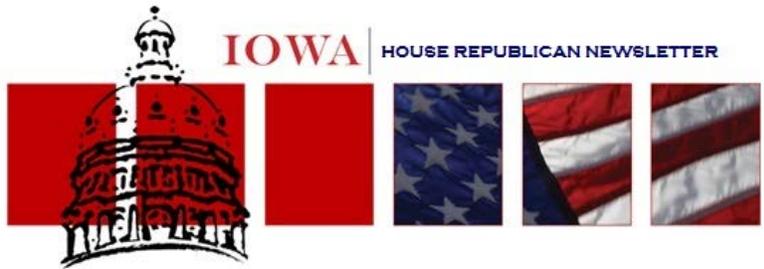


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Governor's Tax Reform – Sales Tax Base Expansions

This week's article will focus on the sales tax expansion efforts contained in the Governor's Tax Reform Plan. (House Study Bill 671). The following provisions would expand Iowa's sales tax base by more than \$100 million when in place for a full fiscal year. With a few exceptions, House Study Bill 671 makes these base expansions effective January 1, 2019.

Marketplaces

The legislation would expand the definition of retailer to include any marketplace provider that facilitates sales into the state. This is an attempt to rectify the current disadvantage faced by traditional, main street retailers who are required to charge sales tax on in-person sales at stores while online marketplaces have no such requirement. An example of this situation is where third-party retailers utilize the amazon marketplace to sell goods to Iowa purchasers.

Online Sellers

House Study Bill 671 also expands the definition of sales tax nexus (required to be taxable) to include any retailer selling more than \$100,000 worth of products or making more than 200 separate sales into the state (whether or not through an online marketplace). These types of sellers are those that ship their products into Iowa but otherwise do not have a physical presence in the state. An example would be Wayfair or Zappos. Those "stores" exist only online—and have no physical store location.

Digital Goods

The legislation ends the exemption for goods purchased and delivered online—referred to as the "digital goods exemption". This is an attempt to restore equitable tax treatment to these goods by making sales and use tax due on any purchase of music, games, etc. no matter how the product is delivered. Examples of digital goods include e-books and song downloads.

Ride Sharing

The bill also establishes taxation of all ride services including traditional taxi services and internet-based ride-sharing businesses. This would mean that really any transportation service would be taxable and would include taxis, Ubers, Lyfts, and limousines.

Subscription Services—Effective July 1, 2018

This provision in the bill is written as a clarification to current law. It provides that paid television (taxable) includes streaming services. This would expand the sales and use tax base to capture the change in consumption from tangible good purchases such as video game cartridges and CDs to subscription services including streaming audio and video, software as a service, legal research databases, genetic analysis, online file storage, software, and gaming. Commonly used streaming services that would be taxable include Hulu, Netflix, Amazon music, Spotify, etc.

Fiscal Impact of Proposed Sales Tax Modernization Provisions

	Millions				
	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Online Marketplaces	\$11.1	\$24.2	\$25.2	\$26.1	\$27.0
Online Sellers	\$10.2	\$26.4	\$27.6	\$28.5	\$29.5
OTC Websites	\$0.6	\$1.4	\$1.4	\$1.5	\$1.6
Digital Goods	\$11.8	\$26.2	\$28.8	\$31.1	\$33.6
Ride Sharing	\$3.5	\$10.8	\$13.4	\$15.5	\$17.8
Subscription Services	\$9.5	\$21.8	\$24.0	\$25.9	\$27.9
Total	\$46.7	\$110.6	\$120.5	\$128.6	\$137.5

Source: Tax Research and Program Analysis Section, Iowa Department of Revenue

Note: Sales tax changes effective January 1, 2019