

Changes to Tax-Exempt Construction Projects

June 30, 2020

This content was published prior to the combination of Dentons Davis Brown. Learn more about Dentons Davis Brown.

2020 Summer Associate Kelsy Shay also contributed to this article.

On June 14, the Iowa Legislature passed HF2641 which consists of multiple amendments to Iowa tax law. The bill was signed by Governor Reynolds on June 29 and takes effect July 1.

Division II covers changes to Iowa's sales and use tax including changes to tax exemptions and refunds on specified construction projects.

Tax Exemption for Services on Tax-Exempt Construction Projects

Contractors, subcontractors, or builders are now exempt from paying sales tax on the purchase of *services* when performing work on construction projects involving public property or property of an exempt entity. Previously the tax exemption only covered building materials, supplies, and equipment. These purchases are tax-exempt only if the building materials, supplies, equipment, or services are completely consumed in the project under the written contract pursuant to which they were bought.

However, purchases in connection with transportation construction projects are taxable to the contractor as use tax. This includes all purchases for building materials, supplies, equipment, and under the new law, services.

General Language Updates

Other amendments mainly focus on language updates rather than substantive legal changes, including the following amendments to the language:

- “make application” is now “apply”
- “fulfillment” is now “performance”
- “goods, wares, or merchandise” is now “building materials, supplies, equipment”
- “designated exempt entity” is now explicitly defined, and the term is used to replace lists of exempt entities

The Big Picture

Contractors working on public projects or projects for not-for-profit entities should consult their tax counsel to determine if the new law will impact their work. In particular, when purchasing and contracting services for these projects, the contractor will need to present an authorization letter and exemption certificate to claim the exemption.

Your Key Contacts



Courtney A. Strutt Todd
Shareholder, Des Moines
D +1 515 246 7842
courtney.struttodd@dentons.com



Jodie Clark McDougal
Shareholder, Des Moines
D +1 515 246 7951
jodie.mcdougal@dentons.com