



# Iowa Sales and Use Tax Guide

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**This is intended as a general guide, and is not an all-inclusive discussion of Iowa sales and use tax law.**

Iowa law imposes both a sales tax and a use tax. The rate for both is 6%, though an additional 1% applies to most sales subject to sales tax, as many jurisdictions impose a local option sales tax. There is no local option use tax.

Both sales tax and use tax are applied to the sales price from sales of tangible personal property, specified digital products, and taxable services. The difference between the two taxes is the circumstances under which the taxes are imposed.



### Sales Tax

Sales tax is imposed on the sales price of the sale of tangible personal property, specified digital products, or taxable services at the time the sale takes place. The seller of the goods or services is responsible for collecting, reporting, and remitting the sales tax. The tax is imposed when the first use of a service occurs, or potentially could occur, in Iowa, or when the tangible personal property or specified digital product is delivered in Iowa.

### Use Tax

#### Use tax on taxable purchases

Use tax is most often imposed after the sale takes place and only on goods and services on which sales tax was not collected. In many cases, these are purchases made from an out-of-state supplier not collecting Iowa sales tax on goods or services that are for use in Iowa. Ordinarily, the retailer is responsible for collection of the tax, but if the retailer is not required by law to collect the tax or the retailer fails to do so, the purchaser is then responsible for remitting use tax. The purchaser becomes responsible for remitting use tax when the purchaser takes ownership or control of the good or service. A retailer is not required by law to collect Iowa sales tax if the retailer does not have physical or economic nexus with Iowa, meaning the retailer has no physical presence in Iowa and has not generated \$100,000 or more in gross revenue from sales into Iowa in the current or prior calendar year.

Anyone – individuals and businesses – who makes these types of purchases is required to pay use tax. Persons owing \$1,200 or more in use tax per year on taxable goods or services must register with the Department for a sales and use tax permit and report the tax as “taxable purchases” in the use tax section of the sales and use tax return. Persons owing less than \$1,200 in use tax per year should report their tax on the Iowa Non-Permit Use Tax Return. Businesses should review all purchases to determine if the vendor collected the proper tax. Businesses that fail to do so may find themselves with a use tax liability, plus penalty and interest, for not reporting the use tax in a timely manner.

#### Sales subject to use tax

Retailers that do not have physical or economic nexus in Iowa, but make sales into Iowa, may collect and remit the use tax that would be due on behalf of their customers. Retailers who do this should report the tax as “sales subject to use tax” in the use tax section of the sales and use tax return.

### Examples of Purchases Subject to Use Tax

An Iowa business purchases furniture and office supplies from an out-of-state vendor in another state who is not registered and does not collect Iowa sales or use tax. The business uses the items. The business owes Iowa use tax.

An Iowa resident purchases clothing, stereo equipment, or jewelry through a mail order catalog and is not charged Iowa sales tax by the mail order company. The resident owes use tax to Iowa.

An Iowa resident who sends jewelry or watches out of Iowa for repair will owe use tax on the repair costs – both materials and labor – if the out-of-state vendor is not registered to collect Iowa tax and if no tax is paid to the other state. (Jewelry and watch repair are taxable services.)

An Iowa business has a vehicle repaired out of state. If the out-of-state vendor did not collect tax on the transaction, then Iowa use tax is due upon the vehicle's return to Iowa. (Vehicle repair is a taxable service.)

An Iowa resident sends tangible personal property out of state to be repaired. The repair service is not taxable in Iowa. The resident owes use tax on only the materials furnished and used in the repair if the materials are separately itemized on the bill. If the materials and nontaxable services are not separately itemized, then tax is due on the entire invoiced amount. Separately itemized delivery charges are not taxable.

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## Sales and Use Tax Permit Registration



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## Streamlined Sales Tax

