

# **IOWA TAX AND NONPROFIT ENTITIES**

## **CORPORATION INCOME TAX**

Nonprofit associations, corporations, and organizations incorporated or doing business in Iowa may request tax exempt status from federal income tax from the federal government. The State of Iowa does not determine if these types of entities are taxable. Iowa law provides that the entity is automatically exempt from Iowa corporation income tax if exempt status is granted by the Internal Revenue Service .

Call the IRS at 1-800-829-3676 and request

- IRS Form 1023 (*Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code*) **or**
- IRS Form 1024 (*Application for Recognition of Exemption Under Section 502(a) or for Determination Under Section 120*)

When tax exempt status has been approved by the IRS, the entity does not have to file an Iowa corporation income tax return unless it has unrelated business income.

Unrelated business income is taxable for Iowa purposes – at the regular Iowa corporation income tax rates – to the same extent it is taxable at the federal level. The exempt entity may also be subject to the Iowa alternative minimum tax.

To report unrelated business income, file form IA1120; complete form IA 4626 if subject to the alternative minimum tax.

Estimated tax payments must be made if an income tax liability of \$1,000 or more is anticipated.

## **SALES TAX**

### **Sales made TO nonprofit entities**

Nonprofit entities, churches and religious organizations are *not* automatically exempt from paying state sales taxes on taxable goods and services.

This is true even if these entities are exempt from the payment of state and federal income taxes.

State sales tax must be paid unless some other general sales tax exemption applies. Local option sales taxes must also be paid on purchases made in jurisdictions which impose the taxes.

Purchases made for resale are exempt from all sales tax.

*In other words, a nonprofit corporation, church or other religious organization is treated the same as any other private citizen for sales and use tax purposes when purchasing goods and taxable services at retail.*

Examples:

- A church purchases hymn books from a local merchant. The hymn books are used only by its congregation. The sales tax applies.
- A nonprofit corporation purchases heating oil and electricity from a local utility. The sales tax applies.
- A local nonprofit animal shelter that provides shelter, medical care, socialization, and adoption services for homeless animals sells T-shirts and sweatshirts depicting rescued animals as a fund raiser. Items purchased by the shelter for resale are exempt from sales tax. Items purchased by the shelter that are not for resale, such as dog or cat food that will be used by the shelter, is subject to sales tax.
- The church purchases canned goods and meat from a local grocery store to feed the homeless. The sales tax does not apply since food is exempt from tax regardless of who buys it.
- A nonprofit corporation pays to have its monthly newsletter printed at a local printer. The sales tax applies.
- A church purchases Bibles from a local book publisher to resell to its members. Since the purchase is for resale, sales tax does not apply.

### **Sales made TO parochial schools**

Private nonprofit educational institutions do not pay sales tax on the purchase of tangible personal property and taxable services which are used for educational purposes.

An "educational institution" is defined as a school, college or university with students, faculty, and an established curriculum. This definition includes parochial schools, but does not include church Sunday school.

When tangible personal property or services are shared by a parochial school and a church, the primary use determines if the purchase is taxable.

An organization such as a PTA or school booster club is not a government entity because it is not controlled by the government. It is, therefore, not automatically exempt from

paying or collecting sales tax. If its purchases are for resale, they may be made tax-free whether or not the organization has a sales tax permit.

The following examples illustrate the exemption:

- A parochial school purchases textbooks to be used by its students. The books are not taxable.
- A parochial school purchases an air conditioner which is placed in a rental property owned by the school and rented to a local businessman. The air conditioner is taxable since the purchase is not for educational purposes.
- A convent purchases 10 new beds. The convent is used by the religious order which teaches in the local parochial school, but the convent is not part of the school. The tax applies since the beds are not being used for educational purposes.
- A parochial school and a church purchase an organ together, which is used by the school's music teacher for student lessons and is used during Sunday services. If the organ is used by the school more often than it is used by the church, it is not taxable.

### **Taxable services**

Certain services are subject to the sales tax. Iowa sales tax must be paid by organizations on the gross receipts from taxable enumerated services.

Examples:

- A local business collects garbage from a church. Garbage collection and disposal for nonresidential commercial customers is taxable.
- An organization has its building sprayed for bugs and insects. Pest eradication is taxable.
- The church van breaks down and has to be repaired. Automobile repair is a taxable service.

### **Sales made BY entities/organizations**

Sales made by entities or organizations engaged in educational, religious, or charitable activities are exempt based on the following criteria:

1. The *net proceeds* from such sales must be expended for qualifying educational, religious, or charitable purposes.

2. An exemption from sales tax is allowed to the extent net proceeds are expended for qualifying educational, religious, or charitable purposes.

Example: A local Jaycees chapter raises \$10,000 from a haunted house fund-raiser. The chapter gives \$9,000 to the United Way and retains the other \$1,000 for a pizza party for the chapter members and for others who helped with the event. The Jaycees can receive an exemption on the \$9,000, but must pay sales tax on the remaining \$1,000.

Current Iowa law does not focus on the nonprofit status of an organization as a qualification for exemption under the Internal Revenue Code 501(c)(3). Instead, Iowa law focuses on the manner and the extent that net proceeds are expended for a defined exempt activity.

*NOTE: All receipts from gambling activities are subject to the sales tax, regardless of the ultimate use of the proceeds.*

### **What is "educational"?**

- The acquisition of knowledge tending to develop and train the individual.
- An activity which has as its primary purpose to educate by teaching.
- An activity which is meant to improve the individual.
- An activity which has as its primary objective to give educational instruction.
- An activity where the educational process is not merely incidental.
- An activity where the purpose is systematic instruction.

The term "educational purpose" includes recreational activities as well as activities designed to offer culture to the public. Activities which are directly related to the educational process such as intramural sports and tests given to students or prospective students to measure intelligence, ability or aptitude are considered educational and qualify for the exemption.

Municipal or civic art and science centers and libraries are also considered educational.

Example:

The South River Little League is a little league baseball organization. This organization purchases baseballs, baseball gloves, uniforms, and equipment for the teams comprising the league. The organization must pay sales tax on its purchases of such items. The organization also has a concession stand on its property and sells candy, beverages, and other snacks and refreshments. The food and beverage items purchased by the organization for the concession stand are exempt from sales tax due to being purchased for resale. All of the net proceeds from the sales by the concession stand are used by the organization to pay operational costs and make the previously-mentioned purchases. Sales tax must be collected by the organization on its sales from the concession because the organization is not engaged in a qualifying activity. The little league is not affiliated with a school. As a result, the activities engaged in by the little league are not intramural sports, so they are taxable.

### **What is "religious"?**

"Religious purpose" is any activity that promotes religious worship. In the broadest of terms, religious worship includes all forms of belief in the existence of superior being(s) capable of exercising power over the human race. As commonly accepted, it means the final recognition of a deity. It encompasses forms of worship, reference to one's views about the deity, or the relationship to one's creator. It also includes the use of property by a religious society or by a body of persons as a place for public worship.

#### Example

Connie's Consignment Shop is selling church cookbooks for the local nondenominational church. The net proceeds from the sales will be used by the church to sponsor ministry work in the United States. Net proceeds from the sale are exempt from sales tax due to the proceeds being expended for religious activity.

### **What is "charitable"?**

"Charitable purpose" is applied to almost anything that tends to promote the well-doing and well-being of people. It includes the performance of services for public good or public welfare. However, there must be no profit to the one performing the service or the giving of gifts by persons kindly disposed toward others, without obligation. An activity where no net earnings go to the benefit of any private shareholder or individual involved in the activity is charitable.

An activity for the benefit of a family, an individual, or the public at large which includes the relief of poverty, advancement of education or religion, promotion of health, provision of a governmental or municipal service, and other activities – the purposes of which are to benefit the community – are considered charitable. Maintenance of public parks is a valid charitable purpose.

Schools, Red Cross, Boy Scouts, and relief agencies are charitable, for example. Profit-making organizations may engage in charitable activities, even though they are not charitable organizations.

A local nonprofit animal shelter that provides shelter, medical care, socialization, and adoption services for homeless animals sells T-shirts and sweatshirts depicting rescued animals as a fund raiser. All the net proceeds from the sales will go to and be used by the animal shelter to defray the costs it incurs. Sales of the T-shirts and sweatshirts are exempt from sales tax since the net proceeds will be expended on a charitable purpose.

### **Relationship between activity and purpose**

Oftentimes, an organization will conduct fund-raising activities where the net proceeds are used to further the organization's purpose. In these cases, the net proceeds cannot be considered exempt from sales tax, unless the organization itself is considered educational, religious or charitable.

*Example:* Suppose a community playhouse presents theatrical productions, play readings, children's classes, workshops and demonstrations, children's productions, and lectures in the field of theater. Memberships are sold which entitle the purchasers to attend plays presented during the year. Individual and student tickets are also sold. The playhouse derives its income from these admissions to the children's theater, and other various sources. The admissions are exempt because the activities for which admissions are paid are considered educational.

*Example:* A local model railroad club sells t-shirts depicting old steam and diesel engines as a fundraiser. All proceeds from the t-shirt sales will be used by the club to pay operational expenses of the club's building that houses the club's model railroad layout and where the meetings are held. The activities that this club engages in are not educational, charitable, or religious. Consequently, proceeds from the sale are subject to sales tax.

### **Net proceeds and taxability of such proceeds**

Definition of net proceeds

"Net proceeds" are those remaining after direct expenses have been deducted from the gross receipts derived from the activity or event. The expenses must be necessary and have an immediate bearing or relationship to the fulfillment of the activity.

For example, the cost of food for a fund-raising meal is a direct expense; however, the cost of a victory celebration because the fund-raising dinner was a success is not a direct expense.

Net proceeds are deemed exempt from sales tax to the extent they are expended for a qualifying religious, educational, or charitable activity.

Examples of net proceeds and the tax consequences:

- A local organization has a fund raiser and collects \$10,000 in net proceeds from the event. The organization gives \$9,000 to a local nonprofit homeless shelter and uses \$1,000 of the net proceeds to pay guest speakers at its meetings. The organization is entitled to an exemption from sales tax on the \$9,000 in net proceeds given for a charitable activity, but must pay sales tax on the \$1,000 it retained for a taxable activity.
- A church holds a craft sale and uses the proceeds to purchase new pews for the church. The crafts can be purchased by the church exempt from sales tax as a purchase for resale. The church does not have to collect sales tax when the crafts are sold since the proceeds from the craft sale will be used for religious purposes (the purchase of new pews).
- A church holds a bingo night once a week. The proceeds are used to purchase new carpeting for the church. Sales tax applies to the gross bingo receipts since gambling activities are always taxable.
- A local nonprofit homeless shelter decides to have a fund-raising dinner. The shelter contracts and pays a local caterer to supply the meal and beverages. The shelter hires a printer to print tickets to be sold for the event and programs setting forth the evening's entertainment. The net proceeds from the fund-raiser will be used by the shelter to assist homeless families with shelter, food, and medical care. The shelter does not pay sales tax on the food purchased from the caterer because the food is being purchased for resale. The shelter must pay sales tax on the printing costs for the tickets and the programs. The net proceeds from the fund-raising dinner are not subject to sales tax because it is being expended for a charitable activity.

- A church headquarters purchases Bibles from an Iowa vendor and sells them to its member churches. The profits from the Bible sales will be placed in a missionary recruitment fund. The Bibles can be purchased by the headquarter church exempt from sales tax as a purchase for resale. The church does not have to charge sales tax when it sells the Bibles since the proceeds will be used for religious purposes.
- A church holds a fair to raise money for new choir robes. An admission is charged. The church rents space to several local retail businesses to set up booths to sell craft items. The retailers will keep any gross receipts that are generated from the sales. The choir also has a booth at the fair and it sells books. The proceeds will also go toward the purchase of new robes. In this example, the local retail merchants are required to collect and remit sales tax on their sales, assuming such proceeds are not expended for a qualifying activity. The admission charge and the book sales are exempt from tax since the proceeds are being used for religious purposes (the purchase of the choir robes).

### **Food and drink sales that promote Iowa food**

The gross receipts from the sales of food and beverages for human consumption by an entity or organization primarily engaged in the promotion of food or beverage products that are grown, produced, or raised in Iowa are exempt from tax.

*Example:* A nonprofit association that is also exempt from federal income tax under 501(c) under the Internal Revenue Code promotes the sale of turkey. In Winterset, Iowa, the organization sells turkey sandwiches, chips, and beverages to patrons of a festival encouraging the touring and preservation of its historic covered bridges. The association does not charge sales tax to the customers for the food purchased.

### **Sales by certain fairs**

The gross receipts from sales made and services performed by a state fair organized under Iowa Code Chapter 173 or a county, district or fair society organized under Iowa Code Chapter 174 are exempt from Iowa sales and use tax.

### **Sales tax and construction projects**

Contractors, subcontractors and builders are considered "consumers" of the materials and supplies they use. When a contractor purchases building materials, building supplies or

building equipment to add a new wing to a church, for example, the contractor must pay sales or use tax on the lumber, bricks, nails and other building materials, supplies and equipment when it is purchased.

The contractor treats the purchase of materials and supplies used in the performance of a construction contract with a church or nonprofit organizations exactly as he would if the contract was with a for-profit entity.

Sales tax does not apply to labor charges when the labor is performed on or in connection with new construction, reconstruction, alteration, remodeling or expansion of a building or a structure.

Sales tax does apply to materials and labor charges for repair, painting, and other taxable services when not connected with new construction, reconstruction, remodeling or expansion.

When a contractor purchases machinery, equipment and other items which remain tangible personal property (do not become part of the realty) after the completion of the construction project, the contractor can purchase the machinery or equipment and other items for resale and, therefore, must collect sales tax from the customer on them.

If the written contract is made with an Iowa private nonprofit museum, a governmental unit, rural water district organized under Chapter 504A of the Iowa Code, or a private nonprofit educational institution located in Iowa, the contractor must give the entity a "Contractors Statement," which is Iowa form 35-002. The entity may then complete a construction contract claim for refund (Iowa form 35-003).

Iowa private nonprofit museums, governmental units, rural water districts organized under chapters 357A and 504A of the Iowa Code and private nonprofit educational institutions may receive a refund of the sales tax the contractor paid on the materials and supplies. Other entities may not.

Consider the following examples:

- A church has a new wing added, which includes 25 portable pews and a kitchen with a new refrigerator. The contractor agrees to do the entire job. The contractor must pay the sales tax on the building materials when they are purchased. The contractor must buy the pews and refrigerator for resale and then collect sales tax from the church. These items are not considered building materials because they remain tangible personal property after the project is completed, and they are, therefore, taxable. Since the labor was performed in connection with new

construction of the church wing, no sales tax is imposed.

- An Elks Lodge hires a carpenter to panel the lodge basement. Tax is due on the materials purchased for the job. No tax is due on the carpenter's labor since this paneling is considered as either new construction or remodeling, which is exempt from tax.
- An American Legion Post hires a carpenter to repair the front door of the post's hall. Sales tax applies to the labor even if the carpenter is a construction contractor. Because the activity is a repair, materials will be taxable when itemized to the American Legion Post.
- A church hires a plumber to fix a leaky pipe in the church basement. Tax applies to labor. Materials may not be taxable at the time of purchase since the plumber is making a repair. Tax must be paid to the plumber by the church..

### **A list of nonprofit entities exempt from tax**

The following does **not** include **all** eligible nonprofit entities that are exempt from paying sales and use tax on their purchases in Iowa.

- *American Red Cross*
- *Navy Relief Society*
- *U.S.O. (United Service Organizations)*
- *Community health centers* (as defined in 42 U.S.C.A. subsection 254c)
- *Migrant health centers* (as defined in 42 U.S.C.A. subsection 254b)
- *Residential care facilities and intermediate care facilities for the mentally retarded and residential care facilities for the mentally ill* (licensed by the Department of Health under Iowa Code Chapter 135C)
- *Residential facilities for mentally retarded children* (licensed by the Department of Human Services under Iowa Code Chapter 237)
- *Residential facilities for child foster care* [licensed by the Department of Human Services under Iowa Code Chapter 237, except those maintained by "individuals" as defined in Iowa Code subsection 237.1(7)]

- *Rehabilitation facilities which provide accredited rehabilitation services to persons with disabilities and which are accredited by the Commission on Accreditation of Rehabilitation Facilities or the Accreditation Council for Services for mentally retarded and other developmentally disabled persons and adult day care services approved for reimbursement by the Iowa Department of Human Services*
- *Community mental health centers (accredited by the Department of Human Services under Iowa Code Chapter 225C)*
- *Sales of tangible personal property and services made to nonprofit hospitals (licensed under Iowa Code Chapter 135B).*
- *Statewide nonprofit organ procurement organizations*
- *Nonprofit legal aid organizations*
- *Nonprofit organizations organized solely for the purpose of lending property to the general public for nonprofit purposes*
- *Nonprofit private museums\**
- *Governmental units, subdivisions or instrumentalities of the federal government or of the state of Iowa (This includes state, county and local subdivisions of the government of the state of Iowa and those of any other state which provide a similar sales tax exemption to Iowa and its political subdivisions.)\**
- *Federal corporations created by the federal government which are exempt under federal law \**
- *Private, nonprofit educational institutions located in Iowa\**

*\*These entities are entitled to sales/use tax refund.*

The purchase of building materials which are used in the construction, remodeling or reconditioning of a facility by a contractor for one or more of the above entities is subject to tax at the time of purchase by the contractor.

Contact Taxpayer Services to learn if your organization is exempt under the Iowa Code references cited in this section or if you need forms.

## USE TAXES

### What is the use tax?

The Iowa use tax is complementary to the Iowa sales tax and is imposed on tangible personal property which is purchased out-of-state for use in Iowa.

Use tax also applies to taxable services when they are rendered, furnished or performed in Iowa or where the product or result of the service is used in Iowa.

The use tax rate is the same as the sales tax rate.

### **Types of use tax**

There are three types of use taxes: a retailer's use tax, a consumer's use tax, and a motor vehicle use tax.

#### **Retailer's use tax**

Any out-of-state retailer who maintains a place of business in Iowa or who makes sales of tangible personal property or taxable services through sales people or representatives who come into Iowa is required to register with the Iowa Department of Revenue and Finance and collect and remit the tax.

If the out-of-state retailer fails to collect the tax, the department may collect the tax from the Iowa purchaser.

Consider the following example:

XYZ, a Wisconsin publishing company, has sales people in Iowa who solicit orders for sheet music from churches. The XYZ Publishing Company should be registered with the State of Iowa for retailer's use tax purposes and should be collecting Iowa tax when it makes a sale to a church located in Iowa. If XYZ fails to collect the Iowa tax, the department can require the church to pay the tax.

#### **Consumer's use tax**

When any entity purchases tangible personal property or taxable services from an out-of-state retailer for use in Iowa, and the retailer does not collect Iowa tax, the entity is responsible for paying consumer's use tax.

Any time taxable services or goods are purchased, whether in-state or out-of-state, and the seller does not collect tax, the purchaser is responsible for the tax.

Credit is allowed if sales tax was paid to the state in which the purchase was made. (See "Credit for taxes paid to another state. ")

Any organization or other entity can register with the Iowa Department of Revenue and Finance and receive a consumer's use tax return by contacting Taxpayer Services.

The following examples illustrate the consumer's use tax:

- A church in Iowa purchases an organ from a music company in Chicago. A sales contract is signed in Chicago and the organ is shipped by common carrier. The church is responsible for the payment of Iowa use tax on the organ.
- A nonprofit corporation in Council Bluffs hires a Nebraska printer to print its monthly newsletter. The newsletters are shipped into Iowa by the United States Post Office. The nonprofit corporation owes use tax on the newsletters since printing is a taxable purchase under Iowa law.
- A church in Council Bluffs hires an Iowa printer to print Sunday church bulletins. The Iowa printer fails to charge the Iowa sales tax. The department can collect the tax from the printer or from the church.

For more information on consumer's use tax, see the Consumer's Use Tax brochure.

### **Credit for taxes paid to another state**

When state sales or use taxes have been paid to another state, a credit will be allowed.

The following examples illustrate this credit:

- An Iowa church purchases two pews in Chicago and takes delivery of the pews in Chicago. An Illinois 6 percent sales tax is collected by the vendor. No Iowa use tax is due since the payment of the 6 percent Illinois sales tax exceeds the 5 percent Iowa use tax.
- Assume the same facts in the previous example, except that the Illinois sales tax rate is 3 percent. An Iowa use tax of 2 percent is due on the purchase of the pews since the Illinois tax rate is lower than the Iowa tax rate.

### **Motor vehicle use tax**

Entities engaged in educational, religious, or charitable activities are *not* exempt from paying the Iowa use tax on vehicles subject to registration. All cars, trucks, truck tractors, road tractors, trailers and semitrailers are subject to this type of use tax instead of the state sales tax. The tax is paid at the county treasurer's office when the vehicle is registered. If the county treasurer fails to collect the use tax, the tax is still due and is to

be paid directly to the Iowa Department of Revenue and Finance by the owner of the vehicle.

Many private and nonprofit organizations *mistakenly* believe that they are exempt from sales tax. This mistaken belief is based on the assumption that if they are exempt from federal and state income tax they should also be exempt from sales/use tax. However, this is not the case. Exemption from federal and/or state income tax is not relevant. All organizations must pay sales/use tax on its purchases, unless the purchase is for resale, or the organization is exempt under a specific provision of the Iowa Code. Any organization exempt from sales tax on its purchases is also exempt from use tax.

## **SALES TAXES AND GAMBLING ACTIVITIES**

**All** gambling receipts are subject to sales tax *unless* the gambling activities are conducted by cities or counties.

Raffles conducted by agricultural fairs are also exempt from collecting sales tax.

Gambling receipts include charges paid to participate, admissions, and ticket sales. Sales tax is computed on the entire gross receipts without any deductions. A sales tax permit must be obtained from the department.

Many nonprofit organizations use gambling activities such as bingo and raffles to raise revenues. Nonprofit organizations which conduct games of skill, games of chance, raffles, bingo, and other games are required to obtain a gambling license and sales tax permit.

The fact that a church or nonprofit organization is conducting the gambling makes no difference. A gambling license and a sales tax permit are required.

To obtain a gambling permit, call the Iowa Department of Inspections and Appeals at 515/281-7357.

## **LOCAL OPTION SALES TAXES**

Some communities may also impose local option sales taxes: the local option sales tax that has been in effect since 1989, and the school infrastructure tax that became effective in 1998. Both taxes are imposed on taxable services and goods that are delivered in their jurisdictions. Jurisdictions may impose either one or both local option taxes up to the rate of 1 percent each. There is no local option use tax; therefore, those sales that are subject to a use tax, such as motor vehicles, are not subject to the local option sales tax.

As a general rule, the local option sales tax is collected on the sale of the same services or tangible personal property that is subject to the state sales tax. However, the following are

exceptions to the local option taxes in which state sales tax may be imposed but local option tax is not:

1. The sale of Iowa lottery tickets.
2. All gross receipts from the sale of motor fuel and special fuel.
3. The gross receipts from the rental of rooms, apartments, or other sleeping quarters during the period in which hotel and motel tax is imposed.
4. The gross receipts from the sale of natural gas or electricity in a city or county if subject to a franchise user fee.
5. The gross receipts from a pay television service consisting of a direct-to-home satellite service.
6. The gross receipts from sales of equipment by the Iowa State Department of Transportation.
7. Self-propelled building equipment, pile drivers, motorized scaffolding, or attachments customarily drawn or attached to them, including auxiliary attachments which improve their performance, safety, operation, or efficiency and including replacement parts; these must be used directly and primarily by contractors, subcontractors and builders for new construction, reconstruction, alterations, expansion or remodeling of real property or structures

*NOTE: See Department of Revenue and Finance Rules and Regulations 701 - 107.9(422B) for further details.*

If a community imposes one or both of the local option sales taxes and the hotel/motel tax, the local option sales tax does not apply to the rental of rooms.

Organizations that have been identified as being exempt from the payment of state sales tax are also exempt from paying both local option sales taxes.

## **HOTEL / MOTEL TAX**

Certain cities and counties in the state have imposed a hotel/motel tax. The tax applies to the renting of sleeping rooms, apartments, or sleeping quarters in any hotel, motel, inn, public lodging house, rooming house or tourist court or in any place where sleeping accommodations are furnished to transient guests for rent. The tax does not apply to the renting of a room to the same person for a period of more than 31 consecutive days.

The rental of sleeping rooms in dormitories and in memorial unions at all universities and colleges in Iowa and guests of a religious institution if the facility is owned by the

organization and not generally available to the transient guests is not subject to the hotel/motel tax.

If a room charge is billed to a nonprofit corporation or church because someone conducting the organization's business rents a sleeping room as a transient guest, the organization must pay any hotel/motel tax due. The tax must also be paid by any other religious organization or by any nonprofit educational institution.

The hotel/motel tax is applied in addition to the state sales tax, which must also be paid by the nonprofit corporation, church or religious organization. If the community has both a local option sales tax and a hotel/motel tax, only the state sales tax and the hotel/motel tax apply.

The rental of banquet rooms, conference rooms, and any other non-sleeping room in a hotel, motel, apartment (refers to any place where sleeping accommodations are furnished to transient guests for rent), inn, public lodging house, rooming house or tourist court by a nonprofit corporation, church or other religious organization for a religious retreat or other religious function is subject to the hotel/motel tax, and is also subject to Iowa sales tax.

## **MOTOR VEHICLE FUEL TAXES**

In Iowa, gasoline, gasohol, liquefied petroleum gas, and diesel fuel purchased for highway use are subject to a fuel tax. If a fuel tax is imposed, no state sales tax is imposed.

Nonprofit entities, churches, religious organizations, and nonprofit educational institutions must pay motor vehicle fuel tax.

## **CORPORATIONS AS GOVERNMENTAL UNITS**

A corporation can be considered a governmental unit for purposes of receiving a sales or use tax exemption on its purchases. A nonprofit corporation does not have any type of "blanket" sales or use tax exemption on its purchases solely because the organization is exempted from federal or state income taxes.

*NOTE: A determination of whether a corporation is a government instrumentality is made on a case-by-case basis based on the facts of each case.*

## **COMMON EXEMPT SITUATIONS**

Listed below are some common exempt situations.

*Note: In all cases, the exemption from sales tax will be allowed to the extent the net proceeds are for educational, religious, or charitable purposes.*

- The sales of food and tangible personal property, for fundraising, by individuals and organizations at bazaars, sporting events, fairs, carnivals
- Student sales
- Sales by the Boy Scouts, Girl Scouts, YMCA, 4-H, PTA, etc., and their satellite organizations
- Receipts from the sale of tickets or admissions to amusements, fairs, or athletic events conducted by elementary and secondary educational institutions (Sales tax is due, however, on receipts derived from gambling activities conducted by these institutions.)
- Sales receipts from church-related functions, such as the ladies auxiliary, except for gambling activities
- Activities or events to the extent that net proceeds are donated to support governmental or municipal services (Examples are proceeds from the activities of the Junior Chamber of Commerce, Lions Clubs, or Kiwanis which are expended on a civic project.)
- Sales to organization members such as sales of uniforms, insignias, and equipment by Scout organizations to their members; sales of Bibles by a church to its members; sales of choir robes by a church to its members
- A summer camp or ranch operated to help underprivileged children and educates the child in some manner
- Admissions and sales of tangible personal property at centennial events
- Admission charges, sales, and services by fairs if the organization holding the fair is a state fair organized under Iowa Code Chapter 173, or it is a county, district, or fair society organized under Iowa Code Chapter 174
- Sales of tangible personal property by civic and municipal art and science centers
- Activities to raise funds to send members of educational, religious, or charitable organizations to conventions or other similar events which are directly related to the purposes of the organization

## COMMON TAXABLE SITUATIONS

The following are examples of taxable situations:

- Admissions to athletic events of post-secondary educational institutions
- Admissions to professional golf tournaments or any similar event where spectators view professional athletics
- Admissions to plays and concerts, except where there is evidence that the organization producing the event has as its primary objective the education of its members through these productions (each situation evaluated separately)
- Renting facilities to be used by another person or group for educational, religious, or charitable purposes if the facilities are in any place where sleeping accommodations are furnished to transient guests
- A summer camp or ranch if it is operated for profit and rented to another person or group for educational, religious or charitable purposes if the facilities are in any place where sleeping accommodations are furnished to transient guests for rent

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