

701—20.12(422,423) Exempt sales of clothing and footwear during two-day period in August. Tax is not due on the sale or use of a qualifying article of clothing or footwear if the sales price of the article is less than \$100 and the sale takes place during a period beginning at 12:01 a.m. on the first Friday in August and ending at 12 midnight of the following Saturday. For example, in the year 2000, this period begins at 12:01 a.m. on Friday, August 4, and ends at 12 midnight on Saturday, August 5. Eligible purchases of clothing and footwear are exempt from local option sales taxes as well as Iowa state sales tax.

20.12(1) Definitions. The following words and terms, when used in this rule, shall have the following meanings, unless the context clearly indicates otherwise.

“*Accessories*” include but are not limited to jewelry, handbags, purses, briefcases, luggage, wallets, watches, cufflinks, tie tacks and similar items carried on or about the human body, without regard to whether worn on the body in a manner characteristic of clothing.

“*Clothing or footwear*” means an article of wearing apparel designed to be worn on or about the human body. For the purposes of this rule, the term does not include accessories or special clothing or footwear or articles of wearing apparel designed to be worn by animals.

“*Special clothing or footwear*” is clothing or footwear primarily designed for athletic activity or protective use and which is not normally worn except when used for the athletic activity or protective use for which it is designed.

20.12(2) Exempt sales. The exemption applies to each article of clothing or footwear selling for less than \$100, regardless of how many items are sold on the same invoice to a customer. For example, if a customer purchases two shirts for \$80 each, both items qualify for the exemption even though the customer’s total purchase price (\$160) exceeds \$99.99. The exemption does not apply to the first \$99.99 of an article of clothing or footwear selling for more than \$99.99. For example, if a customer purchases a pair of pants costing \$110, sales tax is due on the entire \$110.

20.12(3) Taxable sales. This exemption does not apply to sales of the following goods or services:

a. Any special clothing or footwear that is primarily designed for athletic activity or protective use and that is not normally worn except when used for the athletic activity or protective use for which it is designed. For example, golf cleats and football pads are primarily designed for athletic activity or protective use and are not normally worn except when used for those purposes; therefore, they do not qualify for the exemption. However, tennis shoes, jogging suits, and swimsuits are commonly worn for purposes other than athletic activity and qualify for the exemption.

b. Accessories, including jewelry, handbags, purses, briefcases, luggage, umbrellas, wallets, watches, and similar items carried on or about the human body, without regard to whether they are worn on the body in a manner characteristic of clothing.

c. The rental of any clothing or footwear. For example, this exemption does not apply to rentals of formal wear, costumes, diapers, and bridal gowns, but would apply to sales of the above items.

d. Taxable services performed on the clothing or footwear, such as garment and shoe repair, dry cleaning or laundering, and alteration services. Sales tax is due on alterations to clothing, even though the alteration service may be performed, invoiced and paid for at the same time as the clothing is being purchased. If a customer purchases a pair of pants for \$90 and pays \$15 to have the pants cuffed, the \$90 charge for the pants is exempt, but tax is due on the \$15 alteration charge.

e. Purchases of items used to make, alter, or repair clothing or footwear, including fabric, thread, yarn, buttons, snaps, hooks, belt buckles, and zippers.

20.12(4) Special situations.

a. *Articles normally sold as a unit.* Articles that are normally sold as a unit must continue to be sold in that manner if the exemption is to apply; they cannot be priced separately and sold as individual items in order to obtain the exemption. For example, if a pair of shoes sells for \$150, the pair cannot be split in order to sell each shoe for \$75 to qualify for the exemption. If a suit is normally priced at \$225 and sold as a unit on a single price tag, the suit cannot be split into separate articles so that any of the components may be sold for less than \$100 in order to qualify for the exemption. However, components that are normally priced as separate articles (e.g., slacks and sport coats, and suit coats and suit pants

sold separately prior to the two-day period) may continue to be sold as separate articles and qualify for the exemption if the price of an article is less than \$100.

b. Sales of exempt clothing combined with gifts of taxable merchandise. When exempt clothing is sold in a set that also contains taxable merchandise as a free gift and no additional charge is made for the gift, the exempt clothing may qualify for this exemption. For example, a boxed set may contain a tie and a free tie tack. If the price of the set is the same as the price of the tie sold separately, the item being sold is the tie, which is exempt from tax if sold for less than \$100 during the exemption period.

c. Layaway sales. A layaway sale is a transaction in which merchandise is set aside for future delivery to a customer who makes a deposit, agrees to pay the balance of the purchase price over a period of time and, at the end of the payment period, receives the merchandise. Under Iowa sales tax law, a sale of tangible personal property occurs when a purchaser takes delivery of tangible personal property in return for a consideration. Therefore, if a customer takes delivery of qualifying clothing or footwear during the exemption period (usually by taking possession of it; see rule 701—16.22(422,423) for general information on layaway sales) that sale of eligible clothing will qualify for the exemption.

20.12(5) Calculating taxable and exempt gross receipts—discounts, coupons, buying at a reduced price, and rebates.

a. Discounts. A discount allowed by a retailer and taken on a taxable sale can be used to reduce the sales price of an item. If the discount reduces the sales price of an item to \$99.99 or less, the item may qualify for the exemption. For example, a customer buys a \$150 dress and a \$100 blouse from a retailer offering a 10 percent discount. After applying the 10 percent discount, the final sales price of the dress is \$135, and the blouse is \$90. The dress is taxable (it is over \$99.99), and the blouse is exempt (it is less than \$99.99). See rule 701—15.6(422,423) for a definition of the word “discount” and a description of which retailers’ reductions in price are discounts which reduce the taxable sales prices of items and which are not.

b. Coupons. When a coupon is issued by a retailer and is actually used to reduce the sales price of any taxable item, the value of the coupon is excludable from the tax as a discount, regardless of whether the retailer is reimbursed for the amount represented by the coupon. Therefore, a retailer’s coupon can be used to reduce the sales price of an item to \$99.99 or less in order to qualify for the exemption. For example, if a customer purchases a pair of shoes priced at \$110 with a coupon worth \$20 off, the final sales price of the shoes is \$90, and the shoes qualify for the exemption. A manufacturer’s coupon cannot be used to reduce the sales price of an item. See 701—subrule 15.6(3).

c. Buy one, get one free or for a reduced price or “two for the price of one” sales. The total price of items advertised as “buy one, get one free,” or “buy one, get one for a reduced price,” or “two for the price of one” cannot be averaged in order for both items to qualify for the exemption. The following examples illustrate how such sales should be handled.

EXAMPLE 1. A retailer advertises pants as “buy one, get one free.” The first pair of pants is priced at \$120; the second pair of pants is free. Tax is due on \$120. Having advertised that the second pair is free, the store cannot ring up each pair of pants for \$60 in order for the items to qualify for the exemption. However, if the retailer advertises and sells the pants for 50 percent off, selling each pair of \$120 pants for \$60, each pair of pants qualifies for the exemption.

EXAMPLE 2. A retailer advertises shoes as “buy one pair at the regular price, get a second pair for half price.” The first pair of shoes is sold for \$100; the second pair is sold for \$50 (half price). Tax is due on the \$100 shoes, but not on the \$50 shoes. Having advertised that the second pair is half price, the store cannot ring up each pair of shoes for \$75 in order for the items to qualify for the exemption. However, if the retailer advertises the shoes for 25 percent off, thereby selling each pair of \$100 shoes for \$75, each pair of shoes qualifies for the exemption.

EXAMPLE 3. A retailer advertises shirts as “buy two for the price of one” for \$140. Tax is due on \$140. Each shirt cannot be rung up as costing \$70. However, as described in examples 1 and 2 above, the \$140 cost of each shirt can be discounted to bring the price of each shirt within the exemption’s limitation.

d. Rebates. Rebates occur after the sale and do not affect the sales price of an item purchased. For example, a customer purchases a sweater for \$110 and receives a \$12 rebate from the manufacturer. The

retailer must collect tax on the \$110 sales price of the sweater. See 701—subrule 15.6(2) for additional information regarding rebates.

e. Shipping and handling charges. Shipping charges separately stated and separately contracted for (as explained in rule 701—15.13(422,423)) are not part of the amount used to determine whether the sales price of an item qualifies it for exemption. Handling charges, however, are part of the amount used to make this determination if it is necessary to pay those charges in order to purchase an item.

20.12(6) *Treatment of various transactions associated with sales.*

a. Rain checks. Eligible items purchased during the exemption period using a rain check will qualify for the exemption regardless of when the rain check was issued. However, issuance of a rain check during the exemption period will not qualify an eligible item for the exemption if the item is actually purchased after the exemption period.

b. Exchanges.

(1) If a customer purchases an item of eligible clothing or footwear during the exemption period and later exchanges the item for the same item (different size, different color, etc.), no additional tax will be due even if the exchange is made after the exemption period.

EXAMPLE. A customer purchases a \$35 shirt during the exemption period. After the exemption period ends, the customer exchanges the shirt for the same shirt in a different size. Tax is not due on the \$35 price of the shirt.

(2) If a customer purchases an item of eligible clothing or footwear during the exemption period and after the exemption period has ended returns the item and receives credit on the purchase of a different item, the appropriate sales tax will apply to the sale of the newly purchased item.

EXAMPLE. A customer purchases a \$35 shirt during the exemption period. After the exemption period, the customer exchanges the shirt for a \$35 jacket. Because the jacket was not purchased during the exemption period, tax is due on the \$35 price of the jacket.

(3) If a customer purchases an item of eligible clothing or footwear during the exemption period and later during the exemption period returns the item and purchases a similar but nonexempt item, the purchase of the second item is not exempt from tax.

EXAMPLE. During the exemption period, a customer purchases a \$90 dress that qualifies for the exemption. Later, during the exemption period, the customer exchanges the \$90 dress for a \$150 dress. Tax is due on the \$150 dress. The \$90 credit from the returned item cannot be used to reduce the sales price of the \$150 item to \$60 for exemption purposes.

(4) If a customer purchases an item of eligible clothing or footwear before the exemption period and during the exemption period returns the item and receives credit on the purchase of a different item of eligible clothing or footwear, no sales tax is due on the sale of the new item if it is purchased during the exemption period and otherwise meets the qualifications for exemption.

EXAMPLE. Before the exemption period, a customer purchases a \$60 dress. Later, during the exemption period, the customer exchanges the \$60 dress for a \$95 dress. Tax is not due on the \$95 dress because it was purchased during the exemption period and otherwise meets the qualifications for the exemption.

20.12(7) *Nonexclusive list of exempt items.* The following is a nonexclusive list of clothing or footwear, sales of which are exempt from tax during the two-day period in August:

Adult diapers	Formal clothing—sold not rented	Raincoats and hats
Aerobic clothing	Fur coats and stoles	Religious clothing
Antique clothing	Galoshes	Riding pants
Aprons—household	Garters and garter belts	Robes
Athletic socks	Girdles	Rubber thongs—“flip-flops”
Baby bibs	Gloves—cloth, dress and leather	Running shoes without cleats
Baby clothes—generally	Golf clothing—caps, dresses, shirts and skirts	Safety shoes (adaptable for street wear)
Baby diapers	Graduation caps and gowns—sold not rented	Sandals
Baseball caps	Gym suits and uniforms	Shawls
Bathing suits	Hats	Shirts
Belts with buckles attached	Hiking boots	Shoe inserts and laces
Blouses	Hooded (sweat) shirts	Stockings
Boots—general purpose	Hosiery, including support hose	Suits
Bow ties	Jackets	Support hose
Bowling shirts	Jeans	Suspenders
Bras	Jerseys for other than athletic wear	Sweatshirts
Bridal apparel—sold not rented	Jogging apparel	Sweatsuits
Camp clothing	Knitted caps or hats	Swim trunks
Caps—sports and others	Lab coats	Tennis dresses
Chefs’ uniforms	Leather clothing	Tennis skirts
Children’s novelty costumes	Leg warmers	Ties
Choir robes	Leotards and tights	Tights
Clerical garments	Lingerie	Trousers
Coats	Men’s formal wear—sold not rented	Tuxedos (except cufflinks)—sold not rented
Corsets	Neckwear, e.g., scarves	Underclothes
Costumes—Halloween, Santa Claus, etc., sold not rented	Nightgowns and nightshirts	Underpants
Coverall	Overshoes	Undershirts
Cowboy boots	Pajamas	Uniforms—generally
Diapers—cloth and disposable	Pants	Veils
Dresses	Panty hose	Vests—general, for wear with suits
Dress gloves	Prom dresses	Walking shoes
Dress shoes	Ponchos	Windbreakers
Ear muffs		Work clothes
Employee uniforms other than those primarily designed for athletic activity or protective use		

20.12(8) Nonexclusive list of taxable items. The following is a nonexclusive list of items, sales of which are taxable during the two-day period in August:

Accessories—generally	Fabric sales	Safety clothing
Alterations of clothing	Fishing boots (waders)	Safety glasses
Athletic supporters	Football pads	Safety shoes—not adaptable for street wear
Backpacks	Football pants	Shoes with cleats or spikes
Ballet shoes	Football shoes	Shoulder pads for dresses and jackets
Barrettes	Goggles	Shower caps
Baseball cleats	Golf gloves	Skates—ice and roller
Baseball gloves	Ice skates	Swim fins, masks and goggles
Belt buckles sold without belts	In-line skates	Ski boots, masks, suits and vests
Belts for weight lifting	Insoles	Special protective clothing or footwear not adaptable for street wear
Belts needing buckles but sold without them	Jewelry	Sports helmets
Bicycle shoes with cleats	Key cases and chains	Sunglasses—except prescription
Billfolds	Knee pads	Sweatbands—arm, wrist and head
Blankets	Laundry services	Tap dance shoes
Boutonnieres	Life jackets and vests	Thread
Bowling shoes—rented and sold	Luggage	Vests—bulletproof
Bracelets	Monogramming services	Weight lifting belts
Buttons	Pads—elbow, knee, and shoulder, football and hockey	
Chest protectors	Patterns	
Clothing repair	Protective gloves and masks	
Coin purses	Purses	
	Rental of clothing	

Corsages	Rental of shoes or skates	Wrist bands
Dry cleaning services	Repair of clothing	Yard goods
Elbow pads	Roller blades	Yarn
Employee uniforms primarily designed for athletic activities or protective use		Zippers

This rule is intended to implement Iowa Code Supplement section 422.45 as amended by 2000 Iowa Acts, House File 2351.