Director: Mark R. Schuling
Hoover State Office Building
Des Moines, Iowa 50319
www.state.ia.us/tax

Iowa Department of Revenue

October 22, 2009

Scott C. Peterson
Executive Director
Streamlined Sales Tax Governing Board, Inc.
4205 Hillsboro Pike, Suite 305
Nashville, TN 37215

Dear Scott:

This letter is the response from the State of Iowa regarding the findings related to the 2009 Certificate of Compliance.

The issues and our response are as follows:

1. No 30 day rule for rate changes.
   State response: Department of Revenue has a proposed legislative amendment to include this provision in 2010 legislation.

2. Bundling language is still in sales price definition.
   State response: Department of Revenue has a proposed legislative amendment to strike existing language in 2010 legislation. Bundled transaction language per the Streamlined Sales and Use Tax Agreement (SSUTA) is already included in Iowa Code section 423.2(8).

3. Rule 701-18.20(7) (d) (3) includes one-way paging as a non-taxable service. The definition of paging includes one-way and two way paging. Since "paging" is a defined product, it has to be either all taxable or all non-taxable.
   State Response: Iowa will wait for a response from SLAC before we take any further action. This provision is contained in a rule which will be changed once a final decision is reached.

4. The taxability matrix indicates that optional maintenance contracts for non-prewritten (custom) software which include updates which are not delivered electronically are taxable. The statute and rules do not specifically address such contracts. The rules only address canned software contracts and the statute (423.2(1)(a)(4)) taxes "sales of optional service or warranty contracts, except residential service contracts regulated under chapter 523C, which provide for the furnishing of labor and materials and require the furnishing of any taxable service enumerated under this section. The sales price is subject to tax even if some of

> the services furnished are not enumerated under this section." Is it assumed that materials are provided with custom software updates?
> State Response: The answers on the Taxability Matrix were incorrect. Optional computer software maintenance contracts with respect to non-prewritten (custom) computer software are exempt from the tax. The referenced Iowa Code section in the matrix was also incorrect. The matrix will be updated to reflect that the contracts are exempt and the reference will be changed to Rule 701-18.34. A copy of the revised page is enclosed and we will be updating the matrix on our website and also sending you a copy.

I believe that these answers reflect the fact that Iowa is in substantial compliance with the SSUTA. Iowa law does contain the bundled transaction language per the agreement. The bundled language referenced in Iowa Code section 423.1(47) was language from our original law passed in 2004. This language was not changed when the bundled transaction language was added later. Iowa believes that the bundled language in the definition of sales price is not in conflict with the bundled transaction language and again, legislation has been proposed to delete this language for the 2010 legislative session.

If you have any questions or comments regarding this response, please feel free to contact me.

Sincerely,

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