

**Policy Letter; Screen Printing Equipment; June 10, 2016**

**Topic Code: M011 Machinery & Equipment**

**Document Reference: 16300034**

*Sent via email*

June 10, 2016

[REDACTED]

**Re: Screen Printing Equipment**

[REDACTED]

The Iowa Department of Revenue (“Department”) has received your email regarding which items are subject to sales tax when purchased by your company’s customers in Iowa.

**Facts as Provided in Your Email**

You work for a Minnesota company that sells screen printing supplies and equipment. Some of your customers are located in Iowa. Your Iowa customers have provided you with sales tax exemption certificates and you do not charge them tax on consumables such as ink. You believe that your company should be collecting Iowa sales tax on items like squeegees and spot-guns. You want to know whether several other items and services your company provides would be subject to Iowa sales and use tax. They are

- a. Equipment
- b. Installation of that equipment
- c. Service on the equipment

**Analysis**

As you are aware, Iowa imposes a tax of six percent on the sales price of all tangible personal property sold or used in this state. Iowa Code § 423.2(1) (sales tax), § 423.5(1)“a” (use tax). Iowa also imposes sales tax on the furnishing of certain enumerated services. Iowa Code § 423.2(6).

## **Equipment**

Iowa does provide exemptions that may cover the type of equipment your company sells, depending on how your customers use that equipment. Understandably, it could be difficult for your company to determine whether a customer qualifies for an Iowa sales tax exemption on these purchases.

In Iowa, exemption certificates are available as a protection for the seller in the event that the sale turns out not to have been exempt. Both the seller and the purchaser are generally liable for Iowa sales tax. However, when a purchaser provides a seller with “a valid exemption certificate stating under penalty of perjury that the purchase is for a nontaxable purpose and is not a retail sale as defined in section 423.1, or the seller is not obligated to collect tax due” for each exempt purchase, the seller is relieved of liability for unpaid sales tax on the sale. Iowa Code § 423.45(4)(b). If a seller has a valid exemption certificate on file for a purchase, only the purchaser, not the seller, is liable for tax if the purchaser uses the property in a non-exempt manner. *Id.* You stated in your email that you have exemption certificates on file for at least some of your Iowa customers. When an Iowa customer presents you with an exemption certificate, they are stating under penalty of perjury that they qualify for whichever exemption they are claiming, and your company will not be held liable for any sales tax due after accepting the completed exemption certificate.

Although your company will not be held liable for any sales tax that may be due on purchases for which a customer has presented your company with a valid exemption certificate, it may be worth reminding your customers that sales tax exemptions are construed narrowly, and that any doubts about whether an item is exempt will be resolved in favor of taxation (the squeegees that you mentioned, for example, are probably not included in the exemption). If your customers are incorrect about whether an exemption applies to a specific item, they could still be held liable for the sales tax.

## **“Consumables”**

In your email you mentioned that you currently do not collect sales tax from your customers on “consumables (inks, etc.)” as long as they provide you with an exemption certificate. “Consumables” are not specifically mentioned in the Iowa Code or defined by rule, and are not inherently exempt. The Iowa Code does provide several exemptions that may apply to the consumables you sell including Iowa Code § 423.3(51)(tangible personal property sold for processing). A newly enacted law, which becomes effective July 1, 2016 also exempts “supplies” for transactions occurring on or after that date. For purposes of the new exemption “supplies” are defined as:

tangible personal property, other than computers, machinery, equipment, or replacement parts, that meets one of the following conditions:

- (a) The tangible personal property is to be connected to a computer, machinery, or equipment and requires regular replacement because the property is consumed or deteriorates during use, including but not limited to saw blades, drill bits, filters, and other similar items with a short useful life.
- (b) The tangible personal property is used in conjunction with a computer, machinery, or equipment and is specially designed for use in manufacturing specific products and may be

used interchangeably and intermittently on a particular computer, machine, or piece of equipment, including but not limited to jigs, dies, tools, and other similar items.

(c) The tangible personal property comes into physical contact with other tangible personal property used in processing and is used to assist with or maintain conditions necessary for processing, including but not limited to cutting fluids, oils, coolants, lubricants, and other similar items with a short useful life.

(d) The tangible personal property is directly and primarily used in an activity described in paragraph “a”, subparagraphs (1) through (6), including but not limited to prototype materials and testing materials.

2016 Iowa Acts, House File 2433.

There are other exemptions that may also apply to some consumables that your company sells. As with the equipment sales, your company, as the seller, will not be held liable for unpaid sales tax as long as the client provides your company with a valid exemption certificate for the sale. Again, it might be worth reminding your clients that exemptions are construed narrowly, and that they may be liable for any unpaid sales tax on any purchases that do not clearly fall within an exemption.

### **Installation of Equipment**

Whether installation of equipment is subject to tax depends in part on the manner in which your company charges your client for the installation, and the nature of the services required to perform the installation.

If the installation charges are included in the sale price of the equipment, their taxability depends on whether the item being installed is taxable or exempt, the installation will generally be treated in the same way as the item sold. Iowa Code § 423.1(51)“a”.

If, however, the installation is separately contracted for, separately stated on the invoice or similar document, *and* does not include any taxable services, then installation is not considered part of the sale price, and is not taxable. Iowa Code § 423.1(51)“b”(6). A complete list of taxable services is available in Iowa Code § 423.2(6). If the installation of a piece of equipment includes any of the taxable services enumerated in Iowa Code § 423.2(6), then the installation is taxable even if separately contracted for and stated on the invoice or similar document. *Id.*

In certain situations, installation of the equipment that your company sells may fall within an exemption. As with the sale of the equipment itself, your company will not be held liable for uncollected sales tax if a customer claims that the installation is exempt and presents your company with a valid exemption certificate.

### **Service on Equipment**

The sales and use tax exemption for machinery and equipment does not extend to services performed on that equipment after its sale. Only certain enumerated services are taxable in Iowa. Any service your company performs in Iowa on your customers’ machinery or equipment will be taxable if it falls within

one of these enumerated services. If the service work does not involve an enumerated service no tax will be due on that service, regardless of whether your client presents you with an exemption certificate. As noted above, a complete list of taxable enumerated services is available in Iowa Code § 423.2(6). The two services that seem most likely to apply to the service work your company performs are “machine repair of all kinds” and “electrical and electronic repair and installation.” Iowa Code § 423.2(6). However, your company’s service activities may involve other enumerated taxable services, depending upon the nature of the work.

I hope this information has been helpful to you. Please remember that this letter is an informal opinion based only on the facts you provided and on the current law. In the future, the Department could take a position contrary to that stated in this letter. Any written advice or opinion rendered to members of the public by Department personnel that is not pursuant to a Petition for Declaratory Order under 701 IAC 7.24 is not binding upon the Department. If you have any additional questions regarding this matter please do not hesitate to contact me.

Sincerely,

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