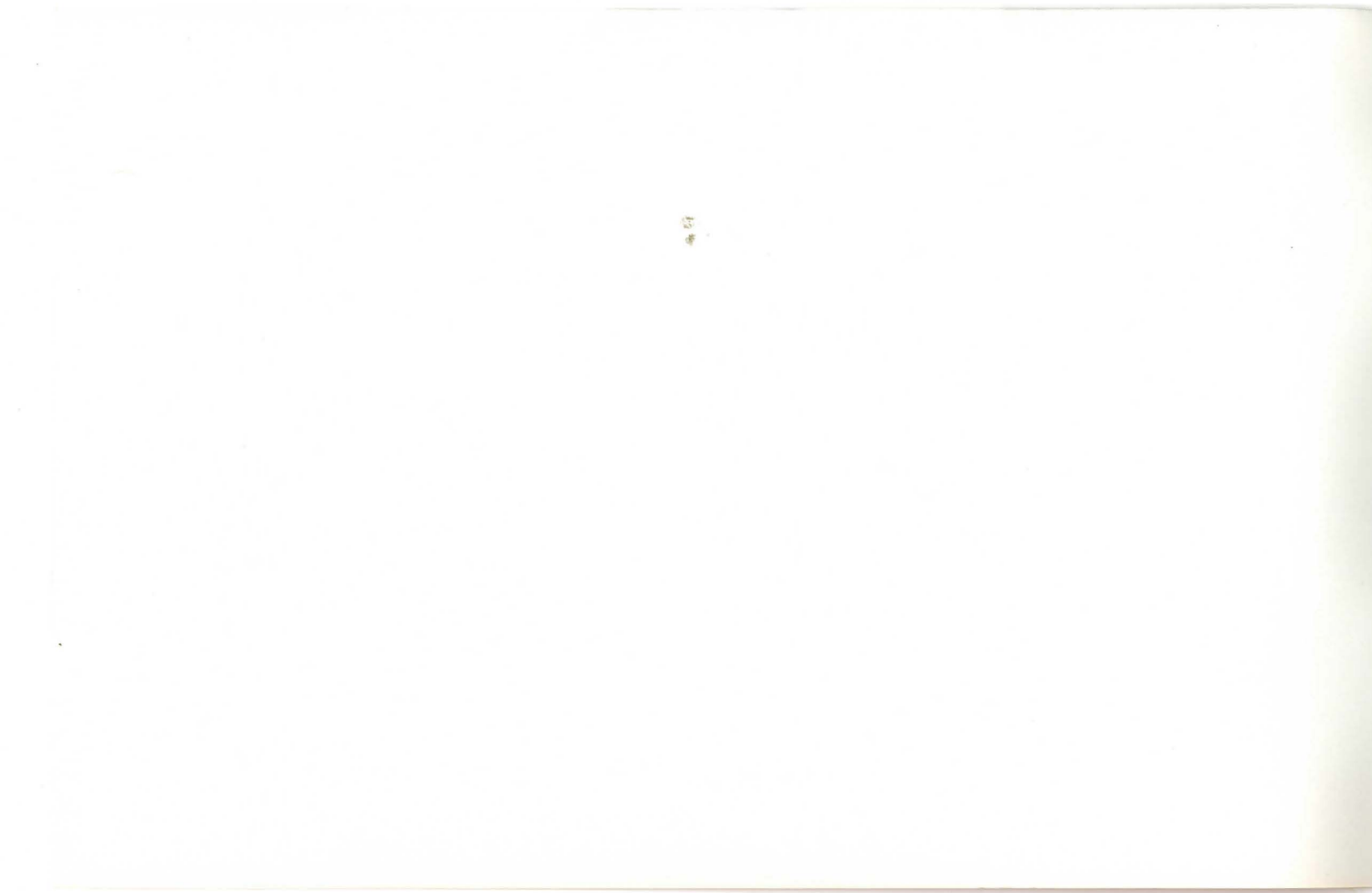


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CONTRACTORS GUIDE

To Iowa
Sales Tax



This guide is a summary of basic information relating to sales and use taxes and how they apply to construction projects.

***Specific questions should be directed to
Taxpayer Services
Iowa Department of Revenue and Finance
PO Box 10457
Des Moines, IA 50306-0457***

If calling from the Des Moines area or from out of state, call (515) 281-3114.

If calling from elsewhere in Iowa or from Omaha or Rock Island/Moline, call toll-free: 1-800-367-3388.

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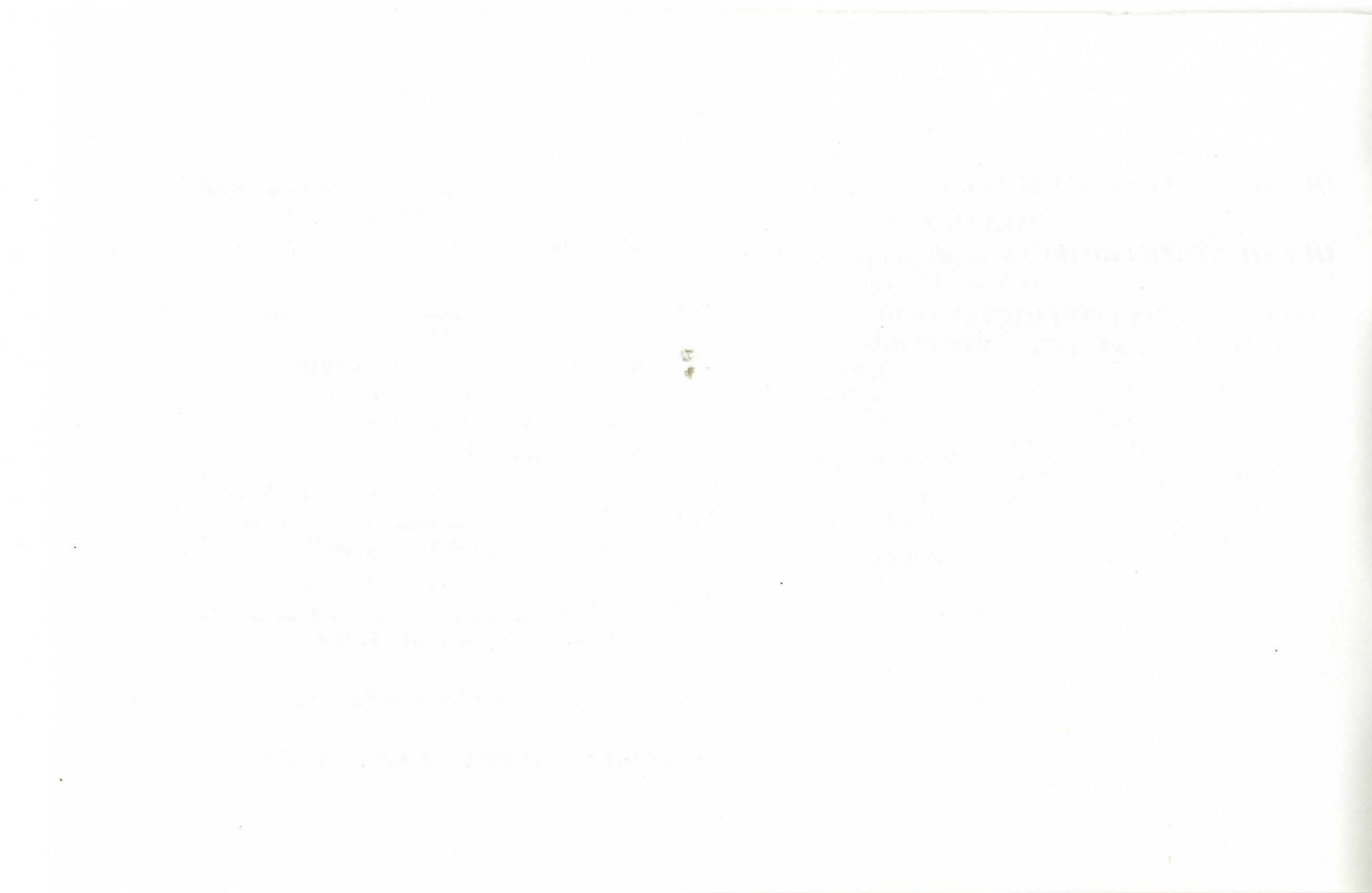
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CONSTRUCTION CONTRACTS LABOR

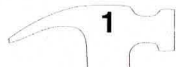
The term “construction contract” is defined as an agreement under which an individual, corporation, partnership or other entity agrees to furnish the necessary building or structural materials, supplies, equipment or fixtures and to erect them on the project site for a second party. The second party is known as a “sponsor.” The tax liabilities of a sponsor are discussed on page 11 under “Liability of Sponsors.”

A construction contract always involves changing tangible, personal or “moveable” property into real estate. (For example, a change of concrete block and mortar into a foundation.) This includes, but is not limited to, lump sum contracts, cost plus contracts, time and material contracts, unit price contracts, guaranteed maximum or upset price contracts, construction management contracts, design built contracts, and turnkey contracts.

For a list of activities and items that could fall within the meaning of a construction contract or are generally associated with a construction contract, see Appendix C on page 22.

A “contractor” includes a general contractor, special contractor, subcontractor or builder.

Labor is not subject to sales and use tax if in connection with new construction, reconstruction, alteration, expansion or remodeling of a building or structure.



SALES TO CONTRACTORS

Sales

A contractor is considered to be the consumer of building materials and supplies purchased for use in a construction contract, and is, therefore, responsible for paying sales tax at the time the purchases are made or use tax if the purchases were made tax free. Use tax is explained on page 11 of this booklet.

In a few cases, however, a contractor may sell supplies and materials. This contractor is referred to as a *contractor-retailer* and may purchase supplies and materials tax free. The contractor-retailer provides the supplier with a valid sales tax exemption certificate. The contractor-retailer then charges customers sales tax when the items are resold or pays use tax if inventory is removed for use by the business.

Suppliers that sell to *building contractors* must charge sales tax on the purchase price of the items. Suppliers should not accept sales tax exemption certificates from these type of contractors. Contractors are not allowed to make purchases for resale merely because they have a sales tax permit number.

Suppliers that sell to owners who are building their own structures must charge sales tax on the selling price of the materials, supplies and equipment. Owners are considered as final consumers and their purchases are taxable.

...Of Building Materials and Supplies

Explanations and examples of what constitutes building materials, supplies and equipment are found in Appendix B on page 19 of this booklet.

...Of Building Equipment

Construction equipment that is intended for use in the performance of an Iowa construction contract is subject to the Iowa sales or use tax. However, equipment rental is exempt when the equipment is used on or in connection with new construction, reconstruction, alteration, expansion or remodeling of real property or structures. See Appendix B on page 19 of this booklet.

... Involving Governmental Units, Private Nonprofit Educational Institutions and Museums

Contractors, subcontractors, and builders who contract with governmental units, nonprofit private museums or private nonprofit educational institutions are required to pay sales tax on building materials, supplies and equipment to their suppliers or to remit use tax on them.

If the contract includes machinery or equipment, it must be purchased for resale; the contractor should give the supplier a valid exemption certificate. The contractor should not charge sales tax on machinery and equipment sold to governmental entities, nonprofit private museums and private nonprofit educational institutions because they are exempt entities.

The contractor must provide a statement to the exempt entity before final settlement of the contract. The contract must be

written. The statement must show the name and address of the material supplier, the type of building material, purchase price, the amount of sales or use tax, whether or not the supplier collected Iowa sales or use tax and if not who paid the tax, the amount of local option tax paid and the jurisdiction in which it was paid. Form 35-002 (ST-172) is provided by the Iowa Department of Revenue and Finance.

As an exempt entity, governmental units or private nonprofit educational institutions or museums may obtain a refund of sales or use tax paid by the contractor and incorporated into the bill. The governmental unit or nonprofit institution or museum may file a claim for refund on Form 35-003(ST-173) with the Iowa Department of Revenue and Finance. The contract must be a written contract, and the claim must be filed within six months from the date of final settlement. If the claim is not filed within six months, sales or use tax will not be refunded. Include Form 35-002 to support the claim.

EXEMPT CONSTRUCTION SERVICES - LABOR

Certain taxable services are commonly performed with construction contracts or with the repair or maintenance of real estate.

Taxable services performed on or connected with new construction, reconstruction, alteration, expansion or remodeling of buildings or structures are exempt from sales tax. Taxable services performed in repairing real property are not exempt from tax. The repair of machinery on the job site is subject to sales tax.

Repair and New Construction

The distinction between (1) repair and (2) new construction, reconstruction, alteration, expansion and remodeling activities can be difficult. The intent of the parties and the scope of the project determine whether certain services are taxable. When in doubt, a construction contract should be treated as being a taxable repair rather than a nontaxable reconstruction. If it is later determined that reconstruction rather than repair was the object of the contract, the purchaser may file for a refund of tax paid.

“Repair” is synonymous with mend, restore, maintain, replace and service. A repair constitutes the restoration of an original

existing structure that has been damaged. A repair is not a capital improvement; that is, it does not materially add to the value or substantially prolong the useful life of the property.

Individuals such as handymen or service representatives who make taxable repairs are not considered to be contractors, subcontractors, builders or owners, but are placed in a separate category. They should purchase for resale those supplies which they resell to their customers in the course of their work. They should pay tax at the time of purchase on supplies they use up or consume in the course of their repair work.

Contractors who perform repair work should charge sales tax on labor charges only, since they pay sales tax on materials when they are purchased. ~~Any mark up on materials should be included with labor charges.~~

Repair work that is not a construction activity is subject to sales or use tax. Examples of repair situations include:

- Repair of broken or defective glass
- Replacement of broken, defective or rotten windows
- Replacement of individual or damaged roof shingles
- Replacement – or repair – of a portion of broken kitchen cabinets

- Replacement – or repair – of a portion of a broken tub, shower or faucets
- Replacement – or repair – of a portion of a broken water heater, furnace or central air conditioning compressor
- Restoration of original wiring in a house or building

The following are examples of new construction, reconstruction, alteration, expansion and remodeling activities. In these examples, the contractor is responsible for paying tax to the supplier on materials; however, the contractor does not charge tax on his/her services.

- The building of a garage or the adding of a garage to an existing building is new construction.
- Adding a redwood deck to an existing structure is new construction.
- Replacing a complete roof on an existing structure is reconstruction or alteration.
- Adding a new room to an existing building is new construction.
- Adding a new room by building interior walls is alteration.
- Replacing kitchen cabinets with some modification is an improvement.
- Paneling existing walls is an improvement.
- Laying a new floor over an existing floor is an improvement.

- Rebuilding a structure damaged by flood, fire or other uncontrollable disaster or casualty is reconstruction.
- Building a new wing to an existing building is an expansion.
- Rearranging the interior structure of a new building is remodeling.

Additional Circumstances to Consider

1. A service that is usually taxable may be exempt if it is performed closely with a construction activity.

For example, the service of excavating and grading of land to clear the land for construction of a building becomes an exempt service because it is being done in conjunction with new construction. However, excavating and grading land without the intent of construction is taxable, even if at a later date plans are made to construct a building and a structure is actually built.

2. Time can also be a factor in determining whether or not a service is taxable or exempt.

An example demonstrating the time factor is the grading of land. If the land is graded for the purpose of seeding a new lawn following construction, the service is exempt from tax. If, however, the lawn does not grow and the land is regraded the following year, the service is taxable because it is not performed in conjunction with new construction.

3. The physical relationship is also considered.

If a building is constructed for machinery, installation services of the machinery are exempt. For example, piping services that join two pieces of equipment in separate buildings are exempt if the equipment in either building is installed while new construction, reconstruction, alteration, expansion or remodeling to the structure is also taking place.

Transportation and Delivery Charges

Transportation and delivery services are not subject to Iowa sales or use tax if a separate written contract exists or if no written contract exists but the services are separately itemized on the bill.

Start Up Charges

Start up charges are not subject to Iowa sales or use tax if they are separately contracted or if they are separately itemized on the billing from the seller to the purchaser.

SALES BY CONTRACTOR-RETAILERS

Construction contractors, subcontractors and builders who are in the dual business of construction and retail sales are responsible for remitting sales tax on the sales of tangible personal property and certain services. A person or business operating as a dual business is referred to as a "contractor-retailer" and is required to have a sales tax permit. Also, a contractor who makes occasional sales to another person or contractor must obtain a sales tax permit.

Purchases for Resale

The contractor-retailer should purchase building supplies, materials and equipment from vendors as purchases for resale and not pay sales or use tax on those purchases. The contractor-retailer must provide suppliers with valid sales tax exemption certificates that state that the purchases are for resale. The contractor-retailer then assumes responsibility for the collection and remittance of sales or use tax.

Installation of Items Sold

Sales of building materials, supplies and equipment by a contractor-retailer who does *not* provide installation are

considered retail sales. This type of sale is subject to sales tax on the selling price.

Sales of items that are installed by the contractor-retailer are considered a construction contract. The contractor-retailer pays use tax on the cost of the materials at the time they are removed from inventory.

Keeping Records

Business records must clearly show whether or not inventory items taken out of stock were retail sales or used in construction contracts.

Out-of-state Projects

Tax is not due on inventory withdrawn for use by a contractor-retailer on construction projects outside the state of Iowa. However, a contractor's purchases in Iowa of building materials to be used in a construction contract outside this state remain taxable if delivery of the materials occur in Iowa.



Examples

To further understand the differences between a contractor and a contractor-retailer, consider the following:

1. ABC Company operates a retail outlet that sells lumber and other building materials and supplies. ABC is also a contractor that builds residential and commercial structures. Since ABC is a contractor-retailer, it purchases all inventory items for resale. The materials ABC uses in construction contracts in Iowa are subject to use tax on ABC's purchase price. Items that are sold by ABC are subject to sales tax at the over-the-counter selling price.

2. EFG Company is a mechanical contractor and has no retail outlets. EFG *rarely* sells any of its inventory to other persons or contractors; therefore, EFG is not considered to be a contractor-retailer. Since EFG is considered to be a contractor only, it must pay sales tax to its suppliers when it purchases building supplies, materials and equipment. On those rare occasions that EFG sells an item to another person or contractor, EFG must collect sales tax on the selling price. EFG must have a sales tax permit to report this tax. Since tax was already paid on the item when EFG purchased it, an adjustment can be made on the sales tax return by taking a credit for tax previously paid on the item sold under "other allowable deductions."

3. Home Town Construction Company is owned and operated by two individuals in a rural Iowa farming community. They do not have a retail outlet but they *frequently* make sales of building materials from their inventory to local residents. Home Town Construction Company is a contractor-retailer because of the frequency of the sales and should purchase all inventory for resale. Items that are used in construction contracts are subject to use tax on Home Town's buying price at the time they are withdrawn from inventory. Items that are sold are subject to sales tax on the selling price.

4. Down Home Construction Company is operated by two individuals in a rural Iowa farming community. They do not have a retail outlet and *rarely* sell building materials from their inventory. Because its sales are rare, Down Home is considered a contractor only and must pay sales tax to its suppliers when making purchases. However, since Down Home makes occasional sales, it must have a sales tax permit and collect and remit the tax.

5. Acme Carpet Installation is located in Des Moines. The business was awarded a contract to install floor tile in an office building in Lincoln, Nebraska. The contractor purchased the flooring materials from a supplier in Iowa. Because the contractor is the consumer of the materials that are used in a

construction contract and because the materials were delivered in Iowa, the supplier must collect sales tax even though the construction contract is for an out-of-state project. (For information on carpeting, see page 21.)

6. Smith's Plumbing has a retail store in Davenport, but they also install plumbing fixtures and lines in new construction and remodeling projects. Plumbing supplies that are taken from their inventory for a new home being built in Rock Island, Ill., are exempt from sales tax because the construction contract is outside of Iowa. However, those supplies may be subject to Illinois use or sales tax.

Summary

1. A contractor-retailer is an individual or business that makes frequent retail sales to the public or other contractors and builds residential or commercial structures.

2. A contractor-retailer must obtain a sales tax permit to report both sales tax from retail sales and sales tax from construction contracts.

3. A contractor-retailer must purchase building materials, supplies and equipment for resale; that is, the contractor-retailer

should not pay sales tax to its suppliers for these items. Instead, the contractor-retailer should provide suppliers with valid sales tax exemption certificates.

4. A contractor-retailer usually has a retail outlet, but if not, frequent sales to individuals or other contractors qualifies a contractor as a contractor-retailer.

5. A contractor who rarely makes sales to individuals or other contractors is not considered a contractor-retailer and must pay sales tax to suppliers on all purchases or use tax.

6. A contractor who infrequently makes sales to others must have a sales tax permit and collect, report and remit the tax to the state. A credit for tax previously paid may be taken on the quarterly return under "other allowable deductions." The contractor may file annually instead of quarterly if the tax liability for the year is less than \$120.

7. Contractor-retailers do not pay tax on materials withdrawn from inventory for use in construction projects performed outside Iowa.

8. Contractors *must* pay tax on materials used in construction projects performed outside of Iowa if the materials are delivered in or into Iowa.

TAX RESPONSIBILITIES

Sales Tax and Use Tax

When the tax is imposed determines whether it is a sales tax or a use tax. The sales tax is imposed when property is delivered in Iowa. The use tax is imposed when property is purchased for use in Iowa and no Iowa sales tax has been paid.

Sales tax is applied at the time of delivery of taxable goods and when taxable services are rendered, furnished or performed. The Iowa seller of the items must obtain a sales tax permit and is primarily responsible for collecting, reporting and remitting the tax to the Department of Revenue and Finance. In addition, a local option sales tax may apply to sales or services, depending upon where the sale is occurring.

Two types of use tax are recognized by the State of Iowa: retailer's use tax and consumer's use tax. The only difference between the two is the person responsible for remitting the tax.

Iowa retailer's use tax is collected by out-of-state retailers on their sales of goods and taxable services to persons who will use those goods and services in Iowa. If the state of Iowa cannot require an out-of-state retailer to collect Iowa tax, anyone

purchasing goods or taxable services from that retailer for use in Iowa is obligated to pay consumer's use tax when those goods or services arrive in this state.

Sales or use tax is always computed on the actual selling price of the taxable purchase. At this time, the state sales tax rate is 5 percent and the state use tax rate is 5 percent.

Local Option Sales Tax

A local option sales tax that is in addition to the state sales tax has been adopted by many local jurisdictions in Iowa. The rate is 1 percent. Contact Taxpayer Services for a current list of local option tax jurisdictions.

There is no local option use tax. If a contractor purchases taxable goods or services in a local option jurisdiction, the tax must be paid. If a contractor purchases taxable goods or services outside a local option jurisdiction for use inside a jurisdiction, local option tax is not due unless the supplier delivers to the contractor in a local option jurisdiction.

Liability of Subcontractors

A subcontractor who is providing materials and labor on the actual construction of a building or structure has the same tax responsibilities as a general contractor.

Machinery and equipment sold by material suppliers to subcontractors are sold for resale, and the subcontractor must provide the supplier with a valid sales tax exemption certificate. The subcontractor must have a sales tax permit.

A general contractor is not responsible for the tax liabilities of a subcontractor.

Liability of Sponsors

A sponsor is the person or business for whom the contractor is performing construction services.

The Department may ask the sponsor of a contract to guarantee the payment of any sales or use tax due by an out-of-state contractor by withholding the final payment due to the contractor. The sponsor may be released from this requirement if the appropriate forms have been completed; the forms include the names of the subcontractors, the suppliers from whom tangible personal property was purchased, and a summary of the provisions of the actual contract.

Filing Sales and Use Taxes

Contractors who are also retailers must have a sales tax permit. Application forms are available by contacting the Department.

Sales tax returns are filed on a semi-monthly, monthly, quarterly or annual basis, depending on the amount of tax.

Every retailer who collects \$4,000 or more in retail sales tax in a semi-monthly period must file semi-monthly deposits. A retailer who collects less than \$4,000 in a semi-monthly period but \$50 or more monthly must file a monthly deposit form. Retailers collecting less than \$50 monthly file quarterly returns. Retailers collecting less than \$120 per year may file an annual return.

Retailer's use tax returns must also be filed quarterly. However, any retailer who collects \$1,500 or more a month is obligated to make monthly deposits of tax with the Department. Retailers collecting less than \$120 per year may file an annual return.

Do not hesitate to contact the Department if you need more information regarding your filing status.

Consumer's use tax must be reported and paid in the period in which the materials were removed from inventory or brought into Iowa from out of state. Consumer's use tax returns are filed on a quarterly basis.

Penalties are assessed for failure to file a tax return and for failure to pay at least 90 percent of the tax due by the due date. In addition, interest is due if the tax is paid late or the return is filed late. Contact Taxpayer Services for the penalty and interest charges.

SALES BY MANUFACTURERS

Manufacturers who sell to contractors or other consumers are required to collect sales tax or use tax on the gross receipts of the sale. Manufacturers who make retail sales are required to hold an Iowa sales tax or use tax permit.

Manufacturers of building materials, supplies and equipment may sell their products and also use their products in construction contracts. How sales or use tax applies depends on whether or not the business is primarily a manufacturing or a contracting business.

Manufacturer or Contractor?

If a business is primarily a manufacturer, the tax is computed on “fabricated” costs. Fabricated costs include both direct and indirect expenses. This includes the cost of all materials, labor, power, transportation to the plant and other plant expenses such as overhead, but it does not include installation on the job site.

If a business is primarily a contractor that also manufactures, then the tax is computed on the cost of raw materials.

OUT-OF-STATE CONTRACTORS

Registration

All contractors who work in the state of Iowa are required to register with the Iowa Division of Labor regardless of the size of their jobs before they begin construction work in Iowa. General contractors, prime contractors and subcontractors are included in this requirement.

A \$25 biannual is charged, and proof of workers compensation insurance for contractors with employees is required.

Filing a Bond

An out-of-state contractor who is awarded a contract in Iowa in excess of \$5,000 must file a bond with Contractor Registration, Labor Division, Employment Services, 1000 East Grand Avenue, Des Moines, Iowa 50319; 515/242-5871.

The bond is released when all taxes or money due to the State or its subdivisions have been paid.

The Iowa Department of Revenue and Finance may at any time require that the bond be increased to cover tax liabilities. The Department may order the bond forfeited if the contractor has

failed to pay the total amount of the tax due and does not make a timely request for a hearing.

Release Letter

Before the contract sponsor or building owner will release the final payment owed to the contractor, the contractor must obtain a release letter from the Iowa Department of Revenue and Finance and from the Iowa Department of Employment Services, Labor Division showing that all taxes due are paid in full.

OUT-OF-STATE PROJECTS

When tangible personal property is used by a manufacturer in construction contracts outside of Iowa, no Iowa sales or use tax is due.

CONSTRUCTION CONTRACTS WITH MACHINERY AND EQUIPMENT SALES

Construction contracts with machinery and equipment sales, commonly known as mixed contracts, place a dual burden on the contractor. In these contract situations, the contractor is the consumer of the construction materials and is also a retailer of the machinery and equipment. The contractor must have a sales tax permit.

A contractor is required to pay sales tax on building supplies, materials and equipment to the supplier at the time of purchase or remit use tax to the Department if the purchases are made from an out-of-state vendor that did not charge Iowa sales or use tax.

Machinery and equipment that does not become real property (remains tangible personal property after installation) must be purchased for resale.

Example:

Company A contracts with Company B to build a new building and install all of the machinery and equipment. Company B pays its suppliers sales tax on all building materials and supplies.

Company B also purchases refrigeration units that will remain tangible personal property after installation. Company B buys these units for resale since they will be resold to Company A; Company B will then charge Company A sales tax on the units.

Machinery and Equipment

"Machinery and equipment" refers to machinery and equipment that remains tangible personal property and does not become real property when installed. For example, window air conditioners are not considered real property when installed.

Contractors who sell machinery or equipment that is not exempt from tax must purchase it for resale and then charge sales tax as part of the contract. The contract must either itemize sales tax separately or state that sales tax is included in the contract price. When a construction contract is mingled with a machinery and equipment sales contract (a mixed contract), the two parts should be separated for sales tax purposes.

Distinguishing Machinery and Equipment from Real Property

“Machinery and equipment” includes property that is tangible personal property when it is purchased and remains tangible personal property after installation. Generally, tangible personal property can be moved without causing damage or injury to itself or to the structure, and it does not in any other manner constitute an integral part of a structure.

Machinery and equipment that is not permanently annexed to the realty remains tangible personal property after installation. For a list of property that under normal conditions remains tangible personal property after installation, see Appendix D on page 23.

Tangible Personal Property That Become Structures

Items that are manufactured as tangible personal property can, by their nature, become structures. However, the determination is factual and must be made on an item-by-item basis. The following is a list of criteria that courts have used in making such a determination.

- The degree of architectural and engineering skills necessary to design and construct the structure

- The overall scope of the business and the contractual obligations of the person designing and building the structure
- The amount and variety of materials needed to complete the structure, including the identity of materials prior to assembly and the complexity of assembly
- The size and weight of the structure
- The permanency or degree of annexation of the structure to other real property that would affect its mobility
- The cost of building, moving or dismantling the structure

Example: A farm silo, which is a prefabricated glass-lined structure, is intended to be permanently installed. The silo is 70 feet high and 20 feet around, weighs 30 tons, and is affixed to a concrete foundation weighing 60 tons that is set into the ground for the specific purpose of supporting the silo. The assembly kit includes 105 steel sheets and 7,000 bolts. The silo can be removed without material injury to the realty or to the unit itself at a cost of \$7,000. In view of its massive size, the firm and permanent manner in which it is erected on a substantial foundation, its purpose and function, the expense and size of the task and the difficulty of removal, it is considered a structure and not machinery or equipment.

See Appendix D on page 23.

Tangible Personal Property in Manufacturing

If tangible personal property is used in manufacturing and it is taxable as real property, it is exempt from sales/use tax. For example, tables on which manufactured products are assembled are taxable as real property and are, therefore, exempt.

Hand Tools

The rental of hand tools is exempt if used in conjunction with construction contracts. Contractors who purchase hand tools must pay sales tax on the purchase price at the time of the purchase or use tax.

Appendix A

The following services are exempt from Iowa sales or use tax when they are performed on or in conjunction with new construction, reconstruction, alteration, expansion or remodeling of a building or structure. In all other circumstances, such as repair work, they are taxable.

carpentry
roof, shingle and glass repair
electrical and electronic repair and installation
janitorial and building maintenance or cleaning
excavating and grading
house and building moving
landscaping
machine operator services
machine repair of all kinds

NOTE: The repair of machinery used on the job site is taxable.

oilers and lubricators
painting
papering and interior decorating
pipe fitting and plumbing
rental of tangible personal property
termite, bug, roach and pest eradicators
tin and sheet metal repair
tree trimming and removal
welding
well drilling
wood preparations
wrecking services

general contractor services: if the service is not taxable, list separately on bill

architect services: never taxable, list separately on bill

engineer services: never taxable, list separately on bill

Appendix B

Building Materials

The term "building materials" means materials used in construction work. It is not limited to materials used in constructing a building with sides and covering. It may also include any type of materials used for improvement of the premises or anything essential to the completion of a building or structure for the use intended. As of July 1, 1992, carpeting is no longer considered to be building materials.

Building Supplies

The term "building supplies" means anything that is furnished for and used directly in the carrying out of the work of an owner, contractor, subcontractor or builder and is consumed entirely. Such items do not have to enter into and become a physical part of the structure like materials, but they do become as much a part of the structure as the labor performed on it.

The following is a partial list of building materials and supplies:

asphalt	mortar
bricks	oil
builders hardware	paint
caulking material	paper
cement	piping, valves, and pipe fittings
central air conditioning	plaster
cleaning compounds	plumbing supplies
conduit	polyethylene covers
doors	power poles, towers and lines
ducts	putty
electric wiring, connections and switching devices	reinforcing mesh
fencing materials	rock salt
floor covering other than carpeting	roofing
flooring (see page 21)	rope
glass	sand
gravel	sheet metal
insulation	steel
lath	stone
lead	stucco
lighting fixtures	tile
lime	wall coping
linoleum	wallboard
lubricants	weather stripping
lumber	windows
macadam	window screens
millwork	wire netting and screen
	wood preserver

Building Equipment

The term "building equipment" means any vehicle, machine, tool, implement or other device used by a contractor in erecting structures for others, or reconstructing, altering, expanding or remodeling property of others that does not become a physical component part of the property upon which work is performed and is not necessarily consumed in the performance of such work. Building equipment includes but is not limited to:

compressors	replacement parts
drill presses	for equipment
electric generators	scaffolds
forms	tools
hand tools	vehicles including grading,
lathes	lifting and excavating vehicles

Carpeting

Carpeting is considered to be tangible personal property, not building material. Contractors purchase carpeting as a sale for resale and provide the seller with a sales tax exemption certificate. Contractors then collect the sales tax from the final consumer. Contractors must have sales tax permits to purchase carpet tax free for resale.

Floor Coverings

Floor coverings other than carpeting are considered to be building materials if they are shaped to fit a particular room and are permanently attached to the floor. When this occurs, it is taxable in the same manner as building materials that are used in the performance of a construction contract.

The gross receipts from the sales of linoleum and other types of floor covering other than carpet that are not attached but simply laid on finished floors are subject to tax unless purchased for resale.

Landscaping Materials

The gross receipts from the sale of sod, dirt, trees, shrubbery, bulbs, sand, rock, woodchips, and other similar landscaping materials are subject to sales or use tax when used for landscaping and sold to final consumers. The final consumer means the owner of the land or a general building contractor.

When a landscaping contractor uses materials to fulfill a contract, the landscape contractor is considered the retailer of the landscaping materials and is obligated to collect sales tax on the selling price from the final consumer.

In the following examples, assume that the contractor is a landscaping contractor.

Example: A sodding contractor furnishes and installs 20 yards of sod for a lump sum of \$20 per yard. The sodding contractor then charges the customer \$20 sales tax ($5\% \times \400).

Example: XYZ Company landscapes a new office building. XYZ furnishes the shrubs at \$25 each, white rock for \$5 per bag and woodchips for \$4 per bag. Under a separate contract XYZ installs all of the landscaping materials for a fee of \$25 per hour. XYZ's taxable gross receipts include the shrubs, white rock and woodchips. The labor charge is exempt because it could be the taxable service of landscaping new construction.

The gross receipts from the sale of uncut sod and unexcavated trees, shrubs, and rock are not subject to sales/use tax. They are considered to be the sale of real estate.

Appendix C

The following is a partial list of activities and items that could fall within the meaning of a construction contract or are generally associated with a construction contract. The list is provided merely for the purposes of illustration and should not be used to distinguish machinery and equipment from real property or structures since those kinds of determinations are factual.

ash removal equipment,
 installed
automatic sprinkler systems
 for fire protection
awnings and venetian blinds
 that are attached to real
 property
boilers, installed
brick work
builders hardware
burglar alarm and fire alarm
 fixtures
caulking materials work
cement work

coal handling equipment,
 installed
concrete work
conveying systems, installed
drapery installation
electric conduit work and
 related items
electric distribution lines
electric transmission lines
flooring work
floor covering installation,
 permanent
furnaces, heating boilers
 and heating units
furniture, prefabricated
 cabinets, counters and
 lockers, installed

glass and glazing work
gravel work
lathing work
lead work
lighting fixtures
lime work
lumber and carpenter work
macadam work
mill work installation
mortar work
oil work
paint booths and spray booths,
 installed
painting work
paneling work
papering work
passenger and freight elevators
piping valves and pipe fitting
 work
plastering work
plumbing work
putty work

refrigeration units, central
 plants installation
reinforcing mesh work
road construction
roofing work
sheet metal work
signs, other than portable
steel work
stone work
stucco work
tile work, ceiling, floor
 and walls
underground gas mains
underground sewage
 disposal
underground water mains
vault doors and equipment
wallboard work
wall coping work
wallpaper work
weather stripping work
wire net screen work
wood preserving work

Appendix D

The following is a list of property that under normal conditions remains tangible personal property after installation. The list is not complete and is for illustrative purposes only.

- furniture, radio and television sets and antennas, washers and dryers, portable lamps, home freezers, portable appliances and window air conditioning units
- portable items such as casework, tables, counters, cabinets, lockers, athletic and gymnasium equipment and other related easily movable property attached to the structure
- machinery, equipment, tools, appliances, and materials used exclusively as such by manufacturers, industrial processors and others performing a processing function with the items
- office, bank and savings and loan association furniture and equipment, including office machines
- radio, television and cable television station equipment, but not broadcasting towers

The following is a list of property which under normal circumstances becomes a part of realty. The list is not complete and is offered for illustrative purposes only.

- boilers and furnaces for space heating
- built-in household items such as kitchen cabinets, dishwashers, sinks (including faucets), fans, garbage disposals and incinerators
- buildings and structural and other improvements to buildings, including awnings, canopies, foundations for machinery, floors (including computer room floors), walls, general wiring and lighting facilities, roofs, stairways, stair lifts, sprinkler systems, storm doors and windows, door controls, air curtains, loading platforms, central air conditioning units, building elevators, sanitation and plumbing systems, and heating, cooling and ventilation systems
- fixed (year-round) wharves and dock
- improvements to land including retaining walls, roads, walks, bridges, fencing, railway switch tracks, ponds, dams, ditches, wells, underground irrigation systems, drainage, storm and sanitary sewers, and water supply lines for drinking water, sanitary purposes and fire protection
- planted nursery stock

- residential water heaters, water softeners, intercoms, garage door opening equipment, pneumatic tube systems and music and sound equipment (except portable equipment)
- safe deposit boxes, drive up and walk up windows, night depository equipment, remote television, auto teller systems, vault doors, and camera security equipment except portable equipment)
- seating in auditoriums and theaters and theater stage lights (except portable seating and lighting)
- silos and grain storage bins
- storage tanks constructed on the site
- swimming pools (wholly or partially underground, except portable pools)
- truck platform scale foundations
- walk-in cold storage units becoming a component part of a building

For more information, contact:

**Iowa Department of Revenue and Finance
Taxpayer Service Section, PO Box 10457,
Des Moines, IA 50306-0457.**

If calling from the Des Moines metropolitan area or from out of state, call: (515) 281-3114.

If calling from elsewhere in Iowa or the Omaha or Rock Island/Moline areas, call toll-free: 1-800-367-3388.

REQUIRED CONTRACTOR CONTACTS

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