

**CITY COUNCIL
COMMUNICATION**

:

03-366

AGENDA:

JULY 28, 2003

SUBJECT:

DESIGNATION OF
THE CITY
ENGINEER AS THE
DESIGNATED
EXEMPT ENTITY
AUTHORIZED
AGENT

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

SUBMITTED BY:

JEB E. BREWER,
P.E.
CITY ENGINEER

ITEM _____

**OFFICE OF THE CITY MANAGER
CITY OF DES MOINES, IOWA**

SYNOPSIS —

Designate the City Engineer, or designee, as the Designated Exempt Entity Authorized Agent (DEEAA) under the Iowa Code regarding sales tax. The City Engineer as DEEAA shall be authorized to register all contracts authorized by the City Council or Airport Board, as well as the contractor, and each subcontractor with the Iowa Department of Revenue and Finance.

FISCAL IMPACT —

There is no fiscal impact as a result of this administrative process change.

RECOMMENDATION —

Appoint the City Engineer as the Designated Exempt Entity Authorized Agent.

BACKGROUND —

The Iowa Legislature has made revisions to the Iowa Code regarding sales tax that allows the City of Des Moines, and all designated tax-exempt entities in the State, on construction contracts awarded after January 1, 2003, to issue special exemption certificates to contractors and subcontractors allowing them to purchase, or withdraw from inventory, materials for the contract free from sales tax. This special exemption certificate will also allow a manufacturer of building materials to consume materials in the performance of a construction contract with a designated exempt entity, without owing tax on the fabricated cost of those materials. Under this new process, contractors should not include the cost of sales tax in their bid. This new process is an option; exempt entities may continue to use the current process whereby the contractor and subcontractors pay the sales tax for materials at time of purchase, and at the completion of the project submit a sales tax certificate to the exempt entity to file for sales tax refund with the Iowa Department of Revenue and Finance.

If the City of Des Moines, at its option, decides to utilize this exemption option, it will so state by special provision and publication in the Notice of

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Hearing and Letting. Upon award of contract, the City will be required to register the contract, Contractor, and each subcontractor with the Iowa Department of Revenue and Finance; and distribute tax exemption certificates and authorization letters to the Contractor and each subcontractor. These documents allow the Contractor and subcontractors to purchase materials for the contract free from sales tax. The Contractor and subcontractors may make copies of the tax exemption certificate and provide a copy to each supplier providing construction material. These tax exemption certificates and authorization letters are applicable only for the work under the contract. The Contract Documents will include provisions that the Contractor and each subcontractor shall comply with said Iowa Code Sales Tax requirements, shall keep records identifying the materials and supplies purchased and verify that they were used on the contract, and shall pay tax on any materials purchased tax-free and not used on the contract.

Staff from the Finance Department, Legal Department, and Engineering Department have met and determined that it would be appropriate for City Engineer, or designee, to register the contract, Contractor, and each subcontractor with the Iowa Department of Revenue and Finance.

