



SF 597 – Blood Processing Centers, Sales Tax Exemption (LSB1397SV)
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Fiscal Note Version – New

Description

Senate File 597 revises the sales and use tax exemption in Iowa Code section **423.3**(26A) for reagents and related accessory equipment sold or furnished to a regional blood testing facility under certain conditions and makes it an exemption for tangible personal property sold or test laboratory services furnished that is directly and primarily involved in the processing of human blood. The Bill also adds “nonprofit blood centers” to the definition of “commercial enterprise” in Iowa Code section **423.3**(104) for the purposes of the sales tax exemption for specified digital products when used for commercial purposes. The Bill takes effect upon enactment, is retroactive to May 30, 2018, and permits refunds for any sales taxes paid between then and the effective date if the claims are filed prior to October 1, 2019.

Background

The two main entities affected by the Bill are LifeServe Blood Center (LBC) and Mississippi Valley Regional Blood Center (MVRBC). For this analysis, expenditure data from IRS Tax Form 990 reported by the two agencies from 2014 to 2017 was utilized. The IRS 990 forms are representative of the total operations of federally tax-exempt organizations, in this case the nonprofit blood centers in the United States, so estimated allocation of activities in and outside of Iowa were obtained from the organizations.

Assumptions

- Sales of laboratory testing reagents to MVRBC are already exempt under Iowa Code section **423.3**(26A).
- MVRBC medical supplies expenditures are 66.0% sourced in Iowa, with the remainder occurring in other states. Equipment rental and maintenance expenditures are 50.0% sourced in Iowa.
- LBC total expenditures are 85.0% sourced in Iowa, with the remainder occurring in other states.
- Total expenditures for medical supplies and testing supplies from 2014 to 2017 trended downward for both LBC and MVRBC. This trend is consistent with the federal Bureau of Labor Statistics’ Producer Price Index for Blood and Organ Banks, which indicates the costs of inputs are falling. This rate of decline is projected to continue.
- Digital services estimates are self-reported by the entities.
- The Bill will be enacted by April 1, 2019. The sales tax refunds will not be issued until FY 2020.
- MVRBC is located in Davenport, which has a 1.0% local option sales tax (LOST) for a total sales tax rate of 7.0%. LBC is located in Des Moines, which will not have a LOST until July 1, 2019, so the State sales tax rate of 6.0% is used for that part of the estimate, and a total sales tax rate of 7.0% is used for the estimates beginning with FY 2020.
- The IRS 990 reports are organized on the tax year, or calendar year. These totals were divided evenly to allocate amounts by the State fiscal years.

- The IRS 990 report for LBC’s listing of laboratory reagents includes both testing that LBC directly performs, and testing as a service that LBC procures from other vendors.

Fiscal Impact

The calendar year (CY) sales tax liability for 2019 for each entity is estimated in **Table 1**.

Table 1 — CY 2019 Estimated Tax Liability for Nonprofit Blood Centers

	Mississippi Valley	LifeServe	Total
Laboratory Reagents	Exempt	\$ 287,000	\$ 287,000
Blood Bags	\$ 0	214,000	214,000
Medical Supplies	271,000	131,000	402,000
Equipment Rental and Maintenance	66,000	34,000	100,000
Digital Services	117,000	163,000	280,000
Total	\$ 454,000	\$ 829,000	\$ 1,283,000

The estimated revenue reduction to the General Fund, Secure an Advanced Vision for Education (SAVE) Fund, and LOST are presented in **Table 2**. Due to the effective-upon-enactment date provision, retroactivity, the sales tax base expansion for digital services taking effect in the middle of FY 2019, and the October 1, 2019, refund filing deadline, most of the refunds are expected to take place in FY 2020.

Table 2 — Revenue Reduction by Fund

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
General Fund					
Receipts	\$ -174,000	\$ -942,000	\$ -906,000	\$ -871,000	\$ -837,000
Refunds	0	-702,000	0	0	0
Total	\$ -174,000	\$ -1,644,000	\$ -906,000	\$ -871,000	\$ -837,000
SAVE					
Receipts	\$ -35,000	\$ -188,000	\$ -181,000	\$ -174,000	\$ -167,000
Refunds	0	-140,000	0	0	0
Total	\$ -35,000	\$ -328,000	\$ -181,000	\$ -174,000	\$ -167,000
LOST					
Receipts	\$ -15,000	\$ -188,000	\$ -181,000	\$ -174,000	\$ -167,000
Refunds	0	-44,000	0	0	0
Total	\$ -15,000	\$ -232,000	\$ -181,000	\$ -174,000	\$ -167,000

Sources

IRS 990 forms for Mississippi Valley Regional Blood Center, 2014-2017

IRS 990 forms for LifeServe Blood Center, 2014-2017

Interviews with Mississippi Valley Regional Blood Center and LifeServe Blood Center

LSA analysis and calculations

/s/ Holly M. Lyons

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The fiscal note for this Bill was prepared pursuant to Joint Rule 17 and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
