

# LOCAL OPTION SALES TAX

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**Local option sales tax** has been adopted by many cities, towns and unincorporated areas in Iowa. For a current list of taxing jurisdictions, refer to the latest issue of the Department's *Business Tax Newsletter*, which is mailed with the Iowa sales tax return, or contact our office. With few exceptions, local option sales tax is imposed whenever state sales tax is imposed.

The tax must be imposed by ordinance of the county board of supervisors. Cities may not impose this tax themselves. A local option sales tax is imposed only after an election at which a majority of those voting favors imposing the tax. The tax remains in effect until it is repealed. Questions and problems regarding the election ballot should be addressed to the Iowa Secretary of State at (515) 281-5865.

The rate of the local option sales tax can be up to 1%. Local option sales tax does *not* have a complementary local option use tax.

Retailers do not have to obtain special sales tax permits in order to collect local sales tax. No permit other than the state sales tax permit is required.

### **WHAT IS TAXED?**

The amount of local option sales tax due is based on purchase price only. Exclude state sales or use tax.

#### ***Sales Tax On Goods***

The local option sales tax is imposed upon the gross receipts from sales of tangible personal property which occur where a local option sales tax is imposed. Tax applies if "delivery" of the tangible personal property, pursuant to a contract for sale, occurs within a local option sales tax jurisdiction.

*Delivery occurs where and when physical possession of the property being purchased transfers from a retailer to a buyer.*

If any retailer delivers tangible personal property into a jurisdiction which imposes the local option sales tax, the tax is due. The retailer then reports the sale on the quarterly retailer's sales and use tax return in the section for local option sales tax breakdown by county.

However, if a retailer based in a local option jurisdiction delivers property to a location which does not impose local option sales tax, the tax is not due.

When a purchase is made before the local option sales tax is effective but delivery of the item is made afterwards in a taxing jurisdiction, the local option tax is due.

### ***Vending Machines***

The location of a vending machine is the place of sale for determining if local option sales tax is applicable.

### ***Services Tax On Services***

Local option sales tax is imposed upon a taxable service if the service is rendered, furnished, or performed within local option sales tax jurisdiction. If a taxable service is substantially performed within a taxing jurisdiction, local option sales tax is due on the entire amount billed to the customer – unless that portion of the service not subject to tax is separately stated, separately billed and is reasonable in amount. If a service is billed for a period which is partially during a time when there is no local option tax and partially during a time when there is a local option tax, the *date* of the billing is used to determine whether local option tax is imposed. All billings dated on and after imposition of the tax are subject to the tax.

### ***Foods Consumed***

If a person who purchases items for resale or processing withdraws those items from inventory or from stock, the purchase price of the items is subject to local option sales tax if the items are withdrawn in a taxing jurisdiction.

### ***Construction Contractors***

Owners, contractors, subcontractors or builders purchasing building materials, supplies and equipment for the erection of buildings or the alteration, repair or improvement of real property must pay local option sales tax if they take delivery in a taxing jurisdiction.

In the case of contractors, subcontractors or builders who are also retailers, local option sales tax is imposed if those persons withdraw building materials, supplies and equipment from inventory in a taxing jurisdiction for construction purposes or deliver it to users or consumers located in a taxing jurisdiction.

Construction contractors may apply for refund of additional local option sales tax paid as a result of the imposition of or an increase in the rate of local option tax if the following circumstances exist:

- 1) The additional tax is paid upon tangible personal property incorporated into an improvement to real estate in fulfillment of a written construction contract fully executed prior to the date local option sales tax is imposed or its rate increased, and
- 2) The contractor has paid the full amount of both state and local option sales tax due to the Department or to a retailer, and
- 3) The claim is filed on forms provided by the Department within six months of the date on which the contractor paid the tax.

The refund is not applicable to equipment transferred under a mixed construction contract.

### ***Utilities***

The address of the customer, or “subscriber,” is used to determine whether local option sales tax is due on the purchase of utility services or property. Delivery of gas and water occurs and the services of electricity, heat, solid waste (non-residential commercial), sewer (non-residential commercial), communication and pay television are rendered, furnished, or performed at the subscriber’s address.

### ***Short Term Motor Vehicle Rental***

In order for local option sales tax to apply, the motor vehicle must be transferred to the customer in a local option jurisdiction and payment for the rental must be made in the local option jurisdiction.

## **WHAT IS NOT TAXED?**

- The sale of lottery tickets or shares
- The sale of motor fuel and special fuel
- The rental of rooms subject to hotel/motel tax
- The sale of natural gas or electrical energy subject to a city franchise fee or user fee
- The sale of equipment by the State Department of Transportation

## **OUT-OF-STATE RETAILERS**

A retailer with a physical presence (nexus) in Iowa who makes deliveries into Iowa must collect Iowa sales tax. If these transactions occur in a local option jurisdiction local option sales tax is also due.

Nexus includes maintaining a warehouse in a local option sales tax jurisdiction, having an agent in a taxing jurisdiction either permanently or temporarily, installing property, performing construction activities or service work in a jurisdiction or regularly delivering products into a jurisdiction.

## **PENALTY AND INTEREST**

If a merchant fails or refuses to collect local option sales tax, penalties associated with the nonpayment are the same as those for state sales tax. Failure to file returns or to remit tax timely is a serious matter. The Department will assess penalty and interest on the tax due. In addition to penalties, recurring failure to file returns or pay tax timely will result in the Department imposing a bond or revoking the sales tax permit.

## **KEEPING RECORDS**

Retailers need to keep records of local option taxes grouped only by county. It is not necessary to maintain records by individual city or other jurisdictions.

## **REPORTING INSTRUCTIONS**

*(Excerpt from the Iowa Quarterly Return)*

County:	Enter the name of the county in which the sales took place in the first column
Code:	Enter the code (county number) assigned to the county named
Rate:	Enter the local sales tax rate for that county
Taxable Sales:	Enter the total amount of sales taxable in the jurisdiction in the county name
Tax:	Multiply the amount of taxable sales by the local sales tax rate and enter the result
Line M. Total Local Option Sales Tax:	Add the figures in the TAX column and enter the total on LINE M and on LINE 7 of this return.

Retailers do not remit local option sales taxes with their semi-monthly or monthly sales and use tax deposits. Local option sales tax collections are reported and remitted with the quarterly sales and use tax return which contains local option sales tax reporting information.

### **FOR MORE INFORMATION**

If you have questions about local option sales tax, please contact us for more information:

Iowa Department of Revenue and Finance  
Taxpayer Services  
P.O. Box 10457  
Des Moines, Iowa 50306-0457

From the Des Moines metropolitan area  
or from out of state, call:

**(515) 281-3114.**

From elsewhere in Iowa or from the Omaha or  
Rock Island-Moline calling areas, call toll free:

**1-800-367-3388.**

*The Department has adopted a combined bracket system for Iowa sales tax and local option sales tax. It is available as a chart which calculates the tax due on various purchase prices in jurisdictions which charge both taxes. To receive a free copy of this rate chart, please call the telephone numbers listed above*



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