

**701—225.3(423) Tangible personal property purchased by a person engaged in the performance of a service.****225.3(1) In general.**

*a.* Tangible personal property purchased by a person engaged in the performance of a service is purchased for resale and not subject to tax if (1) the provider and user of the service intend that a sale of the property will occur, and (2) the property is transferred to the user of the service in connection with the performance of the service in a form or quantity capable of a fixed or definite price value, and (3) the sale is evidenced by a separate charge for the identifiable piece or quantity of property.

*b.* Tangible personal property that is not sold in the manner set forth in paragraph 225.3(1) “*a*” above is not purchased for resale and thus is subject to tax at the time of purchase by a person engaged in the performance of a service. Such tangible personal property is considered to be consumed by the purchaser who is engaged in the performance of a service, and the person performing the service shall pay tax upon the sale at the time of purchase.

EXAMPLE 1: An investment counselor purchases envelopes. These envelopes are used to send out monthly reports to the investment counselor’s clients regarding the clients’ accounts. Tax is due at the time the investment counselor purchases the envelopes if the clients are not billed for these items. Each envelope is transferred to a client in a form or quantity that is capable of a fixed or definite price value. However, there must also be an actual sale to the client (customer) of an item of personal property in order that there be a “resale” of the item.

EXAMPLE 2: A retailer purchases television power supplies tax-free and makes a separate charge for the power supply to the customer. Since the power supply is transferred to the customer in a form or quantity capable of a fixed or definite price value, the retailer may purchase the power supply exempt from tax for subsequent resale.

EXAMPLE 3: A beauty shop purchases shampoo and other items to be used in the performance of the shop’s service. Tax is due at the time the beauty shop purchases such items from the shop’s supplier because the customers of the beauty shop are not separately billed for the items and because the items are not transferred to the customer in a form or quantity capable of a fixed or definite price value. The items are consumed by the beauty shop.

EXAMPLE 4: An accounting firm purchases plastic binders that are used to cover the reports issued to the firm’s customers. These binders would be subject to tax at the time of purchase by the firm where the customer of the firm is not billed for the item, because there is no sale to the customer.

EXAMPLE 5: A meat locker purchases materials, such as wrapping paper and tape, that the meat locker uses to wrap meat for customers who provide the locker with the meat. These materials would be subject to tax at the time of purchase by the meat locker because the materials are not sold to the customer in a form or quantity capable of a fixed or definite price value.

EXAMPLE 6: A jeweler purchases materials, such as main springs and crystals, to be used in the performance of a service. These items are purchased by the jeweler for resale when the items are transferred to the customer in a form or quantity capable of a fixed or definite price value, and each item is actually sold to the customer as evidenced by a separate charge therefor.

EXAMPLE 7: A lawn care service applies fertilizer, herbicides, and pesticides to the lawn care service’s customers’ lawns. The following are examples of invoices to customers that are suitable to indicate a lawn care service’s purchase of the fertilizer, herbicides, and pesticides for resale to those customers: “Chemicals...31 Gal...\$60”; “Fertilizer...50 lbs...\$100”; and “Materials applied to lawn...4 bushel...\$40.” The following are examples of information placed upon an invoice that would not indicate a purchase for resale to the customers invoiced: “Fifty percent of the charge for this service is for materials placed on a lawn,” or “Lawn chemicals...\$30” or “Fifty pounds of fertilizer was applied to this lawn.”

**225.3(2) Purchases made by automobile body shops or garages with body shops.**

*a. Chemicals, solvents, sorbents, and reagents.* Body shops may make exempt purchases of qualifying chemicals, solvents, sorbents, reagents, and other tangible personal property used in a vehicle repair service. Iowa Code section 423.3(99) contains more information on the conditions that must be met to qualify for this exemption.

*b. Purchase for resale.* Tangible personal property purchased by body shops can be purchased for resale provided both of the following conditions are met:

(1) The property purchased for resale is actually transferred to the body shop's customer by becoming an ingredient or component part of the repair work. More information is contained in Iowa Code section 423.3(2).

(2) The property purchased for resale is itemized as a separate item on the invoice to the body shop's customer and is transferred to the customer in a form or quantity capable of a fixed or definite price value.

If either of the above two conditions is not met, there is no purchase for resale and the body shop is deemed the consumer of the item purchased.

*c. Exemption certificates.* When body shops purchase items that will be resold (detailed list below) in the course of the repair activity or otherwise exempt, the vendors selling to the body shops are encouraged to accept a valid exemption certificate at the time of purchase. Failure of the vendor to accept a valid exemption certificate may subject that vendor to sales tax liability since the burden of proof would be on the vendor that a sale was made for resale. If the vendor cannot meet that burden, the vendor will be liable for the sales tax. Such burden is not met merely by a showing that the purchaser had obtained from the department an Iowa retail sales tax permit or retail use tax permit.

*d. Parts purchased for resale.* The following are nonexclusive examples of parts which can be purchased for resale since they are generally transferred to the body shop's customer during the course of the repair in a form or quantity capable of a fixed or definite price value and are generally itemized separately as parts:

- Accessories
- Batteries
- Brackets
- Bulbs
- Bumpers
- Cab corners
- Chassis parts
- Door guards
- Door handles
- Doors
- Engine parts
- Fenders
- Floor mats
- Grilles
- Headlamps
- Hoods
- Hubcaps
- Radiators
- Rocker panels
- Shock absorbers
- Side molding
- Spark plugs
- Tires
- Trim
- Trunk lids
- Wheels
- Window glass
- Windshield ribbon
- Windshields

*e. Taxable tools and supplies.* The following are nonexclusive examples of tools and supplies that are generally not transferred to the body shop's customer during the course of the repair and, therefore, could

not be purchased for resale. The body shop is deemed the consumer of these items since they are not transferred to a customer. Therefore, the body shop must pay tax to the vendor at the time of purchase:

Air compressors and parts  
 Body frame straightening equipment  
 Brooms and mops  
 Buffers  
 Chisels  
 Drill bits  
 Drop cords  
 Equipment parts  
 Fire extinguisher fluids  
 Floor jacks  
 Hand soap  
 Hand tools  
 Office supplies  
 Paint brushes  
 Paint sprayers  
 Sanders  
 Signs  
 Spreaders for putty  
 Washing equipment and parts  
 Welding equipment and parts

*f. Separately itemized.* A body shop must collect sales tax on the taxable service of repairing motor vehicles. More information is contained in rule 701—218.2(423). However, due to the nature of the insurance formulas, it is possible for the body shop to itemize that portion of the body shop's billing that would be for repair services and that portion relating to consumed "materials." It is also possible for the body shop to itemize that portion of the body shop's charges for parts that the body shop purchases for resale to the body shop's customers. A body shop does not and cannot resell the tools and supplies previously listed in this rule; the body shop's purchases of such items are taxable.

Therefore, as long as a body shop separately itemizes on the body shop's invoices to the body shop's customers the amounts for labor, parts, and "materials," the body shop should collect sales tax on the labor and the parts, but not on the materials as enumerated in this rule.

EXAMPLE 1: Company B, a body shop, repairs a motor vehicle by replacing a fender and painting the vehicle. In doing the repair work, the body shop uses rags, sealer and primer, paint, solder, thinner, bolts, nuts and washers, masking tape, sandpaper, waxes, buffing pads, chamois, and polishes. In Company B's invoice to the customer, the labor is separately listed at \$600, the part (fender) is separately listed at \$600, and the category of "materials" is separately listed for a lump sum of \$200, for a total billing of \$1,400. The Iowa sales tax computed by Company B should be on \$1,200, which is the amount attributable to the labor and the parts. The materials consumed by Company B were separately listed and would not be included in the tax base for the taxable "sales price," as defined in Iowa Code section 423.1(51), which is taxable under Iowa Code section 423.2.

EXAMPLE 2: Same facts as Example 1, except the "materials" were not separately listed on the invoice, but had been included in either or both of the labor or parts charges by marking up such charges. Company B must collect sales tax on the full charges for parts and labor.

This rule is intended to implement Iowa Code sections 423.1(39) and 423.3(2).

[ARC 8164C, IAB 7/24/24, effective 8/28/24]