

Iowa Sales Tax Holiday on select clothing and footwear only



Please be aware that...

- ◆ This is an annual event on the first Friday and Saturday of August.
- ◆ The exemption applies only to clothing and footwear that meet certain criteria
- ◆ The holiday does not include Sunday; resume charging sales tax.
- ◆ Businesses that are open on these days are required to participate.
- ◆ Businesses cannot advertise that they will pay or otherwise absorb the sales tax on items that don't qualify.
- ◆ **Note to Businesses:** When completing your sales tax return, qualifying exempt sales are included on line 1, Gross Sales, and also on line 4, Exemptions. Be certain to enter these exempt sales in the Sales Tax Holiday category for line 4.

Questions?: e-mail the Iowa Department of Revenue at idr@iowa.gov

You may also talk to a tax specialist

by calling 1-800-367-3388 or 515-281-3114.

No sales tax, including local option sales tax, will be collected on sales of an article of clothing or footwear having a selling price less than \$100.00.

The exemption does not apply in any way to the price of an item selling for \$100.00 or more.

The exemption applies to each article priced under \$100.00 regardless of how many items are sold on the same invoice to a customer.

Definition of clothing

“Clothing” means any article of wearing apparel and typical footwear intended to be worn on or about the human body.

“Clothing” does not include watches, watchbands, jewelry, umbrellas, handkerchiefs, sporting equipment, skis, swim fins, roller blades, skates, and any special clothing or footwear designed primarily for athletic activity or protective use and not usually considered appropriate for everyday wear.

Articles normally sold as a unit

Articles that are normally sold as a unit must continue to be sold as a unit. They cannot be separately stated and sold as individual items in order to obtain the exemption.

Example 1: A pair of shoes normally sells for \$120.00. The pair cannot be split in order to sell each shoe for \$60.00 to qualify for the exemption.

Example 2: A suit is normally priced at \$125.00 on a single price tag. The suit cannot be split into separate articles so that any of the items may be sold for under \$100.00 in order to qualify for the exemption.

Sets with both exempt and taxable items

When exempt items are normally sold together with taxable merchandise as a set or single unit, the full price is subject to sales tax if the value of the taxable items exceeds the exempt ones.

Buy one, get one free or for a reduced price

The total price of items advertised as “buy one, get one free” or “buy one, get one for a reduced price” cannot be averaged in order for both items to qualify for the exemption.

Example 1: A retailer advertises pants as “buy one, get one free.” The first pair of pants is priced at \$110.00; the second pair of pants is free. Tax is due on \$110.00. The store cannot sell each pair at \$55.00 in order for the items to qualify for the exemption. However, the retailer may advertise and sell the items for 50% off, selling each pair of \$110.00 pants for \$55.00, making each pair eligible for the exemption.

Example 2: A retailer advertises shoes as “buy one pair at the regular price, get a second pair for half price.” The first pair of shoes is sold for \$120.00; the second pair is sold for \$60.00 (half price). Tax is due on the \$120.00 shoes, but not on the \$60.00 shoes. The store cannot sell each pair of shoes for \$90.00 in order for the items to qualify for the exemption. However, a retailer may advertise each pair for 25% off, thereby selling each pair of \$120.00 shoes for \$90.00, making each pair eligible for the exemption.

Exchanging a tax-exempt purchase afterwards

When a customer purchases an eligible item during the exemption period, then later exchanges the item for the same item (different size, different color, etc.), no additional tax will be due even if the exchange is made after the exemption period.

When a customer purchases an eligible item during the exemption period, then later returns the item and receives credit on the purchase of a different item, the appropriate sales tax will apply to the full sales price of the newly-purchased item.

Example 1: During the exemption period, a customer purchases an \$85.00 dress that qualifies for the exemption. Later, during the exemption period, the customer exchanges the \$85.00 dress for a \$125.00 dress. Tax is due on the \$125.00 dress. The \$85.00 credit from the returned item cannot be used to reduce the sales price of the \$125.00 item to \$40.00 for exemption purposes.

Example 2: A customer purchases a \$35.00 shirt during the exemption period. After the exemption period, the customer exchanges the shirt for a \$35.00 jacket. Since the jacket was not purchased during the exemption period, tax is due on the \$35.00 price of the jacket.

Returning an eligible item

When a customer returns an eligible item purchased during the exemption period, the retailer should refund tax only if the customer produces a receipt or invoice showing tax was paid on the item, or if the retailer has sufficient documentation to show that tax was paid on the specific item.

Coupons, rebates and discounts

Manufacturer's coupons do not reduce the sales price of an item. Therefore, a manufacturer's coupon cannot be used to reduce the selling price of an item to less than \$100.00 in order to qualify for the exemption.

Example: A jacket sells for \$105.00. The customer has a \$10.00 manufacturer's coupon good for the purchase of the jacket. The manufacturer's coupon does not reduce the sales price of the jacket. Tax is due on the \$105.00 even though the customer only pays the retailer \$95.00 for the jacket.

Store coupons and discounts reduce the sales price of an item. Therefore, a store coupon or discount can be used to reduce the sales price of an item to less than \$100.00 in order to qualify for the exemption.

Example: A customer buys a \$400.00 suit and a \$110.00 shirt. The retailer is offering a 10 percent discount. After applying the 10 percent discount, the final sales price of the suit is \$360.00, and the sales price of the shirt is \$99.00. The suit is taxable (it is over \$100.00) and the shirt is exempt (it is less than \$100.00).

Rebates occur after the sale and do not affect the sales price of an item purchased.

Example: A jacket sells for \$105.00. The customer receives a \$10.00 rebate from the manufacturer. The rebate occurs after the sale, so it does not reduce the sales price of the jacket. Tax is due on \$105.00.

Gift certificates

The sale of a gift certificate is not taxable. Eligible items sold and delivered during the exemption period using a gift certificate will qualify for the exemption, regardless of when

the gift certificate was purchased. Eligible items sold and delivered after the exemption period using a gift certificate are taxable even if the gift certificate was purchased during the exemption period. A gift certificate cannot be used to reduce the selling price of an item to under \$100.00 in order for the item to qualify for the exemption.

Rain checks

Eligible items sold and delivered during the exemption period using a rain check will qualify for the exemption regardless of when the rain check was issued. However, issuance of a rain check during the exemption period will not qualify an eligible item for the exemption if the item is actually sold and delivered after the exemption period.

Layaway sales

A layaway sale is a transaction in which merchandise is set aside for future delivery to a customer who makes a deposit, agrees to pay the balance of the purchase price over a period of time and at the end of the payment period, receives the merchandise.

Eligible items will qualify for the exemption if the customer:

- takes delivery of the merchandise during the exemption period or
- puts the merchandise on layaway, even if final payment and delivery is not made until after the Sales Tax Holiday

Rentals

Rentals of eligible items do not qualify for the exemption.

Mail order sales

Eligible items purchased by mail order, catalog or Internet will be exempt if they are:

- delivered during the exemption period, or
- ordered and paid for during the exemption period, even if delivery is made after the Sales Tax Holiday.

Repairs and alterations

Repairs to eligible items do not qualify for the exemption. Alterations to eligible items do not qualify for the exemption, even though alterations may be sold, invoiced, and paid for at the same time as the item to be altered.

Example: A customer purchases a pair of pants for \$99.00, and pays \$5.00 to the retailer to have the pants cuffed. The \$99.00 charge for the pants is exempt; however, tax is due on the \$5.00 alteration charge.

Refunds

A customer who pays sales tax to a business on an eligible item when no tax is due must apply to the Iowa Department of Revenue for a refund.

Records and reporting

Exempt sales are always reported on line 4 of the sales tax return. Be sure to complete the exemptions worksheet. Report your exempt sales in the "Sales Tax Holiday" category. Keep a copy of your return in your files.