

# Talking Points Regarding Sales Tax Exemption

The Heartland Carwash Association (HCA) supports the exemption of car washing services from the state sales tax. Following are the primary reasons HCA believes the double taxation on car wash sales tax should be eliminated:

1. **Double Taxation:**

Carwash owners should not have to pay sales or use tax on both the supplies and equipment purchased to operate their facilities as well as collect or pay sales tax on the gross receipts for the washing and cleaning of motor vehicles. Owners have been subject to double taxation for decades and required to pay sales tax on inputs such as water, soaps, chemicals, wax and other solvents used in processing a sales-taxable car wash service to the consuming public.

2. **Double Standard:**

Competing washes are exempt. Sales of automotive fluids sold to car dealers and retailers performing taxable services are exempt from paying sales tax on these same inputs at their car washes. This legislation was enacted and made retroactive to January 1, 1979. *Iowa Code 422.45(33)(1986), 423.3(40)(2004)*

3. **Small Business Economy:**

All carwash operations in Iowa and the Midwest are small businesses providing the primary component of the State's economic engine. The double taxation on this small business sector negatively impacts the profitability of these operations and unfairly causes one segment of the small business economy to be taxed inequitably.

4. **Environmental Impact:**

Carwashes are more "environmentally friendly" than individuals washing their vehicles at home. The average professional carwash uses 75% less water cleaning a vehicle than if an individual washes his/her vehicle at home. State environmental agencies recognize that professional washes minimize storm water runoff compared to consumers washing at home. Many wash owners have invested in water reclamation systems and are subject to costly and burdensome environmental regulations.

5. **Tax "Pyramiding" Burdensome on Consumers, Low-Income Families:**

Economists generally counsel states to forgo taxing the first category of services, so-called "business-to-business" sales. Taxing the goods and services businesses buy to use as inputs into the production of other goods and services often leads to "tax pyramiding," the situation in which an input is taxed when purchased and then effectively taxed again when its cost is passed through into the price of a taxable good or service into which it has been incorporated.

Tax pyramiding results in the actual sales tax imposed on a particular good or service bought by a household being higher than what is added at the cash register. Moreover, some research suggests that the hidden sales taxes are even more burdensome for low-income families than the visible sales tax that is imposed on the final sale, because necessities like food and utilities that often are tax-exempt nonetheless can have substantial sales taxes hidden in their prices. (*Source: The Center on Budget and Policy Priorities*)

6. **Job Creation/Economic Development:**

Carwash operations require employees. Additional revenue resulting from sales tax exemption can be reinvested in maintaining current employees or can be used to hire additional employees.

7. **Clean Vehicles/Registration Plates Required:**

Iowa Code 321.38 requires operators of motor vehicles to maintain the vehicles ensuring that registration plates are "... clearly visible and shall be maintained free from foreign materials and in a condition to be clearly legible...". In recognizing clean autos are important to public safety, HCA urges lawmakers to examine the inequities in Iowa law that have unfairly resulted in double taxation of professional carwashes.