

# CONSUMER'S USE TAX



Iowa department of  
Revenue and Finance

*Iowa's tax structure allows for several types of use tax. This brochure addresses consumer's use tax only. (Out-of-state businesses that want to be licensed to collect Iowa tax should contact Taxpayer Services to apply for a retailer's use tax permit.)*

## **CONSUMER'S USE TAX**

Iowa's sales tax is complemented by a use tax. Both the sales tax and the consumer's use tax are measured by the receipts from the sales of tangible personal property and taxable services. The difference between them is the circumstance under which the taxes are imposed.

### **Sales tax is applied when...**

Sales tax is imposed on the gross receipts resulting from a sales transaction of taxable services or tangible personal property *at the time* the sale takes place. The seller of the goods or services is responsible for collecting, reporting and remitting the sales tax. The tax is imposed when the service is rendered, furnished or performed or when the tangible personal property is delivered.

### **Consumer's use tax is applied when...**

Consumer's use tax, on the other hand, is imposed *after* the sale takes place and only on goods and services that have not yet been subjected to sales tax. In most cases, these are purchases made from an out-of-state supplier not collecting Iowa tax and that are for use in Iowa. Ordinarily, the retailer is responsible for collection of the tax; however, if the retailer is not required by law to collect the tax or the Iowa retailer fails to collect the tax, the purchaser is then responsible for consumer's use tax. The purchaser must pay the use tax when ownership or control of the purchase is taken.

Use tax applies to, but is not limited to, purchases made tax free through mail-order catalogs, television shopping programs, and toll-free 800 numbers; magazine subscriptions; and untaxed purchases made while in another state and shipped or otherwise brought into Iowa. Anyone – individuals and busi-

nesses – who makes these types of purchases is required to pay consumer's use tax to the Iowa Department of Revenue and Finance.

### *Businesses:*

No registration fee is charged and no physical permit certificate is issued to businesses, although a consumer's use tax number is assigned. Contact Taxpayer Services to obtain an application.

NOTE: Out-of-state contractors who don't have a permanent location in Iowa and who regularly conduct business in the state should apply for a *retailer's* use tax permit. The purchase price of the building materials and equipment that are purchased for use on a construction project in Iowa must be shown on the "goods consumed" line of the retailer's use tax return. Out-of-state contractors and other business people who are engaged in a one-time, non-recurring project or sale are not required to obtain a retailer's use tax permit. However, they should follow the instructions given below for individuals who owe tax from a single, non-recurring transaction. Contact Taxpayer Services to obtain an application.

### *Individuals:*

Persons who owe consumer's use tax should send a check payable to Treasurer State of Iowa with a note explaining that it is for consumer's use tax and listing the items purchased and the purchase price of those items.

Anyone who regularly purchases merchandise from out of state for his or her own use in Iowa should register for a consumer's use tax permit and pay the tax on a quarterly basis.

## **Examples of purchases of tangible personal property**

Consider the following situations when consumer's use tax is due:

- A business purchases furniture and office supplies from a vendor in another state who is not registered to collect Iowa sales/use tax. The

Iowa business does not resell these items; it uses them. If sales/use tax was not paid on these items when they were purchased; the business owes consumer's use tax to Iowa.

- An Iowa doctor who makes an untaxed out-of-state purchase of an exam table owes Iowa consumer's use tax.
- An Iowa individual purchases clothing or stereo equipment or jewelry through a mail order catalog and does not pay Iowa sales tax to the mail order company; that person owes consumer's use tax to Iowa.

## **Taxable services**

Not all services are subject to the Iowa sales and use tax. For a complete listing of taxable services, contact Taxpayer Services and ask for the free brochure "Iowa Sales/Use Tax on Services."

A person or business that purchases taxable services from an out-of-state vendor who is not registered to collect or fails to charge Iowa tax owes consumer's use tax to Iowa if the results of the services are used in Iowa.

- An Iowa resident, for example, who sends jewelry or watches out of Iowa for repair will owe consumer's use tax on the repair costs – both materials and labor – if the out-of-state vendor is not registered to collect Iowa tax and if no tax is paid to the other state. (Jewelry and watch repair are subject to Iowa tax.)

If tangible personal property is sent out of state to be repaired and the service is not taxable in Iowa, the person owes consumer's use tax on only the materials furnished and used in the repair if the materials are separately itemized on the bill. If the materials and non-taxable services are not separately itemized, the tax is due on the invoiced amount. Separately itemized shipping charges are not taxable.

## **Paying tax to another state**

If possession is taken in another state and sales tax has already been paid to the other state on the goods or services, no additional tax is due if the tax paid is

equal to or greater than Iowa's rate. If the tax is less, the person or business owes Iowa the difference. It is the purchaser's responsibility to show where delivery took place and that the sales tax has been paid.

- Consider, for example, an Iowa business or person that purchases and takes possession of furniture in Nebraska, pays the Nebraska sales tax and then brings the furniture to Iowa to use. If the Nebraska sales tax is the same rate as Iowa's, no consumer's use tax is owed to Iowa.
- An Iowa business or person purchases and takes possession of furniture in Colorado and pays the Colorado sales tax. If Colorado's sales tax is less than Iowa's, the difference is due.

### **Local option sales tax**

Many jurisdictions in Iowa have a local option sales tax that is in addition to the state sales tax. When a purchase is made out of state for use in Iowa, local option tax is *not* due as an addition to consumer's use tax. However, in transactions where Iowa sales tax plus local option tax should have been charged but was not, the business making the purchase must report and pay the local option sales tax on the sales tax return. For assistance, call Taxpayer Services.

### **Goods consumed...**

Do not confuse the consumer's use tax with those items that are taxed on the "goods consumed" line of the sales tax return.

Sometimes a business that intends to resell items that were purchased without paying sales tax ends up using some of those items for personal or business reasons. Whenever inventory is withdrawn for use by the business, the cost of those items is placed on the "goods consumed" line of the sales tax return.

## USE TAX IS PROTECTION

Use tax protects in-state businesses from unfair competition. When sales tax is not collected on taxable purchases and services used in your community, local businesses operate at a competitive disadvantage. This in turn affects the economic health of your community and state.

## WHY DON'T ALL OUT-OF-STATE BUSINESSES COLLECT USE TAX?

If an out-of-state retail business has a physical presence such as a store, warehouse, or sales staff in Iowa, it is required by law to register and collect Iowa tax. Mail-order companies and others who actively solicit orders in Iowa but lack physical presence in the state are not currently required to collect Iowa tax. Many businesses, however, voluntarily collect Iowa tax as a courtesy to their customers.

Out-of-state businesses are being encouraged to register and collect Iowa tax voluntarily. If they do not, Iowa may contact the purchasers directly for payment.

### QUESTIONS?

Contact

Iowa Department of Revenue and Finance

Taxpayer Services

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

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



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