

IOWA SALES TAX EXEMPTION CERTIFICATES

An Iowa Sales Tax Exemption Certificate is required when normally taxable items or services are sold tax free. Usually, these are items for resale or for use in processing, but there are also other reasons for exemption. It is important that the seller knows when to accept an exemption certificate. If audited, the seller will use exemption certificates to support tax exempt sales. A valid certificate taken without fraudulent intent will pass the tax burden for unreported sales tax from the seller directly to the purchaser.

Sales tax ‘exemption numbers’ are not issued in Iowa

The Iowa Department of Revenue does *not* issue sales tax “exemption numbers” which make purchases by individuals or organizations exempt from sales tax. The purchaser’s sales tax permit number is *not* an “exemption number.”

The purchaser must complete a Sales Tax Exemption Certificate

When normally taxable sales are made free of sales or use tax, the seller must require the purchaser to complete and sign a Sales Tax Exemption Certificate. This certificate is a proper record of the tax-exempt transaction and must be retained by the seller for at least three years. It identifies the purchaser, the purchaser’s business, the items being purchased and the reason for exemption. The purchaser must sign and date the certificate. The purchaser’s sales tax permit number must be recorded on the certificate if the purchaser is a retailer.

Keep all exemption certificates on file for a minimum of three years.

The Department will recognize substitute Sales Tax Exemption Certificate forms, provided they meet certain requirements. In order to be valid, a substitute form must include: the seller’s name, the purchaser’s name and address, the purchaser’s nature of business (wholesaler, retailer, manufacturer, lessor, other), reason for exemption (resale, processing, other), general description of the products purchased and the purchaser’s Iowa sales tax permit number (if the purchaser is a retailer). The purchaser must sign and date the certificate.

A ‘blanket’ exemption certificate is accepted in some cases

If the purchaser repeatedly makes tax exempt purchases of similar items or services from the same seller, the seller may accept a blanket exemption certificate. The seller can keep this single certificate on file to cover repeat purchases. The seller must verify at least every three years that the information on the blanket exemption certificate is accurate and complete. Keep all blanket exemption certificates on file for a minimum of three years.

Iowa Sales Tax Exemption Certificates (78-637)

The exemption certificate must be complete

An exemption certificate must be thoroughly completed by the purchaser to be regarded as valid. Examples of valid and invalid certificates are included at the end of this publication.

In an audit situation, the Department will not recognize an incomplete exemption certificate or a certificate taken with fraudulent intent. Fraudulent intent may be demonstrated by sellers who fraudulently fail to collect the tax or who solicit purchasers to participate in any unlawful claim of exemption. The seller may be held responsible for any sales tax due from such transactions.

The seller should question the purchaser’s claim of exemption when evidence or circumstances indicate that the items or services purchased will not be used in an exempt manner. If the seller remains unconvinced that the sale is exempt, then the sale should be taxed. *The seller is not required to make a tax-exempt sale.*

How to determine if a transaction is exempt

Construction contractors are not always exempt from paying tax

Contractor-retailers who make purchases for resale may do so without paying tax. They must, of course, complete an exemption certificate.

Contractors who purchase building materials and supplies for construction projects must pay tax on their purchases, unless their contract is with a Designated Exempt Entity registered with the Department to issue special exemption certificates to contractors and subcontractors, allowing them to purchase, or withdraw from inventory, materials for the contract free from sales tax.

Most nonprofit organizations must pay sales and use taxes

Nonprofit entities, churches and religious organizations are not automatically exempt from paying state sales tax on taxable goods and services. This is true even if these entities are exempt from the payment of state and federal income taxes. State sales tax must be paid unless some other general sales tax exemption applies.

While these groups may hold Iowa sales tax permits for taxable sales, having a sales tax permit does not make them exempt from paying tax on purchases for their own use. Purchases made for resale are exempt from all sales tax. In other words, a nonprofit corporation, church or other religious organization is treated the same as any other private citizen for sales and use tax purposes when purchasing goods and taxable services at retail.

A few nonprofit entities are exempt from paying sales tax

The Iowa Code *does* exempt certain specific nonprofit entities from paying sales tax on purchases. The most common of these are government agencies and subdivisions, including public schools. (For a complete list of entities which are not required to pay Iowa sales tax, see our Iowa Tax Guide for Nonprofit Entities. These exempt entities *must* pay for their purchases with a check or voucher drawn on the entity's account or with a credit card set up the same way.

Even when the purchaser is a government agency, school or other exempt entity, the seller should require the purchaser to complete and sign a Sales Tax Exemption Certificate. If the purchaser repeatedly makes tax-exempt purchases of similar items, the seller may accept a blanket exemption certificate.

Most reasons for exemption are listed on the back of the exemption certificate

Below are the exemption explanations found on the back of the exemption certificate.

Resale: Any person in the business of selling who is purchasing items to resell may claim this exemption. The purchaser can be acting as either a retailer or wholesaler and may not be required to have a sales tax permit. Retailers who do have a sales tax permit number must enter it in the space provided.

Processing: Exempt purchases for processing include tangible personal property which by means of fabrication, compounding, manufacturing or germination becomes an integral part of other tangible personal property ultimately sold at retail; chemicals, solvents, sorbents or reagents used, consumed, dissipated or depleted in processing personal property intended to be sold ultimately at retail; fuel used to create heat, power or steam for processing or used to generate electric current; and chemicals used in the production of free newspapers and shoppers.

Qualifying Farm Machinery/Equipment: The farm machinery or equipment must be directly and primarily used in agricultural production; and must be:

1. a self-propelled implement such as a tractor
2. a grain dryer (heater and blower only)
3. an implement customarily drawn or attached to a self-propelled implement in the performance of its function, such as a plow
4. auxiliary equipment improving safety, maintenance and efficiency of items 1, 2, 3
5. tangible personal property that does not become a part of real property used directly and primarily in dairy and livestock operations
6. a replacement part for 1, 2, 3, 4, 5
7. bailing wire, twine, wrapping and other similar items used in agricultural, livestock or dairy production
8. auger systems, curtains, curtain systems, drip systems, fan and fan systems, shutters, inlets and shutter or inlet systems and refrigerators used in livestock or dairy production, aquaculture production, or the production of flowering, ornamental, or vegetable plants.

Qualifying Industrial Machinery/Equipment: This machinery or equipment must be:

- used by a manufacturer; and
- directly and primarily used in processing tangible personal property or certain other research activities
- certain replacement parts for the above; this does not include supplies

Qualifying Computers:

- sold to a commercial enterprise, insurance company, or financial institution
- certain replacement parts; this does not include supplies

Direct Pay: Businesses and individuals who pay their taxes directly to the Department rather than to the seller **must** enter their Direct Pay permit number in the space provided.

Private Nonprofit Educational Institutions: Purchases made by Iowa private nonprofit educational institutions used for educational purposes are exempt.

**The exemption certificate below is incomplete;
therefore, it is not valid and should not be accepted by the seller.**



Iowa Department of Revenue
www.state.ia.us/tax

Iowa Sales Tax Exemption Certificate

This document is to be completed by a purchaser whenever claiming exemption from sales/use tax.
Certificates are valid for up to three years. *Seller:* Keep this certificate in your files.
Purchaser: Keep a copy of this certificate for your records. Do not send this to the Department of Revenue.

Purchaser Name XYZ Manufacturing		
Address 890 Manufacturing Road		
City Davenport	State IA	Zip Code 52804
General Nature of Business Ag products manufacturing		
Telephone Number 555-555-5555		

Seller Name Manufacturing Supply		
Address 123 Farmers Lane		
City Clinton	State IA	Zip Code 52732

Purchaser is doing business as a:

- Retailer
Sales tax permit no. : _____
- Wholesaler Farmer Lessor
- Manufacturer Nonprofit Hospital
- Private Nonprofit Educational Institution
- Governmental Agency (including public schools)
- Qualifying Residential Care Facility
- Non-Profit Museum Other: _____

Purchaser is claiming exemption for the following reason:

- Resale Leasing Processing
- Qualifying Farm Machinery/Equipment
- Qualifying Industrial Machinery/Equipment
- Qualifying Replacement Parts Qualifying Computer
- Pollution Control Equipment Recycling Equipment
- Research and Development Equipment
- Direct Pay (permit no. required): _____
- Other: _____

Description of Purchase: Attach additional information if necessary. _____

Under penalty of perjury, I swear or affirm that the information on this form is true and correct.

Signature of Purchaser *Ann Smith* Title **VP - purchasing** Date **7-1-07** 31-014 (7/13/07)

This section must be completed to be valid.

**The exemption certificate below is incomplete;
therefore, it is not valid and should not be accepted by the seller.**



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Purchaser: Keep a copy of this certificate for your records. Do not send this to the Department of Revenue.

Purchaser Name Joe Farmer		
Address		
City	State	Zip Code
General Nature of Business		
Telephone Number		

Seller Name Ag Supply Service		
Address 567 Angus Avenue		
City Cedar Rapids	State IA	Zip Code 20202

Purchaser is doing business as a:

- Retailer
Sales tax permit no. : _____
- Wholesaler Farmer Lessor
- Manufacturer Nonprofit Hospital
- Private Nonprofit Educational Institution
- Governmental Agency (including public schools)
- Qualifying Residential Care Facility
- Non-Profit Museum Other: _____

Purchaser is claiming exemption for the following reason:

- Resale Leasing Processing
- Qualifying Farm Machinery/Equipment
- Qualifying Industrial Machinery/Equipment
- Qualifying Replacement Parts Qualifying Computer
- Pollution Control Equipment Recycling Equipment
- Research and Development Equipment
- Direct Pay (permit no. required): _____
- Other: _____

Description of Purchase: Attach additional information if necessary. _____
Under penalty of perjury, I swear or affirm that the information on this form is true and correct.

Signature of Purchaser **Joe Farmer** Title _____ Date _____ 51-014 (7/13/07)

**A signature and reason are not sufficient for a
valid exemption certificate.**

**The exemption certificate below is incomplete;
therefore, it is not valid and should not be accepted by the seller.**



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Iowa Sales Tax Exemption Certificate

This document is to be completed by a purchaser whenever claiming exemption from sales/use tax.
Certificates are valid for up to three years. *Seller:* Keep this certificate in your files.
Purchaser: Keep a copy of this certificate for your records. Do not send this to the Department of Revenue.

Purchaser Name Steve's Construction		
Address 3456 Contracting Street		
City Dubuque	State IA	Zip Code 30303
General Nature of Business		
Telephone Number		

Seller Name Ark Inc.		
Address 34875 118th Street		
City Des Moines	State IA	Zip Code 50319

Purchaser is claiming exemption for the following reason:

- Resale Leasing Processing
- Qualifying Farm Machinery/Equipment
- Qualifying Industrial Machinery/Equipment
- Qualifying Replacement Parts Qualifying Computer
- Pollution Control Equipment Recycling Equipment
- Research and Development Equipment
- Direct Pay (permit no. required): _____
- Other: _____

Purchaser is doing business as a:

- Retailer
Sales tax permit no. : _____
- Wholesaler Farmer Lessor
- Manufacturer Nonprofit Hospital
- Private Nonprofit Educational Institution
- Governmental Agency (including public schools)
- Qualifying Residential Care Facility
- Non-Profit Museum Other: _____

Description of Purchase: Attach additional information if necessary. _____
Under penalty of perjury, I swear or affirm that the information on this form is true and correct.

Signature of Purchaser *Steve Jones* Title **President** Date **7-1-07** 31-014 (7/13/07)

**The exemption certificate below is complete;
therefore, it is valid and may be accepted by the seller.**



Iowa Department of Revenue

www.state.ia.us/tax

Iowa Sales Tax Exemption Certificate

This document is to be completed by a purchaser whenever claiming exemption from sales/use tax. Certificates are valid for up to three years. *Seller:* Keep this certificate in your files.
Purchaser: Keep a copy of this certificate for your records. Do not send this to the Department of Revenue.

Purchaser Name Iowa Company		
Address #1 Hawkeye Street		
City Iowa City	State IA	Zip Code 10101
General Nature of Business retail clothing		
Telephone Number 555-555-5555		

Seller Name Clothing Supply Co.		
Address #1 Kinnick Blvd.		
City Iowa City	State IA	Zip Code 10101

Purchaser is doing business as a:

- Retailer
Sales tax permit no. : **1-52-000000**
- Wholesaler Farmer Lessor
- Manufacturer Nonprofit Hospital
- Private Nonprofit Educational Institution
- Governmental Agency (including public schools)
- Qualifying Residential Care Facility
- Non-Profit Museum Other: _____

Purchaser is claiming exemption for the following reason:

- Resale Leasing Processing
- Qualifying Farm Machinery/Equipment
- Qualifying Industrial Machinery/Equipment
- Qualifying Replacement Parts Qualifying Computer
- Pollution Control Equipment Recycling Equipment
- Research and Development Equipment
- Direct Pay (permit no. required): _____
- Other: _____

Description of Purchase: Attach additional information if necessary. **sweatshirts, hats, T-shirts. (p.o.#37583)**
Under penalty of perjury, I swear or affirm that the information on this form is true and correct.

Signature of Purchaser **Tom Smith** Title **owner** Date **7-1-07** 31-014 (7/13/07)