

Iowa Tax NEWS

The quarterly newsletter of the Iowa Department of Revenue and Finance

Number of electronic returns jumps during 1996 income tax filing season

The number of Iowa income tax returns filed electronically during the 1996 filing season was nearly double the 1995 total, according to department statistics.

Nearly 78,000 returns were received electronically by May 20, 1996. This year's electronically-filed returns account for 8 percent of Iowa's Refund and Zero Balance returns and 6 percent of the state's total returns. Last year the state received just under 42,000 electronic returns, representing 5 percent of Refund and Zero Balance returns and 3 percent of total returns.

As in 1995, half of this year's electronically-filed returns were received by the middle of February – week five of the 16-week filing season. Also for the second year, electronic state returns were received from taxpayers

residing in all 99 Iowa counties. So far this year, the department has received nearly 2,000 electronic returns from 15 other states.

The number of practitioners filing Iowa returns electronically jumped from 370 last year to 602 in 1996. The addition of six new software developers this year brought that total to 14.

Only half of 1 percent of the electronically-filed Iowa returns have been rejected this year – many of those due to inconsistent county and school district coding. The error rate on electronic returns received in 1996 is running just over 1 percent – significantly below the 10 percent error rate for paper returns.

Tentative plans for the 1997 electronic filing season include the addition of Balance Due state returns and Electronic Return Originator (ERO) retention of the IA 8453.

Jurisdictions adopt local option sales tax

Voters in the following 15 jurisdictions have adopted the local option sales tax effective July 1, 1996. The counties and county codes are listed in bold. To obtain a complete list of all current Iowa local option sales tax jurisdictions, call our toll-free

Iowa tax forms number and request form number 31-018.

Allamakee (03) – Lansing, New Albin

Cherokee (18) – Aurelia, Cleghorn, Larrabee, Marcus, Meriden, Washta

Page (73) – Clarinda, Hepburn, Northboro, Unincorporated Area

Sioux (84) – Hospers, Rock Valley, Sheldon



DEPARTMENT SERVICES



ONLINE

Internet Address (URL)

<http://www.state.ia.us/government/drf/index.html>



E-mail

iadrf@iadrf.e-mail.com

BY TELEPHONE

Taxpayer Services

from Des Moines
or out of state,

(515) 281-3114

from elsewhere in Iowa or
Rock Island-Moline or Omaha

1-800-367-3388



To Order Iowa Tax Forms

(515) 281-7239 or
1-800-532-1531



"Where's My Refund?"

(515) 281-4966 or
1-800-572-3944

BY FAX

Receive Iowa Tax Forms by Fax

(515) 281-4139 or
1-800-572-3943



Department Fax Number

(515) 242-6040

BY MODEM

ERIN (electronic bulletin board)

(515) 281-3248 or
1-800-972-2028

Tax on kerosene repealed retroactively

The special fuel tax of 22.5 cents per gallon imposed on kerosene has been repealed. The repeal is retroactive to January 1, 1996. Only kerosene that is blended with other special fuels for use in a motor vehicle is taxable as of January 1, 1996.

Anyone who has paid the 22.5-cent tax after the repeal date can file for a refund. A special refund claim (form 82-007) has been developed; a minimum of

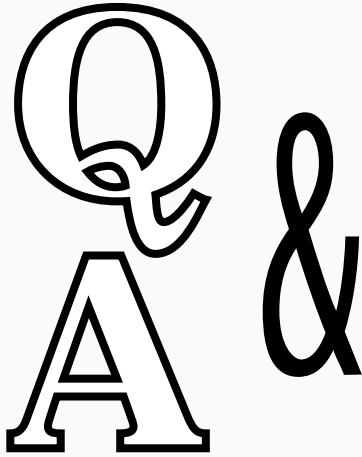
\$60 in tax is required in order to file a special refund claim. As an alternative, a credit may be taken by attaching form IA 4136 to the year-end income tax or corporation return, regardless of the amount of overpayment. If the claimant is not required to file an income tax return, a credit of less than \$60 will be allowed. Kerosene is subject to sales tax unless an exemption is applicable.

ICC numbers do not exempt truck parts or equipment from Iowa sales tax

Iowa truck repair and supply retailers should not accept ICC numbers as proof of exemption from Iowa sales tax. These numbers are sometimes presented to Iowa retailers by Illinois- and Missouri-based trucking companies and truck drivers. Those states have laws allowing exemption from sales tax for truck repair parts and truck equipment used in interstate commerce. Iowa has no such exemption. In

addition, those states do not tax repair labor; Iowa does. Retail products and services sold to Missouri- or Illinois-based trucking companies or truckers are subject to Iowa sales tax laws if delivery takes place in Iowa. Also note that parts, equipment and repair services purchased by an Iowa-based trucker in a state which exempts those items from sales tax are subject to Iowa use tax if purchased for use in this state.

Current Iowa Fuel Tax Rates	
Gasoline	\$.20 per gallon
Ethanol Blended Gasoline	\$.19 per gallon
Aviation Gasoline	\$.08 per gallon
Special Fuel (Diesel)	\$.225 per gallon
Special Fuel (LPG)	\$.20 per gallon
Special Fuel (Aviation)	\$.03 per gallon
Compressed Natural Gas	\$.16 per 100 cu. ft.



Question: *Is it possible to receive prior-year tax forms via your department's "Tax Fax" system?*

Answer: Yes. The first two digits in the Tax Fax code number indicate the year of the form. By changing those digits, you can receive prior-year tax forms.

Please note that we keep only the current-year forms and forms for the prior two years on the Tax Fax system.

Question: *I was late making my most recent quarterly Iowa sales tax payment. Will I be charged penalty for this late payment?*

Answer: If this was the only late payment you have made in the last 36 months, penalty will not be charged. The department automatically waives penalty on the first occurrence of late sales tax payment, but requires that timely payments be made for 36 consecutive months thereafter before allowing the automatic waiver again.

Household employment tax issue causes problem on 1995 IA 1040

If 1995 Iowa 1040 returns have been filed with household employment taxes shown on line 28 and the tax was *not* included in the Federal tax deduction total on line 34, amended returns can be filed. On the amended return, elimi-

nate household employment tax from line 28 if line 34 does not include it.

To amend, use the Iowa 1040X or a 1995 return with the word "amended" written at the top. Please contact Taxpayer Services if you need more information.

Director issues declaratory ruling

The director found that repair, maintenance and installation services performed in Iowa by the independent service companies under on-site service warranties issued by the service companies

should not be considered in any determination regarding whether the petitioner is a direct marketer entitled to protection under Public Law 86-272. (P.L. 86-272 relates only to sales of tangible personal property.)

From the DIRECTOR'S DESK

With the 1996 income tax filing season behind us, our department begins the task of analyzing the mountain of data left in the wake of nearly 1.3 million Iowa tax returns. We will look closely at the ways in which we fell short of our customers' expectations and will seek to duplicate our successes.

One function which has served us very well is the Automated Call Distribution (ACD) system in our Taxpayer Services area.



Director Gerald D. Bair

This filing season the system fielded more than 300,000 phone calls – a 26 percent increase from 1995. Almost two-thirds of the callers used automated options to receive the information they required. This allowed our team of 15 tax specialists to answer more than 110,000 calls from January through April. They also assisted nearly 14,000 walk-in customers and answered 527 letters.

We appreciate taxpayers' patience when they experience delays during times of heavy call volume. We will work to provide the best service possible with the resources at our disposal.

1996 NEW LEGISLATION 1996

This page contains summaries of the bills, signed into law following the 1996 session of the Iowa Legislature, which will have the widest impact on Iowa taxpayers. We will provide additional detail concerning these new laws – and others not listed here – in future issues of this newsletter.

Vehicles purchased for lease

The tax imposed on vehicles leased for 12 months or more is paid to the county treasurer or Iowa Department of Transportation, whichever registers the vehicle.

The amount subject to tax is computed on each separate lease transaction by multiplying the number of months of the lease by the monthly lease payments, plus the down payment, less any manufacturer's rebate. If the lease is terminated prior to the termination date contained in the lease agreement, no refund is allowed for tax previously paid on the monthly payments.

Effective Date: Leases entered into on or after January 1, 1997.

Nexus and foreign corporations

A foreign corporation will not be subject to Iowa corporation income tax if its only activities in Iowa are the following:

1. Holding meetings of the Board of Directors or shareholders or holiday parties or employee appreciation dinners.
2. Maintaining bank accounts.
3. Borrowing money, with or without security.
4. Utilizing Iowa courts for litigation.
5. Owning and controlling a subsidiary corporation which is incorporated in or which is transacting business within Iowa where the holding

or parent company has no physical presence in Iowa as that presence relates to the ownership or control of the subsidiary.

6. Recruiting personnel where hiring occurs outside the state.

Effective Date: Retroactive to January 1, 1996, for tax years beginning on or after that date.

Agricultural packaging

The sales of containers, labels, cartons, pallets, packing cases, wrapping, baling wire, twine, bags, bottles, shipping cases, or other similar articles or receptacles sold for use in agricultural, livestock or dairy production are exempt from tax.

Effective Date: Effective July 1, 1996.

Tax benefits to individuals supporting military activities in Bosnia-Herzegovina

Individuals in the armed forces serving in an area that has been designated by Congress as a hazardous duty area or individuals serving in support of these forces are eligible for certain state tax benefits. Under prior law only persons serving in a combat zone or individuals serving in support of these persons would have been eligible for these benefits. Public Law No. 104-117 was enacted by Congress earlier this year. This law specified that Bosnia, Herzegovina, Croatia and Macedonia were qualified hazardous duty areas.

Eligible persons will be given additional time to file state income tax returns and to file claims for refund for any tax administered by the Department, make tax payments other than withholding payments, file appeals on tax matters, file tax returns for taxes other than income tax returns. The additional time period allowed applies to the spouse of the eligible person to the extent the spouse files jointly or separately on the combined income tax return or when the spouse is a party with the eligible person to any matter for which the additional time period is allowed.

The additional time period is 180 days

after the person leaves the hazardous duty area or other area where the persons were in support of the troops in the hazardous area. However, an eligible person who was hospitalized because of illness or injury in the hazardous area or the area of support has up to five years after leaving the hazardous duty area or support area.

These time periods are identical to the time periods provided under federal law for filing returns and paying taxes pursuant to section 7508(a) of the Internal Revenue Code.

Effective Date: Retroactive to January 1, 1995, for tax years beginning on or after that date.

Indexation

The tax rate bracket amounts and the standard deduction amounts are increased by the full amount of inflation determined for the same period as under the prior law. A technical change is made to reflect that the index used to determine the inflation rate for the purposes of indexing is the gross domestic product price deflator and not the implicit price deflator for the gross national product.

Effective Date: For calendar years beginning on or after January 1, 1996. The tax rate bracket amounts and the standard deduction amounts for 1996 are to be adjusted for 100% of inflation for the determination period.

Tuition and textbook credit

All taxpayers who pay tuition and textbook expenses so dependents can attend grades kindergarten through 12th in Iowa schools can claim a credit for these expenses. The credit percentage will be 10 percent of the first \$1,000 the taxpayer pays for tuition and textbook expenses for each dependent. There is no longer an income limit as qualification for this credit.

Taxpayers who previously received a deduction for tuition and textbook expenses will now get a tax credit for these expenses.

Effective Date: January 1, 1996, for tax years beginning on or after that date.