

701—219.9(423) Machinery and equipment sales contracts with installation.

219.9(1) *Machinery and equipment sales with installation.* Machinery and equipment sales contracts with installation are transactions that are considered a sale of tangible personal property to a final consumer. Therefore, the individual who sells the equipment with installation must purchase the machinery and equipment tax-free as a purchase for resale. This rule should not be confused with subrule 219.3(3) regarding equipment. The contract should itemize the sales tax separately. If a contractor wishes to avoid an itemization of sales and use tax on machinery and equipment that remains tangible personal property, the contractor can do so by figuring the tax as a general overhead expense and including a statement in the contract and related invoices that “sales tax is included in the contract price.”

If the sales transaction is one completed out of state and shipped in interstate commerce to a consumer or a user in Iowa, and not otherwise exempt from tax, the final purchaser is required to pay Iowa use tax on the purchase price of the machinery and equipment.

219.9(2) *Taxable services sales with installation.* Certain services that are enumerated in Iowa Code section 423.2 are subject to tax when performed under a contract for the installation of machinery and equipment that is not done in connection with new construction, reconstruction, alteration, expansion, or remodeling of a building or structure. Examples of enumerated services include electrical installation; plumbing; welding; and pipe fitting. Other labor charges for job site installation that do not involve a taxable enumerated service are not subject to tax if the charges are separately contracted or, if no written contract exists, are separately itemized on the billing from the seller to the purchaser.

EXAMPLE: Company B contracts with Company A to furnish and install a portable conveyor unit in Company A’s new building. Company B can purchase the portable conveyor unit tax-free because the portable conveyor unit maintains its identity as tangible personal property after installation and does not become a component part of the real property. Company B would then charge tax to Company A on the sale of the portable conveyor unit. Installation charges would be part of the total sales price subject to tax unless they are separately contracted or, if no written contract exists, separately itemized on the billing from Company B to Company A. If the installation charges involve the performance of one or more enumerated services, they would be subject to sales tax even when separately contracted for or separately itemized on the billing from Company B to Company A.

This rule is intended to implement Iowa Code sections 423.2(6), 423.3, and 423.5.

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