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[HF 2635](#) – Communications Network Equipment Sales Tax Exemption (LSB5578HV)  
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Fiscal Note Version – New

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## **Description**

[House File 2635](#) expands the sales and use tax exemption found in Iowa Code section [423.3\(47A\)\(a\)](#) by making all purchases of central office equipment or transmission equipment used by certain entities in the furnishing of telecommunications services on a commercial basis exempt from sales and use tax.

## **Background**

Under current law, a sales tax exemption is available only for central office equipment or transmission equipment primarily used by local exchange carriers and competitive local exchange service providers; by franchised cable television operators, mutual companies, municipal utilities, cooperatives, certain communication services companies; by long distance companies; or for a commercial mobile radio service in the furnishing of telecommunications services on a commercial basis.

“Central office equipment” is defined as equipment utilized in the initiating, processing, amplifying, switching, or monitoring of telecommunications services. Central office equipment also includes ancillary equipment and apparatus that support, regulate, control, repair, test, or enable such equipment to accomplish its function.

“Transmission equipment” is defined as equipment utilized in the process of sending information from one location to another location. Transmission equipment also includes ancillary equipment and apparatus that support, regulate, control, repair, test, or enable such equipment to accomplish its function.

## **Assumptions**

- The Bill is effective July 1, 2024 (FY 2025).
- It is assumed that there are 116 telecommunications providers affected by the Bill.
- Estimated taxable expenditures made exempt by the Bill are based on appeals information filed with the Iowa Department of Revenue related to the sales tax exemption in Iowa Code section 423.3(47A)(a) and scaled to include all telecommunications providers in the State.
- The estimated value of purchases made exempt under the Bill is assumed to increase by 2.0% annually.
- Secure an Advanced Vision for Education (SAVE) refunds are 1.0% of taxable expenditures. Local Option Sales Tax (LOST) distributions are estimated to be 0.97% of taxable expenditures.

## **Fiscal Impact**

House File 2635 is estimated to reduce annual revenues to the General Fund, the SAVE Fund, and the LOST by the amounts in **Figure 1**.

**Figure 1 — Fiscal Impact of HF 2635 (in Millions)**

	<u>General Fund</u>	<u>SAVE</u>	<u>LOST</u>
FY 2025	\$ -0.8	\$ -0.2	\$ -0.2
FY 2026	-0.8	-0.2	-0.2
FY 2027	-0.9	-0.2	-0.2
FY 2028	-0.9	-0.2	-0.2
FY 2029	-0.9	-0.2	-0.2

**Sources**

Iowa Department of Revenue  
Iowa Communications Alliance

/s/ Jennifer Acton

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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.

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