

Fiscal Services Division
Legislative Services Agency
Fiscal Note

SF 2030 - Automated Teller Machine Sales Tax Exemption (LSB 5028 XS)
Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.state.ia.us)
Fiscal Note Version - New
Requested by Senator Pat Ward

Description

Senate File 2030 exempts service charges assessed by financial institutions from sales/use tax where the person being assessed the charge is a customer of the financial institution assessing the service charge. Service charges include point-of-sale purchases, automated teller machine (ATM) charges, and potentially any other service charge assessed to the customer.

The Bill would take effect July 1, 2006.

Background

“Financial institution” is defined as a state or federal bank, credit union, savings and loan, industrial loan company, or any affiliate of one of those organizations.

Under current law, service charges assessed by financial institutions against non-customers of that institution are exempt from State sales tax. This is generally limited to ATM charges assessed to persons using the ATM where the ATM is not owned by the customer’s bank.

Any service charge assessed by a financial institution against a checking account of the institution’s own customer are currently subject to sales tax. This would include ATM transactions involving an ATM owned by the customer’s bank or charges for use of an ATM not owned by the customer’s bank. The same is true for point-of-sale fees, if any.

Financial institutions also currently charge customers service fees for other checking account related actions, including fees to stop payments, card issuance/replacement, insufficient funds, certified checks, etc. If the non-customer restriction included in existing law is removed, the remaining language could be construed to also exempt those other fees from the State sales tax. If such an interpretation prevails, all fees currently assessed by financial institutions and their affiliates would become exempt from the sales tax.

Assumptions

1. Nationally, service fees for using ATM’s not owned by the customer’s bank will total \$4.3 billion annually. An estimated 1.0% of those fees (\$43.0 million) will be Iowa transactions.
2. The average fee will be \$2.91, with \$1.37 (47.1%) representing charges assessed by the customer’s own bank.
3. Ninety-five percent of the fees assessed by the customers own bank will be associated with checking accounts and therefore subject to sales tax.
4. The State sales tax rate is 5.0% and the average local option sales tax rate is 1.2%.

Fiscal Impact

The sales tax exemption for point-of-sale and ATM charges contained in SF 2030 will reduce net General Fund tax revenue by an estimated \$962,000 per year and local option sales tax revenue by \$231,000 per year, starting FY 2007.

If the amended law is interpreted to also exempt other service charges of financial institutions and their affiliates from sales tax, the tax reduction will be considerably higher.

Sources

Iowa Department of Revenue Web site
Bankrate.com Website

/s/ Holly M. Lyons

February 20, 2006

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.
