

CHAPTER 224
TELECOMMUNICATION SERVICES

701—224.1(423) Taxable telecommunication service and ancillary service. The gross receipts from the sale of all telecommunication service and ancillary service are subject to the sales or use tax. This chapter applies to telecommunication service and ancillary service that are billed on or after November 23, 2011. For telecommunication service and ancillary service billed prior to November 23, 2011, refer to rule 701—18.20(422,423), Iowa Administrative Code.
[ARC 9814B, IAB 10/19/11, effective 11/23/11]

701—224.2(423) Definitions.

“800 service” means a telecommunication service that allows a caller to dial a toll-free number without incurring a charge for the call. The service is typically marketed under the name “800,” “855,” “866,” “877,” and “888” toll-free calling and any subsequent numbers designated by the Federal Communications Commission.

“900 service” means an inbound toll telecommunication service purchased by a subscriber that allows the subscriber’s customers to call in to the subscriber’s prerecorded announcement or live service. A 900 service does not include the charge for collection services provided by the seller of the telecommunication service to the subscriber or to services or products sold by the subscriber to the subscriber’s customer. The service is typically marketed under the name “900 service” and any subsequent numbers designated by the Federal Communications Commission.

“Air-to-ground radiotelephone service” means a radio service, as that term is defined in 47 CFR 22.99, in which common carriers are authorized to offer and provide radio telecommunication service for hire to subscribers in aircraft.

“Ancillary services” means services that are associated with or incidental to the provision of a telecommunication service. “Ancillary services” includes, but is not limited to, detailed telecommunication billing, directory assistance, vertical service, and voice mail services.

“Call-by-call basis” means any method of charging for telecommunication services in which the price is measured by individual calls.

“Communications channel” means a physical or virtual path of communications over which signals are transmitted between or among customer channel termination points.

“Conference bridging service” means an ancillary service that links two or more participants of an audio or video conference call and may include the provision of a telephone number. “Conference bridging service” does not include telecommunication services used to reach the conference bridge.

“Customer” means the person or entity that contracts with the seller of telecommunication services. If the end user of telecommunication services is not the contracting party, the end user of the telecommunication service is the customer of the telecommunication service. For purposes of sourcing sales of telecommunication service, the end user of the telecommunication service is the customer of the telecommunication service when the end user is not also the contracting party. “Customer” does not include a reseller of telecommunication service or for mobile telecommunication service of a serving carrier under an agreement to serve the customer outside the home service provider’s licensed service area.

“Customer channel termination point” means the location where the customer either inputs or receives the communications.

“Detailed telecommunication billing service” means an ancillary service of separately stating information pertaining to individual calls on a customer’s billing statement.

“Directory assistance” means an ancillary service of providing telephone number information and address information.

“End user” means the person who utilizes the telecommunication service. In the case of an entity, “end user” means the individual who utilizes the service on behalf of the entity.

“Fixed wireless service” means a telecommunication service that provides radio communication between fixed points.

“Gross receipts from the sale of telecommunication service” or *“gross receipts”* means all charges to any person which are necessary for the end user to secure the service, except those charges which are in the nature of a sale for resale (see subrule 224.4(9)). Such charges shall be taxable if the charges are necessary to secure telecommunication service in this state even though payment of the charge may also be necessary to secure other services.

“Home service provider” means the same as defined in Section 124(5) of Public Law 106-252, 4 U.S.C. § 124(5) (Mobile Telecommunications Sourcing Act). The home service provider is the facilities-based carrier or reseller with which the customer contracts for the provision of mobile telecommunication services.

“International” means a telecommunication service that originates or terminates in the United States and terminates or originates outside the United States, respectively. United States includes the District of Columbia or a U.S. territory or possession.

“Interstate” means a telecommunication service that originates in one United States state or a United States territory or possession and terminates in a different United States state or a United States territory or possession.

“In this state” means that telecommunication service is provided “in this state” only if both the points of origination and termination of the communication are within the borders of Iowa. Telecommunication service between any other points is “interstate” in nature and not subject to tax.

“Intrastate” means a telecommunication service that originates in one United States state or a United States territory or possession and terminates in the same United States state or a United States territory or possession.

“Mobile telecommunication service” means the same as that term is defined in Section 124(7) of Public Law 106-252, 4 U.S.C. § 124(7) (Mobile Telecommunications Sourcing Act) and is a radio communication service carried on between mobile stations or receivers and land stations and by mobile stations communicating among themselves. Refer also to Iowa Code section 423.2(9) as amended by 2011 Iowa Acts, Senate File 515, section 5.

“Mobile wireless service” means a telecommunication service that is transmitted, conveyed, or routed regardless of the technology used, whereby the origination or termination point or both of the transmission, conveyance, or routing are not fixed, including, by example only, telecommunication services that are provided by a commercial mobile radio service provider.

“Paging service” means a telecommunication service that provides transmission of coded radio signals for the purpose of activating specific pagers. This transmission may include messages and sounds.

“Pay telephone service” means a telecommunication service provided through any pay telephone. “Pay telephone service” also includes coin-operated telephone service paid for by inserting money into a telephone accepting direct deposits of money to operate.

“Place of primary use” means the street address representative of where the customer’s use of the telecommunication service primarily occurs, which must be the residential street address or the primary business street address of the customer. In the case of mobile telecommunication service, the place of primary use must be within the licensed service area of the home service provider.

“Postpaid calling service” means the telecommunication service obtained by making a payment on a call-by-call basis, either through use of a credit card or payment mechanism such as a bank card, travel card, credit card or debit card, or by charge made to a telephone number which is not associated with the origination or termination of the telecommunication service. A postpaid calling service includes a telecommunication service, except a prepaid wireless calling service that would be a prepaid calling service except it is not exclusively a telecommunication service.

“Prepaid calling service” means the right to access exclusively telecommunication services, which must be paid for in advance and which enable the origination of calls using an access number or authorization code, whether manually or electronically dialed, that are sold in predetermined units or dollars of which the number declines with use in a known amount.

“Prepaid wireless calling service” means a telecommunication service that provides the right to utilize mobile wireless service as well as other non-telecommunication services, including the download of digital products delivered electronically, content and ancillary services, which must be paid for in

advance and that is sold in predetermined units or dollars of which the number declines with use in a known amount.

“Private communication service” means a telecommunication service that entitles the customer to exclusive or priority use of a communications channel or group of channels between or among termination points, regardless of the manner in which such channel or channels are connected, and includes switching capacity, extension lines, stations, and any other associated services that are provided in connection with the use of such channel or channels.

“Residential telecommunication service” means telecommunication services or ancillary services provided to an individual for personal use at a residential address, including an individual dwelling unit, such as an apartment. In the case of institutions where individuals reside, such as schools or nursing homes, telecommunication services are considered residential if they are provided to and paid for by an individual resident rather than the institution.

“Service address” means:

1. The location of the telecommunication equipment to which a customer’s call is charged and from which the call originates or terminates, regardless of where the call is billed or paid.

2. If the location in numbered paragraph “1” is not known, “service address” means the origination point of the signal of the telecommunication service first identified by either the seller’s telecommunication system or in information received by the seller from its service provider, where the system used to transport such signals is not that of the seller.

3. If the locations in numbered paragraphs “1” and “2” are not known, the service address means the location of the customer’s place of primary use.

“Telecommunication service” means the electronic transmission, conveyance, or routing of voice, data, audio, video, or any other information or signals to a point, or between or among points. The term includes any transmission, conveyance, or routing in which computer processing applications are used to act on the form, code, or protocol of the content for purposes of transmission, conveyance, or routing without regard to whether such service is referred to as voice-over Internet protocol services or is classified by the Federal Communications Commission as enhanced or value-added. “Telecommunication service” does not include the following:

1. Data processing and information services that allow data to be generated, acquired, stored, processed, or retrieved and delivered by an electronic transmission to a purchaser where the purchaser’s primary purpose for the underlying transaction is the processed data or information;

2. Installation or maintenance of wiring or equipment on a customer’s premises;

3. Tangible personal property;

4. Advertising, including but not limited to directory advertising;

5. Billing and collection services provided to third parties;

6. Internet access service;

7. Radio and television audio and video programming services, regardless of the medium, including the furnishing of transmission, conveyance, or routing of the service by the programming service provider. Radio and television audio and video programming services shall include, but not be limited to, cable service as defined in 47 U.S.C. § 522(6) and audio and video programming services delivered by a commercial mobile radio service provider, as defined in 47 CFR 20.3;

8. Ancillary services;

9. Digital products delivered electronically, including but not limited to software, music, video, reading materials or ring tones.

“Value-added non-voice data service” means a service that otherwise meets the definition of telecommunication service in which computer processing applications are used to act on the form, content, code, or protocol of the information or data primarily for a purpose other than transmission, conveyance, or routing.

“Vertical service” means an ancillary service that is offered in connection with one or more telecommunication services, which offers advanced calling features that allow customers to identify callers and to manage multiple calls and call connections. Nonexclusive examples of vertical service include call forwarding, caller ID, three-way calling, and conference bridging services.

“Voice mail service” means an ancillary service that enables the customer to store, send, or receive recorded messages. Voice mail service does not include any vertical services that the customer may be required to have in order to utilize the voice mail service.

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701—224.3(423) Imposition of tax.

224.3(1) Taxable telecommunication service and ancillary service. The gross receipts from the sale of telecommunication service and ancillary service are subject to the sales or use tax. The following is a nonexclusive list of telecommunication services subject to the Iowa sales and use tax:

- a. Air-to-ground radio telephone service;
- b. Ancillary services except detailed communications billing service;
- c. Conference bridging service;
- d. Fixed wireless service;
- e. Mobile wireless service;
- f. Pay telephone service;
- g. Postpaid calling service;
- h. Prepaid calling service;
- i. Prepaid wireless calling service;
- j. Private communication service;
- k. Residential telecommunication service.

224.3(2) Other taxable services and circumstances. The following is a description of services and circumstances under which certain charges associated with telecommunication service are subject to tax:

a. *Long distance charges.* Charges imposed or approved by the utilities division of the department of commerce which are necessary to secure long distance service in this state, for example, “end user intrastate access charges,” are taxable. These charges are taxable whether they result from an expense incurred from operations or are imposed by the mandate of the utilities division and unrelated to any expense actually incurred in providing the service.

b. *Gross receipts from services performed by another company.* Gross receipts collected by a company (selling company) from the end users of telecommunication services and ancillary services performed in this state by another company (providing company) are considered to be the taxable gross receipts of the selling company. The situation is similar to a consignment sale of tangible personal property. Tax must be remitted by the selling company.

c. *Directory assistance.* Charges for directory assistance service rendered in this state are subject to tax.

d. *Electrical installation and repair.* The gross receipts from the installation or repair of any inside wire that provides electrical current that allows an electronic device to function are subject to tax. These gross receipts are from the enumerated service of electrical repair or installation. The gross receipts from “inside wire maintenance charges” for services performed under a service or warranty contract are also subject to tax. Depending upon the circumstances, these gross receipts are for the enumerated service of “electrical repair” or are incurred under an “optional service or warranty contract” for an enumerated service. In either event, the receipts are subject to tax.

e. *Electrical installation or repair: billing methodology.* The gross receipts for the repair or installation of inside wire or the repair or installation of any electronic device, including a telephone or telephone switching equipment, are subject to tax regardless of the method used to bill the customer for the service. These methods include but are not limited to:

- (1) A flat fee or a flat hourly charge that covers all costs including labor and materials;
- (2) A premises visit or trip charge;
- (3) A single charge covering and not distinguishing between charges for labor and materials;
- (4) A charge with labor and material segregated; or
- (5) A charge for labor only.

f. *Nonitemized taxes and charges.* Any federal taxes or charges that are not separately stated or billed are subject to Iowa sales tax.

g. Rental of tangible personal property. The gross receipts from the rental of any device for home or office use or to provide a telecommunication service to others are taxable as the rental of tangible personal property. The gross receipts from rental include rents, royalties, and copyright and license fees. Any periodic fee for maintenance of the device which is included in the gross receipts for the rental of the device is also subject to tax.

h. Sales of tangible personal property. The sale of any device, new or used, is subject to tax both when the device is in place on the customer's premises at the time of the sale and if the device is sold to the customer elsewhere. The sale of an entire inventory of devices may or may not be subject to tax, depending upon whether it qualifies for the casual sales exemption. See Iowa Code section 423.3. Other exemptions may be applicable as well.

i. Mandatory charges or fees. Any mandatory handling or other charges billed to a customer for sending the customer an electronic device by mail or by a delivery service are subject to tax. Charges for a mandatory service rendered in connection with the sale of tangible personal property are considered by the department to be a part of the gross receipts from the sale of the property itself and therefore subject to tax.

j. Deposits. Any portion of a deposit utilized by a company as payment for the sale of tangible personal property or a taxable service is subject to tax as part of gross receipts.

k. Municipal utilities. Sales of telecommunication service and ancillary service to any tax-levying body used by or in connection with the operation of any municipally owned utility engaged in selling gas, electricity or heat to the general public are subject to tax. These sales are an exception to the exemption for federal and state government. See subrule 224.4(5).

l. Fax. The service of sending or receiving any document commonly referred to as a "fax" from one point to another within this state is subject to sales tax.

EXAMPLE A. Klear Kopy Services is located in Des Moines, Iowa. Klear Kopy charges a customer \$2 to transmit a fax (via Klear Kopy's fax machine) to Dubuque, Iowa. The \$2 is taxable gross receipts. Midwest Telephone Company charges Klear Kopy \$500 per month for the intrastate communication service on Klear Kopy's dedicated fax line. The \$500 is also gross receipts from a taxable communication service.

EXAMPLE B. The XYZ Law Firm is located in Des Moines, Iowa. The firm owns a fax machine and uses the fax machine in the performance of its legal work to transmit and receive various documents. The firm does not perform faxing services but will, on billings for legal services to clients, separately state the amount of a billing which is attributable to expenses for faxing. For example, "bill to John Smith for August 1997, \$1,000 for legal services performed, fax expenses which are part of this billing—\$30." The \$30 is not gross receipts for the performance of any taxable service because the faxing service is only incidental to the performance of the nontaxable legal services.

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701—224.4(423) Exempt from the tax. This rule provides various specific circumstances involving nontaxable telecommunication service and ancillary service. The following is a nonexclusive list of services that are not subject to the Iowa sales and use tax:

224.4(1) Detailed communications billing service.

224.4(2) Internet access fees or charges.

224.4(3) Value-added non-voice data service.

224.4(4) Separately stated and separately billed charges. Fees and charges that are separately stated and billed are exempt from the sales and use tax. This exemption includes the following items when separately stated and billed:

a. Fees and charges for securing only interstate telecommunication services.

b. Federal taxes.

c. Fees and charges for only interstate directory assistance.

224.4(5) Government entities. Sales of telecommunication service and ancillary service to the United States government or its agencies or to the state of Iowa or its agencies are not subject to sales or use tax. This exemption includes sales made to all divisions, boards, commissions, agencies or

instrumentalities of federal, Iowa, county or municipal government. In order to be a sale to the United States government or to the state of Iowa, the government or agency involved must make the purchase of the services and pay the purchase price of the services directly to the vendor. Telecommunication service providers should obtain an exemption certificate from each agency for their records. An exception to this exemption is sales to any tax-levying body used by or in connection with the operation of any municipally owned utility engaged in selling gas, electricity or heat to the general public; such sales are subject to tax.

224.4(6) Private nonprofit educational institutions. Sales of telecommunication service and ancillary service to private, nonprofit educational institutions in this state for educational purposes are exempt from tax.

224.4(7) Enhanced 911 surcharge. An enhanced 911 emergency telephone service surcharge is a surcharge for a service which routes a 911 call to the appropriate public safety answering point and automatically displays a name, address, and telephone number of an incoming 911 call at that answering point. A surcharge for enhanced 911 emergency telephone service is not subject to sales tax if:

- a. The amount is no more than \$1 per month per telephone access line; and
- b. The surcharge is separately identified and separately billed.

224.4(8) Return of deposit. The return to the customer of any portion of a deposit amount paid by that customer to a company providing telecommunication service is not subject to tax.

224.4(9) Resale exemption. Services or facilities furnished by one telecommunication company to another commercial telecommunication company that the second telecommunication company then furnishes to its customers qualify for the resale exemption under Iowa Code section 423.3(2), including any carrier access charges.

224.4(10) On-line services. Any contracted on-line service is exempt from tax if the information is made available through a computer server. The exemption applies to all contracted on-line services, as long as they provide access to information through a computer server.

224.4(11) New construction. The repair or installation of inside wire or the repair or installation of any electronic device, including a telephone or telephone switching equipment, that is performed as part of or in connection with new construction, reconstruction, alteration, expansion or remodeling of a building or structure is exempt from Iowa tax. For more information about the exemptions for new construction, see 701—Chapter 219.

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701—224.5(423) Bundled transactions in telecommunication service.

224.5(1) A “bundled transaction” is the retail sale of two or more products where:

- a. The products are otherwise distinct and identifiable; and
- b. The products are sold for one nonitemized price.

A bundled transaction does not include the sale of any products for which the sales price varies or is negotiable based on the purchaser’s selection of the products included in the transaction.

224.5(2) In the case of a bundled transaction that includes telecommunication service, ancillary service, Internet access, or audio or video programming service, either separately or in combination:

a. If the price is attributable to products that are taxable and products that are nontaxable, the portion of the price attributable to the nontaxable products will be subject to tax unless the provider can identify by reasonable and verifiable standards the portion from the provider’s books and records that are kept in the regular course of business for other purposes, including, but not limited to, nontax purposes.

b. If the price is attributable to products that are subject to tax at different tax rates, the total price may be treated as attributable to the products subject to tax at the highest tax rate unless the provider can identify by reasonable and verifiable standards the portion of the price attributable to the products subject to tax at the lower rate from the provider’s books and records that are kept in the regular course of business for other purposes, including, but not limited to, nontax purposes.

224.5(3) The provisions of this rule apply unless otherwise provided by federal law.

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701—224.6(423) Sourcing telecommunication service.

224.6(1) The general sourcing principles found in Iowa Code section 423.15 apply to telecommunication services and ancillary services unless the service falls under one of the exceptions set forth in subrule 224.6(2).

224.6(2) Exceptions. The following telecommunication services and products are sourced as follows:

a. Mobile telecommunication service is sourced to the place of primary use, unless the service is prepaid wireless calling service.

b. Prepaid calling service is sourced as provided under Iowa Code section 423.15. However, if the seller has sufficient information available, the sale of prepaid wireless calling service may be sourced to the location of the place of primary use.

c. A sale of a private telecommunication service is sourced as follows:

(1) Service for a separate charge related to a customer channel termination point is sourced to each level of jurisdiction in which the customer channel termination point is located.

(2) Service where all customer termination points are located entirely within one jurisdiction or levels of jurisdiction is sourced in the jurisdiction in which the customer channel termination points are located.

(3) Service for segments of a channel between two customer channel termination points located in different jurisdictions and which segments of channel are separately charged is sourced 50 percent in each level of jurisdiction in which the customer channel termination points are located.

(4) Service for segments of a channel located in more than one jurisdiction or levels of jurisdiction and which segments are not separately billed is sourced in each jurisdiction based on the percentage determined by dividing the number of customer channel termination points in the jurisdiction by the total number of customer channel termination points.

d. The sale of Internet access service is sourced to the customer's place of primary use.

e. The sale of an ancillary service is sourced to the customer's place of primary use.

f. A postpaid calling service is sourced to the origination point of the telecommunication signal as first identified by either:

(1) The seller's telecommunication system; or

(2) Information received by the seller from its service provider, where the system used to transport the signals is not that of the seller.

g. The sale of telecommunication service sold on a call-by-call basis is sourced to:

(1) Each level of taxing jurisdiction where the call originates and terminates in that jurisdiction; or

(2) Each level of taxing jurisdiction where the call either originates or terminates and in which the service address is also located.

h. The sale of telecommunication service sold on a basis other than a call-by-call basis is sourced to the customer's place of primary use.

i. The sale of the following telecommunication services is sourced to each level of taxing jurisdiction as follows:

(1) A sale of mobile telecommunication service, other than prepaid calling service, is sourced to the customer's place of primary use as required by the federal Mobile Telecommunications Sourcing Act.

(2) A sale of postpaid calling service is sourced to the origination point of the telecommunication signal as first identified by either the seller's telecommunication system or information received by the seller from its service provider, where the system used to transport such signals is not that of the seller.

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701—224.7(423) General billing issues. This rule is specifically applicable to companies and other persons providing telecommunication service and ancillary service in this state.

224.7(1) Retailers liable for collecting and remitting tax. Retailers that sell taxable telecommunication service and ancillary service are liable for collecting and remitting the state sales or use tax and any applicable local sales tax on the amounts of the sales.

224.7(2) *Billing date and tax period.* Companies that bill their subscribers for telecommunication service on a quarterly, semiannual, annual, or any other periodic basis must include the amount of those billings in their gross receipts. The date of the billing determines the period for which sales tax is remitted. For example, if the date of a billing is March 31, and the due date for payment of the bill without penalty is April 20, tax upon the gross receipts contained in the bill must be included in the sales tax return for the first quarter of the year. The same principle must be used to determine when tax will be included in payment of a sales tax deposit to the department.

224.7(3) *Permitting business offices.* All companies must have a permit for each business office that provides telecommunication service in this state. The companies must collect and remit tax upon the gross receipts from the operation of those offices.

224.7(4) *Credit.* A taxpayer subject to sales or use tax on telecommunication service and ancillary service who has paid any legally imposed sales or use tax on such service to another jurisdiction outside the state of Iowa is allowed a credit against the sales or use tax imposed by the state of Iowa equal to the sales or use tax paid to the other taxing jurisdiction(s).

224.7(5) *Direct pay permit not applicable to telecommunication services.* The department may issue a direct pay permit that allows the holder to purchase tangible personal property or taxable services without payment of the tax to the seller. However, a direct pay permit holder cannot use the direct pay permit for the purchase of telecommunication services and ancillary services. The seller must charge and collect the sales or use tax from the purchaser on the taxable sales of telecommunication services and ancillary services.

224.7(6) *Guaranteed amounts for coin-operated telephones.* If a minimum amount is guaranteed to a company from the operation of any coin-operated telephone, tax is computed on the greater of the minimum amount guaranteed or the actual taxable gross receipts collected.

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These rules are intended to implement Iowa Code chapter 423 as amended by 2011 Iowa Acts, Senate File 515.

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