

**701—214.2(423) Sales of prepaid merchandise cards.** Sales of prepaid merchandise cards (other than prepaid telephone calling cards (reference 701—subrule 16.51(3))) are not sales of tangible personal property and are not sales the sales price of which is subject to Iowa tax. If a purchaser uses a prepaid merchandise card to purchase taxable tangible personal property or taxable services, sales tax is computed on the sales price at the time of the sale and deducted from the prepaid amount remaining on the merchandise card.

EXAMPLE. Customer A purchases a prepaid merchandise card from ABC Clothing Company in the amount of \$200. Customer A purchases a sweater for \$50 from ABC Clothing Company. ABC Clothing Company will debit A's card \$52.50 ( $\$50 \times 1.05$ ) for the state tax rate of 5 percent or \$53 ( $\$50 \times 1.06$ ) if one local option tax rate of 1 percent is applicable.

This rule is intended to implement Iowa Code sections 423.1(46) and 423.2(1).