

Policy Letter; Epoxy Floors & Organization Systems; August 8, 2016

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Joy Halfpap
1425 Metra East Drive Unit 113
Pleasant Hill, IA 50327
jhalfpap@tailoredliving.com

Re: Epoxy floors and organization systems

Dear Ms. Halfpap:

The Iowa Department of Revenue (“Department”) has received your letter regarding the taxability of epoxy floor and built-in organization system installation.

Facts As You Provided:

You work for a home organization business that installs closet systems, home offices, pantry shelving, entry ways, hobby rooms, garage cabinets and epoxy floors. Depending on the scenario, organization systems may replace rods and shelves that are currently in place or may be installed in empty spaces. These organization systems are usually made out of melamine, a material that is cut, screwed, and glued similar to wood, and are generally screwed into walls upon installation.

Question:

Whether the installation price of these epoxy floors and organization systems are subject to Iowa sales tax.

Analysis:

1) Epoxy floors

The installation of epoxy floors is subject to sales tax as a taxable painting. Iowa Code § 423.2(6)(a) imposes a six percent sales tax on a number of enumerated services, including “painting, papering, and interior decorating.” Iowa Admin. Code r. 701—26.34 defines such services:

Persons engaged in the business of painting, papering and interior decorating are rendering, furnishing or performing a service, the gross receipts from which are subject to tax. “Painting” shall mean covering of both interior and exterior surfaces of tangible personal or real property with a coloring matter and mixture of a pigment or sealant, with

some suitable liquid to form a solid adherent when spread on in thin coats for decoration, protection or preservation purposes and all necessary preparations thereto, including surface preparation. The following are not within the definition of painting: automobile undercoating, the coating of railroad cars, storage tanks, or the plating of tangible personal property with metals such as but not limited to chromium, bronze, tin, galvanized metal, or platinum.

Epoxy flooring installation is the use of a liquid sealant for protection and preservation purposes and thus qualifies as a “painting” within the scope of this Rule. Thus, the price of its installation is subject to Iowa sales tax.

2) Closet systems, pantry shelves, office, hobby room, and entry way built-ins, and garage cabinets

Based on the information you provided to the Department, the construction and installation of the organization systems and built-ins you described constitutes carpentry, an enumerated taxable service under Iowa Code § 423.2(6)(a). Depending on the extent of each individual job, your carpentry services may or may not qualify for a sales tax exemption under Iowa Code § 423.3. Tax exemption statutes are strictly construed with all doubts resolved in favor of taxation. *Iowa Ag. Constr. Co. v. Iowa State Bd. of Tax Review*, 723 N.W. 2d 167, 174 (Iowa 2006). The party claiming an exemption bears the burden of proving entitlement to the exemption. *Id.*

Iowa Code § 423.3(37) exempts from sales tax the sales price of “services on or connected with new construction, reconstruction, alteration, expansion, remodeling, or the services of a general building contractor, architect, or engineer.” Whether the new construction exemption applies to a particular sale of carpentry services may not always be readily apparent and depends on the facts of each case. Typically, the Department requires some form of structural change to the building before allowing a new construction exemption. Based on the facts provided, the Department cannot categorically say whether your company’s carpentry services do or do not qualify. However, the following information may be helpful to you.

Iowa Admin. Code r. 701—219.13 defines remodeling in some detail:

Remodeling a building or other structure means much more than making repairs or minor changes to it. Remodeling is a reforming or reshaping of a structure or some substantial portion of it to the extent that the remodeled structure or portion of the structure is in large part the equivalent of a new structure or part thereof. *See Board of Commissioners of Guadalupe County v. State*, 43 N.M. 409, 94 P.2d 515 (1939) and *City of Mayville v. Rosing*, 19 N.D. 98, 123 N.W. 393 (1909).

Iowa Admin. Code r. 701—219.13(2) offers a number of examples of various new construction activities:

The following are examples of new construction, reconstruction, alteration, expansion and remodeling activities:

a. The building of a garage or adding a garage to an existing building would be considered new construction.

- b.* Adding a redwood deck to an existing structure would be considered new construction.
- c.* Replacing a complete roof on an existing structure would be considered reconstruction or alteration.
- d.* Adding a new room to an existing building would be considered new construction.
- e.* Adding a new room by building interior walls would be considered alteration.
- f.* Replacing kitchen cabinets with some modification would be considered an improvement.
- g.* Paneling existing walls would be considered an improvement.
- h.* Laying a new floor over an existing floor would be considered an improvement.
- i.* Rebuilding a structure damaged by flood, fire or other uncontrollable disaster or casualty would be considered reconstruction.
- j.* Building a new wing to an existing building would be considered an expansion.
- k.* Rearranging the interior physical structure of a building would be considered remodeling.
- l.* Installing manufactured housing or a modular or mobile home on a foundation would be considered new construction. However, reference rule 701—33.10(423) for a description of the special treatment of taxable installation charges when the taxable sale of manufactured housing as real estate occurs.
- m.* Replacing an entire water heater, water softener, furnace or central air conditioning unit.
- n.* Sign installation and well-drilling services are generally performed in connection with new construction.

In all the examples, the contractor is responsible for paying tax to any supplier on materials. However, there would be no tax on any enumerated services.

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,

Theresa A. Dvorak
Policy Section
Taxpayer Services and Policy Division
Iowa Department of Revenue
(515) 281-3194
theresa.dvorak@iowa.gov