

IOWA SALES TAX ON FOOD

FOODS FOR HUMAN CONSUMPTION

Primary guideline

The primary guideline for exempting food from sales tax is whether or not the food can be purchased with Food Coupons issued by the U.S. Department of Agriculture. These are sometimes referred to as Food Stamps.

If food can be purchased with Food Stamps, it is not taxed. Obvious examples are staple foods such as milk, bread, eggs, meat, fish, cereal, flour, sugar, fruits and vegetables. These are purchased to be prepared and eaten at home. They can be purchased with Food Stamps; therefore, they are exempt from Iowa sales tax, regardless of whether or not the buyer uses Food Stamps. Please note that the Iowa Code adds several important exceptions, which are explained in this publication.

As you read this, remember that, as always, any eligible food *actually purchased* with Food Stamps is exempt from sales tax. If you have a question as to whether or not a food can be purchased with Food Stamps, call the U. S. Department of Agriculture, Food and Nutrition Service at 515/284-4035.

Food Stamp purchases

When eligible food items are purchased using only Food Stamps, no sales tax applies to the purchase.

If a purchase is made using Food Stamps and cash, a retailer may choose to either:

- apply no sales tax to the entire purchase of eligible food items, or
- apply the value of the Food Stamps first to eligible food items that otherwise are taxable, charging no tax on the sale of those items while charging sales tax on any remaining items for which cash is paid.

Once a retailer chooses one of these two methods, it applies to all sales by that retailer until the Department of Revenue and Finance is notified of a change.

EXEMPT PRODUCTS

GENERAL LISTING

Sales of the following types of food products for consumption off the premises of the retailer are exempt from tax. Remember that retailer-prepared food for immediate

consumption, candy, candy-coated items, candy products, and certain beverages are taxable. This list is intended to provide general understanding of the types of foods that are exempt.

- Bread and flour products
- Cereal and cereal products
- Cocoa and cocoa products, unless taxable as candy
- Coffee and coffee substitutes
- Cooking ingredients
- Dietary substitutes and specialty foods
- Eggs and egg products
- Fish and fish products
- Food with ingredients eligible for purchase with Food Stamps

Exempt products, continued

- Frozen foods
- Fruits/fruit products/fruit juices, unless taxable as a beverage
- Garden seeds and plants to produce food
- Meats and meat products
- Milk and milk products, including packaged ice cream products
- Oleomargarine, butter, and shortening
- Snack foods
- Spices, condiments, extracts, and artificial food coloring
- Sugar, sugar products and substitutes, unless taxable as candy

- Tea
- Vegetable and vegetable products

UNIQUE CATEGORIES

Most products can easily be classified either as food or food products or as nonfood items. However, certain items may be difficult to categorize. The following guidelines apply to some of the more unique categories of exempt foods. This list is not a complete list.

Garden seeds and plants

Sales of seeds and plants used to produce food are exempt. These include vegetable seeds and food-producing plants such as tomato and green pepper plants and fruit trees. In addition, food-producing roots, bushes, and bulbs, such as asparagus roots and onion sets, are exempt. Seeds and plants used to produce spices for use in cooking foods are exempt.

Pumpkins are not taxable; they are considered to be an edible squash. It does not matter if they are to be made into jack-o-lanterns when sold. Inedible decorative gourds are taxable.

Ice

If specifically labeled for nonfood use, ice is taxable; otherwise, it is exempt from tax.

Specialty foods

This category includes special foods, such as diabetic and dietetic, enriched or fortified foods, infant formulas, and certain foods commonly referred to as health food items or dietary replacements. This category includes Slim Fast, Carnation Instant Breakfast, Sustacal, Ensure and Boost. Sales of these items are exempt.

NOTE: *If the product is primarily used as a food or in preparing food, the sale is exempt. If used primarily for medicinal purposes as either a therapeutic agent or deficiency corrector, the sale is taxable.*

Snack foods

The sale of these products is generally exempt from sales tax. Typical examples are nuts, potato chips, and chewing gum.

Snack food items such as potato chips and chewing gum are not taxable because they are eligible to be purchased with Food Stamps. Gum with a candy coating, such as Chiclets or Blopops, is treated like gum because it is perceived to be gum and it is marketed as gum.

NOTE: *Sales of candy, candy-coated items, candy products and certain beverages often considered snacks are subject to sales tax unless Food Stamps are used.*

Food ingredients

Certain food items incorporated into foods are exempt. An example is pectin, commonly used as a base in making jams and jellies. Other examples are lard and vegetable oils.

Food baskets

Food basket sales are exempt if the value of the exempt food items is greater than the value of the taxable items. The basket and other decorative items are usually taxable. If these types of items are clearly the most expensive part of the merchandise, the entire food basket is taxable.

TAXABLE PRODUCTS

GENERAL LISTING

The following general classifications of products are subject to tax:

- Alcoholic beverages
- Candy, candy-coated items, and candy products
- Certain beverages
- Cosmetics
- Dietary supplements
- Health aids
- Household aids
- Paper products
- Pet foods and supplies
- Soaps and detergents
- Tobacco products
- Toiletry articles
- Tonics

- Vitamins and minerals

Vitamins, minerals, and food supplements

Vitamins and minerals are supplements to food and food products. They do not replace food. Their sales are taxable. They cannot be purchased with Food Stamps because they occur naturally in food. This category includes products such as cod liver oil, which is used primarily as a source of vitamins A and D. Other similar items which are primarily used for medicinal purposes or as health aids are taxable.

Note: *Sales of prescription drugs are exempt from tax.*

Health aids

Sales of products used primarily as health aids or therapeutic agents are generally taxable. These include aspirin, cough drops or syrups, and other cold remedies, antacids, and all patent medicines or other products used as health aids. Sales of any product used primarily for medicinal purposes are taxable.

CANDY, CANDY-COATED ITEMS AND CANDY PRODUCTS

Candy and candy-coated products are specifically identified as taxable by Iowa law, except if actually purchased with Food Stamps. Sometimes it is difficult to determine what is candy and what is not. Marketing and packaging of a product has some bearing on taxability. If our perception is that an item is candy, it probably is. We know, for instance, that breakfast cereal is not candy, even if it is sugar-coated. Breakfast cereal is not subject to sales tax.

Just because a product has a particular kind of coating, such as chocolate, does not mean that it is always taxable or always exempt. Cookies, crackers and bars, including Twix cookie bars, are not candy and are not taxable. Twix are marketed as cookies and not as candy; Twix are exempt, whereas candy bars such as Snickers and Reese's are taxable.

Products like ice cream toppings – hot fudge, caramel, chocolate, etc. – are exempt from sales tax.

Decorating ingredients that are like candy, such as sprinkles and molded sugar decorations, are exempt. They are generally sold with other exempt baking ingredients.

Other non-taxable items that are similar to candy include jam, jelly, preserves, dried fruit, marshmallows, breakfast cereals, and cakes.

Whether or not candy or candy-coating is considered incidental or primary to the product determines a product's taxability. Chocolate-covered raisins are considered to be candy with raisins as an ingredient; they are taxable. These items are marketed as candy.

Caramel apples are considered to be noncandy food (the apple) with the caramel as an ingredient. Popcorn balls and caramel corn are similarly exempt from sales tax. Caramel wrap for apples is also exempt because it will become part of a nontaxable product.

Taxable candy examples

- candy, candy-coated items, and candy products include preparations normally considered to be candy
- fruits, nuts or other ingredients in combination with sugar, chocolate, honey or other natural or artificial sweeteners in the form of bars, drops or pieces
- hard or soft candies including jelly beans, taffy, licorice, and mints
- dried fruit leathers or other similar products prepared with natural or artificial sweeteners
- cotton candy
- candy breath mints
- mixes of candy pieces, dried fruits, nuts and similar items when candy is more than an incidental ingredient in the product

Exempt examples, not considered candy

The following are not considered candy, and the sales of them are not subject to tax, unless taxable as prepared food.

- jams, jellies, preserves, or syrups
- frostings
- dried fruits
- marshmallows
- unsweetened or sweetened baking chocolate in bars, pieces, or chips
- breakfast cereals
- prepared fruit in a sugar or similar base

- ice cream, popsicles, or other frozen desserts covered with chocolate or similar covering
- caramel or other candy-coated apples or other fruit
- candy-coated popcorn
- cakes and cookies
- chewing gum or bubble gum
- similar products covered with chocolate or other similar coating
- candy primarily intended for decorating baked goods
- granola bars
- fruit leathers such as Fruit Rollups and molded fruit leathers such as Shark Bite (Gummi Bears are taxable; they are considered soft candy.)

BEVERAGES

Taxable beverage examples

- effervescent and noneffervescent water sold in containers
- soda and mineral bottled water
- carbonated and noncarbonated soft drinks, including but not limited to colas, ginger ale, near beer, root beer, lemonade, orangeade
- all other drinks or punches with natural fruit or vegetable juice less than 15 percent by volume; a typical example is Hi-C.
- bottled water
- beverage mixes and ingredients intended to be made into taxable beverages; liquid or frozen, concentrated or non-concentrated, dehydrated, powdered, granulated, sweetened or unsweetened, seasoned or unseasoned

- concentrates intended to be made into beverages which contain less than 15 percent by volume natural fruit or vegetable juice
- all alcoholic beverages

Exempt beverage examples

Unless sold as prepared food for immediate consumption...

- tea, coffee, milk
- beverages that contain primary dairy products or ingredient bases, such as egg nog
- beverages that contain natural fruit or vegetable juice of 15 percent or more by volume (providing the container's label shows the percentage of natural fruit or vegetable juice)
- beverages such as Snapple Brewed Tea
- infant formula
- nondairy coffee "creamers" in liquid, frozen or powdered form
- sugar or other artificial or natural sweeteners sold separately
- beverage in concentrate or mix form to be made into an exempt beverage, such as frozen orange juice or apple juice
- concentrates which when reconstituted are equivalent of 15 percent or more natural, fruit or vegetable juices
- mixes intended to be mixed with milk or dairy products, such as Nestle's Quik
- specialty foods that are liquids or that are to be added to a liquid and that are intended to be a *substitute* in the diet of more commonly used food items are exempt, such as infant formulas

MEALS AND PREPARED FOODS

"Food prepared for immediate consumption" is food prepared to a point that it is generally accepted as ready to be eaten without further preparation and in a manner that suggests readiness for immediate consumption.

Before you can determine whether or not prepared food is taxable, you must consider the following:

Where is the food eaten?

If prepared food is eaten on the premises of the retailer, it is taxable.

If it is eaten off the premises, then also ask:

Was the food sold intentionally hot or intentionally cold?
and

Was the food prepared by the retailer?

If yes to both, the food is taxable.

The "context" of the sale must also be considered in determining whether or not prepared food is taxable. A food item taxed in one part of a store may be exempt elsewhere because of the context of the sale or the associations made with it. For example, macaroni and cheese prepared in the delicatessen is taxable when sold from the delicatessen. If the macaroni and cheese becomes surplus, is packaged, and sold from a refrigerated bunker, it becomes exempt from sales tax.

Bakery goods

Cakes, pies or other bakery goods to be eaten off the premises of a retailer, even if prepared by the retailer and sold for immediate consumption, are not taxable because they are not sold intentionally hot or cold.

Catered foods

All sales of food, food products, and drinks on a catered basis are subject to tax.

Catering is – at the very least – delivering food that is ready to eat. This includes hot, delivered pizza. Catering can involve additional services beyond food delivery, including set-up, serving and clean-up.

If a retailer is advertised as a caterer and delivers food that is prepared to be eaten immediately, that service – including the charge for the food – is taxable. It does not matter if the caterer actually serves the food or not.

A person who makes pies and cakes and delivers them is not considered a caterer, and those sales are not taxable.

FOOD EATEN ON THE RETAILER'S PREMISES...

Food eaten on the retailer's premises is taxable if...

- the food is prepared to be eaten immediately AND
- the retailer ordinarily provides seating

Who prepares the food – the retailer or someone else – is irrelevant.

General description

Sales of food products, food and drinks prepared by the retailer or others for consumption on the premises of the retailer are taxable.

"Premises of the retailer" means the total space and facilities under control of the retailer including buildings, grounds, and parking lots or that are available for use by the retailer. Self-service heating or other preparation facilities or eating facilities, often including seating, indicate that food, food products, and drinks are sold for consumption on the premises of the retailer.

Sales are taxable if the retailer operates vending machines, mobile vendors, snack shops, or concessions and on the same premises operates facilities for such activities as recreation, entertainment, education, office work, or manufacturing.

Food sales by movie theaters, bowling alleys, video arcades, roller skating rinks, and other entertainment facilities are taxable.

Businesses that are generally considered to be offering food for consumption on the premises include restaurants, coffee shops, cafeterias, snack shops, and concession stands, including those at recreation and entertainment facilities. Others offering food for on-premises consumption can include vending machines and mobile vendors.

Sometimes the retailer also sells food items that are not to be eaten immediately. Taxability depends on the nature of the items being sold, the type of packaging and whether or not the food is actually prepared to the point that it could be eaten immediately. A single-serving item, for example, is taxable when seating facilities are provided because the single-serving item is considered to be packaged to be eaten immediately. A loaf of bread or a gallon of milk is exempt; these are not obviously intended to be eaten immediately.

Examples

The following examples demonstrate which sales are taxable as food and drink prepared for consumption on the premises of the retailer.

Example A.

The Universal Mini-Mart sells bulk food items such as bread, milk, and eggs and also sells prepared food. Joe, the owner, also has a microwave oven, seating, condiments, dinnerware and paper napkins for customers' use. The bulk items are exempt from sales tax. Items such as sandwiches, pizza, and other single-serving items that are prepared for immediate consumption are taxable. Joe also makes and sells whole ready-to-eat pizzas; these are taxable even if seating is not provided because they are made for immediate consumption.

Example B.

Donuts R Us sells coffee and pastries for eat-in or take-out. Seating facilities are provided. Donuts purchased to be eaten on the premises are taxable. When packaged and sold in bulk quantities for off-premises consumption, they are not taxable because they are not sold intentionally hot or cold.

Example C.

A business owner operates a movie theater and a concession stand in the lobby of the theater. There is not a separate area for eating facilities. Sales of prepared food and drink through the concession stand are taxable. (Taxable as sales for consumption on the premises of the retailer.)

Example D.

As a convenience to employees, a manufacturer owns and operates several food and drink vending machines located on the premises. Facilities for eating are not provided. Sales of prepared food and drink through the vending machines are taxable. (Taxable as sales for consumption on the premises of the retailer.)

Example E.

Mobile vendor units located throughout an office are operated by the owner of the business and are stocked with snack food priced to cover the cost of the items to the employer. No separate eating facilities are provided. Sales of prepared food through the mobile vendors are taxable. (Taxable as sales for consumption on the premises of the retailer.)

Example F.

A bakery with eat-in facilities sells baked goods that are neither hot nor cold. Baked goods as well as other prepared food and drink sold for consumption on the premises are

taxable. However, the baked goods sold by this bakery on a take-out basis are not taxable. (Exempt because they are sold neither hot nor cold.)

Example G.

A separate area in an office building is set aside for vending machines and seating facilities. The seating area and the vending machines are maintained and operated by a vending company. In this case, sales of prepared food and drink through the vending machines are taxable. (Taxable as sales for consumption on the premises of the retailer.)

FOOD EATEN OFF THE RETAILER'S PREMISES

General description

When a sale of prepared food is clearly identifiable as being for consumption off the premises, the sale is taxable if the food is

- Intentionally hot or cold and
- Prepared by the retailer, and
- For immediate consumption.

"Hot or cold" means that the food is **intentionally** sold in a heated or cooled state. Food that is not heated or cooled is taxable if sold in combination with other heated or cooled food on a non-itemized basis. Availability of self-service heating facilities indicates intent to sell food in a heated state whether or not the food is actually heated at the time of sale.

"Prepared by the retailer" for immediate consumption includes, but is not limited to cooking, mixing, sandwich making, blending, heating, or pouring. "Prepared by the retailer" includes customer utilization of on-premises facilities for the purpose of preparing food for immediate consumption. Slicing and the division of food and drink into smaller portions is not by itself preparation by the retailer for immediate consumption off the premises of the retailer.

Food prepared for "immediate consumption" is food prepared to a point generally accepted as ready to be eaten without further preparation and that is sold in a manner that suggests readiness for immediate consumption. Actual immediate consumption of the food is not necessary for the sale to be taxable if the food has been prepared for immediate consumption.

Sales of food that is often for immediate consumption off the premises of the retailer include delicatessen, ice cream, and vending machine products.

If a vendor does not provide seating or other eating facilities, sales of prepared food and drink from vendor-owned vending machines or mobile vendors or from snack shops or

concession stands are usually for consumption off the premises of the retailer. However, if a vendor sells prepared food at retail food establishments without separate seating or eating facilities and on the same premises operates facilities for activities such as recreation, entertainment, education, office work, or manufacturing, then the sales of prepared food can be taxable as sales of prepared food on the premises of the retailer.

Examples

The following examples are intended to show some of the situations in which sales are taxable as hot or cold food and drink prepared by the retailer for immediate consumption off the premises of the retailer.

Example A.

The owner of a sports stadium leases concession stands at the stadium to a company that operates the stands during events at the stadium. The concession operator prepares and heats sandwiches and sells other food and drink prepared and packaged by others. No separate eating facilities are provided. All sales by the concessionaire are for immediate consumption in an intentionally heated or cooled state. Therefore, the sales of sandwiches and other food prepared by the retailer are taxable.

Example B.

A convenience store sells sandwiches prepared and packaged by a wholesale distributor. Microwave ovens are available for heating the sandwiches. No separate eating facilities are available. Sales of these sandwiches are not taxable because the sandwiches are not for consumption on the premises of the retailer and because the sandwiches were not prepared by the retailer.

Example C.

An area for food and drink vending machines and separate eating facilities are provided by the owner of the building. Vending machines and accompanying microwave ovens located in the area are owned and operated by a vending service under contract with the owner of the building. The retailer prepares none of the food placed in the machines. The vending service is the retailer. Sales of food and drink through the vending machines are for immediate consumption off the premises of the retailer. Thus, sales of food and drink through the vending machines are not taxable unless the sales involve candy, candy-coated items, candy products, and certain beverages.

CONVENIENCE STORES

Sometimes a retailer sells food that is not to be eaten immediately and sells food that is to be eaten immediately. The food is taxable if it meets the previously-mentioned criteria for food that is sold for on- or off-premises consumption.

Off-premises consumption

Example: Beemers Convenience Store sells coffee and soda pop at a self-serve fountain. The drinks are taxable. The coffee is prepared by the retailer and intentionally served hot. Soda pop is always taxable unless purchased with Food Stamps; see "Certain beverages" above. Both are intended to be consumed immediately.

Example: Beemers also sells a variety of sandwiches. One of them is a cold meat sandwich kept in the cooler. Beemers did not make the sandwich; they simply put it on the shelf in the cooler. Although it is intentionally kept cold to be served cold and is made for immediate consumption, the sale is not taxable because Beemers did not make the sandwich, and they do not have any seating.

Example: Beemers also makes sandwiches, which Beemers sells from a cooler. No further preparation is needed. This sandwich is taxable. Beemers made it. Beemers purposely chilled it, and it may be consumed as sold.

On-premises consumption

Example: The Dairy Barn sells prepackaged quarts and half-gallons of ice cream and single ice cream servings in bar form and in cones, cups and on sticks. The Dairy Barn makes all of the ice cream. Seating facilities are available. The bulk ice cream is not taxable. The single servings are taxable.

DELICATESSENS AND GROCERY STORES

Food sales from a delicatessen or prepared by a grocery store for immediate consumption off the retailer's premises are generally subject to sales tax. Sales of food items, whether sold in individual portions or larger quantities, are subject to tax when the food is prepared by the retailer for immediate off-premises consumption and are intentionally sold hot or cold.

Preparation by the retailer includes, but is not limited to, cooking, mixing, sandwich making, blending, heating or pouring. Neither slicing nor division of food or drink into smaller portions by themselves constitute preparation by the retailer.

Context can be important as an indicator of sales for immediate consumption in considering the taxation of food. For instance, sales of retailer-prepared food sold through a delicatessen section or salad bar in the grocery store generally imply that the sales are for immediate consumption. If the retailer-prepared food is sold purposely hot or cold in such an environment, the sale is taxable.

Whole roasted chickens sold hot are taxable; they cannot be purchased with Food Stamps.

If several items are sold together as part of a meal for consumption off the premises of the retailer and they are not separately itemized, the total amount charged for the meal is subject to sales tax. A meal might include a loose-meat sandwich, a bag of potato chips and a soft drink for a single, combined price. The full amount of the sale is taxable. If the items are separately charged, the chips are not taxable because they are not sold intentionally hot or cold.

Many delis take surplus food and package it and place it in a cooler separate from the deli counter. Generally, sales of this food are exempt from sales tax because the context of the sale does not indicate sale for immediate consumption.

FOOD COURTS

Food courts in malls do not own the seating facilities; the mall does. Food sold by retailers in the food court is taxable if:

- it is prepared to be eaten immediately AND
- it is made intentionally hot or cold AND
- it is prepared by the retailer

SOUP AND SALAD BARS

Many grocery stores sell soups, salads and salad mixes from their salad bars, produce sections and delicatessens. Food sold from the salad bar is taxable if it has been prepared by the retailer, served purposely hot or cold and for immediate consumption.

Food sold from the produce section is generally not for immediate consumption. It usually requires further preparation at home. Premixed salad ingredients sold in the produce section are not taxable. However, if the retailer makes a salad that is sold in combination with salad dressing on the side or mixed with the salad, its sale is taxable.

RESTAURANTS

Tips

Monetary tips or gratuities which are included with the charge for meal service are subject to tax. If meal service cannot be obtained without paying the gratuity or if the gratuity is inseparable from the service charge, tax is due on the full amount charged for the meal service. Tips or gratuities paid voluntarily by the customer are not taxable.

Alcoholic beverages

Sales of alcoholic beverages are subject to Iowa sales tax. If sales tax is included in the price of alcoholic beverages, the retailer must post a sign indicating that tax is included in the price.

The base price on which the sales tax is to be calculated can be determined by dividing the gross receipts from the sales of such alcoholic beverages by 1.05 (or 1.06 if the business is located in a local option sales tax jurisdiction). The resulting amount is multiplied by the appropriate tax rate to arrive at the amount of sales tax due.

Meals provided to employees

Meals provided free of charge by a retail food establishment to its employees are exempt from sales tax.

Napkins, paper plates and plastic tableware

Napkins, paper plates and plastic tableware are exempt from sales tax when they are purchased to become part of the selling price of prepared food. If they are not part of the selling price and a food establishment gives them to customers without charge, the food establishment must pay tax on them when they buy them. If the business purchased the items and did not pay sales tax but should have, the items must be included as "goods consumed" on the Iowa sales tax return.

VENDING MACHINES

An operator who places vending (or other coin-operated) machines on different locations need only to hold one permit in a regular place of business. The one permit will apply to all machines located in Iowa.

On-premises consumption

Food and drink sold from a vending machine is generally taxable if...

- the vending machine is owned or leased by the retailer
- AND
- seating facilities are provided by the same party who owns or controls the vending machine

Premises in this case is defined as where the machine is located. The vending machine must be controlled by the same retailer that provides the eating facilities.

Candy, candy-coated items, candy products, and certain beverages are taxable when sold through vending machines. It does not matter if these items are sold for on- or off-premises consumption.

Off-premises consumption

Food and drink sold from a vending machine for off-premises consumption is generally taxable if...

- it has been prepared by the retailer and
- it has been kept purposely hot or cold and
- it is for immediate consumption

If the vending machine operator does not control or own the premises where the vending machine is located, the food sold from the machine is for off-premises consumption. Food sold from vending machines for off-premises consumption is subject to sales tax if it is prepared by the retailer, is intentionally kept hot or cold and is prepared to a point that it can be immediately consumed.

SALES TAX REFUNDS

We often hear from people who feel that they have been charged sales tax on items that are exempt. Our agency prefers you refund overcharged sales tax to your customers; however, you are under no obligation to do so. They may always file a claim for a refund directly from the Iowa Department of Revenue and Finance.

CORRECT SALES TAX

Our agency wants retailers to charge sales tax correctly and to do so uniformly so that one business does not have an advantage over another. If you know of a business that is incorrectly charging sales tax, let us know. We will keep your information confidential and simply contact the business and explain the correct way to charge the tax.

LOCAL OPTION SALES TAXES

In addition to the 5 percent state sales or use tax, local jurisdictions may impose one or both of Iowa's local option taxes.

The "regular" local option sales tax began in 1986. Within a county, some cities may have the local option tax, some may not. Also, the unincorporated area of a county may or may not have the tax. The rate may be up to 1 percent.

The school infrastructure tax became effective in 1998. This is a countywide tax; that is, either all cities and the unincorporated areas of a county will have the tax or none of them will. The rate may be up to 1 percent.

There is no local option use tax for either taxes; therefore, those sales that are subject to a use tax, such as motor vehicles, are not subject to local option sales taxes.

Tax applies if "delivery" of the taxable goods or services occurs within a local option jurisdiction. "Delivery" is the location in which ownership of tangible personal property is transferred from the seller to the buyer or the location in which a service is rendered, furnished or performed. If delivery occurs in a local option tax jurisdiction, then the local option tax must be collected on the transaction. This applies to both local option taxes.

As a general rule, both local option taxes are collected on the sale of the same services and tangible personal property that are subject to the state sales tax and delivered in those jurisdictions.

Local option tax lists change in June and in December; effective dates are July 1 and January 1. Obtain a current list of jurisdictions that utilize the local option sales tax.

For more detailed information about the local option sales taxes, obtain "Regular Local Option Questions and Answers" (78-601) and "School Local Option Questions and Answers" (78-511).

USE TAX

Iowa use tax is complementary to the Iowa sales tax. The general rule is that if taxable personal property or taxable services are purchased outside of Iowa for use or consumption in Iowa the sale is subject to Iowa use tax. In most cases, these are purchases made from out-of-state suppliers, catalogs, magazines or television, radio or internet vendors. The purchaser must pay the use tax to the Iowa Department of Revenue and Finance. The total gross purchases must be reported and the tax remitted in the quarter in which the purchase occurred.

Businesses or persons that have an Iowa sales tax permit can report the purchase and pay the tax due on its quarterly sales tax return on line 2 "goods consumed."

Others who make these kinds of purchases can pay the use tax to Iowa by sending a note listing the items purchased and their prices and explaining that the check (payable to "Treasurer, State of Iowa") is for use tax. If purchases are ongoing, the buyer must apply for a consumer's use tax permit.

When sales or use tax is paid to another state on goods that are also subject to Iowa use tax, a credit may be allowed. The credit cannot exceed the Iowa use tax rate of 5 percent.

Consumers who make out-of-state purchases and pay sales tax to another state at a rate less than the Iowa use tax must pay the difference to Iowa.