

CHAPTER 281  
RECEIPTS EXEMPT FROM USE TAX

[Prior to 12/17/86, Revenue Department[730]]  
[Prior to 11/2/22, see Revenue Department[701] Ch 32]

**701—281.1(423) Tangible personal property and taxable services subject to sales tax.** The gross receipts from the sale of tangible personal property which are subject to the imposition of sales tax under Iowa Code chapter 422 shall be exempt from use tax if the sales tax has been paid to the department or to a retailer. This shall not apply to vehicles subject to registration or the purchase of a taxable service enumerated in Iowa Code section 422.43 prior to July 1, 1994. On and after that date the rendering, furnishing, or performing of a service taxable under Iowa Code chapter 422 shall be exempt from use tax if the sales tax has been paid to the department or to a retailer. Prior to, on, and after July 1, 1994, either a sales tax or a use tax, but not both, shall be imposed upon the use in Iowa of services rendered, furnished, or performed in this state.

This rule is intended to implement Iowa Code subsection 423.4(1).  
[Editorial change: IAC Supplement 11/2/22]

**701—281.2(423) Sales tax exemptions applicable to use tax.** When an exemption is allowed for sales tax purposes to any sale of tangible personal property the same shall apply for use tax, except for the exemptions provided in Iowa Code section 422.45, subsections 4 and 6, as they relate to vehicles subject to registration. On and after July 1, 2001, if any exemption from sales tax is allowed when a service is rendered, furnished, or performed, including the service of tangible personal property rental, the same exemption shall apply to any service subject to use tax.

This rule is intended to implement Iowa Code subsection 423.4(3) and subsection 423.4(4) as amended by 2001 Iowa Acts, House File 715.  
[Editorial change: IAC Supplement 11/2/22]

**701—281.3(423) Mobile homes and manufactured housing.** A use tax is not to be imposed on any mobile home or manufactured housing if the tax has been previously imposed pursuant to Iowa Code section 423.2 and paid. In order for the exemption to be allowed, the purchaser of the mobile home or manufactured housing has the responsibility to provide the county treasurer with documentation verifying that the Iowa use tax was previously paid. On or after July 1, 2008, all taxable mobile homes or manufactured housing is subject to a use tax in an amount equal to 20 percent of the mobile home’s or manufactured housing’s purchase price (80 percent of the home’s or housing’s purchase price is exempt from use tax). Prior to July 1, 2008, all taxable mobile homes or manufactured housing was subject to a use tax in an amount equal to 60 percent of the mobile home’s or manufactured housing’s purchase price (40 percent of the home’s or housing’s purchase price is exempt from use tax). The trade-in allowance provided in Iowa Code section 423.1(6)“b” is considered a reduction in the purchase price if (1) the property traded for the mobile home or manufactured housing is a type of property normally sold in the regular course of business of the retailer selling the home or housing, and (2) the retailer intends ultimately to sell the traded property at retail or to use the traded property in the manufacture of a like item.

EXAMPLE 1: In January of 2008, a manufactured housing dealer receives from the factory a new manufactured home that has a sales price of \$20,000. The dealer sells it and takes the purchaser’s old manufactured home worth \$5,000 in trade. The dealer keeps the traded-in manufactured home as an office. The Iowa use tax is computed as follows:

|                                 |          |
|---------------------------------|----------|
| Sales price . . . . .           | \$20,000 |
| Less trade-in. . . . .          | \$ 5,000 |
| Buyer’s price . . . . .         | \$15,000 |
| Amount subject to tax . . . . . | \$12,000 |
| (\$20,000 × 60%)                |          |
| Use tax at 5% . . . . .         | \$ 600   |

The trade-in allowance does not apply since the traded-in manufactured home will not be ultimately sold at retail or used to manufacture a like item.

EXAMPLE 2: Same date and facts as given in Example 1 with the exception that the dealer lists the trade-in for sale.

|                                 |                 |
|---------------------------------|-----------------|
| Sales price . . . . .           | \$20,000        |
| Less trade-in. . . . .          | <u>\$ 5,000</u> |
| Buyer's price . . . . .         | \$15,000        |
| Amount subject to tax . . . . . | \$ 9,000        |
| (\$15,000 × 60%)                |                 |
| Use tax at 5% . . . . .         | \$ 450          |

The trade-in allowance applies since the traded-in manufactured home will be ultimately sold at retail.

EXAMPLE 3: In September of 2008, a manufactured housing dealer receives from the factory a new manufactured home that has a sales price of \$40,000. The dealer sells it and takes the purchaser's old manufactured home worth \$10,000 in trade. The dealer intends to resell the used manufactured home. The Iowa use tax is computed as follows:

|                                 |                 |
|---------------------------------|-----------------|
| Sales price . . . . .           | \$40,000        |
| Less trade-in. . . . .          | <u>\$10,000</u> |
| Buyer's price . . . . .         | \$30,000        |
| Amount subject to tax . . . . . | \$ 6,000        |
| (\$30,000 × 20%)                |                 |
| Use tax at 5% . . . . .         | \$ 300          |

The trade-in allowance does apply since the traded-in manufactured home will be ultimately sold at retail or used to manufacture a like item. Because the transaction occurs after July 1, 2008, only 20 percent of the purchase price is subject to the 5 percent use tax.

This rule is intended to implement Iowa Code section 423.6 as amended by 2008 Iowa Acts, House File 2700, section 64.

[Editorial change: IAC Supplement 11/2/22]

**701—281.4(423) Exemption for vehicles used in interstate commerce.** Trailers and semitrailers used initially in Iowa on and after July 1, 1986, and registered under Iowa Code chapter 326, are exempt from tax. These trailers and semitrailers are not subject to the record-keeping requirement and other requirements of the next paragraph. See rule 701—281.10(423) for an additional exemption for vehicles operated but not registered under Iowa Code chapter 326.

For trailers and semitrailers registered under Iowa Code chapter 326 and initially used in Iowa between July 1, 1985, and June 30, 1986, inclusive, and for any other vehicle registered under chapter 326, including those purchased for lease, and truck and road tractors, a use tax is not to be imposed provided that the vehicle is used in interstate commerce, accrues at least 25 percent of its mileage outside of Iowa and is registered for a gross weight of 13 tons or more. Mileage records must be maintained for each vehicle by the vehicle owner on a fiscal year basis which begins on July 1 and ends on June 30. For trailers and semitrailers, the requirements of this paragraph and the subsequent paragraph are not applicable if the trailer is registered as of July 1, 1986, or is initially registered on or after that date. These trailers and semitrailers are treated as if they have been used initially and registered in Iowa on or after July 1, 1986, and the first paragraph of this rule is applicable to their use. The vehicle will be subject to use tax if the required mileage outside Iowa is not attained during each fiscal year. For purposes of determining eligibility for this exemption, mileage accrued in the year before the first full fiscal year of operation must be added to the mileage accrued during the first full fiscal year of operation and mileage

accrued in the year after the last full fiscal year of operation must be added to the mileage accrued during the last full fiscal year of operation. The vehicle owner is responsible for maintaining mileage records that prove eligibility for the exemption.

For assessments issued pursuant to this rule on and after July 1, 1998, if a vehicle meets the requirement that 25 percent of the miles operated accrue in states other than Iowa in each year of the first four-year period of operation, the exemption from use tax shall continue until the vehicle is sold or transferred. If a vehicle is found not to have met the exemption requirements of this paragraph in its first four years of operation, or the exemption was revoked, the value of the vehicle upon which use tax shall be imposed is the book or market value, whichever is less, at the time the exemption requirements first were not met or at the time the exemption was revoked. However, if exemption from use tax is claimed for a vehicle under this paragraph and that vehicle is, subsequently, never used in an exempt fashion, then the purchase price of the vehicle is the value upon which any assessed tax shall be computed.

EXAMPLE: Company A purchases a vehicle stating that its future use will be in interstate commerce; 25 percent of its miles traveled accrue outside the state of Iowa. In fact, the vehicle is never driven outside the state of Iowa. Use tax is computed on the purchase price of the vehicle paid by Company A.

EXAMPLE

|                | Iowa Miles | Non-Iowa Miles | Total   | Percent Non-Iowa |
|----------------|------------|----------------|---------|------------------|
| 1/1/86-6/30/86 | 45,000     | 5,000          | 50,000  | 10%              |
| 7/1/86-6/30/87 | 305,000    | 145,000        | 450,000 | 32%              |
|                | 350,000    | 150,000        | 500,000 | 30%              |

In this example, the vehicle was acquired on January 1, 1986, and traveled 50,000 miles through June 30, 1986, of which 5,000 miles were outside Iowa. From July 1, 1986, through June 30, 1987, the vehicle traveled 450,000 miles of which 145,000 miles were outside Iowa. The use tax exemption is applicable in this situation even though the vehicle traveled only 10 percent of its mileage outside Iowa in the year of acquisition since it traveled 30 percent of its mileage outside Iowa in the year of acquisition plus its first full fiscal year of operation.

This rule is intended to implement Iowa Code section 423.4(10) as amended by 1998 Iowa Acts, House File 2541.

[Editorial change: IAC Supplement 11/2/22; Editorial change: IAC Supplement 10/18/23]

**701—281.5(423) Exemption for transactions if sales tax paid.** As of July 1, 1986, the use of tangible personal property is exempt from tax if the gross receipts from the sale of that property are subject to Iowa sales tax and if the sales tax has been paid either to a retailer or to the department. The exemption does not include vehicles subject to registration or subject only to the issuance of a certificate of title.

This rule is intended to implement Iowa Code subsection 423.4(1).

[Editorial change: IAC Supplement 11/2/22]

**701—281.6(423) Exemption for ships, barges, and other waterborne vessels.** On and after July 1, 1986, tax will not be imposed upon the use, within Iowa, of any ship, barge, or other waterborne vessel if that use is primarily for the transportation of property or cargo for hire on the rivers bordering this state. This exemption is also applicable to tangible personal property used as material in the construction of or as a part for the repair of any such ship, barge, or waterborne vessel. The use must be on a river or rivers bordering Iowa, not on any river or rivers bounded on both banks by Iowa territory. The exemption does not apply for a use for any purpose other than the purpose described in this rule.

This rule is intended to implement Iowa Code subsection 423.4(10).

[Editorial change: IAC Supplement 11/2/22]

**701—281.7(423) Exemption for containers.** The use of containers in the collection, recovery, or return of empty beverage containers which are subject to the Iowa deposit law (Iowa Code chapter 455C) is exempt from tax on and after July 1, 1986.

This rule is intended to implement Iowa Code subsection 423.1(1).  
[Editorial change: IAC Supplement 11/2/22]

**701—281.8(423) Exemption for building materials used outside this state.** The use in Iowa by a contractor-retailer, manufacturer, or manufacturer's subcontractor of building materials, supplies, or equipment in the performance of construction contracts outside this state, the sale or use of which is not treated as a retail sale in this state under rule 701—19.5(422), is not subject to use tax.

This rule is intended to implement Iowa Code subsection 423.1(10).  
[Editorial change: IAC Supplement 11/2/22]

**701—281.9(423) Exemption for vehicles subject to registration.** The use of vehicles, as defined in Iowa Code section 321.1, subsections 4, 6, 8, 9, and 10, except vehicles that are designed primarily for carrying persons, is exempt from tax if the vehicles are purchased for lease and actually leased to a lessee for use outside the state of Iowa and the subsequent sole use in Iowa is in interstate commerce or interstate transportation. Such vehicles are commonly known as motor trucks, truck tractors, road tractors, trailers, or semitrailers. The exemption is retroactive to January 1, 1973.

This rule is intended to implement Iowa Code subsection 423.4(7).  
[Editorial change: IAC Supplement 11/2/22]

**701—281.10(423) Exemption for vehicles operated under Iowa Code chapter 326.** Vehicles operated under Iowa Code chapter 326 initially in Iowa on and after July 1, 1990, are exempt from tax. To claim the exemption to which this rule is applicable, it is not necessary that a vehicle be registered under Iowa Code chapter 326. The vehicle may be registered under some statute other than chapter 326; the exemption still applies. For details regarding vehicles registered under Iowa Code chapter 326 and in interstate commerce, see 701—281.4(423).

This rule is intended to implement Iowa Code section 423.4(10).  
[Editorial change: IAC Supplement 11/2/22; Editorial change: IAC Supplement 10/18/23]

**701—281.11(423) Exemption for vehicles purchased for rental or lease.**

**281.11(1)** On and after July 1, 1992, the use of a vehicle subject to registration in any state is exempt from tax if the following conditions exist:

*a.* The vehicle is purchased for rental by a person regularly engaged in the business of renting vehicles, or is registered and titled for rental use by a motor vehicle dealer licensed under Iowa Code chapter 322; and

*b.* The vehicle is held for rental for a period of 120 days or more and actually rented for periods of 60 days or less by a person regularly engaged in the business of renting vehicles, including a motor vehicle dealer licensed under Iowa Code chapter 322 who rents automobiles to users; and

*c.* All rentals are subject to taxation under Iowa Code chapter 423C. See 701—Chapter 251 for information concerning rentals.

**281.11(2)** Long-term lease. On or after January 1, 1997, the use of a vehicle subject to registration in this state is exempt from tax if the following conditions exist:

*a.* The vehicle subject to registration is purchased for lease and titled by a lessor licensed pursuant to Iowa Code chapter 321; and

*b.* The vehicle has a gross vehicle weight rating of less than 16,000 pounds; and

*c.* The vehicle is actually leased for a period of 12 months or more; and

*d.* The lease is subject to taxation under Iowa Code section 423.7A. See rule 701—280.5(423) regarding long-term leases.

A lessor may maintain the exemption from use tax under Iowa Code section 423.4(16) for a 12-month qualifying lease that terminates at the conclusion of or prior to the contracted expiration date, if the lessor does not use the vehicle for any purpose other than for lease. Unless an exemption applies, once

the vehicle is used by the lessor for a purpose other than for lease, the exemption from use tax under Iowa Code section 423.4(16) no longer applies and use tax is due on the fair market value of the vehicle, payable to the Iowa department of revenue (e.g., if the vehicle is used by the lessor as a company car). If a vehicle is subsequently leased and subject to tax, tax will be due and owing on any subsequent lease transaction. However, if a lessor exclusively maintains the vehicle for sale, then use tax is due on the purchase price of the vehicle at the time of sale and the tax is due and payable under the provisions of Iowa Code chapter 423.

This rule is intended to implement Iowa Code section 423.4(16) as amended by 1996 Iowa Acts, chapter 1125.

[Editorial change: IAC Supplement 11/2/22; Editorial change: IAC Supplement 10/18/23]

**701—281.12(423) Exemption for vehicles previously purchased for rental.** The use of motor vehicles subject to registration and previously purchased for rental is exempt from tax if the following circumstances exist:

1. The motor vehicle was registered and titled between July 1, 1982, and July 1, 1992, inclusive;
2. The motor vehicle was registered and titled to a motor vehicle dealer licensed under Iowa Code chapter 322;
3. The motor vehicle was rented to a “user” as that term is defined in Iowa Code section 423C.2 and 701—251.1(423C);
4. The dealer kept the vehicle on the inventory of vehicles for sale at all times;
5. The vehicle was to be immediately taken from the user when a buyer was found; and
6. The user was aware of this fact.

This rule is intended to implement Iowa Code chapter 423.

[Editorial change: IAC Supplement 11/2/22; Editorial change: IAC Supplement 10/18/23]

**701—281.13(423) Exempt use of aircraft on and after July 1, 1999.** On and after July 1, 1999, “aircraft” are subject only to use tax. See rule 701—280.6(423). As of that same date, the use of the following aircraft is exempt from tax:

**281.13(1)** Aircraft used in a scheduled interstate Federal Aviation Administration certified air carrier operation.

**281.13(2)** The use of an aircraft by an aircraft dealer who rents or leases the aircraft to another is exempt from tax if all of the following circumstances exist:

- a. The aircraft is kept in the inventory of the dealer for sale at all times.
- b. The dealer reserves the right to immediately take the aircraft from the renter or lessee when a buyer is found.
- c. The renter or lessee is aware that the dealer will immediately take the aircraft when a buyer is found.

As soon as an aircraft is used for any purpose other than leasing or renting, or the conditions set out in paragraphs “a,” “b,” and “c” are not continuously met, the dealer claiming the exemption is liable for the tax which would have been due but for the exemption set out in this subrule. Tax will be computed on the original purchase price paid by the dealer.

See rule 701—285.49(422,423) for a description of various aircraft parts and of services performed on aircraft which are exempt from sales and use tax.

This rule is intended to implement Iowa Code section 423.4 as amended by 1999 Iowa Acts, chapter 168.

[Editorial change: IAC Supplement 11/2/22; Editorial change: IAC Supplement 10/18/23]

**701—281.14(423) Exemption for tangible personal property brought into Iowa under Iowa Code section 29C.24.** On or after January 1, 2016, see 701—Chapter 276 for an exemption from use tax on tangible personal property purchased outside Iowa and brought into Iowa or used in Iowa to aid in the

performance of disaster or emergency-related work during a disaster response period as those terms are defined in Iowa Code section 29C.24.

This rule is intended to implement Iowa Code section 423.6(17).

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<sup>◇</sup> Two or more ARCs