



TO: Members of the Iowa General Assembly
FR: Tyler Ackerson, Legislative Liaison, Iowa Department of Revenue
DATE: January 24, 2024
RE: Overview - Department's 2024 Technical Bill

DIVISION I: DISCLOSURE OF TAX INFORMATION

Current law allows the Department to release confidential taxpayer information to a federal, state, or local law enforcement authority if the Department has information that indicates a taxpayer intentionally filed a false claim, affidavit, return, or other information with intent to evade tax or to obtain a refund, credit, or other benefit from the Department.

The proposed change would allow the Department to also release confidential taxpayer information to a law enforcement authority if the Department has indication that a taxpayer has willfully failed to file or that the person has committed an act or omission designated as a criminal offense under Title X of the Iowa Code.

This change would be effective upon enactment.

DIVISION II: ANNUAL REPORTING

Iowa Code section 421.60(2)(k) requires the Department to submit an annual report to the Legislature showing all areas of recurrent taxpayer noncompliance with rules or guidelines issued by the Department and providing recommendations concerning noncompliance. The Department proposes eliminating the requirement for the report. The Department will continue providing the Legislature with recommendations as needed to address areas of recurring noncompliance.

DIVISION III: PROPERTY TAX – EXTENSIONS

Current law contains a property tax credit late claim mechanism by which late claimants apply to the Department. Eligible claimants receive a payment directly from the Department. The proposed change eliminates the Department's authority to receive and pay late property tax credit claims. Claimants will still have the ability to file credit claims with their county treasurer through March 31 of the fiscal year during which the property taxes are due in the case of sickness, absence, other disability, or if good cause exists. This change does not impact late rent reimbursement claims received by the Department of Health and Human Services.

DIVISION IV: FARM TENANCY INCOME TAX EXCLUSION

Iowa Code section 422.7(14) provides retired farmers an option to elect to exclude farm tenancy income from their Iowa taxable income. Retired farmers must hold the land for 10 years and must materially participate in a farming business for 10 years to be eligible for the exclusion. The proposed change

clarifies the definition of “held” for purposes of determining the holding period, and clarifies that 10 years of material participation means 10 years in the aggregate for purposes of this exclusion.

DIVISION V: PASS-THROUGH ENTITIES

2023 Iowa Acts, Senate File 565 modified the procedures for assessing Iowa tax in the case of a person who has failed to file a required Iowa tax return. These procedures provide, in part, that an estimated notice of assessment is not appealable under Iowa Code sections 422.28 or 422.29, except to appeal the determination that the person is required to file a return. The proposed change clarifies that those limitations on appealing an estimated notice of assessment also apply to a pass-through entity (partnership, S corporation, estate, or trust) that is issued an estimated final notice of adjustment under Iowa Code 422.25C.

The proposed change would take effect upon enactment and apply retroactively to January 1, 2024.

DIVISION VI: SALES TAX CHANGES

1. Section 12: Iowa Code section 423.36(9) references semimonthly information for direct pay permit holders who remit sales or use tax directly to the Department rather than the seller. The proposed change strikes the reference to semimonthly periods and replaces it with monthly. Tax thresholds are also adjusted accordingly. This aligns with the frequency applicable to other sales and excise tax permit holders.
2. Section 13: Iowa is currently the only state that requires mutual consent with the taxpayer prior to adopting an audit sampling technique in a sales tax audit. The proposed change removes the requirement of mutual consent between the taxpayer and the Department. A taxpayer will continue to have the ability to appeal assessments made by the Department.

DIVISION VII: MOTOR FUEL TAXES

1. Sections 14, 15, and 17: The Department determines fuel tax rates based on the number of gallons of fuel distributed within the state each year as reported by fuel retailers. The proposed change would allow the Department to recalculate fuel tax rates up to a certain date due to a mistake, late report, or if the Department has any other reason to believe the rates are not accurate.
2. Section 16: Iowa Code section 452A.15 provides for a penalty for entities that fail to file their transportation reports. The proposed change inserts the word “timely” into Iowa Code section 452A.15(5) to clarify that the penalty attaches even if the required transportation report is submitted late.
3. Section 18: Electric fuel dealers and users are required to file electric fuel tax returns for 6-month intervals. The second interval is for the period July 1 through December 30, with the report due

on January 30. The Department proposes changing the December 30 and January 30 dates to December 31 and January 31. This will conform with the filing dates for other tax types, which typically land on the last day of the month.

4. Section 19: The proposed change allows a purchaser to complete and provide an exemption certificate when electric fuel is sold or dispensed for a nontaxable purpose, such as sales to an Iowa political subdivision, the U.S. government, or an Iowa urban transit system.

DIVISION VIII: VETERANS TRUST FUND AND LOTTERY

1. Sections 20 and 23: As of November 2023, the setoff program transferred from the Department of Administrative Services to the Department of Revenue. The proposed changes reflect the updates to those processes.
2. Section 21: The proposed change eliminates the requirement for the Department to file a Lottery Operations Semi-Annual Report to the Legislature's Government Oversight Committees. This report was originally required when the Lottery transitioned to an authority. The purpose of the report was to help the Legislature have additional oversight of a state authority. With the alignment of the Lottery within the Department, this report is no longer needed. The financial information in the report will continue to be submitted to the Legislature through quarterly and annual financial reports. Other non-financial information will be included in the Lottery's annual report.
3. Section 22: The proposed change resolves a conflict between Iowa Code chapters 35A and 99G regarding whether \$2.5 million in lottery revenues are transferred annually to the Iowa Veterans Trust Fund (IVTF) or to county directors of veterans' affairs. Currently, Iowa Code chapter 35A requires that the balances in the IVTF in the current fiscal year and the preceding fiscal year be used to determine where lottery revenues go, while Iowa Code chapter 99G uses only the most current fiscal year. This amendment updates Iowa Code chapter 99G to also require using the balances in the current and preceding fiscal year.

DIVISION IX: ALCOHOLIC BEVERAGES

1. Section 24: The term "operating still" is currently defined in administrative rule 185—5.2. However, the definition of "native distillery" found in Iowa Code section 123.3(35) uses the term "operating still" which is undefined in Iowa Code chapter 123. The proposed change would codify the rule definition for "operating still," which will allow the Department to rescind the administrative rule.
2. Sections 25 and 26: Iowa law previously allowed retailers to permit a customer to carry an open container of beer or wine from the retailer's licensed premises onto another immediately-adjacent licensed premises, temporarily closed public right-of-way, or private place. This was primarily used for special events with multiple licensed premises. The allowance for beer was removed by

2022 Iowa Acts, Senate File 2374 but the allowance for wine was kept. This amendment restores the allowance for beer.

3. Sections 27, 28, and 29: Having a retail alcohol license connected to the manufacturing facility is a longstanding licensing requirement in Iowa. Further, removing this requirement would expose the State to a possible legal challenge under the U.S. Supreme Court decision *Granholm v. Heald*. The Department believes language clearly describing this requirement was inadvertently removed by 2022 Iowa Acts, Senate File 2374. This amendment restores that language.

DIVISION X: INHERITANCE TAX – FUTURE CODE CHANGES DUE TO REPEAL

2022 Iowa Acts, House File 2552 required the Department to review references to Iowa Code chapters 450 and 450B and submit proposed corrections to such references during the 2024 legislative session in advance of the repeal of the state's inheritance tax on January 1, 2025. This division contains those proposed corrections.