

## Policy Letter; Wood Chippers; July 13, 2016

Topic Code: R132 Recycling

Document Reference: 16300037

July 13, 2016

[REDACTED]

**Re: Wood Chippers**

[REDACTED]

The Iowa Department of Revenue (“Department”) has received your letter regarding whether the sale of wood chippers and stump grinders by your company would qualify for an exemption from Iowa sales tax.

### **Facts as Provided in Your Letter**

Your company recently began dealing wood chippers and stump grinders. You want to know whether these items qualify for an exemption from Iowa sales tax because of their recycling qualities.

### **Analysis**

The wood chippers and stump grinders that you describe certainly could qualify for the sales tax exemption for “[t]he sales price from the sale or rental of computers, machinery, equipment, replacement parts, supplies, and materials used to construct or self-construct computers, machinery, equipment, replacement parts, and supplies, if such items are . . . [d]irectly and primarily used in recycling or reprocessing of waste products.” Iowa Code § 423.3(47)“a”.

However, qualifying for this exemption depends not just on the item being sold, but also on how the person purchasing it will be using it. In order for a wood chipper or stump grinder to qualify for this exemption, the person purchasing it must be purchasing it in order to use it directly and primarily for recycling or reprocessing of wood or stumps by grinding them up and then selling the chips or putting them to some other use.

Obviously it could be difficult for you to know how your customers will use an item that you have sold them once they have bought it. In Iowa, exemption certificates are available as a protection for sellers in the event that a 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.* When a customer presents you with an exemption certificate, they are stating under penalty of perjury that they qualify for the exemption they are claiming, and your company will not be held liable for any sales tax due after accepting the completed exemption certificate.

The items you describe likely qualify for the exemption as long as your customers are using them for an exempt purpose. As long as you have a valid exemption certificate on file for each customer that purchases one of these items only the customer, not your business, will be held liable for any uncollected sales tax in the event that the customer uses the item in a non-exempt manner.

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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