



[HF 2478](#) – Sales Tax on Construction Equipment Purchased by Dealers (LSB6178HV)
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Fiscal Note Version – Revised

Description

[House File 2478](#) removes the exclusion of construction equipment defined in Iowa Code section [423.3\(37\)](#) from the sale-for-resale sales tax exemption in Iowa Code section [423.3\(2\)](#).

Background

Under current law, the lease of equipment used in construction services (Iowa Code section [423.3\(37\)](#)) and the purchase of tangible personal property for subsequent resale (Iowa Code section [423.3\(2\)](#)) are exempt from sales and use tax. However, the purchase of construction equipment does not qualify for the sale-for-resale exemption if the construction equipment is ever leased to an entity that qualifies for the construction equipment exemption.

For example, if an equipment dealer purchased a piece of construction equipment with the intent to resell, no sales tax is owed. If that piece of equipment is first leased to a nonqualified entity, sales tax of 6.0% is due on the cost of the lease price of the piece of equipment. However, if at a later date the dealer leases the same piece of equipment to a qualified entity that is exempt from sales tax on the lease and uses the equipment in Iowa, the dealer would be responsible for paying the sales tax of 6.0% on the original acquisition cost of that piece of equipment.

Assumptions

- In FY 2017, 71 equipment dealers reported \$322.0 million in taxable sales, remitting \$19.3 million in sales tax. These 71 dealers also reported \$1.000 billion in exempt sales. (The previously reported 85 dealers identified by the Department of Revenue included 14 dealers that were later identified as different locations of the same dealer.)
- A survey of 41 dealers yielded eight responses. Although only 11.3% of total businesses, the total sales tax of these eight dealers represented approximately 40.0% of remitted sales tax.
- Of the total sales tax reported by these dealers, 2.2% is associated with purchased equipment that was originally purchased for resale but later became subject to sales tax because the equipment was instead leased.
- The Revenue Estimating Conference growth rates for sales and use tax are 4.5% in FY 2018 and 3.4% in FY 2019, and annual growth rates after that are assumed to be 3.9%.

Fiscal Impact

[House File 2478](#) is estimated to impact the General Fund, the Secure an Advanced Vision for Education (SAVE) Fund, and local option sales tax (LOST) revenues by at least the following amounts:

Estimated Impact of HF 2478

	<u>General Fund</u>	<u>SAVE</u>	<u>LOST</u>
FY 2019	\$ -377,000	\$ -75,000	\$ -58,000
FY 2020	-392,000	-78,000	-60,000
FY 2021	-407,000	-81,000	-63,000
FY 2022	-423,000	-85,000	-65,000
FY 2023	-439,000	-88,000	-68,000

Sources

Department of Revenue
Iowa Nebraska Equipment Dealers Association

/s/ Holly M. Lyons

April 17, 2018

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.
