



# Iowa Supreme Court Ruling Affects Construction Contractors', Service Providers' Sales Tax Obligations



## KEY POINTS

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On December 14, 2018, the Iowa Supreme Court, in *Lowe's Home Centers, LLC v. Iowa Department of Revenue*, found that there is at least one additional category of taxable services—installation—to consider. This ruling deviates from the position historically taken by many throughout the State of Iowa that if a service is not a taxable repair, it falls into the non-taxable category of new construction.

The Iowa Supreme Court made it clear that taxable repair and exempt capital improvements are not the only two categories of services. Based on the court's opinion, installation charges may be subject to tax if such charges are explicitly taxed by the administrative rules and if they are not performed in connection with new construction, reconstruction, alteration, expansion, and remodeling.

**In light of the court's opinion, construction contractors or those businesses performing services on real property should reevaluate the services they are providing and the corresponding tax charges to ensure they are complying with Iowa's sales tax laws.**

# THE COURT'S OPINION

On Friday, December 14, 2018, the Iowa Supreme Court filed a ruling that may affect construction contractors' and service providers' sales tax collection responsibility. At issue in *Lowe's Home Centers, LLC v. Iowa Department of Revenue* was whether Lowe's was required to collect sales tax on certain labor charges. The 30-page opinion includes numerous arguments that Lowe's did not owe sales tax on its sales, but discussed here is whether (1) Lowe's was required to collect sales tax on the services of "carpentry," "electrical and electronic repair and installation," and "pipe fitting and plumbing," as those terms are defined by Iowa's administrative rules and (2) those services were exempt as services performed in connection with new construction, reconstruction, alteration, expansion, and remodeling (collectively "new construction").

The court first reviewed the administrative rules regarding the services at issue and then considered whether Lowe's performed those services in connection with new construction.

## SERVICES IN CONNECTION WITH NEW CONSTRUCTION

Lowe's argued that even if the services performed by Lowe's were taxable enumerated services, they should be exempt as services performed in connection with new construction. After reviewing the administrative rules, the court noted that the examples in the rules regarding new construction "involve home improvement projects of a larger scale than the installation of fixtures or other building components at issue here—windows, doors, dishwashers, garbage disposals, toilets, sinks, vanities, and ceiling fans." Lowe's argued there are only two categories of services: taxable repairs and exempt capital improvements, and no "third category." Relying on administrative rules that contemplate a taxable installation, the court found that there is, indeed, a third category of installation. Accordingly, the court held that the services performed by Lowe's were not exempt services performed in connection with new construction, but rather were taxable as installation.

## SERVICES AT ISSUE

At issue were the services of "carpentry," "electrical and electronic repair and installation," and "pipe fitting and plumbing."

### Carpentry

The Iowa Department of Revenue ("Department") considered the installation of custom storm windows and doors, patio doors, interior and exterior doors, and vanities to involve "carpentry." The statute does not define "carpentry," but the administrative rules do. The rule limits carpentry to repair services and does not include installation. Because the Department took the position that Lowe's carpentry services were installations—and not repairs—the court found that the carpentry services were not subject to sales tax.

### Electrical and Electronic Repair and Installation Services

The Department considered installation of dishwashers, garbage disposals, and ceiling fans to involve "electrical installation." As with "carpentry," the statute does not define "electrical installation," but the administrative rules do. The court found that the rules defining "electrical installation" are broader than the carpentry rules and "expressly encompass both repairs and installations." Accordingly, the court found that installation of dishwashers, garbage disposals, and ceiling fans were taxable as "electrical installation."

### Pipe Fitting and Plumbing

The Department considered installation of dishwashers, garbage disposals, faucets, toilets, and sinks to involve "plumbing." As with the rules regarding electrical installation services, the rules regarding plumbing services encompass repairs and installation. Accordingly, installation of dishwashers, garbage disposals, faucets, toilets, and sinks are taxable as "plumbing services."

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