

**701—32.4(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 32.10(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

	<u>Iowa Miles</u>	<u>Non-Iowa Miles</u>	<u>Total</u>	<u>Percent Non-Iowa</u>
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%
	<u>350,000</u>	<u>150,000</u>	<u>500,000</u>	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.