IOWA ADMINISTRATIVE BULLETIN

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PREFACE

The Iowa Administrative Bulletin is published biweekly pursuant to Iowa Code chapters 2B and 17A and contains Notices of Intended Action and rules adopted by state agencies.

It also contains Proclamations and Executive Orders of the Governor which are general and permanent in nature; Regulatory Analyses; effective date delays and objections filed by the Administrative Rules Review Committee; Agenda for monthly Administrative Rules Review Committee meetings; and other materials deemed fitting and proper by the Administrative Rules Review Committee.

The Bulletin may also contain public funds interest rates [12C.6]; usury rates [535.2(3)"a"]; agricultural credit corporation maximum loan rates [535.12]; and other items required by statute to be published in the Bulletin.

PLEASE NOTE: Underscore indicates new material added to existing rules; ~~strike through~~ indicates deleted material.

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Publications Editing Office (Administrative Code) Telephone: 515.281.3355 Email: AdminCode@legis.iowa.gov

CITATION of Administrative Rules

The Iowa Administrative Code shall be cited as (agency identification number) IAC (chapter, rule, subrule, paragraph, subparagraph, or numbered paragraph).

This citation format applies only to external citations to the Iowa Administrative Code or Iowa Administrative Bulletin and does not apply to citations within the Iowa Administrative Code or Iowa Administrative Bulletin.

441 IAC 79	(Chapter)
441 IAC 79.1	(Rule)
441 IAC 79.1(1)	(Subrule)
441 IAC 79.1(1)"a"	(Paragraph)
441 IAC 79.1(1)"a"(1)	(Subparagraph)
441 IAC 79.1(1)"a"(1)"1"	(Numbered paragraph)

The Iowa Administrative Bulletin shall be cited as IAB (volume), (number), (publication date), (page number), (ARC number).

IAB Vol. XII, No. 23 (5/16/90) p. 2050, ARC 872A

Note: In accordance with Iowa Code section 2B.5A, a rule number within the Iowa Administrative Code includes a reference to the statute which the rule is intended to implement: 441—79.1(249A).

The Administrative Rules Review Committee will hold its regular, statutory meeting on Monday, November 9, 2026, at 10 a.m. in Room 116, State Capitol, Des Moines, Iowa. For more information, contact Jack Ewing at jack.ewing@legis.iowa.gov. The following rules will be reviewed:

AGRICULTURE AND LAND STEWARDSHIP DEPARTMENT[21]

Fertilizers and agriculture lime, ch 43 Notice **ARC 0679D** 10/28/26
Animal welfare, ch 67 Notice **ARC 0678D** 10/28/26

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COMMUNICATIONS NETWORK, IOWA[751]

Description of organization, ch 1 Filed **ARC 0680D** 10/28/26
Public records and fair information practices, rescind ch 2; adopt ch 2505 Filed **ARC 0681D** 10/28/26
Purchasing, ch 5 Filed **ARC 0682D** 10/28/26
Authorized use and users, ch 7 Filed **ARC 0683D** 10/28/26
Certification of use and waivers, ch 9 Filed **ARC 0684D** 10/28/26
Acceptable use and enforcement, ch 10 Filed **ARC 0685D** 10/28/26
Asset ownership and demarcation, ch 11 Filed **ARC 0686D** 10/28/26
Rates and rate disputes, ch 12 Filed **ARC 0687D** 10/28/26
Site charges and other fees; advisory councils, committees and groups, rescind chs 13, 15 Filed **ARC 0688D** 10/28/26
Access to facilities, ch 14 Filed **ARC 0689D** 10/28/26
Miscellaneous, ch 17 Filed **ARC 0690D** 10/28/26

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Child development homes and child care homes with a child care assistance provider agreement, ch 110 Filed **ARC 0691D** 10/28/26
Child care homes, rescind ch 120 Filed **ARC 0692D** 10/28/26
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IOWA FINANCE AUTHORITY[265]

Natural hazard mitigation financing program, ch 25 Filed **ARC 0693D** 10/28/26
Military service member home ownership assistance program—eligibility, 27.2 Filed **ARC 0694D** 10/28/26
Disaster recovery housing assistance, ch 29 Filed **ARC 0695D** 10/28/26

NATURAL RESOURCE COMMISSION[571]

NATURAL RESOURCES DEPARTMENT[561]"umbrella"

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ADMINISTRATIVE RULES REVIEW COMMITTEE MEMBERS

Regular, statutory meetings are held each month at the seat of government as provided in Iowa Code section 17A.8. A special meeting may be called by the Chair at any place in the state and at any time.

Senator Kara Warme
Chair
Senate District 26

Representative Chad Ingels
Vice Chair
House District 68

Senator Mike Bousselot
Senate District 21

Representative Austin Harris
House District 26

Senator Dan Dawson
Senate District 10

Representative Joshua Meggers
House District 54

Senator Janet Petersen
Senate District 18

Representative Amy Nielsen
House District 85

Senator Cindy Winckler
Senate District 49

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The following list will be updated as changes occur.

"Umbrella" agencies and elected officials are set out below at the left-hand margin in CAPITAL letters.

Divisions (boards, commissions, etc.) are indented and set out in lowercase type under their statutory "umbrellas."

Other autonomous agencies are included alphabetically in SMALL CAPITALS at the left-hand margin.

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Dec. 17 '25	Jan. 7	Jan. 27	Jan. 29	Feb. 18	Mar. 10	Mar. 25	Mar. 26	Apr. 15	May 20	Aug. 17
Dec. 31 '25	Jan. 21	Feb. 10	Feb. 12	Mar. 4	Mar. 24	Apr. 8	Apr. 9	Apr. 29	June 3	Aug. 31
Jan. 15	Feb. 4	Feb. 24	Feb. 26	Mar. 18	Apr. 7	Apr. 22	Apr. 23	May 13	June 17	Sep. 14
Jan. 29	Feb. 18	Mar. 10	Mar. 12	Apr. 1	Apr. 21	May 6	**May 6**	May 27	July 1	Sep. 28
Feb. 12	Mar. 4	Mar. 24	Mar. 26	Apr. 15	May 5	May 20	May 21	June 10	July 15	Oct. 12
Feb. 26	Mar. 18	Apr. 7	Apr. 9	Apr. 29	May 19	June 3	June 4	June 24	July 29	Oct. 26
Mar. 12	Apr. 1	Apr. 21	Apr. 23	May 13	June 2	June 17	**June 17**	July 8	Aug. 12	Nov. 9
Mar. 26	Apr. 15	May 5	**May 6**	May 27	June 16	July 1	July 2	July 22	Aug. 26	Nov. 23
Apr. 9	Apr. 29	May 19	May 21	June 10	June 30	July 15	July 16	Aug. 5	Sep. 9	Dec. 7
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May 6	May 27	June 16	**June 17**	July 8	July 28	Aug. 12	Aug. 13	Sep. 2	Oct. 7	Jan. 4 '27
May 21	June 10	June 30	July 2	July 22	Aug. 11	Aug. 26	**Aug. 26**	Sep. 16	Oct. 21	Jan. 18 '27
June 4	June 24	July 14	July 16	Aug. 5	Aug. 25	Sep. 9	Sep. 10	Sep. 30	Nov. 4	Feb. 1 '27
June 17	July 8	July 28	July 30	Aug. 19	Sep. 8	Sep. 23	Sep. 24	Oct. 14	Nov. 18	Feb. 15 '27
July 2	July 22	Aug. 11	Aug. 13	Sep. 2	Sep. 22	Oct. 7	Oct. 8	Oct. 28	Dec. 2	Mar. 1 '27
July 16	Aug. 5	Aug. 25	**Aug. 26**	Sep. 16	Oct. 6	Oct. 21	**Oct. 21**	Nov. 11	Dec. 16	Mar. 15 '27
July 30	Aug. 19	Sep. 8	Sep. 10	Sep. 30	Oct. 20	Nov. 4	**Nov. 4**	Nov. 25	Dec. 30	Mar. 29 '27
Aug. 13	Sep. 2	Sep. 22	Sep. 24	Oct. 14	Nov. 3	Nov. 18	**Nov. 18**	Dec. 9	Jan. 13 '27	Apr. 12 '27
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Oct. 8	Oct. 28	Nov. 17	**Nov. 18**	Dec. 9	Dec. 29	Jan. 13 '27	Jan. 14 '27	Feb. 3 '27	Mar. 10 '27	June 7 '27
Oct. 21	Nov. 11	Dec. 1	**Dec. 2**	Dec. 23	Jan. 12 '27	Jan. 27 '27	Jan. 28 '27	Feb. 17 '27	Mar. 24 '27	June 21 '27
Nov. 4	Nov. 25	Dec. 15	**Dec. 16**	Jan. 6 '27	Jan. 26 '27	Feb. 10 '27	Feb. 11 '27	Mar. 3 '27	Apr. 7 '27	July 5 '27
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PLEASE NOTE:

Rules will not be accepted by the Publications Editing Office after **12:00 p.m. noon** on a submission deadline unless prior approval has been received from the Administrative Rules Coordinator and the Administrative Code Editor. If the submission deadline falls on a legal holiday, submissions made on the following business day will be accepted.

†To allow time for review by the Administrative Rules Coordinator prior to the Notice submission deadline, Notices should generally be submitted in RMS four or more business days in advance of the deadline. The first possible Notice submission deadline noted above may not allow sufficient time for this. **Agencies should plan accordingly.**

****Bold and asterisks indicate change of regular submission deadline****

RA 26-344

EDUCATION DEPARTMENT[281]

Regulatory Analysis

Notice of Intended Action to be published: 281—Chapter 19
"Charter Schools"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 256E.4(2)
State or federal law(s) implemented by the rulemaking: 2026 Iowa Acts, House File 2754

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 17, 2026
8 to 9 a.m.

Room B50
Grimes State Office Building
Online at meet.google.com/uzu-nfiq-jca
Phone: 1.929.276.1400
PIN: 992 943 978#

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis, which must be received by the Department of Education no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Thomas A. Mayes
Grimes State Office Building
400 East 14th Street
Des Moines, Iowa 50319
Phone: 515.281.8661
Email: thomas.a.mayes@iowa.gov

Purpose and Summary

This proposed rulemaking implements several provisions of 2026 Iowa Acts, House File 2754. This proposed rulemaking addresses the addition of the University of Northern Iowa as a charter school authorizer and elimination of a legacy Iowa Code chapter.

References to Iowa Code chapters 256E and 256F are to those chapters as amended by House File 2754.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

Charter school leaders will benefit from the additional authorization pathway, and the charter school community will benefit from the simplicity of the proposed rules.

- **Classes of persons that will benefit from the proposed rulemaking:**

Charter school leaders will benefit from the additional authorization pathway, and the charter school community will benefit from the simplicity of the proposed rules.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

The quantitative impact is unknown.

- **Qualitative description of impact:**

There is no known qualitative impact.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

The costs to the State are unknown. There is no additional cost anticipated to the Department. The Fiscal Note for Division I of House File 2754 found that the underlying legislation has an unknown fiscal impact.

- **Anticipated effect on State revenues:**

The proposed rulemaking is not anticipated to have a direct effect on State revenues.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

Iowa Code chapter 256E requires rulemaking.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

Iowa Code chapter 256E requires rulemaking.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

No other methods were seriously considered by the Department since the method proposed is the most cost-efficient and seamless for all entities involved.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

Iowa Code chapter 256E requires rulemaking.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

The proposed rulemaking is not expected to have an impact on small business.

Text of Proposed Rulemaking

ITEM 1. Amend rule 281—19.1(256E) as follows:

281—19.1(256E) General. All charter schools in Iowa are a part of the state's program of public education. Charter schools established on or after July 1, 2021, are subject to Iowa Code chapter 256E, subchapter I, and Division I of this chapter. Charter schools established prior to July 1,

2021, continue to operate under and are subject to the provisions of Iowa Code chapter ~~256F~~ 256E, subchapter II, and Division II of this chapter. The department monitors the effectiveness of charter schools and implements the applicable provisions of this chapter.

ITEM 2. Amend rule 281—19.2(256E) as follows:

281—19.2(256E) Establishment of charter schools. A charter school may be established by either of the following methods: a school board-state board model, pursuant to Iowa Code section 256E.4, or a founding group-state board model, pursuant to Iowa Code section 256E.5. The state board of education and the University of Northern Iowa are the only authorizers of charter schools in the state. The state board of education is the only authorizer of charter schools under this division. Charter schools authorized by the University of Northern Iowa are governed by such rules the university may establish.

ITEM 3. Amend paragraph **19.14(1)"e"** as follows:

e. Student achievement, including annual academic growth and proficiency, including data from the Iowa ~~statewide~~ summative assessment ~~of student progress (ISASP) data,~~ administered pursuant to 281—paragraph 12.8(1)*"h,"* other assessment data, and aggregate assessment test scores.

ITEM 4. Amend rule 281—19.15(256E) as follows:

281—19.15(256E) Operation of existing charter schools. Charter schools established pursuant to Iowa Code chapter ~~256F~~ 256E, subchapter II, continue to operate pursuant to that ~~Iowa Code chapter~~ subchapter and are not subject to the requirements of this division or Iowa Code chapter 256E, subchapter I.

ITEM 5. Rescind the implementation sentence in **281—Chapter 19**, division I.

ITEM 6. Amend rule 281—19.16(256F) as follows:

281—19.16(~~256F~~ 256E) Definitions. The definitions in Iowa Code section ~~256F.2~~ 256E.21 apply to this division. In addition, "advisory council" means a council appointed by the school board of a charter school. With respect to a charter school, no more than one member of the council may be a member of the school board; a district's school improvement advisory committee may also serve as its advisory council. All advisory councils are subject to the provisions of Iowa Code chapters 21 and 22.

"Family unit" means a household in which resides one or more students enrolled at the existing public school that is the subject of a charter school application.

ITEM 7. Amend rule 281—19.17(256F) as follows:

281—19.17(~~256F~~ 256E) Operating requirements. Charter schools are governed by Iowa Code sections ~~256F.4(2) through (8), 256F.6, and 256F.7~~ 256E.23(2) through 256E.23(8), 256E.25, and 256E.26.

ITEM 8. Amend rule 281—19.18(256F) as follows:

281—19.18(~~256F~~ 256E) Ongoing review by the department. The department periodically reviews each charter school to ensure continuing compliance with the charter school's contract. The department may schedule mandatory meetings with the administrators of all charter schools at the department's sole discretion. Iowa Code section ~~256F.10~~ 256E.29 governs necessary reports under this division.

ITEM 9. Amend rule 281—19.19(256F) as follows:

281—19.19(~~256F~~ 256E) Renewal of charter. The school board that established the charter school, in the absence of revoking the charter pursuant to rule 281—19.20(~~256F~~ 256E), takes affirmative action to renew a charter school contract after the initial four-year contract for a charter school and at the

end of each renewal period. The school board shall hold a public hearing on the issue of renewal and submit to the department a copy of the minutes of the public hearing showing that a majority of the school board members voted in favor of renewal of the charter. Any action to renew a charter specifies the number of years, which may only be four years or less, for which the charter was renewed by the school board.

A school board will submit a new application to the department if the board modifies any of the terms of the original charter.

ITEM 10. Amend rule 281—19.20(256F) as follows:

281—19.20(~~256F~~ 256E) Revocation or nonrenewal of charter. Iowa Code sections ~~256F.8 and 256F.9~~ 256E.27 and 256E.28 govern revocation or nonrenewal of a charter under this division.

ITEM 11. Amend rule 281—19.21(256F) as follows:

281—19.21(~~256F~~ 256E) Transition—operation of existing charter schools. Charter schools established pursuant to this division and Iowa Code chapter ~~256F~~ 256E, subchapter II, prior to July 1, 2021, may continue to operate pursuant to those terms and are not subject to Iowa Code chapter 256E, subchapter I, or Division I of this chapter. No new charter ~~or innovation zone~~ school may be created under this division.

ITEM 12. Amend **281—Chapter 19**, implementation sentence, as follows:

These rules are intended to implement Iowa Code chapter ~~256F~~ 256E, subchapter II.

RA 26-345

EDUCATION DEPARTMENT[281]

Regulatory Analysis

Notice of Intended Action to be published: 281—Chapter 20
"Students First Act—Education Savings Accounts"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 257.11B
State or federal law(s) implemented by the rulemaking: 2026 Iowa Acts, House File 2754

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 17, 2026 8 to 9 a.m.	Room B50 Grimes State Office Building Online at meet.google.com/uzu-nfiq-jca Phone: 1.929.276.1400 PIN: 992 943 978#

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis, which must be received by the Department of Education no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Thomas A. Mayes
Grimes State Office Building
400 East 14th Street
Des Moines, Iowa 50319
Phone: 515.281.8661
Email: thomas.mayes@iowa.gov

Purpose and Summary

This proposed rulemaking updates rules in light of 2026 Iowa Acts, House File 2754, division VII. The rulemaking also removes obsolete rules and statutory references.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

The State will bear the costs of compliance. According to the Fiscal Note accompanying House File 2754, the cost is unknown.

- **Classes of persons that will benefit from the proposed rulemaking:**

Individuals who want to participate in the education savings account (ESA) program will benefit from an additional application window.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

The quantitative impact is unknown.

- **Qualitative description of impact:**

The qualitative impact is unknown.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

There are administrative costs to the State, but the amount is undetermined.

- **Anticipated effect on State revenues:**

There is an anticipated effect of undetermined size on State revenues.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

Iowa Code section 257.11B requires the adoption of rules to implement the ESA program.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

No alternatives were considered. Iowa Code section 257.11B requires the adoption of rules to implement the ESA program.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

No alternative methods could be considered.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

Iowa Code section 257.11B requires the adoption of rules to implement the ESA program.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

There is no known impact on small business.

Text of Proposed Rulemaking

ITEM 1. Rescind rule 281—20.1(257) and adopt the following **new** rule in lieu thereof:

281—20.1(257) Definitions.

"Department" means the department of education.

"Full-time" means enrollment at a nonpublic school with a minimum school calendar that meets the requirement of Iowa Code section 279.10 for at least 75 percent of the school's definition of "full-time."

"Nonpublic school" means the same as defined in Iowa Code section 285.16.

"Qualified educational expenses" means the same as defined in Iowa Code section 257.11B(1)*"b."*

1. For purposes of this definition, an approvable provider of "educational therapies" is qualified by recognized training and education to provide those educational therapies. To prevent waste, fraud, and abuse, "educational therapies" does not include therapies provided by the student's family. For purposes of this definition, "family" includes parents, step-parents, guardians, siblings, half siblings, step-siblings, grandparents, step-grandparents, aunts, uncles, or first cousins.

2. For purposes of this definition, approvable "online education programs" means online education programs provided by online education providers approved by the department under 281—Chapter 15.

3. For purposes of this definition, an approvable provider of "vocational and life skills education" is any entity approved by the department or any other unit of state government to provide the vocational and life skills education sought.

4. For purposes of this definition, an approvable "accredited provider" is any individual or organization holding a credential issued by the Iowa board of educational examiners or any other credential issued by the state of Iowa to provide the service at issue. For purposes of this paragraph, paraprofessionals or assistants are sufficiently trained if they hold a credential issued under Iowa Code section 256.157 or if they have received training and education deemed sufficient by their supervising professional.

5. For purposes of this definition, expenses listed in Iowa Code section 257.11B(1)*"b"* as "not included" in the definition of "qualified educational expenses" are not eligible for payment.

"Resident" means the same as defined in Iowa Code section 282.1(2).

"Student" means the same as "pupil" as that term is used in Iowa Code section 257.11B.

ITEM 2. Rescind rule 281—20.2(257) and adopt the following **new** rule in lieu thereof:

281—20.2(257) Eligible students. A student is eligible if the student meets the requirements in Iowa Code section 257.11B(2)*"a"*(3).

ITEM 3. Amend rule 281—20.3(257) as follows:

281—20.3(257) Application process. The parent or guardian of an eligible student may request an ESA payment during the time ~~period~~ periods specified by Iowa Code section 257.11B(3) ~~as enacted by 2023 Iowa Acts, House File 68, section 7,~~ by applying to the department, in a manner prescribed by the department. Within the time frame provided by Iowa Code section 257.11B(5) ~~as enacted by 2023 Iowa Acts, House File 68, section 7,~~ the department will provide a response to the application.

ITEM 4. Amend subrule 20.4(3) as follows:

20.4(3) The department's actions under Iowa Code section 257.11B(5)*"e"* and *"f"* ~~as enacted by 2023 Iowa Acts, House File 68, section 7,~~ may be any action consistent with the department's authority under Iowa Code section 256.1.

RA 26-346

EDUCATION DEPARTMENT[281]

Regulatory Analysis

Notice of Intended Action to be published: 281—Chapter 21
"Community Colleges"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 256.140 as enacted by 2026 Iowa Acts, House File 2610

State or federal law(s) implemented by the rulemaking: Iowa Code section 256.140 as enacted by and section 260C.14 as amended by 2026 Iowa Acts, House File 2610

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 17, 2026 8 to 9 a.m.	Room B50 Grimes State Office Building Online at meet.google.com/uzu-nfiq-jca Phone: 1.929.276.1400 PIN: 992 943 978#

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis, which must be received by the Department of Education no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Thomas A. Mayes
Grimes State Office Building
400 East 14th Street
Des Moines, Iowa 50319
Phone: 515.281.8661
Email: thomas.mayes@iowa.gov

Purpose and Summary

The purpose of this proposed rulemaking is to implement Iowa Code section 256.140 as enacted by 2026 Iowa Acts, House File 2610, by establishing a statewide framework for corequisite developmental education at Iowa community colleges. By the 2028-2029 school year, Iowa community colleges are required to fully replace traditional prerequisite remedial coursework in mathematics and English with corequisite models.

References in the amended rules to Iowa Code chapter 256 are to that chapter as amended by House File 2610. A cross-reference to subrule 21.4(7) is to that subrule as proposed in a separate rulemaking (**ARC 0550D**, IAB 9/2/26).

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

There are no known costs of this proposed rulemaking. No Fiscal Notes were provided for the underlying Iowa Acts.

- **Classes of persons that will benefit from the proposed rulemaking:**

Students enrolled in Iowa community colleges who require developmental support in mathematics or English will be the primary beneficiaries of the proposed rulemaking. The statewide framework is intended to allow students to receive developmental instruction or academic support concurrently with college-level coursework rather than requiring students to complete traditional prerequisite remedial coursework before accessing college-level courses.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

The costs will vary among community colleges based on existing developmental education practices, student enrollment, institutional resources, course structures, faculty and administrative staffing, technology systems, and the particular corequisite models selected by each institution.

- **Qualitative description of impact:**

The proposed rulemaking will require a transition from traditional prerequisite remediation in mathematics and English to corequisite developmental education. This transition may require community colleges to modify existing developmental education courses, revise placement and enrollment practices, adjust course scheduling, develop concurrent academic support services, and provide professional development for faculty and staff.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

Implementation costs are expected to be minimal and absorbed within existing agency resources.

- **Anticipated effect on State revenues:**

The Department does not anticipate an effect on State revenues as a result of the proposed rulemaking.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

The underlying legislation requires rulemaking.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

The underlying legislation requires rulemaking.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

No other methods were seriously considered because the underlying legislation requires rulemaking.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

The alternative methods were rejected because the underlying legislation requires rulemaking.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.

- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

The proposed rulemaking is not expected to have an impact on small business.

Text of Proposed Rulemaking

ITEM 1. Adopt the following **new** definitions of "Assessment of need for corequisite support," "Corequisite support course," "Developmental education course," "Gateway course," "Multiple measures" and "Prerequisite developmental course" in rule **281—21.1(260C)**:

"Assessment of need for corequisite support" means the process used by a community college to evaluate a student's readiness for gateway mathematics or English coursework and determine whether the student would benefit from additional academic support. Assessment may include one or more measures of student readiness, including multiple measures as defined in this chapter.

"Corequisite support course" means a course that is taken concurrently with and aligns to the learning outcomes of a gateway mathematics or English course. It is designed to provide just-in-time academic instruction and support to improve student success in the associated gateway course.

"Developmental education course" means a course designed to improve academic readiness that does not satisfy degree, diploma, certificate, transfer, or general education requirements.

"Gateway course" means a credit-bearing mathematics or English course that is taken to satisfy general education or career and technical education (CTE) program requirements and is commonly considered entry-level to the subject.

"Multiple measures" means an assessment and placement process designed to ascertain a student's mathematics or English readiness using multiple indicators and sources of evidence rather than relying solely on a single assessment measure, including academic achievement, prior performance, student characteristics, process or noncognitive factors, aptitude, or other institutionally approved indicators of college readiness.

"Prerequisite developmental course" is a developmental education course that is required to be taken prior to a gateway course in any discipline other than in mathematics and English.

ITEM 2. Amend subrule 21.2(7) as follows:

21.2(7) *Admissions and program/course enrollment requirements.* The community college will maintain an open-door admission policy for students of postsecondary age. This admission policy will recognize that students should demonstrate a reasonable prospect for success in the program in which they are admitted. ~~Applicants who cannot demonstrate a reasonable prospect for success in the program for which they apply should be assisted to enroll in courses where deficiencies may be remediated or into programs appropriate to the individual's preparation and objectives.~~ Applicants identified through institutional assessment and placement procedures as needing additional academic support shall be enrolled in appropriate coursework or programs that are consistent with their preparation, their educational objectives, and the community college's placement practices. The community college may set reasonable requirements for student enrollment in specified programs and courses. Admissions and program enrollment requirements established by each community college will be published in the community college catalog.

ITEM 3. Amend paragraph **21.4(2)"b"** as follows:

b. Courses of a developmental ~~or remedial~~ nature or prefreshman level will not bear college transfer credit and will be clearly identified in the college catalog. Developmental courses on the transcript will be identifiable through the adoption of the community college common course numbering system.

ITEM 4. Amend subrule 21.4(4) as follows:

21.4(4) ~~*Developmental education*~~ *Academic access and success.* Students who enter community colleges underprepared for postsecondary coursework are provided opportunities to improve their cognitive and noncognitive skills via developmental education, corequisite support courses, and academic and student support services as designated by academic discipline. ~~In an effort to enhance these opportunities, while respecting the local authority of Iowa's community colleges, each college will adopt proven developmental education strategies to identify and address the needs of students, shorten the time to completion, prepare students for academic success, and reduce the financial burden for students underprepared for postsecondary coursework. Such proven strategies include multiple measures of placement; accelerated and integrated strategies, such as co-requisite models; and support services that address students' cognitive and noncognitive needs. These reform efforts require collaboration among community colleges, school corporations, and education stakeholders to systemically expand proven strategies to prepare students for postsecondary success.~~

a. Corequisite models. Community colleges will replace traditional prerequisite developmental coursework in mathematics and English with corequisite models consistent with Iowa Code section 256.140. Nothing in this rule shall be construed to prohibit a community college from implementing additional academic support strategies that are consistent with Iowa Code chapter 256 or this subrule.

(1) Scope. This subrule applies only to gateway mathematics and English coursework and the corequisite support provided in conjunction with those courses pursuant to Iowa Code section 256.140. Nothing in this subrule shall be construed to require the implementation of corequisite support models for developmental coursework or academic support in other disciplines. Community colleges may establish assessment of need for developmental or corequisite support or both, prerequisite courses, placement, and academic support practices for other disciplines consistent with institutional policy and applicable law.

(2) Assessment of readiness and placement. Community colleges will establish procedures to assess the mathematics and English readiness of a student who enrolls or intends to enroll in a program of study requiring mathematics or English coursework. Colleges are encouraged to use multiple measures, as defined in rule 281—21.1(260C), when assessing student readiness and determining placement, including the need for additional academic support.

(3) Gateway course enrollment. Community colleges will provide students access to gateway English and mathematics courses without requiring successful completion of developmental education coursework as a prerequisite for enrollment.

(4) Corequisite support. Community colleges will provide a corequisite support course for students who, through an assessment of need for corequisite support and institutional placement practices, are determined to benefit from additional academic support to successfully complete gateway mathematics or English coursework. The corequisite support course will be provided concurrently with enrollment in the associated gateway mathematics or English course and align with the learning outcomes of the associated gateway course. A community college may provide additional academic support, including tutoring, supplemental instruction, learning laboratories, embedded academic support, advising, extended instructional time, or other institutionally approved support services, to supplement the corequisite support course.

(5) Implementation framework. Community colleges shall implement the statewide framework for corequisite models consistent with this subrule while retaining authority over local implementation. Each community college may establish institutional policies and procedures governing the assessment of need for corequisite support and the placement process, consistent with subparagraph 21.4(4)*"a"*(2); the design and delivery of the required corequisite support course; and supplemental academic support services provided in conjunction with the required corequisite support course.

b. Common course numbering integration. All courses approved to fulfill a distribution category requirement within the statewide lower-division general education framework must follow all requirements established under subrule 21.4(7) related to common course numbering.

c. Reporting. Community colleges will report student assessment of need for corequisite support, placement, enrollment, and outcome information to the department of education through the management information system (MIS) in accordance with reporting procedures, file layouts, definitions, and reporting schedules established by the department. The department may establish additional reporting requirements necessary to evaluate statewide implementation of assessment of need for corequisite support, placement, developmental education, corequisite support, and other academic support strategies.

RA 26-347

EDUCATION DEPARTMENT[281]

Regulatory Analysis

Notice of Intended Action to be published: 281—Chapter 58
"School Breakfast and Lunch Program; Nutritional
Content Standards for Other Foods and Beverages"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 256.7(29)
State or federal law(s) implemented by the rulemaking: 2026 Iowa Acts, House File 2676

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 17, 2026
8 to 9 a.m.

Room B50
Grimes State Office Building
Online at meet.google.com/uzu-nfiq-jca
Phone: 1.929.276.1400
PIN: 992 943 978#

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis, which must be received by the Department of Education no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Thomas A. Mayes
Grimes State Office Building
400 East 14th Street
Des Moines, Iowa 50319
Phone: 515.281.8661
Email: thomas.mayes@iowa.gov

Purpose and Summary

This proposed rulemaking implements restrictions on foods and beverages containing ingredients on the list of prohibited ingredients in 2026 Iowa Acts, House File 2676, division V. The rulemaking also makes technical corrections and updates regulatory references.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

School districts will bear the costs of compliance. According to the Fiscal Note accompanying House File 2676, the cost is unknown.

- **Classes of persons that will benefit from the proposed rulemaking:**

Individuals who consume school breakfasts and school lunches will benefit from the removal of the prohibited ingredients.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

The quantitative impact is unknown.

- **Qualitative description of impact:**

The qualitative impact is unknown.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

There are no costs to the Department or to any other State agency.

- **Anticipated effect on State revenues:**

There is no anticipated effect on State revenues.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

Iowa Code section 256.7(29) requires the adoption of rules addressing nutritional content standards in school breakfast and school lunch programs.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

No alternatives were considered. Iowa Code section 256.7(29) requires the adoption of rules addressing nutritional content standards in school breakfast and school lunch programs.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

No alternative methods could be considered.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

Iowa Code section 256.7(29) requires the adoption of rules addressing nutritional content standards in school breakfast and school lunch programs.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

There is no known impact on small business.

Text of Proposed Rulemaking

ITEM 1. Amend rule 281—58.1(256,283A) as follows:

281—58.1(256,283A) School breakfast and lunch program. The following regulations from the United States Department of ~~Education's~~ Agriculture's Food and Nutrition ~~Service~~ Administration governing the National School Lunch and School Breakfast programs and effective as of January ~~31, 2024~~ 1, 2026, are incorporated by reference: 7 CFR Parts 210, 215, 220, 225, 226, 227, 235, 240, 245, and 250, as well as related procurement regulations at 2 CFR Sections 200.317 through 200.326.

ITEM 2. Rescind rule 281—58.2(256) and adopt the following **new** rule in lieu thereof:

281—58.2(256,283A) Nutritional content standards for other foods and beverages—prohibited ingredients.

58.2(1) *General.* The following regulations from the United States Department of Agriculture's Food and Nutrition Administration governing the National School Lunch and School Breakfast programs, effective as of January 1, 2026, are incorporated by reference: 7 CFR Parts 210 and 220.

58.2(2) *Prohibited ingredients.*

a. General. Iowa Code section 283A.6 as enacted by 2026 Iowa Acts, House File 2676, division V, is incorporated by reference.

b. Applicability. For purposes of this subrule, a school employee or contracted vendor provides a food or beverage to students if the food or beverage is part of the school breakfast or school lunch program or if it is offered for sale during the school day.

c. Rule of construction. Compliance with this subrule will not violate any federal health, safety, or civil rights law, including Section 504 of the Rehabilitation Act of 1973, 29 U.S.C. Section 794, as effective on January 1, 2026.

RA 26-348

EDUCATION DEPARTMENT[281]

Regulatory Analysis

Notice of Intended Action to be published: 281—Chapters 59 and 98
"Gifted and Talented Programs; Financial
Management of Categorical Funding"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 257.42(4)
State or federal law(s) implemented by the rulemaking: 2026 Iowa Acts, Senate File 2220

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 17, 2026 8 to 9 a.m.	Room B50 Grimes State Office Building Online at meet.google.com/uzu-nfiq-jca Phone: 1.929.276.1400 PIN: 992 943 978#

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis, which must be received by the Department of Education no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Thomas A. Mayes
Grimes State Office Building
400 East 14th Street
Des Moines, Iowa 50319
Phone: 515.281.8661
Email: thomas.mayes@iowa.gov

Purpose and Summary

This proposed rulemaking updates rules in light of 2026 Iowa Acts, Senate File 2220; provides additional flexibility; removes obsolete language, rules, and statutory references; and removes duplicative statutory language.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

School districts will bear the costs of compliance. According to the Fiscal Note accompanying Senate File 2220, the cost is unknown.

- **Classes of persons that will benefit from the proposed rulemaking:**

Individuals who receive gifted and talented programming will benefit from the clarity and flexibility this rulemaking provides.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

The quantitative impact is unknown.

- **Qualitative description of impact:**

The qualitative impact is unknown.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

Implementation costs are expected to be minimal and absorbed within existing agency resources.

- **Anticipated effect on State revenues:**

There is no effect on State revenues.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

Iowa Code section 257.42(4) requires rulemaking, so no comparison is required.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

No alternatives were considered. Iowa Code section 257.42(4) requires rulemaking, so no comparison is required.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

No alternative methods could be considered.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

Iowa Code section 257.42(4) requires rulemaking, so no comparison is required.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

There is no known impact on small business.

Text of Proposed Rulemaking

ITEM 1. Amend subrule 59.4(2) as follows:

59.4(2) *Development of curriculum and instructional strategies.*

a. The program of instruction will include the elements set forth in Iowa Code section 257.42 and will consist of content and teaching strategies that reflect the accelerative pace, intellectual processes and creative abilities that characterize gifted and talented students. ~~A linkage among the selection of students, the anticipated student outcomes and the special instructional programs will be evident. Learning~~ Specialized instructional activities will provide for the development of skills that are beyond the scope of the regular classroom~~, introduce advanced concepts and contents, and offer~~

~~students a greater latitude of inquiry than would be possible without the specialized instructional program~~. Specialized instructional activities are those not ordinarily found in the regular school program and may include the following:

~~*a.*~~ (1) A special curriculum supplementing the regular curriculum, using a high level of cognitive ~~and affective~~ concepts and processes and character development.

~~*b.*~~ (2) Flexible instructional arrangements, such as special classes, seminars, resource rooms, independent study, student internships, mentorships, research field trips, and research centers.

b. Gifted and talented services will be thoughtfully designed to ensure that identified students receive instruction and educational opportunities that extend beyond the regular school program. Services will promote continued academic growth by developing advanced knowledge and skills; introducing more rigorous concepts and content; and providing opportunities for greater depth, complexity, creativity, and inquiry than would typically be available in the general classroom.

ITEM 2. Amend subrule 59.4(5) as follows:

59.4(5) *Student identification criteria and procedures.* Students will be placed in a gifted and talented program in accordance with ~~systematic and uniform identification procedures that encompass all grade levels and that are characterized by~~ the elements set forth in Iowa Code section 257.42 as well as the following:

a. Identification will be for the purpose of determining the appropriateness of placement in a gifted and talented program, rather than for categorically labeling a student.

~~*b.* The decision to provide a student with a gifted and talented program will be based on a comprehensive appraisal of the student, consideration of the nature of the available gifted and talented program and an assessment of actual and potential opportunities within the student's regular school program.~~

~~*c.* Multiple criteria will be used in identifying a student, with no single criteria eliminating a student from participation. Criteria will combine subjective and objective data, including data with direct relevance to program goals, objectives and activities.~~

~~*d.*~~ *b.* In the event that the number of eligible students exceeds the available openings, participants will be selected according to the extent to which they can benefit from the program.

~~*e.* Each identified student's progress will be reviewed at least annually to consider modifications in program or student placement.~~

ITEM 3. Amend paragraph **59.4(6)"c"** as follows:

c. Both cognitive ~~and affective~~ components of student development and character development should be evaluated.

ITEM 4. Amend rule 281—98.20(257) as follows:

281—98.20(257) Gifted and talented program. Gifted and talented program funding is included in the school district cost per pupil calculated for each school district under the school foundation formula. The per-pupil amount increases each year by the supplemental state aid percentage. This amount must account for not more than 75 percent of the school district's total gifted and talented program budget. The school district must also provide a local match from the school district's regular program district cost, and the local match portion must be a minimum of 25 percent of the total gifted and talented program budget. In addition, school districts may receive donations and grants, and the school district may contribute more local school district resources toward the gifted and talented program. The 75 percent portion, the local match, amounts designated from the flexibility account as described in rule 281—98.27(257,298A), and all donations and grants will be accounted for as categorical funding.

The purpose of the gifted and talented funding described in Iowa Code section 257.46 is to provide for identified gifted students' needs beyond those provided by the regular school program pursuant to ~~each gifted student's individualized~~ the plan developed pursuant to rule 281—59.3(257).

The funding will be used only for expenditures that are directly related to providing the gifted and talented program.

98.20(1) *Appropriate uses of categorical funding.* Appropriate uses of the gifted and talented program funding include:

a. to *d.* No change.

e. Staff development for other teachers; however, staff development under this paragraph is limited to implementation of the district's program plan pursuant to rule 281—59.3(257) for identified students. Professional development on acceleration or general enrichment for all learners is not covered by this paragraph.

f. Salary and benefits for a paraeducator who supports the instruction of gifted and talented students. If the paraeducator is a part-time paraeducator for gifted and talented students, then only the portion of time that is related to the gifted and talented program may be charged to the program.

g. Reimbursement, beyond the cost of an initial license, for the costs of a staff member to obtain a gifted and talented endorsement.

98.20(2) and **98.20(3)** No change.

RA 26-349

EDUCATION DEPARTMENT[281]

Regulatory Analysis

Notice of Intended Action to be published: 281—Chapter 62
"State Standards for Progression in Reading"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 256.7 and 279.68A

State or federal law(s) implemented by the rulemaking: Iowa Code section 279.68 as amended by the Literacy Changes Lives Act, 2024 Iowa Acts, House File 2618, and section 279.68A as amended by the Math Counts Act, 2025 Iowa Acts, House File 784

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 17, 2026
8 to 9 a.m.

Room B50
Grimes State Office Building
Online at meet.google.com/uzu-nfiq-jca
Phone: 1.929.276.1400
PIN: 992 943 978#

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis, which must be received by the Department of Education no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Thomas A. Mayes
Grimes State Office Building
400 East 14th Street
Des Moines, Iowa 50319
Phone: 515.281.8661
Email: thomas.a.mayes@iowa.gov

Purpose and Summary

This proposed rulemaking substantially amends Chapter 62 to implement the Literacy Changes Lives Act, 2024 Iowa Acts, House File 2618, and the Math Counts Act, 2025 Iowa Acts, House File 784. This proposed rulemaking, as much as possible, consolidates decision-making processes and reduces duplicative requirements.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

There are no known costs of this proposed rulemaking. No Fiscal Notes were provided for the underlying Iowa Acts.

- **Classes of persons that will benefit from the proposed rulemaking:**

Students, their teachers, and their parents will benefit from the clarity this proposed rulemaking provides.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

There is no known quantitative impact.

- **Qualitative description of impact:**

The proposed rulemaking will reduce duplication and administrative burden for teachers and other school leaders.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

Implementation costs are expected to be minimal and absorbed within existing agency resources.

- **Anticipated effect on State revenues:**

The proposed rulemaking is not anticipated to have a direct effect on State revenues.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

The underlying legislation requires rulemaking.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

The underlying legislation requires rulemaking.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

No other methods were seriously considered by the Department since the underlying legislation requires rulemaking.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

Alternative methods were rejected. The underlying legislation requires rulemaking.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

The proposed rulemaking is not expected to impact small business.

Text of Proposed Rulemaking

ITEM 1. Amend **281—Chapter 62**, title, as follows:

STATE STANDARDS FOR PROGRESSION IN READING AND MATHEMATICS

ITEM 2. Amend rule 281—62.1(256,279) as follows:

281—62.1(256,279) Assessment of reading and mathematics proficiency. All school districts shall assess reading and mathematics proficiency of all students pursuant to this rule.

62.1(1) *Assessment at beginning of school year.* A school district will assess all students enrolled in kindergarten through grade three at the beginning of each school year for the students' level of reading or reading readiness and in kindergarten through grade six for mathematics.

62.1(2) *Subsequent assessments throughout school year.* A school district will provide to all students additional, brief assessments of reading and mathematics achievement in a manner specified by the department, and at least two additional times per year, using assessments that meet the standards described in subrule 62.1(5), during the grades specified in subrule 62.1(1).

62.1(3) *Progress-monitoring instruments.* For students identified as being persistently at risk in reading or mathematics, ~~as well as students who are becoming persistently at risk in reading,~~ a school district will monitor the students' progress in reading or mathematics with instruments that meet the standards in subrule 62.1(5), in at least a frequency specified by the department for reading and at least every other week for mathematics.

62.1(4) No change.

62.1(5) *Standards for approval for assessments.* Any assessment of reading or reading readiness or mathematics under this rule and used to implement this chapter is to meet the following minimum standards before use by a school district:

a. No change.

b. *Standards for universal-screening instruments.* Any assessment used for universal-screening purposes under this chapter is to meet department-adopted minimum standards for the following statistical measures for the number of screening intervals required by the department: area under the curve and specificity/sensitivity.

c. No change.

d. *Department publication of approved assessments.* The department will annually publish or update a list of assessments approved pursuant to this subrule. Approved assessments will have a demonstrated ability to predict future reading or mathematics performance.

62.1(6) *Basic levels of reading and mathematics proficiency on approved assessments.* The department will determine benchmarks for basic levels of reading or mathematics proficiency to be used with approved assessments based on the ability to predict meaningful future outcomes of a student's reading performance that is sufficient to master appropriate grade four reading skills prior to the student's promotion to grade four or mathematics performance.

62.1(7) *Assessment measures.* Assessments of reading or reading readiness administered to implement this chapter, when taken as a whole, are to measure phonemic awareness, phonics, fluency, vocabulary, and comprehension. Assessments of mathematics administered to implement this chapter, when taken as a whole, are to measure subitizing, cardinality, object counting, verbal counting, spatial relationships, benchmark numbers, and part-part-whole models.

62.1(8) *Noncompliant assessments.* Assessments that do not meet the provisions of this rule ~~may not~~ cannot be used by any school district to implement this chapter.

ITEM 3. Amend rule 281—62.2(256,279) as follows:

281—62.2(256,279) Tools for evaluating and reevaluating reading and mathematics proficiency. The department identifies the following attributes of tools that may be used in evaluating and reevaluating reading and mathematics proficiency:

62.2(1) *Locally determined or statewide assessments.* In evaluating and reevaluating students who are or may be at risk or persistently at risk in reading or mathematics, school districts are to use assessments that meet the standards referenced in subrule 62.1(5).

62.2(2) *Alternative assessments.* If a school district determines, based on the clear and unique facts of a particular student's case, that a particular student needs an alternative assessment to determine proficiency in reading, in addition to the assessments referred to in rule 281—62.1(256,279) and subrule 62.2(1), the alternative assessment is to be founded on scientifically

based research and reasonably calculated to provide equivalent information about the student's reading, in addition to information provided by the assessments referred to in rule 281—62.1(256,279) and subrule 62.3(1). This subrule does not apply to mathematics assessment.

62.2(3) *Portfolio reviews.* School districts may review a portfolio of a student's work to determine reading proficiency. Portfolio reviews are to be conducted using standard review criteria that are founded on scientifically based research. A portfolio review may be used along with assessments in rule 281—62.1(256,279) and subrule 62.2(1), but is not to be used in lieu of such assessments. The department is to maintain a list of portfolio review criteria that are adequate under this subrule. This subrule does not apply to mathematics assessment.

62.2(4) *Teacher observation.* A student may initially be identified as being persistently at risk in reading proficiency based on teacher observation. A teacher observation under this subrule is to be based on department-approved observation criteria. Teacher observation shall not be used to determine that a student continues to be persistently at risk in reading or for identifying a student as persistently at risk in mathematics.

62.2(5) No change.

62.2(6) *Alternate assessment.* If an individual with a disability has been determined to need an alternate assessment aligned to alternate academic achievement standards in reading or mathematics, pursuant to rule 281—41.320(256B,34CFR300), that individual is to receive such alternate assessment, as well as alternate universal screening and progress monitoring pursuant to this chapter on instruments approved by the department.

62.2(7) No change.

ITEM 4. Amend rule 281—62.3(256,279) as follows:

281—62.3(256,279) Identification of a student as being persistently at risk ~~in reading~~.

62.3(1) *Definition of "persistently at risk in reading and mathematics."* A student is determined "persistently at risk" under the ~~standard~~ standards in Iowa Code ~~section~~ sections 279.68(1)*"a."* and 279.68A(4). A student is "at risk ~~in reading~~" if the student did not meet the grade-level benchmark for one of the two most recent screening assessments administered pursuant to this chapter.

62.3(2) *Determination of a persistent risk in reading and mathematics.*

a. and *b.* No change.

c. A student is determined to be persistently at risk in mathematics under the standard in Iowa Code section 279.68A(4).

d. A student is at risk in mathematics if the student did not meet the grade-level benchmark for one of the two most recent screening assessments administered pursuant to this chapter.

e. A student is persistently at risk if the student is below grade-level expectations in the reading component of the language arts portion or the mathematics portion on the statewide summative assessment administered under rule 281—12.8(256). A student is at risk if the student is approaching grade-level expectations in the reading component of the language arts portion or the mathematics portion of that assessment.

~~**62.3(3)** *Services offered to all students who are persistently at risk in reading.* A school district will provide intensive reading instruction to any student who is persistently at risk in reading. A school district will continue to provide the student with intensive reading instruction until the student is reading at grade level, at grade levels beyond grade three if necessary, as determined by the student's consistently proficient performance on valid and reliable measures of reading ability that meet the provisions of rule 281—62.1(256,279). All services provided under this subrule will comply with rule 281—62.4(256,279).~~

~~**62.3(4)** *Notice to parents.* The district will comply with Iowa Code section 279.68(2)*"b"* and *"c."*~~

62.3(3) *Exit from "persistently at risk" status.* A student who is at benchmark on two consecutive assessments pursuant to subrule 62.1(1) or 62.1(2), or who is approaching, meeting, or exceeding grade-level expectations (or an equivalent level of achievement) on the reading component

of the language arts portion or the mathematics portion, as relevant to the student, of the statewide summative assessment administered under rule 281—12.8(256) is no longer persistently at risk.

ITEM 5. Amend rule 281—62.4(256,279) as follows:

281—62.4(256,279) Successful progression for early readers. Each school district shall provide the following:

62.4(1) *Intensive instructional services.* A school district will provide students who are persistently at risk in reading with the services specified in Iowa Code section 279.68(2)*"a."* A school district will continue to provide the student with intensive reading instruction until the student is reading at grade level, at grade levels beyond grade three if necessary, as determined by the student's consistently proficient performance on valid and reliable measures of reading ability that meet the provisions of rule 281—62.1(256,279). All services provided under this subrule will comply with rule 281—62.4(256,279).

62.4(2) No change.

62.4(3) *Reading curriculum for students who are persistently at risk in reading.* A curriculum that does not meet the standards of this subrule shall not be used to implement this chapter. To implement this subrule, a school district will provide a curriculum that meets the following guidelines and specifications:

a. ~~Assists students assessed as persistently at risk in reading to develop the skills to read at grade level. Assistance shall include but not be limited to strategies that formally address dyslexia, when appropriate. For purposes of this paragraph, "dyslexia" means a specific learning disability that is neurobiological in origin, is characterized by difficulties with accurate or fluent word recognition and by poor spelling and decoding abilities, and may include difficulties that typically result from a deficit in the phonological component of language that is often unexpected in relation to other cognitive abilities and the provision of effective classroom instruction, as well as secondary consequences such as problems in reading comprehension and reduced reading experience that can impede growth of vocabulary and background knowledge.~~ Meets the requirements of Iowa Code section 279.68(2)*"d"*(3).

~~*b.* Provides skill development in phonemic awareness, phonics, fluency, vocabulary, and comprehension.~~

~~*c.*~~ *b.* Is supported by scientifically based research in reading.

~~*d.*~~ *c.* Is implemented by certified instructional staff with appropriate training and professional development. Such training and professional development will meet the provisions of 281—Chapter 83.

~~*e.*~~ *d.* Is implemented by certified instructional staff with fidelity, which meets such standards for fidelity of implementation that the department may adopt.

~~*f.* Includes a scientifically based and reliable assessment, which meets the provisions of rule 281—62.1(256,279).~~

~~*g.* Provides initial and ongoing analysis of each student's reading progress, which meets the provisions of rule 281—62.1(256,279), with notice provided to parents pursuant to subrule 62.4(4).~~

~~*h.* Is implemented during regular school hours.~~

~~*i.* Provides a curriculum in core academic subjects to assist the student in maintaining or meeting proficiency levels for the appropriate grade in all academic subjects.~~

62.4(4) *Parent notice, involvement and support.* At a minimum and in addition to other provisions of this chapter, school districts will provide ~~the following~~ to all parents or guardians of students who are persistently at risk in reading~~:~~ the information required by Iowa Code section 279.68(2)*"b"* and *"c."*

~~*a.* At regular intervals, a school district will apprise the parent or guardian of academic and other progress being made by the student and give the parent or guardian other useful information.~~

~~*b.* In addition to required reading enhancement and acceleration strategies provided to students, a school district will provide parents or guardians of students who are persistently at risk in reading with a plan outlined in a parental contract, including participation in regular parent-guided home reading.~~

62.4(5) *Report to the department.* Each school district will report to the department ~~the specific intensive reading interventions and supports implemented by the school district pursuant to this chapter. The department will annually prescribe the components of required or requested reports.~~ in a manner specified in Iowa Code section 279.68(2)*"e."*

62.4(6) No change.

62.4(7) *Written notice.* Each school district will provide notice to parents of students who are persistently at risk in reading in grades kindergarten through grade six in a manner prescribed by Iowa Code section 279.68(1)*"c."*

62.4(8) *Personalized reading plans.* Each school district will engage parents of students who are persistently at risk in the development of personalized reading plans in a manner prescribed by Iowa Code section 279.68(1)*"d"* through the end of sixth grade. A school district may provide personalized reading plans to students who are at risk in reading. A school district may consolidate the plan required by this subrule with the requirements of subrule 62.4(4) for students who are in kindergarten through third grade. The department may provide a sample plan or instructions to obtain substantial compliance with the requirements of this subrule and subrule 62.2(4).

ITEM 6. Amend rule 281—62.5(256,279) as follows:

281—62.5(256,279) Ensuring continuous improvement in reading proficiency.

62.5(1) *General.* ~~To ensure all children are reading proficiently by the end of third grade, each~~ Each school district will comply with the provisions of Iowa Code section 279.68(3)*"a."*

62.5(2) No change.

62.5(3) *Universal literacy curriculum.* In addition to the requirements of subrule 62.5(1), each school district will implement a literacy curriculum to ensure universal access to high-quality literacy instruction. Such a curriculum includes evidence-based reading instruction, determined by research, including those practices identified within the statewide literacy plan and employing high-quality instructional materials, and shall not include instruction or practical application on teaching foundational reading that incorporates the three-cueing system.

ITEM 7. Rescind rule 281—62.6(256,279) and adopt the following **new** rule in lieu thereof:

281—62.6(256,279) Miscellaneous provisions: reading.

62.6(1) *Services beyond third grade: additional provisions.* Students who are identified as persistently at risk in reading at the end of third grade remain entitled to intensive reading instruction until they exit from this status under subrule 62.3(5) or through the end of sixth grade, whichever occurs first. A student is initially identified as persistently at risk in grades four through six if the student is below grade-level expectation on the reading component of the language arts component of the statewide summative assessment administered under rule 281—12.8(256) or is identified as persistently at risk under subrules 62.3(1) and 62.3(2), should a district choose to administer those subrules in grades four through six. Students who are identified as persistently at risk in reading in grades four through six remain entitled to intensive reading instruction until they exit from this status under subrule 62.3(5) or through the end of sixth grade, whichever occurs first.

62.6(2) *Database.* In implementing subrule 62.4(5), the department may require school districts to enter assessment and progress monitoring data into a statewide database.

62.6(3) *Accredited nonpublic schools.* Nothing in this chapter prevents an accredited nonpublic school from voluntarily complying with this chapter. Nothing in this chapter prevents the department from offering universal screening or progress monitoring instruments to accredited nonpublic school students or prevents the department from allowing inclusion of those students' data in the database described in subrule 62.6(2).

62.6(4) *Rules of construction.* Nothing in this chapter obligates a school district to select a particular assessment, instrument, tool, curriculum, or program, so long as the assessment, instrument, tool, curriculum, or program used meets the provisions of this chapter. Nothing in this chapter limits a school district from voluntarily providing services beyond sixth grade to students who need additional support in reading.

ITEM 8. Adopt the following **new** rules 281—62.7(256,279) to 281—62.9(256,279):

281—62.7(256,279) Services and supports for students who are persistently at risk in mathematics.

62.7(1) *Supports and interventions for students who are persistently at risk in mathematics.* A student who is persistently at risk under rule 281—62.3(256,279) is entitled to supports and interventions.

a. Supports and interventions under this subrule will be research-based and implemented with fidelity and consistent with the comprehensive state mathematics plan developed pursuant to Iowa Code section 256.9(71).

b. If the student is meeting expectations related to increases in the student's level of mathematics proficiency, the student will be provided with small group interventions. If the student is not meeting expectations related to increases in the student's level of mathematics proficiency, the student will be provided with intensive interventions.

62.7(2) *Personalized mathematics plan.* For each student who is persistently at risk in mathematics, a school district will engage parents in the development of a personalized mathematics plan that meets the provisions of Iowa Code section 279.68A(2)*"b."*

62.7(3) *Duration of obligations to students who are persistently at risk in mathematics.* For each student who is persistently at risk in mathematics, a school district will provide services under this chapter until the student exits persistently at risk status under subrule 62.7(2) or completes sixth grade.

62.7(4) *Support for students at risk in mathematics.* School districts may provide additional supports to students who are at risk in mathematics under rule 281—62.3(256,279).

281—62.8(256,279) Ensuring continuous improvement in mathematics proficiency.

62.8(1) *General.* To ensure all children are proficient in mathematics by the end of sixth grade, each school district will comply with the provisions of Iowa Code section 279.68A.

62.8(2) *Relationship between this chapter and the department's general accreditation standards.* In addition to subrule 62.8(1), the department will consider compliance with and performance under this chapter in its enforcement of the general accreditation standards and school improvement process described in 281—Chapter 12.

62.8(3) *Universal mathematics curriculum.* In addition to the requirements of subrule 62.8(1), each school district will implement a mathematics curriculum to ensure universal access to high-quality mathematics instruction. Such a curriculum includes evidence-based mathematics instruction, determined by research, including those practices identified within the statewide mathematics plan and employing high-quality instructional materials.

281—62.9(256,279) Miscellaneous provisions: mathematics.

62.9(1) *Report to the department.* Each school district will report to the department the specific intensive mathematics interventions and supports implemented by the school district in a manner similar to subrule 62.4(5).

62.9(2) *Database.* The department may require school districts to enter assessment and progress monitoring data into a statewide database.

62.9(3) *Accredited nonpublic schools.* Nothing in this chapter prevents an accredited nonpublic school from voluntarily complying with this chapter. Nothing in this chapter prevents the department from offering universal screening or progress monitoring instruments to accredited nonpublic school

students or prevents the department from allowing inclusion of those students' data in the database described in subrule 62.9(2).

62.9(4) *Rules of construction.* Nothing in this chapter obligates a school district to select a particular assessment, instrument, tool, curriculum, or program, so long as the assessment, instrument, tool, curriculum, or program used meets the provisions of this chapter. Nothing in this chapter limits a school district from voluntarily providing services beyond sixth grade to students who need additional support in mathematics.

ITEM 9. Amend **281—Chapter 62**, implementation sentence, as follows:

These rules are intended to implement Iowa Code ~~section~~ sections 279.68 and 279.68A.

RA 26-350

HUMAN SERVICES DEPARTMENT[441]

Regulatory Analysis

Notice of Intended Action to be published: 441—Chapters 49, 121, 122, 155, 164, 400, 401, 402, 403, 404, 405, and 406
"Rules Implementing 2026 Iowa Acts, House File 2782 and 2026 Iowa Acts, Senate File 2488"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 216A, 217.41C, 231.80, 234A, and 256I

State or federal law(s) implemented by the rulemaking: 2026 Iowa Acts, House File 2782 and Senate File 2488

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 17, 2026 10 a.m.	Microsoft Teams Meeting ID: 280 168 583 090 612 Passcode: AR6YG33g

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis, which must be received by the Department of Health and Human Services no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Victoria L. Daniels
Lucas State Office Building
321 East 12th Street
Des Moines, Iowa 50319
Phone: 515.829.6021
Email: compliancerules@hhs.iowa.gov

Purpose and Summary

This proposed rulemaking implements 2026 Iowa Acts, House File 2782 and Senate File 2488, by promulgating and consolidating administrative rules to implement the Department's programs within its Early Childhood and Family Services (ECFS) system. All references in the proposed rulemaking to Iowa Code chapter 234A are to that chapter as enacted and amended, respectively, by Senate File 2488 and House File 2782.

The proposed rulemaking creates a new Title XIX, "Early Childhood and Family Services," within agency number [441]. Simultaneously, the proposed rulemaking rescinds and repromulgates under the new Title XIX the following chapters that cover ECFS programs:

- Chapter 49, "Family Development and Self-Sufficiency (FaDSS) Program."
- Chapter 121, "Early Childhood Iowa Initiative" (ECI Initiative).
- Chapter 164, "More Options for Maternal Supports (MOMS) Program."

The proposed rulemaking also rescinds Chapter 122, "Fiscal Oversight of the Early Childhood Iowa Initiative," and combines its content with the repromulgated ECI Initiative chapter.

Chapter 155, "Child Abuse Prevention Program," is proposed to be rescinded in the rulemaking because the underlying statute, Iowa Code sections 235A.1, 235A.2, and 235A.3, were repealed by section 19 of 2026 Iowa Acts, Senate File 2488. Child abuse prevention is an overarching initiative, and grants to contractors will continue to be awarded by the Department to support child abuse prevention initiatives.

This proposed rulemaking also promulgates four new chapters with the following purposes:

1. Chapter 400 will outline the Department's ECFS system.
2. Chapter 401 will outline the structure of the newly created ECFS District Advisory Councils.
3. Chapter 403 will describe comprehensive family support, known as the Children at Home program, for which rulemaking was authorized in 2026 Iowa Acts, House File 2782. This program was previously described in 441—Chapter 184. The chapter had no rulemaking authority and covered a program that is no longer in place, so it was rescinded during a Red Tape Review under Executive Order 10.
4. Chapter 406 will describe the data collection and use functions authorized for the ECFS system by section 4 of 2026 Iowa Acts, Senate File 2488.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

There are no costs associated with this proposed rulemaking.

- **Classes of persons that will benefit from the proposed rulemaking:**

Families served by the Department's ECFS initiatives will benefit from having consolidated administrative rules.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

Quantitative data regarding the combined programs is not yet available.

- **Qualitative description of impact:**

Families served by the Department's early ECFS initiatives will benefit from having consolidated administrative rules.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

The Department incurs personnel and other administrative costs associated with the programs outlined in this proposed rulemaking.

- **Anticipated effect on State revenues:**

2026 Iowa Acts, Senate File 2488, transfers any unencumbered or unobligated moneys remaining in the Child Abuse Prevention Program Fund at the close of FY 2026 to the ECFS System Fund created in Iowa Code section 234A.6 as enacted by Senate File 2488. As of September 1, 2026, the balance of the Child Abuse Prevention Program Fund was estimated to be $717,049.

Senate File 2488 also requires the Department during and after the transfer of the administration of home visiting services to the ECFS system, and contingent upon the receipt of additional federal funds for home visiting services pursuant to the Social Security Act, Title IV-E, to annually redistribute among the ECI areas that made a request to transition the administration of home visiting services the following percentages, up to $7,000,000, of the additional federal funds received for coordination of early childhood services for children from age zero through age five:

- FY 2028 = 25 percent.
- FY 2029 = 15 percent.
- FY 2030 = 5 percent.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

Rulemaking is required by both House File 2782 and Senate File 2488.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

Not applicable.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

Not applicable.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

Rulemaking is required by both House File 2782 and Senate File 2488.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

This proposed rulemaking has no impact on small business.

Text of Proposed Rulemaking

ITEM 1. Rescind and reserve **441—Chapter 49**.

ITEM 2. Rescind and reserve **441—Chapter 121**.

ITEM 3. Rescind and reserve **441—Chapter 122**.

ITEM 4. Rescind and reserve **441—Chapter 155**.

ITEM 5. Rescind and reserve **441—Chapter 164**.

ITEM 6. Adopt the following **new** 441—Chapter 400:

TITLE XIX
EARLY CHILDHOOD AND FAMILY SERVICES

CHAPTER 400
EARLY CHILDHOOD AND FAMILY SERVICES SYSTEM

441—400.1(234A) Definitions. For the purposes of Title XIX, the definitions contained in Iowa Code chapter 234A apply in addition to any other definitions contained in the chapters therein.

441—400.2(234A) Core functions. The early childhood and family services (ECFS) system is established by the department pursuant to Iowa Code chapter 234A. The ECFS system will use early

intervention and primary prevention strategies to provide equitable statewide access to a continuum of services that fulfill the requirements of Iowa Code section 234A.3.

441—400.3(234A) Service continuum. The ECFS system will include ensuring access to the following continuum of services:

400.3(1) The early childhood Iowa initiative as described in Iowa Code sections 256I.1 through 256I.11.

400.3(2) The HOPES-HFI program established pursuant to Iowa Code section 234A.5.

400.3(3) The comprehensive family support program established pursuant to Iowa Code section 231.80 (children at home).

400.3(4) The pregnancy support services outlined in Iowa Code section 217.41C (more options for maternal supports (MOMS)).

400.3(5) The family development and self-sufficiency (FaDSS) program established in Iowa Code section 216A.107.

These rules are intended to implement Iowa Code chapter 234A.

ITEM 7. Adopt the following **new** 441—Chapter 401:

CHAPTER 401
EARLY CHILDHOOD AND FAMILY SERVICES DISTRICT ADVISORY COUNCILS

441—401.1(225A) Definitions. For the purpose of this chapter, the following definitions apply:

"Chairperson" means the chairperson of the advisory council who has been elected by a majority of advisory council members.

"Early childhood and family services district advisory council" or *"advisory council"* means the same as defined in Iowa Code section 234A.1.

441—401.2(234A) Appointment.

401.2(1) The members of the advisory council will be appointed by the department in accordance with Iowa Code section 234A.3(2).

401.2(2) The appointments will be for three-year staggered terms that expire on June 30.

401.2(3) Vacancies will be filled in accordance with requirements established in the district contract. Members appointed to fill a vacancy will serve for the balance of the unexpired term.

401.2(4) Absences.

a. Three unexcused absences in a 12-month period constitute grounds for the department to request nomination of an alternate representative to fill the position.

b. Absences may be excused by notification provided to the chairperson prior to the meeting.

c. The chairperson of the advisory council is charged with providing notification of absences to the department.

441—401.3(234A) Officers.

401.3(1) Officers of the advisory council will consist of a chairperson and a vice chairperson who will be elected at the first meeting of each fiscal year.

a. An officer will serve no more than three consecutive terms as chairperson or vice chairperson.

b. A vacancy in the office of chairperson will be filled by elevation of the vice chairperson.

c. A vacancy in the office of vice chairperson will be filled by election at the next meeting after the vacancy occurs.

d. A vacancy must be filled by an individual meeting the same qualifications as the departing advisory council member in accordance with Iowa Code section 234A.3(2).

401.3(2) Duties of officers.

a. The chairperson will:

(1) Preside at all meetings of the advisory council;
(2) Appoint subcommittees as deemed necessary; and
(3) Designate the chairperson of each subcommittee.

b. The vice chairperson will:

(1) Perform the duties of the chairperson if the chairperson is absent or unable to act. When so acting, the vice chairperson will have all the powers of and be subject to all restrictions upon the chairperson.

(2) Perform other duties as may be assigned by the chairperson.

441—401.4(234A) Meetings.

401.4(1) The advisory council will establish a meeting schedule on an annual basis to conduct its business. There will be a minimum of four meetings per year.

401.4(2) A majority of appointed members constitutes a quorum.

401.4(3) When a quorum is present, a position is carried by affirmative vote of the majority of those present. No official business that requires a vote of the membership will be conducted without a quorum present.

441—401.5(234A) Subcommittees. The advisory council may designate one or more subcommittees to perform such duties as may be deemed necessary.

441—401.6(225A) Advisory council composition. The advisory council's composition will be developed and maintained pursuant to Iowa Code chapter 234A.

These rules are intended to implement Iowa Code section 234A.3.

ITEM 8. Adopt the following **new** 441—Chapter 402:

CHAPTER 402
EARLY CHILDHOOD IOWA INITIATIVE

441—402.1(256I) Definitions. For the purpose of these rules, the following definitions apply:

"Agreement" means a contract between the area boards, state board, department, and state agencies to which funding is allocated.

"Audit" means a financial review by area boards of early childhood Iowa funds. Area boards that receive federal funds shall complete an audit of the funds. The audit must be a single audit if the area board received a total of federal funds from all funding sources in excess of the threshold defined in 2 CFR 200.501(b) as amended to April 1, 2027. Area boards that are not required to conduct a single audit under that threshold may coordinate with the fiscal agent to conduct the required audit. The audit requirements may be found in the online toolkit available on the department website.

"Community partners" means individuals, early childhood service providers, and staff of other programs or agencies who communicate, coordinate and collaborate with an area board.

"Designation" means the status awarded by the state board to an early childhood Iowa area meeting the criteria established by the state board.

"Early childhood Iowa area" or *"area"* means the same as defined in Iowa Code section 256I.1.

"Early childhood Iowa area board" or *"area board"* means the same as defined in Iowa Code section 256I.1.

"Early childhood Iowa fund" means a fund created in the state treasury from which moneys are distributed to early childhood Iowa areas for the purpose of supporting children and their families.

"Early childhood Iowa state board" or *"state board"* means the state of Iowa's early childhood Iowa board as appointed by the governor that meets the membership criteria of citizens and state agency directors as voting members and legislators as nonvoting members.

"Evidence-based" means that a program has completed a randomized control trial conducted by an independent researcher and has demonstrated positive results for children and families.

"Evidence-based" may also include research conducted by the program that has been published in a peer-reviewed journal that also demonstrates positive results for children and families. To be evidence-based, the program must include stringent standards for program replication, including standards for implementation and monitoring to ensure that the program is being operated with fidelity to the original model.

"Indicator" means a measure that indirectly quantifies the achievement of a result.

"Result" means the effect desired for Iowans.

"State agency" means a department of the executive branch, including but not limited to the economic development authority and the departments of education, health and human services, and workforce development.

441—402.2(256I) Early childhood Iowa state board responsibility.

402.2(1) The state board will provide leadership and coordination for the development of Iowa's early care, health and education system in cooperation with area boards, community partners and other state agencies.

402.2(2) The state board will:

a. Develop and implement a process for designating area boards and review the process at the close of each designation cycle.

b. Adopt state-level indicators with input from area boards, report on indicators each fiscal year, and compare the data against baseline data and data from prior fiscal years as available. Indicators will measure all result areas of the early care, health and education system.

c. Adopt minimum standards to promote equal access to services subject to the authority of the area boards.

d. Adopt minimum standards to promote equal access to services subject to the authority of the area and adopt guidelines and standards for services provided under a school ready children grant. All guidelines and standards will be found in the online toolkit available on the department's official website.

e. Further the development of an early childhood integrated data system across state agencies and other partners.

f. Develop guidance to identify and improve the quality of services in early care, health and education programs, including evidence-based practices.

g. Promote other measures to advance the initiative.

441—402.3(256I) Early childhood Iowa coordination staff. In consultation with the state board, the department will provide fiscal oversight of the early childhood Iowa initiative. The fiscal oversight measures are defined in rule 441—402.5(256I).

441—402.4(256I) Early childhood Iowa areas.

402.4(1) The state board will approve early childhood Iowa area boundaries and the creation of area boards. Minimum criteria for areas and approval of area boards are set forth in Iowa Code sections 256I.6 and 256I.7.

402.4(2) The state board may waive any of the minimum criteria referenced in Iowa Code section 256I.6 if it is determined that exceptional circumstances exist. The state board further defines exceptional circumstances to include when the proposed change of boundaries creates hardship that reduces performance or quality of services within the area. The area board must provide compelling documentation of the hardship and clearly document the impact to performance or quality of services or both.

441—402.5(256I) Fiscal oversight.

402.5(1) In consultation with the state board, the department has adopted policies to oversee the fiscal responsibilities of area boards.

402.5(2) The department will:

a. Review the internal controls of all disbursements of early childhood Iowa funding;

b. Approve the process for issuing agreements with area boards;

c. Approve and sign all agreements between the area boards and the state for the purposes of Iowa Code chapter 256I;

d. Develop a policy for the disbursement of funds;

e. Require an audit, conducted by an independent agency, of the early childhood Iowa funds managed by area boards. The minimum requirements and frequency of audits for the area boards shall be determined and approved by the state board;

f. Ensure that all area boards secure liability insurance; and

g. Require that area boards submit a contract-monitoring schedule for their funded programs.

These rules are intended to implement Iowa Code sections 256I.1 through 256I.12.

ITEM 9. Adopt the following **new** 441—Chapter 403:

CHAPTER 403
CHILDREN AT HOME PROGRAM

441—403.1(231) Definitions.

"Comprehensive family support" means the same as defined in Iowa Code section 231.80(1).

"Family" means the same as defined in Iowa Code section 231.80(1).

"Individual with a disability" means the same as defined in Iowa Code section 231.80(1).

"Iowa family support network" or *"IFSN"* means the agency that contracts with the department to maintain a network of service providers to assist eligible families in finding services and supports for individuals.

"Services and support" means the same as defined in Iowa Code section 231.80(1).

441—403.2(231) Eligibility. Eligibility for the comprehensive family support program is outlined in Iowa Code section 231.80(3) and will be determined by the IFSN.

441—403.3(231) Application. A family may apply on an application prescribed by the department. Within 30 days from the date the application is received, the IFSN will provide a notice of eligibility determination pursuant to 441—Chapter 16. Eligibility determinations may be appealed pursuant to rule 441—403.6(231).

441—403.4(231) Contractor selection and duties. Whenever possible, the department will contract with a local agency to serve as the ISFN to implement the children at home program.

403.4(1) *Selection.* Contractors will be selected through competitive bidding and a demonstrated ability to provide disability-related services and supports.

403.4(2) *Duties.*

a. Provide a single entry point for applicants to learn about and connect with a variety of needed services and supports.

b. Assist families in identifying and applying for services they believe will help meet the needs of their family.

c. Develop and disseminate information describing the services and supports.

d. Provide services and support in a timely manner.

e. Provide short-term care coordination to families, including linkage to needed services and support.

f. Survey parents annually to determine how the program is helping parents meet the needs of individuals with disabilities and include the survey results in the annual report to the department.

g. Submit quarterly and annual reports to the department in a manner prescribed by the department.

441—403.5(231) Direct assistance. The IFSN shall develop policies and procedures for providing direct financial assistance for services and supports that cannot be funded through other programs or means. Policies and procedures shall be submitted to and approved by the department.

441—403.6(231) Appeals. A process is available to appeal the department's or the IFSN's decisions involving families that apply for the children at home program and are denied services and support under the program. Families and the department shall follow the appeal procedures outlined in 441—Chapter 2506.

These rules are intended to implement Iowa Code section 231.80.

ITEM 10. Adopt the following **new** 441—Chapter 404:

CHAPTER 404
MORE OPTIONS FOR MATERNAL SUPPORT (MOMS) PROGRAM

441—404.1(217) Definitions.

"Client" means an individual receiving the services enumerated in Iowa Code section 217.41C through the program.

"Pregnancy support services" means the same as defined in Iowa Code section 217.41C.

"Program" means the more options for maternal support (MOMS) program outlined in Iowa Code section 217.41C.

"Program administrator" means the department or a nonprofit entity incorporated in this state with a tax-exempt status pursuant to Section 501(c)(3) of the Internal Revenue Code that is awarded a contract by the department to administer the program, including managing a statewide network of providers and other duties outlined in Iowa Code section 217.41C.

"Provider of pregnancy support services" or *"provider"* means the same as defined in Iowa Code section 217.41C.

441—404.2(217) Pregnancy support services. Pregnancy support services do not include health care treatment or services for purposes of the Health Insurance Portability and Accountability Act of 1996 as amended to April 1, 2027.

441—404.3(217) Program administrator responsibilities.

404.3(1) If a nonprofit entity is awarded a contract by the department though the request for proposals process to administer the program, that program administrator may assume ownership and oversight of any existing contracts providers have with the department. The program administrator will work with the department to facilitate and execute the contract reassignments.

404.3(2) A program administrator shall:

a. Prepare and submit an annual program evaluation report in a format prescribed by the department at the end of each contracted year.

b. Use the results of the evaluation report at a minimum to support and assist providers in the continuous quality improvement process.

c. Maintain a minimum number of providers, as specified by the department, to include any provider contracts reassigned by the department, if applicable.

d. Only be eligible to receive reimbursement for services described in its contract and shall not charge additional fees to the department or to providers.

441—404.4(217) Client feedback. The department will create a process for clients to provide confidential feedback regarding their experience with providers.

441—404.5(217) Appeals. An applicant for program administrator, provider, or client who disagrees with a decision of the department may submit an appeal in accordance with 7—Chapter 2506 or 441—Chapter 2506, as applicable.

These rules are intended to implement Iowa Code section 217.41C.

ITEM 11. Adopt the following **new** 441—Chapter 405:

CHAPTER 405
FAMILY DEVELOPMENT AND SELF-SUFFICIENCY (FaDSS) PROGRAM

441—405.1(216A) Definitions. As used in these rules, unless the context otherwise requires:

"Applicant" means a public or private organization that applies for a family development and self-sufficiency grant through the request for proposal process.

"Contractor" means an applicant whose proposal is selected by the council and who enters into a contract with the department.

"Council" means the council on health and human services.

"Grant" means an award approved by the council to fund a family development and self-sufficiency contract.

"Program" or *"FaDSS program"* means the family development and self-sufficiency program established pursuant to Iowa Code section 216A.107.

441—405.2(216A) Identification of conditions and criteria for families at risk. The council has identified the following conditions and criteria that may place families at risk of instability or of long-term dependency on the family investment program:

405.2(1) Educational level of head of household.

a. Head of household has less than a high school education.

b. Head of household lacks basic literacy skills.

405.2(2) Work experience of head of household.

a. Head of household has never been employed.

b. Head of household is currently unemployed.

c. Head of household has multiple episodes of employment lasting less than one year.

405.2(3) Household composition.

a. Members are homeless or nearly homeless.

b. Members outside the nuclear family are in residence.

c. One or more children in the household were born while the parent received public assistance.

d. One or more children in the household are identified as having special needs.

e. Household includes a family member with substantiated substance abuse issues.

f. Household includes a past or current perpetrator of child abuse or domestic violence.

g. Household includes a member with a record of incarceration.

405.2(4) Background of head of household.

a. Head of household was a teenager at birth of first child.

b. Head of household has a disability or chronic illness (mental or physical).

c. Head of household is a past or current victim of child abuse or domestic violence.

d. Head of household grew up in a household with substance abuse.

405.2(5) Public assistance history.

a. Head of household grew up in a household that received public assistance.

b. Household has experienced multiple episodes of receipt of public assistance.

c. Household has been on public assistance for three or more years.

405.2(6) Other conditions. The council has also identified the following conditions that may contribute to instability or long-term dependency:

a. Lack of employment opportunity.

b. Lack of available services.

c. Lack of transportation.

441—405.3(216A) Family referral. Families who meet one or more of the conditions and criteria identified in rule 441—405.2(216A) may be referred to the program by the department, family self-referral, or other sources.

441—405.4(216A) Grant funding. The department will develop requests for proposals for the awarding of grants.

441—405.5(216A) Contractor responsibilities. Contractors will be responsible for providing services in accordance with the policies and procedures set forth in the FaDSS program manual as amended to April 1, 2027, including providing notice of adverse action in accordance with 441—Chapter 16; the grant contract; and any other guidance from the department.

441—405.6(216A) Appeals. Families who disagree with a decision of the department under this chapter may submit an appeal in accordance with 441—Chapter 2506.

These rules are intended to implement Iowa Code section 216A.107.

ITEM 12. Adopt the following **new** 441—Chapter 406:

CHAPTER 406
DATA COLLECTION AND USE

441—406.1(234A) Definition. For the purposes of this chapter:

"Contractor" means the community partners, agencies, administrators, and contractors that serve eligible Iowa families under 441—Chapters 402 through 405.

441—406.2(234A) Authority. The director is the principal officer of the state to administer ECFS data reporting. The department will collect and maintain data on all clients served in accordance with Iowa Code chapter 234A and sections 216A.107, 217.41C, 231.80, and 256I.1 through 256I.11.

406.2(1) *Submission of data.* Contractors shall submit to the department the data regarding each individual and family the contractor serves according to the frequency, file layouts, format, and naming conventions prescribed by the department. When a contractor is notified by the department that the data are incomplete or are not compliant with the prescribed file layouts, format, or naming conventions, the contractor must correct the issue within 30 days of the notification.

406.2(2) *Data required.* The data to be submitted are as follows:

a. Individual client-level information and family-level information, including a unique identifier, name, address, assessment results, and referral information.

b. The state identification number, when applicable.

c. Demographic information, including but not limited to date of birth, sex, ethnicity, marital status, education, residential living arrangement, current employment status, monthly income, household income, income sources, type of insurance, insurance carrier, veteran status, guardianship status, source of referral, and diagnosis code in the International Classification of Diseases (ICD) as amended to April 1, 2027.

d. Service information, including but not limited to the decision on services, dates of decisions, eligibility termination date and reason for termination of eligibility, service beginning dates, service ending dates, and reason for termination of services if applicable.

e. Any other information necessary as determined by the department.

These rules are intended to implement Iowa Code section 234A.4.

RA 26-351

INSPECTIONS, APPEALS, AND LICENSING DEPARTMENT[481]

Regulatory Analysis

Notice of Intended Action to be published: 481—Chapters 651, 652, 653, 654, and 655 "Fees; Permanent, Emeritus, and Administrative Medicine Physician Licensure; Resident, Special and Temporary Physician Licensure; Continuing Education and Training Requirements; Standards of Practice and Principles of Medical Ethics"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 147 and 148

State or federal law(s) implemented by the rulemaking: Iowa Code chapters 147 and 148 and 2026 Iowa Acts, House File 571, House File 2788, Senate File 469, and Senate File 2184

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 17, 2026	6200 Park Avenue
9 a.m.	Des Moines, Iowa

Virtual participation information will be available on the public calendar on the Department of Inspections, Appeals, and Licensing website prior to the hearing.

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis, which must be received by the Department no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Laura Berardi
Iowa Board of Medicine
6200 Park Avenue
Des Moines, Iowa 50321
Phone: 515.725.2183
Email: laura.berardi@dia.iowa.gov

Purpose and Summary

This proposed rulemaking updates the Board of Medicine's rules to implement 2026 Iowa Acts, House File 571, House File 2788, Senate File 469, and Senate File 2184. Additional changes are proposed to update references to specific resources, make rules consistent across chapters or boards, and remove outdated references and information.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

Physicians renewing their license on the new triennial schedule will note a larger fee to pay for their renewal, but the effective per annum cost of their license will not change. Physicians applying for the new emeritus license will see their renewal fees halved. Physicians who perform abortions or prescribe or dispense abortion-inducing drugs will bear the cost of the additional written certification requirements, which should be de minimis.

The Department will bear an expense in database and technology costs to implement a new license type and to move a subsection of licenses from a two-year renewal period to a three-year renewal period. Staff salaries to support the work of the Board, including legislative implementation and rulemaking, is covered by the Licensing and Regulation Fund. Licensing fees go to the fund to cover the operations of the regulated professional licensing boards.

- **Classes of persons that will benefit from the proposed rulemaking:**

Physicians who wish to be licensed as an emeritus physician will benefit from having that option available.

Physicians who appreciate renewing their license less frequently will benefit from the change to a triennial renewal cycle.

Physicians who wish to name a designee to submit their renewal or application paperwork will benefit from the new allowance in the rules.

Licensees under these chapters will benefit from having outdated information removed and references updated.

Physicians performing abortions or ordering abortion-inducing drugs will benefit from clearer guidance on what is required of them.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

Adding a new license type is estimated to cost $30,000. Adding the license type and changing a subsection of licensees to a three-year renewal cycle will have costs related to development and staff time, but exact costs are not known.

- **Qualitative description of impact:**

The majority of this rulemaking implements changes required by 2026 Iowa Acts. Licensees will benefit by having rules that are up to date, reflect current laws, and provide accurate practice guidance.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

Implementing a new license type is estimated to cost $30,000 based on previous experience. There will be additional costs related to staff time and database adjustments to move from a two-year to a three-year renewal cycle for a subsection of licensees. There are no anticipated costs to the agency associated with 2026 Iowa Acts, Senate File 2184.

- **Anticipated effect on State revenues:**

There will be minimal effect on State revenues over the long term, although there could be some minor changes in inflow from physician licensing fees as the change from two years to three years is implemented. There is no anticipated effect on State revenues related to Senate File 2184.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

The majority of this rulemaking implements changes required by 2026 Iowa Acts. The other changes are very minor and do not affect costs, only serving to update and modernize the Board's rules.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

There is no alternative to updating the language in these rules. The majority of this rulemaking implements required changes directed by 2026 Iowa Acts.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

The majority of this rulemaking implements required changes directed by 2026 Iowa Acts. For the few remaining changes proposed, the alternative would be to keep outdated rules.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

The majority of this rulemaking implements required changes directed by 2026 Iowa Acts. For the few remaining changes proposed, the alternative is not desirable to keeping the Department's rules current and relevant.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

There are no anticipated significant effects on small business, except perhaps small, independent physician practices. Small physician clinics will bear a greater burden adjusting the new written certification requirements and adjustments to the new renewal cycle and continuing education credit requirements. However, there is no way to reduce this already small burden without statutory changes.

Text of Proposed Rulemaking

ITEM 1. Amend subrule 651.4(1) as follows:

651.4(1) Fees for permanent licensure.

a. Initial licensure, ~~$450~~ $675 plus the $45 fee for evaluation of the fingerprint packet and the criminal history background checks by the DCI and FBI.

b. Reactivation of application for licensure, ~~$150~~ $225.

c. Renewal of an active license to practice.

(1) ~~$550 if renewal is made via paper application, or $450 if renewal is made via online application,~~ $675 per ~~biennial~~ triennial period or a prorated portion thereof if the current license was issued for a period of less than ~~24~~ 36 months.

(2) No change.

d. and *e.* No change.

f. Reactivation of a license to practice one year or more after becoming inactive, ~~$500~~ $750 plus the $45 fee for the evaluation of the fingerprint packet and the DCI and FBI criminal history background checks.

g. Reactivation of a license within one year of becoming inactive, ~~$550~~ $825 except when the license in the most recent license period had been granted for less than ~~24~~ 36 months. In that case, the reinstatement fee is prorated according to the date of issuance and the physician's ~~month and year of~~ birth date.

ITEM 2. Renumber subrules **651.4(5)** and **651.4(6)** as **651.4(6)** and **651.4(7)**.

ITEM 3. Adopt the following **new** subrule 651.4(5):

651.4(5) Fees for emeritus licensure.

a. Initial licensure, $337.50 plus the $45 fee for evaluation of the fingerprint packet and the DCI and FBI criminal history background checks.

b. Renewal, $337.50 per triennial period or a prorated portion thereof if the current license was issued for a period of less than 36 months.

ITEM 4. Amend subrule 651.5(1) as follows:

651.5(1) *Verification fees.*

a. Physicians shall use VeriDoc to secure a certified statement that verifies Iowa licensure status for any state medical board that accepts VeriDoc. VeriDoc is accessible at www.veridoc.org. ~~The fee for this service is $30.~~ The licensee is responsible for the fee charged by VeriDoc.

b. A physician who needs a certified statement that verifies Iowa licensure status for a ~~state~~ medical board that does not accept verification from VeriDoc shall make a written request for a certified statement with payment of a $30 verification fee to the board of medicine. The board shall provide a certified statement that verifies Iowa licensure status to the nonaccepting state medical board.

c. The fee for verification of Iowa licensure status that does not require a certified statement or letter is ~~$15~~ $20.

d. The board provides an electronic verification service whereby users can input the licensee's name or license number to learn the licensee's current licensure status. There is no fee for this service. ~~The board shall provide a license number for an individual caller to use in the automated telephone or electronic verification service.~~ Businesses that utilize verifications will be required to utilize the automated telephone or electronic verification service or the alternative outlined in paragraph 651.5(1)*"c."*

ITEM 5. Rescind and reserve subrule **651.5(2)**.

ITEM 6. Amend subrule 651.6(1) as follows:

651.6(1) *Public records available at no cost.* The following records are available at no cost to the public:

a. Public action taken by the board against a licensee may be found ~~under the licensee's name~~ on the ~~board's~~ department's website ~~under "Find A Physician." Public actions are posted on the board's website within approximately one week after the board has taken action~~.

b. Electronic files of press releases, statements of charges, final orders and consent agreements from each board meeting are available on the ~~board's~~ department's website.

ITEM 7. Amend rule 481—651.7(147,148,272C) as follows:

481—651.7(147,148,272C) Licensee data list. A data list of all physicians and acupuncturists includes the following information about each licensee: full name, ~~year of birth,~~ work address ~~and telephone number (or other contact information on file if licensee's work address and telephone number are not available)~~, Iowa county (if applicable), medical school (if applicable), year of graduation from medical school (if applicable), two medical specialties (if available), license issue date, license expiration date, license number, license type, license status, and an indicator of whether the board has taken any public action on the license. There is no fee for an electronic file of this list. A printed copy of the data list is available for a fee.

ITEM 8. Amend **481—Chapter 652**, title, as follows:

PERMANENT, EMERITUS, AND ADMINISTRATIVE MEDICINE PHYSICIAN LICENSURE

ITEM 9. Adopt the following **new** definition of "Emeritus licensure" in rule **481—652.1(147,148)**:

"Emeritus licensure" means licensure granted to a physician, surgeon, or osteopathic physician or surgeon who is at least 60 years of age and who is or will be primarily engaged in the practice of supervising and training resident physicians.

ITEM 10. Amend rule **481—652.1(147,148)**, definition of "Relinquishment" as follows:

"Relinquishment" means that a person's permanent or emeritus license to practice medicine and surgery, osteopathic medicine and surgery, or administrative medicine is deemed abandoned if the person fails to renew or reactivate the license within five years after its expiration. A license that has been relinquished is no longer valid or renewable. Relinquishment is not disciplinary in nature.

ITEM 11. Amend subrule 652.3(1) as follows:

652.3(1) *Requirements.* To be eligible for permanent, emeritus, or administrative medicine licensure, an applicant shall:

a. to *d.* No change.

ITEM 12. Amend paragraph **652.4(1)"b"** as follows:

b. Complete and submit the application and forms provided by the board, including required core credentials, documents, a completed fingerprint packet, and a sworn statement by the applicant attesting to the truth of all information provided by the applicant that has been signed by the applicant in the physical presence of a notary public. A physician may delegate to another individual the authority to submit an application for licensure on the physician's behalf, but the applying physician retains all responsibility for ensuring accurate and complete information is submitted.

ITEM 13. Amend paragraph **652.6(1)"d"** as follows:

d. The following conditions apply to applicants for licensure in Iowa who utilize USMLE as the licensure examination:

(1) Passing Steps 1, 2, and 3 is required within a ~~ten-year~~ seven-year period beginning with the date of passing either Step 1 or Step 2, whichever occurred first. If the applicant did not pass Steps 1, 2, and 3 within the required time frame, then the requirement will be satisfied by either proof of active board certification by the ABMS or AOA or proof the delay was caused by participation in a joint M.D./Ph.D. or D.O./Ph.D. program.

(2) and (3) No change.

(4) Successful completion of a continuous, progressive three-year resident training program is required if the applicant passes the examination after more than ~~six~~ four attempts on Step 1 or ~~six~~ four attempts on Step 2 CK and Step 2 CS combined or ~~three~~ four attempts on Step 3.

(5) An applicant may petition the board to sponsor a fifth attempt on a USMLE examination. USMLE determines if an applicant can make a fifth attempt.

ITEM 14. Amend subrules 652.7(2) to 652.7(4) as follows:

652.7(2) After reviewing each application, board staff will notify the applicant or designee about how to resolve any problems. An applicant or an applicant's designee shall provide additional information when requested by staff or the board.

652.7(3) If the final review indicates no questions or concerns regarding the applicant's qualifications for licensure, staff may administratively grant the license. The staff may grant the license without having received a report on the applicant from the FBI. Licenses shall be granted within 45 calendar days of receipt of a fully completed application unless the board notifies the applicant or the applicant's designee and, if applicable, the applicant's employer of specific concerns that would delay review.

652.7(4) If the final review indicates questions or concerns that cannot be remedied by continued communication with the physician or the physician's designee, the executive director, director of licensure and director of legal affairs will determine if the questions or concerns indicate any uncertainty about the applicant's current qualifications for licensure.

a. and *b.* No change.

ITEM 15. Rescind subrule **652.9(2)**.

ITEM 16. Renumber subrule **652.9(3)** as **652.9(2)**.

ITEM 17. Amend subrule 652.10(1) as follows:

652.10(1) *Issuance.* Upon the granting of permanent, emeritus or administrative medicine licensure, staff will issue a license to practice that will expire on the ~~first day of the~~ licensee's birth ~~month~~ date.

a. ~~Licenses of persons born in even-numbered years shall expire in an even-numbered year, and licenses of persons born in odd-numbered years shall expire in an odd-numbered year.~~ After the initial license, licenses shall be valid for a period of three years.

b. The initial license shall not be issued for a period less than two months or greater than ~~two~~ three years and two months~~, in accordance with the licensee's month and year of birth~~.

c. to *e.* No change.

f. When a physician with a permanent Iowa license receives an Iowa emeritus medicine license, the permanent Iowa license will immediately become inactive.

~~*f.*~~ *g.* A physician with an active permanent or emeritus Iowa license is ineligible for an Iowa resident license.

ITEM 18. Amend subrule 652.11(2) as follows:

652.11(2) *Change of name.* A licensee shall notify the board of any change in name within one month of making the name change. Notification requires ~~a notarized copy of a marriage license or a notarized copy of court documents~~ submitting acceptable proof of name change via one or more legal documents that show both the previous full legal name and the new full legal name.

ITEM 19. Amend rule 481—652.12(147,148) as follows:

481—652.12(147,148) Renewal of a permanent, emeritus, or administrative medicine license.

652.12(1) No change.

652.12(2) *Renewal application requirements.* A licensee seeking renewal shall submit a completed renewal application; information on continuing education, training on chronic pain management, training on end-of-life care, ~~and~~ training on identifying and reporting abuse, and training on nutrition and metabolic health; and the required fee prior to the expiration date on the current license.

a. and *b.* No change.

652.12(3) *Issuance of a renewal.* Upon receipt of the completed renewal application, staff will administratively issue a ~~two-year~~ three-year license that expires on the ~~first day of the~~ licensee's birth ~~month~~ date. In the event the board receives adverse information on the renewal application, the board will issue the renewal license but may refer the adverse information for further consideration. An emeritus license may only be renewed once.

652.12(4) and **652.12(5)** No change.

ITEM 20. Amend subrule 652.14(1) as follows:

652.14(1) *Reactivation within one year of the license's becoming inactive.* An individual whose license is in inactive status for up to one year and who wishes to reinstate the license shall submit a completed renewal application; the reinstatement fee; documentation of continuing education, if applicable; and, if applicable, documentation on training on chronic pain management, end-of-life care, ~~and~~ identifying and reporting abuse, and nutrition and metabolic health. All of the information shall be received in the board office within one year of the license's becoming inactive for the applicant to reinstate under this subrule.

a. to *d.* No change.

ITEM 21. Adopt the following **new** subparagraphs **652.14(1)"b"(3)** and **652.14(1)"b"(4)**:

(3) Training on nutrition and metabolic health, if applicable, within the previous four years.

(4) Continuing education credits are not required to reactivate an emeritus license.

ITEM 22. Amend paragraph **652.14(2)"c"** as follows:

c. Provide documentation of completion of ~~40~~ 60 hours of category 1 credit within the previous ~~two~~ three years and documentation of training on chronic pain management, end-of-life care, ~~and~~

identifying and reporting abuse, and nutrition and metabolic health, as applicable, as specified in 481—Chapter 654.

ITEM 23. Amend rule 481—652.16(147,148) as follows:

481—652.16(147,148) Relinquishment of license to practice. A person's permanent or emeritus license to practice medicine and surgery, osteopathic medicine and surgery, or administrative medicine shall be deemed relinquished if the person fails to apply for renewal or reactivation of the license within five years after its expiration.

652.16(1) and **652.16(2)** No change.

ITEM 24. Renumber rules **481—652.18(147,147B,148)** and **481—652.19(147,148)** as **481—652.19(147,147B,148)** and **481—652.20(147,148)**.

ITEM 25. Adopt the following **new** rule 481—652.18(147,148):

481—652.18(147,148) Emeritus medicine licensure.

652.18(1) *Application.* An application for an emeritus medicine license shall be made to the board of medicine pursuant to the requirements established in Iowa Code section 148.4 as enacted by 2026 Iowa Acts, Senate File 469, and this chapter. An applicant for an emeritus medicine license shall be subject to all of the permanent licensure requirements established in Iowa Code section 148.4 as enacted and this chapter. The board may issue an emeritus medicine license authorizing the licensee to practice medicine as defined by this rule. The license shall be designated "emeritus medicine license."

652.18(2) *Fees.* All license and renewal fees shall be paid to the board in accordance with 481—Chapters 651 and 652.

652.18(3) *Demonstration of competence and eligibility.*

a. If an applicant for initial licensure or reactivation of an emeritus medicine license has not actively practiced clinical medicine in a jurisdiction of the United States or Canada in the past three years, the board may require the applicant to demonstrate competence in a method prescribed by the board in accordance with paragraph 652.14(2)*"d."*

b. A physician who holds an emeritus medicine license shall be at least 60 years of age.

c. A physician who holds an emeritus medicine license must be primarily engaged in the supervising and training of resident physicians, spending no less than 51 percent of work hours engaged in such activities.

652.18(4) *Limited exemptions to laws and rules.* A physician with an emeritus medicine license is not required to complete continuing education credits to apply or renew but is subject to all other laws and rules governing the practice of medicine as a person holding a permanent Iowa medical license.

652.18(5) *Interstate medical licensure compact.* A physician who holds only an emeritus medicine license may not be eligible for licensure under the interstate medical licensure compact.

ITEM 26. Amend renumbered subparagraph **652.19(1)"a"(4)** as follows:

(4) If the applicant does not meet any of the requirements under subparagraph ~~652.18(1)~~ 652.19(1)*"a"*(1), *"a"*(2), or *"a"*(3), the applicant can designate Iowa as the state of principal license if Iowa is the applicant's state of residence for the purposes of federal income tax.

ITEM 27. Rescind the definitions of "Training for chronic pain management," "Training for end-of-life care" and "Training for identifying and reporting abuse" in rule **481—653.1(147,148)**.

ITEM 28. Amend paragraph **653.3(1)"j"** as follows:

j. A resident physician licensee's file shall be closed and labeled "deceased" when the board receives a copy of the physician's death certificate or other reliable information of the licensee's death.

ITEM 29. Amend paragraph **653.4(1)"h"** as follows:

h. A special physician licensee file will be closed and labeled "deceased" when the board receives a copy of the physician's death certificate or other reliable information of the licensee's death.

ITEM 30. Amend subparagraph **653.4(6)"b"(3)** as follows:

(3) Evidence of continuing education and training on chronic pain management, end-of-life care, ~~and~~ identifying and reporting abuse, and nutrition and metabolic health, as applicable, as specified in 481—Chapter 654; and

ITEM 31. Amend paragraph **653.5(1)"g"** as follows:

g. The file of a physician who holds a temporary license will be closed and labeled "deceased" when the board receives a copy of the physician's death certificate or other reliable information of the licensee's death.

ITEM 32. Amend paragraph **653.6(1)"g"** as follows:

g. A provisional licensee file will be closed and labeled "deceased" when the board receives a copy of the physician's death certificate or other reliable information of the licensee's death.

ITEM 33. Adopt the following **new** definitions of "Training for chronic pain management" and "Training for end-of-life care" in rule **481—654.1(272C)**:

"Training for chronic pain management" means required training on chronic pain management identified in this chapter.

"Training for end-of-life care" means required training on end-of-life care identified in this chapter.

ITEM 34. Amend rule **481—654.1(272C)**, definition of "Training for identifying and reporting abuse," as follows:

"Training for identifying and reporting abuse" means training ~~as described in Iowa Code section 232.69; the full requirements for reporting of dependent adult abuse and the training requirements are in Iowa Code section 235B.16~~ on identifying and reporting child abuse or dependent adult abuse required of physicians who regularly provide primary health care to children or adults, respectively.

ITEM 35. Amend subrule 654.2(3) as follows:

654.2(3) Each year, the board acknowledges up to ten hours of category 1 credits for physicians who served on the board or Iowa professional health committee, are actively serving alternate members, or performed peer reviews in the previous year. Recipients are notified by the board's executive director via mail or email in January.

ITEM 36. Amend rule 481—654.3(272C) as follows:

481—654.3(272C) Continuing education and training requirements for renewal or reactivation. A licensee shall meet the requirements in this rule to qualify for renewal of a permanent license, an administrative medicine license, or special license or to qualify for reactivation of a permanent license or an administrative medicine license. Emeritus licensees are exempt from continuing education requirements.

654.3(1) *Continuing education and training requirements.*

a. Continuing education for permanent license or administrative medicine license renewal. Except as provided in these rules, a total of ~~40~~ 60 hours of category 1 credit or board-approved equivalent is required for ~~biennial~~ triennial renewal of a permanent license or an administrative medicine license. This may include up to ~~20~~ 30 hours of carryover credit.

(1) To facilitate license renewal according to birth ~~month~~ date, a licensee's first license may be issued for less than ~~24~~ 36 months. The number of hours of category 1 credit required of a licensee whose license has been issued for less than ~~24~~ 36 months shall be reduced on a pro-rata basis.

(2) A licensee desiring to obtain credit for carryover hours reports the carryover, not to exceed ~~20~~ 30 hours of category 1 credit, on the renewal application.

b. to *e.* No change.

f. Training for nutrition and metabolic health. A licensee practicing family medicine, internal medicine, pediatrics, psychiatry, endocrinology, gastroenterology, cardiology, oncology, rheumatology, neurology, nephrology, dermatology, pulmonology, surgery, immunology, hematology, obstetrics, or gynecology shall complete a minimum of one hour of continuing education on nutrition and metabolic health every four years. A licensee shall complete the training for nutrition and metabolic health as part of a category 1 credit or an approved training program. The licensee may utilize category 1 credit received for this training during the license period in which the training occurred to meet continuing education requirements in paragraph 654.3(1)*"a."*

654.3(2) and **654.3(3)** No change.

654.3(4) *Reactivation requirement.* An applicant for license reactivation whose license has been inactive for one year or more shall provide proof of successful completion of ~~40~~ 60 hours of category 1 credit completed within ~~24~~ 36 months prior to submission of the application for reactivation or proof of successful completion of SPEX or COMVEX-USA within one year immediately prior to the submission of the application for reinstatement.

654.3(5) and **654.3(6)** No change.

654.3(7) *Audits.* The board may audit continuing education and training documentation at any time. A licensee shall respond to a board audit and provide all materials requested within 30 days of a request made by ~~board~~ department staff.

654.3(8) No change.

ITEM 37. Amend paragraph **655.2(5)"b"** as follows:

b. A physician who prescribes, dispenses or administers opioids to patients for the treatment of chronic pain should become familiar with the U.S. Centers for Disease Control and Prevention (CDC) Guideline for Prescribing Opioids for Chronic Pain published on ~~March 15, 2016~~ November 4, 2022.

ITEM 38. Amend paragraph **655.2(10)"f"** as follows:

f. Responsible Opioid Prescribing: A Physician's Guide. In 2007, in collaboration with author Scott Fishman, M.D., the Federation of State Medical Boards' (FSMB's) Research and Education Foundation published a book on responsible opioid prescribing based on the FSMB Model Policy for the Use of Controlled Substances for the Treatment of Pain. The 2014 expanded edition is titled Responsible Opioid Prescribing: A Clinician's Guide.

ITEM 39. Rescind subrule **655.4(2)**.

ITEM 40. Renumber subrule **655.4(3)** as **655.4(2)**.

ITEM 41. Amend subrule **655.6(1)**, definition of "Medical aesthetic service," as follows:

"Medical aesthetic service" means the diagnosis, treatment, or correction of human conditions, ailments, diseases, injuries, or infirmities of the skin, hair, nails and mucous membranes by any means, methods, devices, or instruments including the use of a biological or synthetic material, chemical application, mechanical device, or displaced energy form of any kind if it alters or damages or is capable of altering or damaging living tissue below the superficial epidermal cells, with the exception of hair removal. Medical aesthetic service includes~~,~~ but is not limited to~~,~~ the following services: ablative laser therapy; vaporizing laser therapy; nonsuperficial light device therapy; injectables; tissue alteration services; nonsuperficial light-emitting diode therapy; nonsuperficial intense pulse light therapy; nonsuperficial radiofrequency therapy; nonsuperficial ultrasonic therapy; nonsuperficial exfoliation; nonsuperficial microdermabrasion; nonsuperficial dermaplane exfoliation; nonsuperficial lymphatic drainage; collagen induction therapy (microneedling); fat-freezing treatment (cool sculpting); ~~botox~~ botulinum toxin (Botox or other brand) injections; collagen injections; and tattoo removal.

ITEM 42. Amend rule 481—655.14(146A) as follows:

481—655.14(146A) Abortion prerequisites.

655.14(1) *Examination.* Prior to performing or ordering medication to induce an abortion, as defined in Iowa Code section 146B.1, a physician shall perform an in-person examination of the pregnant woman; screen for indicia of coercion or abuse; and, if indicated, refer the woman to an appropriate health care provider for treatment consistent with the examination results.

~~**655.14(1)**~~ **655.14(2)** *Written certification requirements for abortion and induction of abortion.*

a. Abortion. At least 24 hours prior to performing an abortion, a physician shall obtain written certification from the pregnant woman of each prerequisite as required in Iowa Code ~~sections~~ section 146A.1(1)*"a"* through 146A.1(1)*"d"*(1). The written certification shall list each required prerequisite separately and shall include a line for date and signature of the pregnant woman. The physician shall maintain a copy of the certification as part of the pregnant woman's medical records.

b. Inducing abortion. Prior to prescribing or dispensing an abortion-inducing drug, a physician shall obtain written certification from the pregnant woman of each prerequisite as required in Iowa Code section 146A.2(2)*"a"* through *"c."* The written certification shall list each required prerequisite separately and shall include a line for date and signature of the pregnant woman. The physician shall maintain a copy of the certification as part of the pregnant woman's medical records. Additionally, prior to dispensing an abortion-inducing drug, all requirements of Iowa Code section 146F.2(1)*"a"* and *"b"* must be met and the health care professional prescribing the drug must document compliance in the medical record and maintain a copy.

~~**655.14(2)**~~ **655.14(3)** *Exceptions.* ~~This rule~~ Subrules 655.14(1) and 655.14(2) shall not apply to abortions performed in a medical emergency, as provided in Iowa Code section 146A.1(2).

~~**655.14(3)**~~ **655.14(4)** *Discipline.* Failure to comply with this rule or the requirements of Iowa Code ~~section~~ sections 146A.1 and 146A.2 and chapter 146F may constitute grounds for discipline.

RA 26-352

NATURAL RESOURCE COMMISSION[571]

Regulatory Analysis

Notice of Intended Action to be published: 571—Chapter 46
"All-Terrain Vehicles, Off-Road Motorcycles and Off-Road Utility Vehicles"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 321I.2 and 321I.11

State or federal law(s) implemented by the rulemaking: Iowa Code sections 321I.2 and 321I.11 and 2026 Iowa Acts, Senate File 2088

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 17, 2026 2 to 3 p.m.	6200 Park Avenue, Suite 200 Des Moines, Iowa Also via videoconference call

A Google Meet link and conference call number will be provided prior to the hearing to those who make a request to take part in the hearing. The request for a hearing link/conference call number shall be submitted to Kim Bohlen at kim.bohlen@dnr.iowa.gov no later than 8 a.m. on November 17.

Free language assistance: If you need assistance in a language other than English, contact the Department of Natural Resources (Department) at kim.bohlen@dnr.iowa.gov or civilrights@dnr.iowa.gov or by telephone at 515.360.3682 at least seven days before the event.

Asistencia lingüística gratuita: Si necesita ayuda en un idioma que no sea inglés, comuníquese con el Departamento al kim.bohlen@dnr.iowa.gov o civilrights@dnr.iowa.gov o por teléfono a 515.360.3682 al menos siete días antes del evento.

Public Comment

Any interested person may submit written comments concerning this Regulatory Analysis, which must be received by the Department no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Kim Bohlen
Iowa Department of Natural Resources
6200 Park Avenue, Suite 200
Des Moines, Iowa 50321
Email: kim.bohlen@dnr.iowa.gov

Free language assistance: If you speak a non-English language, the Department offers language assistance services free of charge. Contact the Department at kim.bohlen@dnr.iowa.gov.

Servicios gratuitos de asistencia lingüística: Si habla un idioma que no sea el inglés, los servicios de asistencia lingüística están disponibles de forma gratuita. Comuníquese con el Departamento al kim.bohlen@dnr.iowa.gov.

Purpose and Summary

Chapter 46 describes the requirements for registration, renewal, operation, and accident reporting for all-terrain vehicles, off-road utility vehicles, and off-road motorcycles. The proposed rulemaking

changes the reporting threshold for all-terrain vehicle accidents from $1,500 to $5,000 as required by 2026 Iowa Acts, Senate File 2088.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

No costs are expected beyond what is required and imposed by the legislation.

- **Classes of persons that will benefit from the proposed rulemaking:**

Individuals involved in all-terrain vehicle accidents with property damage under $5,000 will benefit.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

There is no quantitative impact beyond what is required by the newly amended Iowa Code.

- **Qualitative description of impact:**

There is no qualitative impact beyond what is required by the newly amended Iowa Code.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

No costs are expected beyond what is required by the newly amended Iowa Code.

- **Anticipated effect on State revenues:**

No impact on State revenues is expected beyond what is required by the newly amended Iowa Code.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

Not applicable. This rulemaking is required to align with State law.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

No less costly or less intrusive methods were identified. The dollar amounts are established in the Iowa Code, and this rulemaking is required to align with those values.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

No alternative methods were considered by the agency. This rulemaking is required to align with State law.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

Not applicable.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.

- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

There is no substantial impact on small business.

Text of Proposed Rulemaking

ITEM 1. Amend subrule 46.11(1) as follows:

46.11(1) Whenever any regulated vehicle is involved in an accident resulting in injury or death to any person or property damage amounting to ~~$1,500~~ $5,000 or more, the operator or a person acting for the operator shall immediately notify the county sheriff or another law enforcement agency in the state.

RA 26-353

REVENUE DEPARTMENT[701]

Regulatory Analysis

Notice of Intended Action to be published: 701—Chapter 100
"Collection of Property Tax"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 421.14

State or federal law(s) implemented by the rulemaking: Iowa Code sections 441.46, 445.36A, 446.32, and 614.1

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 18, 2026 2 to 3 p.m.	Via videoconference call: meet.google.com/egs-ucjg-frv

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis, which must be received by the Department of Revenue no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Nick Behlke
Department of Revenue
Hoover State Office Building
P.O. Box 10457
Des Moines, Iowa 50306-3457
Phone: 515.336.9025
Email: nick.behlke@iowa.gov

Purpose and Summary

The purpose of this proposed rulemaking is to rescind and adopt a new Chapter 100. This chapter provides an overview of various concepts relating to the collection of property tax in this State. The Department proposes revisions to remove portions of the rules that the Department determined are obsolete, unnecessary, or duplicative of statutory language as required by Executive Order 10. Further, the Department proposes revisions to the chapter to add clarity and better organization to aid the public's understanding of the collection of property tax.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

This proposed rulemaking does not create costs for any classes of persons.

- **Classes of persons that will benefit from the proposed rulemaking:**

Local governments will benefit from a greater understanding of the requirements associated with the collection of property tax. Taxpayers will benefit from consistent and accurate application of the law to their property, as well as from a greater understanding of when their property taxes are due.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

There is no economic impact associated with this proposed rulemaking beyond what is contained in statute.

- **Qualitative description of impact:**

The qualitative benefits of this proposed rulemaking beyond what is already provided in statute is the value of having a clear understanding of the processes involved with the collection of property tax and to ensure that the correct amount of tax is collected.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

There are no costs to the State beyond what is already required to administer the relevant statutes.

- **Anticipated effect on State revenues:**

A greater understanding of concepts related to the collection of property tax will ensure that the correct amount of taxes are collected.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

The cost of inaction would be potential confusion about the process of collecting property tax. There is no cost associated with this proposed rulemaking.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

This proposed rulemaking is not costly or intrusive.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

The Department did not consider any alternative methods.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

Failing to have rules on the collection of property tax would lead to greater confusion about collection requirements. This chapter was updated to remove outdated and duplicative language.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

The requirements in this proposed rulemaking are imposed by statute, and the Department does not have the authority to make exceptions to them for small businesses.

Text of Proposed Rulemaking

ITEM 1. Rescind 701—Chapter 100 and adopt the following **new** chapter in lieu thereof:

TITLE II
PROPERTY TAX

CHAPTER 100
COLLECTION OF PROPERTY TAX

701—100.1(441) Tax year. The assessment date is January 1 for taxes for the fiscal year that commences 6 months after the assessment date and that become delinquent during the fiscal year commencing 18 months after the assessment date. For example, taxes payable in fiscal year 2021-2022 are for fiscal year 2020-2021 and are based on the January 1, 2020, assessment.

This rule is intended to implement Iowa Code section 441.46.

701—100.2(445) Partial payment of tax. Partial payments of taxes may be allowed at the discretion of the county treasurer. If the treasurer elects to permit partial payments, the authorization applies to all taxpayers within the county. If the partial payments made are insufficient to fully satisfy an installment due by the delinquency date, the unpaid portion of the installment shall draw interest at the rate specified in Iowa Code section 445.39. Current year taxes may be paid at any time regardless of any outstanding prior year delinquent tax. The minimum payment for delinquent taxes must be equal to or exceed the interest, fees, and costs of the installment being paid.

This rule is intended to implement Iowa Code section 445.36A.

701—100.3(446) Payment of subsequent year taxes by purchaser. Taxes for a subsequent year cannot be paid by the purchaser of the property sold at tax sale until one month and 14 days following the date from which an installment becomes delinquent.

This rule is intended to implement Iowa Code section 446.32.

701—100.4(614) Delinquent property taxes. A county is immune from the statute of limitations when collecting delinquent property taxes levied on or after April 1, 1992.

This rule is intended to implement Iowa Code section 614.1.

RA 26-354

REVENUE DEPARTMENT[701]

Regulatory Analysis

Notice of Intended Action to be published: 701—Chapters 101 and 108
"Replacement Tax and Statewide Property Tax; Replacement Tax and Statewide Property Tax on Rate-Regulated Water Utilities"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 437A.25 and 437B.21

State or federal law(s) implemented by the rulemaking: Iowa Code chapters 437A and 476B through 476D

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 18, 2026 2 to 3 p.m.	Via videoconference call: meet.google.com/egs-ucjg-frv

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis, which must be received by the Department of Revenue no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Nick Behlke
Department of Revenue
Hoover State Office Building
P.O. Box 10457
Des Moines, Iowa 50306-3457
Phone: 515.336.9025
Email: nick.behlke@iowa.gov

Purpose and Summary

The purpose of this proposed rulemaking is to rescind and adopt a new Chapter 101 and rescind Chapter 108. The regulations regarding replacement tax and statewide property tax on rate-regulated water utilities are being folded into Chapter 101 so that all replacement tax and statewide property tax regulations are under one chapter. These proposed rules describe the Department's interpretation of the underlying statutes on the utility replacement tax and statewide property tax. The Department proposes changes to these rules to help the public understand these tax types. The Department also proposes changes to remove portions of the rules that the Department determined are obsolete or unnecessary or duplicative of statutory language as required by Executive Order 10.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

This proposed rulemaking does not create costs for any classes of persons.

- **Classes of persons that will benefit from the proposed rulemaking:**

Taxpayers will benefit from a greater understanding of how these concepts could apply to their properties.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

There is no economic impact associated with this proposed rulemaking beyond what is contained in statute.

- **Qualitative description of impact:**

The qualitative benefits of this proposed rulemaking beyond what is already provided in statute is the value of having a clear understanding of how to apply the concepts of utility replacement tax and statewide property tax in order to ensure consistent application of the law.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

There are no costs to the State beyond what is already required to administer the relevant statutes.

- **Anticipated effect on State revenues:**

A greater understanding of utility replacement tax and statewide property tax will ensure that the correct amount of property taxes are collected.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

The cost of inaction is greater confusion about how to apply utility replacement tax and statewide property tax to properties in the State. There are no costs associated with this proposed rulemaking.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

This proposed rulemaking is not costly or intrusive.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

The Department did not consider any alternative methods.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

Failing to have rules on utility replacement tax and statewide property tax could lead to greater confusion about the application of those taxes. The proposed rules were updated to remove outdated and duplicative language.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

This proposed rulemaking consolidates all of the utility replacement tax and statewide property tax rules into one chapter.

Text of Proposed Rulemaking

ITEM 1. Rescind 701—Chapter 101 and adopt the following **new** chapter in lieu thereof:

CHAPTER 101
REPLACEMENT TAX AND STATEWIDE PROPERTY TAX

DIVISION I

701—101.1(437A,437B) Filing the return. Taxpayers required to file a return should file the return in GovConnectIowa. A taxpayer whose replacement tax liability before credits is $300 or less is not required to file a return. If the taxpayer was inactive or ceased the conduct of any activity subject to the replacement tax during the tax year, the taxpayer must notify the department in writing on or before the return due date.

701—101.2(437A,437B) Payment of tax. Payment of tax shall not accompany the filing of the replacement tax return with the director. Payment of the tax due shall be made to the appropriate county treasurer upon notification to the taxpayer of the taxpayer's replacement tax liability.

701—101.3(437A,437B) Statute of limitations. The director has three years after a return is filed to determine the tax due if the return is found to be incorrect and to give notice to the taxpayer of the determination. If a taxpayer fails to file a return, the three-year period of limitations does not begin to run until the return is filed with the director.

701—101.4(437A,437B) Billings.

101.4(1) *Notice of adjustments.*

a. If the department discovers discrepancies in returns or learns that items subject to tax may not have been listed or included as taxable, in whole or in part, or that no return was filed when one was due, the department may notify the person of this discovery. This notice is not an assessment. It informs the person what amount would be due if the information discovered is correct.

b. A person who has received notice of an adjustment in connection with a return has 20 days from the date of the notice to file a correct, sufficient return. If payment is made, and the person wishes to contest the matter, the person should file a timely claim for refund. However, payment will not be required until an assessment has been made. Interest will continue to accrue if timely payment is not made. This person may also ask for a conference with the department.

101.4(2) *Notice of assessment.*

a. If, after following the procedure outlined in paragraph 101.4(1)*"b"* no agreement is reached and the person does not pay the amount determined to be correct to the appropriate county treasurer, a notice of the amount of tax due shall be sent to the taxpayer. This notice of assessment shall be signed by the director and will be sent by ordinary mail to the taxpayer with a copy sent to the appropriate county treasurer.

b. A taxpayer has 60 days from the date of the notice of assessment to file an appeal according to the provisions of rule 701—7.8(17A), or if the taxpayer fails to timely appeal a notice of assessment, the taxpayer may make payment pursuant to rule 701—7.8(17A) to the appropriate county treasurer and file a refund claim with the director within the applicable period provided in Iowa Code section 437A.14(1)*"b"* for filing such claims.

101.4(3) *Supplemental assessments and refund adjustments.* The director may, at any time within the period prescribed for assessment or refund adjustment, make a supplemental assessment or refund adjustment whenever it is ascertained that any assessment or refund adjustment is imperfect or incomplete in any respect. If an assessment or refund adjustment is appealed and is resolved whether by informal proceedings or by adjudication, the director shall notify the appropriate county treasurer.

701—101.5(437A,437B) Refunds.

101.5(1) A claim for refund of replacement tax should be made in GovConnectIowa. All claims for refund should be filed with the director, not with the county treasurer. In the case of a refund claim filed by an agent or representative of the taxpayer, a power of attorney must accompany the claim.

101.5(2) A taxpayer shall not offset a refund or overpayment of tax for one tax year as a prior payment of tax of a subsequent tax year on the tax return of a subsequent year.

101.5(3) The taxpayer responsible for paying the tax, or the taxpayer's successors, are the only persons eligible to file claims for refund or credit of the tax with the director and are the only persons eligible to receive such refunds or credits.

101.5(4) The director will notify the appropriate county treasurer of the acceptance or denial of any refund claim or credit. The county treasurer shall pay the refund claim or portion thereof accepted by the director.

101.5(5) A taxpayer has 60 days from the date of the notice of denial of a refund or credit, in whole or in part, to file an appeal according to the provisions of rule 701—7.8(17A).

701—101.6(437A,437B) Audit of records.

101.6(1) The department shall have the right to examine or cause to be examined the books, papers, records, memoranda or documents of a taxpayer for the purpose of verifying the correctness of a tax return filed or of information presented or for estimating the tax liability of a taxpayer. Taxpayers must maintain records as described in Iowa Code section 437A.24. When a taxpayer fails or refuses to produce the records for examination upon request, the director shall have authority to require, by a subpoena, the attendance of the taxpayer and any other witness(es) whom the director deems necessary or expedient to examine and compel the taxpayer and witness(es) to produce books, papers, records, memoranda or documents relating in any manner to the replacement tax.

101.6(2) Tax credits.

a. Application for credit. A person in possession of a renewable energy tax credit certificate issued pursuant to Iowa Code chapter 476C or a wind energy tax credit issued pursuant to Iowa Code chapter 476B may apply to the director for a reimbursement of the amount of taxes imposed and paid by the person pursuant to Iowa Code chapter 437A in an amount not more than the person received in renewable energy tax credit certificates or wind energy tax credit certificates. To obtain the reimbursement, the person shall include with the return required under Iowa Code section 437A.8 the renewable energy tax credit certificates or the wind energy tax credit certificates and provide any other information the director may require.

b. Credit in excess of liability. The director shall direct that a warrant be issued to the person for an amount equal to the tax imposed and paid by the person. Any credit in excess of the person's tax liability may be claimed as a refund for the following seven years. Pursuant to Iowa Code section 437A.14, a taxpayer may file a claim for refund with the director within three years after the replacement tax became due. If the renewable energy or wind energy tax credit claim exceeds the replacement tax due in a year, the taxpayer has seven years to carry over the excess credit.

c. Multiple credits not permissible. Pursuant to Iowa Code section 476C.4(6), a person cannot receive both a renewable energy tax credit and a wind energy tax credit. For the wind energy tax credit, the reimbursement applies to a qualified facility placed in service on or after July 1, 2005, but before July 1, 2012. For the renewable energy tax credit, the reimbursement applies to a qualified facility placed in service on or after July 1, 2005, but before January 1, 2018.

d. Calculating credit amount. The utilities board shall notify the department of the amount of kilowatt hours of electricity purchased from a renewable energy facility or the amount of kilowatt hours generated and purchased from a qualified wind energy facility or generated and used on site by the qualified wind energy facility. The department shall calculate the amount of the tax credit and issue the tax credit certificate. Wind energy and renewable energy tax credit certificates may be transferred, and a replacement tax credit certificate may reflect a different type of tax than the type of tax noted on the original tax credit certificate.

These rules are intended to implement Iowa Code chapters 476B and 476C and section 437A.17B.

DIVISION II
STATEWIDE PROPERTY TAX

701—101.7(437A,437B) Inactive taxpayers. If the taxpayer was inactive or ceased the conduct of any activity for which the taxpayer's property was subject to the statewide property tax during the tax year, the taxpayer must notify the department in writing on or before the return due date.

701—101.8(437A,437B) Time and place for filing return. Taxpayers required to file a return should file the return on GovConnectIowa.

701—101.9(437A,437B) Payment of tax. Payment of the tax required to be shown due on the statewide property tax return shall be made to the department. Payment of the tax shall be made on or before the due date of the return.

701—101.10(437A,437B) Statute of limitations. Rule 701—101.3(437A) is incorporated herein by reference.

701—101.11(437A,437B) Billings.

101.11(1) *Notice of adjustments.* Subrule 101.6(1) is incorporated herein by reference.

101.11(2) *Notice of assessment.*

a. If, after following the procedure outlined in paragraph 101.4(1)*"b,"* no agreement is reached and the person does not pay the amount determined to be correct to the director, a notice of the amount of tax due shall be sent to the taxpayer. This notice of assessment shall be signed by the director and will be sent by ordinary mail to the taxpayer.

b. A taxpayer has 60 days from the date of the notice of assessment to file an appeal according to the provisions of rule 701—7.8(17A), or if the taxpayer fails to timely appeal a notice of assessment, the taxpayer may make payment pursuant to rule 701—7.8(17A) to the director and file a refund claim with the director within the applicable period provided in Iowa Code sections 437A.22 and 437A.14(1)*"b"* for filing such claims.

101.11(3) *Supplemental assessments.* Subrule 101.4(3), except for the requirement to notify the county treasurer, is incorporated herein by reference.

701—101.12(437A,437B) Refunds. Subrules 101.5(1) through 101.5(3) and 101.5(5) are incorporated herein by reference.

701—101.13(437A,437B) Abatement of tax. The abatement provisions of 701—Chapter 19 are applicable to the statewide property tax.

701—101.14(437A,437B) Audit of records. Rule 701—101.6(437A) is incorporated herein by reference.

These rules are intended to implement Iowa Code chapters 437A and 437B.

ITEM 2. Rescind and reserve **701—Chapter 108**.

RA 26-355

REVENUE DEPARTMENT[701]

Regulatory Analysis

Notice of Intended Action to be published: 701—Chapter 102
"Assessment Practices and Equalization"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 421.17(2)"c" and 441.21(1)"h"

State or federal law(s) implemented by the rulemaking: Iowa Code sections 421.7 and 428.4 and chapter 441

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 18, 2026 2 to 3 p.m.	Via videoconference call: meet.google.com/egs-ucjg-frv

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis, which must be received by the Department of Revenue no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Nick Behlke
Department of Revenue
Hoover State Office Building
P.O. Box 10457
Des Moines, Iowa 50306-3457
Phone: 515.336.9025
Email: nick.behlke@iowa.gov

Purpose and Summary

The purpose of this proposed rulemaking is to rescind and readopt a new Chapter 102. This chapter provides clarification on the assessment of real property in the State. It includes an overview of the different classes of property and how to identify and value them. It also describes the assessors' roles in the equalization process. The Department proposes revisions to remove portions of the rules that the Department determined are obsolete or unnecessary or duplicative of statutory language as required by Executive Order 10. Further, the Department proposes revisions to the chapter to add clarity and better organization to aid the public's understanding of the assessment of real property for taxation purposes in the State.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

This proposed rulemaking does not create costs for any classes of persons.

- **Classes of persons that will benefit from the proposed rulemaking:**

Local governments will benefit from a greater understanding of the assessment and equalization process. Property owners will benefit from consistent and accurate application of the law to their property.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

There is no economic impact associated with this proposed rulemaking beyond what is contained in statute.

- **Qualitative description of impact:**

The qualitative benefits of this proposed rulemaking beyond what is already provided in statute is the value of having a clear understanding of how to properly identify and value real estate in order to ensure a consistent application of the law across the State, eliminate any confusion, and prevent an individual's property from being improperly assessed.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

There are no costs to the State beyond what is already required to administer the relevant statutes.

- **Anticipated effect on State revenues:**

A greater understanding of assessment and valuation of property will ensure that the correct amount of property taxes are collected.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

The cost of inaction would be potential confusion about assessment and valuation of property, which could lead to property being improperly assessed. There is no cost associated with this proposed rulemaking.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

This proposed rulemaking is not costly or intrusive.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

The Department did not consider any alternative methods.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

Failing to have rules on assessment practices and equalization would lead to greater confusion about the requirements and could lead to property being improperly assessed. The rules are proposed to be updated to remove outdated and duplicative language.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

The requirements in this proposed rulemaking are imposed by statute, and the Department does not have the authority to make exceptions to them for small businesses.

Text of Proposed Rulemaking

ITEM 1. Rescind 701—Chapter 102 and adopt the following **new** chapter in lieu thereof:

CHAPTER 102
ASSESSMENT PRACTICES AND EQUALIZATION

701—102.1(405,427A,428,441,499B) Classification of real estate.

102.1(1) *Responsibility of assessors.* All real estate subject to assessment by city and county assessors shall be classified as provided in this rule. It shall be the responsibility of city and county assessors to determine the proper classification of real estate. There can be only one classification per property under this rule, except as provided for in paragraph 102.1(4)*"d."* An assessor shall not assign one classification to the land and a different classification to the building or separate classifications to the land or separate classifications to the building. A building or structure on leased land is considered a separate property and may be classified differently than the land upon which it is located. The determination shall be based upon the best judgment of the assessor following the guidelines set forth in this rule and the status of the real estate as of January 1 of the year in which the assessment is made. The assessor shall classify property according to its present use and not according to its highest and best use. Information about an exception to the general rule that property is to be classified according to its use is found in subrule 102.1(8). The classification shall be utilized on the abstract of assessment submitted to the department pursuant to Iowa Code section 441.45. More information about the abstract of assessment is found in rule 701—102.7(428,441).

102.1(2) *Responsibility of boards of review, county auditors, and county treasurers.* Whenever local boards of review, county auditors, and county treasurers exercise assessment functions allowed or required by law, they shall classify property as provided in this rule and adhere to the requirements of this rule.

102.1(3) *Agricultural real estate.*

a. Generally. Agricultural real estate shall include all tracts of land and the improvements and structures located on them that are in good faith used primarily for agricultural purposes except buildings that are primarily used or intended for human habitation as defined in subrule 102.1(4). Land and the nonresidential improvements and structures located on it shall be considered to be used primarily for agricultural purposes if its principal use is devoted to the raising and harvesting of crops or forest or fruit trees; the rearing, feeding, and management of livestock; or horticulture, all for intended profit. Agricultural real estate shall also include woodland, wasteland, and pastureland, but only if that land is held or operated in conjunction with agricultural real estate as defined in paragraph 102.1(3)*"a"* or *"b."*

b. Vineyards. Vineyards and any buildings located on a vineyard and used in connection with the vineyard shall be classified as agricultural real estate if the primary use of the land and buildings is an activity related to the production or sale of wine.

c. Algae cultivation and production. Real estate used directly in the cultivation and production of algae for harvesting as a crop for animal feed, food, nutritionals, or biofuel production shall be classified as agricultural real estate if the real estate is an enclosed pond or land that contains a photobioreactor. A photobioreactor is not attached to land upon which it sits and shall not be assessed and taxed as real property.

(1) Determining direct usage. Real estate is used "directly" in the cultivation and production of algae if it is used to perform activities that cultivate and produce algae and is not used for activities that occur before or after the cultivation and production of algae. If the real estate is used to perform activities for the cultivation and production of algae to be "directly" used, the real estate must be used to perform activities that are integral and essential to the cultivation and production of algae, as

distinguished from activities that are incidental, merely convenient to, or remote from cultivation and production of algae. The fact that real estate is used for activities that are essential or necessary to the cultivation and production of algae does not mean that the real estate is also "directly" used in production. Even if the real estate is used for activities that are essential or necessary to the cultivation and production of algae, if the activities are far enough removed from the cultivation or production of algae, the real estate does not qualify for the agricultural classification.

(2) Examples. The following are nonexclusive examples of real estate that is not directly used in the cultivation and production of algae:

1. Real estate that is used to store, assemble, or repair machinery and equipment that is used for cultivation and production of algae.
2. Real estate that is used in the management, administration, advertising, or selling of algae.
3. Real estate that is used in the management, administration, or planning of the cultivation and production of algae.
4. Real estate that is used for packaging of the algae that has been produced and cultivated.

102.1(4) *Residential real estate.*

a. Classification of residential real estate—in general. Residential real estate shall include all lands and buildings that are primarily used or intended for human habitation containing fewer than three dwelling units, including those buildings located on agricultural land. Buildings used primarily or intended for human habitation include the dwelling as well as structures and improvements used primarily as a part of, or in conjunction with, the dwelling. This includes but is not limited to garages, whether attached or detached; tennis courts; swimming pools; guest cottages; and storage sheds for household goods. Residential real estate located on agricultural land includes only buildings as defined in this subrule. Buildings for human habitation that are used as commercial ventures, including but not limited to hotels, motels, rest homes, and structures containing three or more separate living quarters, shall not be considered residential real estate. "Used in conjunction with" means that the structure or improvement is located on the same parcel, on contiguous parcels, or on a parcel directly across a street or alley as the building or structure containing the dwelling and when marketed for sale would be sold as a unit.

b. Horizontal property regimes. An apartment in a horizontal property regime (condominium) referred to in Iowa Code chapter 499B that is used or intended for use for human habitation shall be classified as residential real estate regardless of who occupies the apartment. Existing structures shall not be converted to a horizontal property regime unless building code requirements have been met.

c. Multiple housing cooperatives. Regardless of the number of separate living quarters, multiple housing cooperatives organized under Iowa Code chapter 499A and land and buildings owned and operated by organizations that have received tax-exempt status under Section 501(c)(3) of the Internal Revenue Code (IRC), if the rental income from the property is not taxed as unrelated business income under Iowa Code section 422.33(1A), shall be considered residential real estate.

d. Additional classification of residential real estate. For assessment years beginning before January 1, 2027, residential real estate shall also include:

(1) Mobile home parks.
(2) Manufactured home communities.
(3) Land-leased communities.
(4) Assisted living facilities.
(5) A parcel primarily used or intended for human habitation containing three or more separate dwelling units. If a portion of such a parcel is used or intended for a purpose that, if the primary use would be classified as commercial property or industrial property, each such portion, including a proportionate share of the land included in the parcel, if applicable, shall be assigned the appropriate classification pursuant to Iowa Code section 441.21(14)*"b"* and paragraph 102.1(4)*"e"* below.
(6) For a parcel that is primarily used or intended for use as commercial property or industrial property, that portion of the parcel that is used or intended for human habitation, regardless of the number of dwelling units contained on the parcel, including a proportionate share of the land included

in the parcel, if applicable. The portion of such a parcel used or intended for use as commercial property or industrial property, including a proportionate share of the land included in the parcel, if applicable, shall be assigned the appropriate classification pursuant to Iowa Code section 441.21(14) *"b"* and paragraph 102.1(4)*"e"* below.

e. Dual classification.

(1) For valuations of parcels for which a portion of the parcel satisfies the requirements for classification as residential property under Iowa Code section 441.21(14)*"a"*(6) or *"a"*(7) and subparagraph 102.1(4)*"d"*(5) or *"d"*(6), the assessor shall assign to that portion of the parcel the classification of residential property and to such other portions of the parcel the property classification for which such other portions qualify.

(2) The only permitted combinations of dual classifications are commercial and residential or industrial and residential. The assessor shall assign the classification of residential to that portion of the parcel that satisfies the requirements for the classification of residential property and to such other portions of the parcel the property classification for which such other portions qualify. The assessor shall maintain the valuation and assessment of property with a dual classification on one parcel record.

f. Section 42 housing. Property that is rented or leased to low-income individuals and families as authorized by IRC Section 42, and that has not been withdrawn from Section 42 assessment procedures under Iowa Code section 441.21(2), shall not be classified as residential property.

g. Short-term leases. A hotel, motel, inn, or other building where rooms or dwelling units are usually rented for less than one month shall not be classified as residential property.

102.1(5) *Commercial real estate.*

a. Commercial real estate shall include all lands and improvements and structures located thereon that are primarily used or intended as a place of business where goods, wares, services, or merchandise is stored or offered for sale at wholesale or retail. Commercial realty also includes hotels, motels, and property that is rented or leased to low-income individuals and families as authorized by IRC Section 42 and has not been withdrawn from Section 42 assessment procedures under Iowa Code section 441.21(2). Commercial real estate also includes data processing equipment as defined in Iowa Code section 427A.1(1)*"j,"* except data processing equipment used in the manufacturing process. However, regardless of the number of separate living quarters or any commercial use of the property, single- and two-family dwellings, multiple housing cooperatives organized under Iowa Code chapter 499A, and land and buildings used primarily for human habitation and owned and operated by organizations that have received tax-exempt status under IRC Section 501(c)(3), if the rental income from the property is not taxed as unrelated business income under Iowa Code section 422.33(1A), shall be classified as residential real estate.

b. An apartment in a horizontal property regime (condominium) referred to in Iowa Code chapter 499B that is used or intended for use as a commercial venture, other than leased for human habitation, shall be classified as commercial real estate. Existing structures shall not be converted to a horizontal property regime unless building code requirements have been met.

102.1(6) *Industrial real estate.*

a. Land and buildings.

(1) Industrial real estate includes land, buildings, structures, and improvements used primarily as a manufacturing establishment. A manufacturing establishment is a business entity in which the primary activity consists of adding to the value of personal property by any process of manufacturing, refining, or purifying; the packing of meats; or the combination of different materials with the intent of selling the product for gain or profit. Industrial real estate includes land and buildings used for the storage of raw materials or finished products that are an integral part of the manufacturing establishment and also includes office space used as part of a manufacturing establishment.

(2) Whether property is used primarily as a manufacturing establishment and, therefore, assessed as industrial real estate depends upon the extent to which the property is used for the activities enumerated in subparagraph 102.1(6)*"a"*(1). Property in which the performance of these activities is only incidental to the property's primary use for another purpose is not a manufacturing establishment.

EXAMPLE 1: A grocery store in which bakery goods are prepared would be assessed as commercial real estate since the primary use of the grocery store premises is for the sale of goods not manufactured by the grocery, and the industrial activity (i.e., baking) is only incidental to the store premises' primary use. However, property that is used primarily as a bakery would be assessed as industrial real estate, even if baked goods are sold at retail on the premises, since the bakery premises' primary use would be for an industrial activity to which the retail sale of baked goods is merely incidental.

EXAMPLE 2: A facility that has as its primary use the mixing and blending of products to manufacture feed would be assessed as industrial real estate, even though a portion of the facility is used solely for the storage of grain, if the use for storage is merely incidental to the property's primary use as a manufacturing establishment. Conversely, a facility used primarily for the storage of grain would be assessed as commercial real estate even though a part of the facility is used to manufacture feed. In the latter situation, the industrial use of the property (i.e., the manufacture of feed) is merely incidental to the property's primary use for commercial purposes (i.e., the storage of grain).

(3) Property used primarily for the extraction of rock or mineral substances from the earth is not a manufacturing establishment if the only processing performed on the substance is to change its size by crushing or pulverizing.

b. Machinery.

(1) Machinery includes equipment and devices, both automated and nonautomated, that is used in manufacturing as described in Iowa Code section 428.20.

(2) Machinery owned or used by a manufacturer but not used within the manufacturing establishment is not assessed as industrial real estate.

EXAMPLE 3: X operates a factory that manufactures building materials for sale. In addition, X uses some of these building materials in construction contracts. The machinery that X would primarily use at the construction site would not be used in a manufacturing establishment and, therefore, would not be assessed as industrial real estate.

(3) Machinery used in manufacturing but not used in or by a manufacturing establishment is not assessed as industrial real estate.

(4) Where the primary function of a manufacturing establishment is to manufacture personal property that is consumed by the manufacturer rather than sold, the machinery used in the manufacturing establishment is not assessed as industrial real estate.

c. Special valuation for wind energy. Wind energy conversion property subject to special valuation under Iowa Code section 427B.26 shall be classified as industrial property.

102.1(7) *Point-of-sales equipment.* As used in Iowa Code section 427A.1(1)*"j,"* "point-of-sales equipment" means input, output, and processing equipment used to consummate a sale and to record or process information pertaining to a sale transaction at the time the sale takes place and that is located at the counter, desk, or other specific point at which the transaction occurs. As used in this subrule, "sale" means the sale or rental of goods or services and includes both retail and wholesale transactions. Point-of-sales equipment does not include equipment used primarily for depositing or withdrawing funds from financial institution accounts.

102.1(8) *Housing development property.*

a. Definition. "Subdivide" means to divide a tract of land into three or more lots.

b. Ordinances adopted on or after January 1, 2004, but prior to January 1, 2011.

(1) Ordinances adopted under Iowa Code section 405.1(1) and 405.1(2), to the extent such ordinances affect the assessment of property subdivided for development of housing on or after January 1, 2004, but before January 1, 2011, shall remain in effect or otherwise be made effective, and such ordinances:

1. Adopted under Iowa Code section 405.1(1), applicable to counties with a population of less than 20,000, shall be extended, from a period of five years, to apply to a period of ten years from the date of subdivision.

2. Adopted under Iowa Code section 405.1(2), applicable to counties with a population of 20,000 or more, shall be extended, from a period of three years, to apply to a period of eight years from the date of subdivision.

Each lot shall continue to be taxed in the manner it was taxed prior to acquisition for housing until the lot is sold for construction or occupancy of housing, or ten years pursuant to numbered paragraph 102.1(8)*"b"*(1)"1" or eight years pursuant to numbered paragraph 102.1(8)*"b"*(1)"2" (or the extended period, if applicable) from the date of subdivision, whichever occurs first.

(2) On or after July 27, 2011, the board of supervisors of a county may amend an ordinance adopted under Iowa Code section 405.1(1) or 405.1(2) to extend the ten- and eight-year periods, respectively, for a period of time not to exceed five years beyond the end of the ten- and eight-year periods established under Iowa Code section 405.1(1)*"b."* Thus, the maximum special assessment time for ordinances adopted on or after January 1, 2004, but prior to January 1, 2011, for counties with a population of less than 20,000 shall be 15 years. For counties with a population of 20,000 or more, the maximum shall be 13 years.

(3) A city council may adopt an ordinance, affecting all or a portion of the property located within the incorporated area of the city subject to the county ordinance adopted under Iowa Code section 405.1(1) and 405.1(2), extending the county ordinances not previously extended by the board of supervisors up to five years. An ordinance by a city council providing for an extension under Iowa Code section 405.1(3) shall be subject to the five-year limitation under Iowa Code section 405.1(2). Thus, the maximum time to appeal an ordinance adopted on or after January 1, 2004, but prior to January 1, 2011, for counties with a population of less than 20,000 shall be 15 years if the city council amends an ordinance originally adopted by the board of supervisors. For counties with a population of 20,000 or more, the maximum special assessment time shall be 13 years.

This rule is intended to implement Iowa Code sections 405.1, 427A.1, 428.4, 441.21 and 441.22 and chapter 499B.

701—102.2(421,428,441) Assessment and valuation of real estate.

102.2(1) *Responsibility of assessor.* The valuation of real estate as established by city and county assessors shall be the actual value of the real estate as of January 1 of the year in which the assessment is made. New parcels of real estate created by the division of existing parcels of real estate shall be assessed separately as of January 1 of the year following the division of the existing parcel of real estate.

102.2(2) *Responsibility of other assessing officials.* Whenever local boards of review, county auditors, and county treasurers exercise assessment functions allowed or required by law, the local boards of review, county auditors, and county treasurers shall follow the provisions of subrule 102.2(1) and rules 701—102.3(421,428,441) through 701—102.6(421,428,441).

This rule is intended to implement Iowa Code sections 421.17, 428.4 and 441.21.

701—102.3(421,428,441) Valuation of agricultural real estate. Agricultural real estate shall be assessed at its actual value as defined in Iowa Code section 441.21 by giving exclusive consideration to its productivity and net earning capacity. In determining the actual value of agricultural real estate, city and county assessors shall use the Iowa Real Property Appraisal Manual and any other guidelines issued by the department pursuant to Iowa Code section 421.17(17).

102.3(1) *Productivity.*

a. In determining the productivity and net earning capacity of agricultural real estate, the assessor shall also use available data from Iowa State University, the United States Department of Agriculture (USDA) National Agricultural Statistics Service (NASS), the USDA Farm Service Agency (FSA), the department, or other reliable sources. The assessor shall also consider the results of a modern soil survey, if completed. The assessor shall determine the actual valuation of agricultural real estate within the assessing jurisdiction and distribute such valuation throughout the jurisdiction so that each parcel of real estate is assessed at its actual value as defined in Iowa Code section 441.21.

b. In distributing such valuation to each parcel under paragraph 102.3(1)*"a,"* the assessor shall adjust non-cropland. The adjustment shall be applied to non-cropland with a corn suitability rating (CSR) that is greater than 50 percent of the average CSR for cropland for the county. The adjustment shall be determined for each county based upon the five-year average difference in cash rent between non-irrigated cropland and pasture land as published by NASS. The assessor may utilize the USDA FSA-published Common Land Unit digital data or other reliable sources in determining non-cropland.

c. EXAMPLE. The following is an example of the calculation used to compute adjustment on land determined to be non-cropland with a CSR that is greater than 50 percent of the average CSR for cropland for the county:

Average county CSR rating for cropland	80 CSR
50% of average cropland CSR	40 CSR
Example of non-cropland soil 11b CSR rating	58 CSR
Non-cropland CSR points to be adjusted	58 - 40 = 18 CSR points
Five-year average rent for non-irrigated cropland	$163.60
Five-year average rent for pasture land	$48.30
Percent difference (rounded)	1 - ($48.30/$163.60) = 70%
Apply the percent difference to points to be adjusted	18 CSR points × (1 -.70) = 5.40 adjusted CSR points
Adjusted CSR non-cropland	40 + 5.40 = 45.40 adjusted CSR points

102.3(2) *Agricultural factor.* In order to determine a productivity value for agricultural buildings and structures, assessors must make an agricultural adjustment to the market value of these buildings and structures by developing an agricultural factor for the assessors' jurisdictions. The agricultural factor for each jurisdiction is the product of the ratio of the productivity and net earning capacity value per acre as determined under subrule 102.11(1) over the market value of agricultural land within the assessing jurisdiction. The resulting ratio is then applied to the actual value of the agricultural buildings and structures as determined under the Iowa Real Property Appraisal Manual prepared by the department. The agricultural factor must be applied uniformly to all agricultural buildings and structures in the assessing jurisdiction.

EXAMPLE: If a building's actual value is $500,000 and the agricultural factor is 30 percent, the productivity value of that building is $150,000. A five-year market value average of land for years used to determine the productivity formula will be used to determine the agricultural factor.

102.3(3) *Classification.* Land classified as agricultural real estate includes the land beneath any dwelling and appurtenant structures located on that land and shall be valued by the assessor pursuant to rule 701—102.3(421,428,441). An assessor shall not value a part of the land as agricultural real estate and a part of the land as if it is residential real estate.

This rule is intended to implement Iowa Code sections 421.17, 428.4 and 441.21.

701—102.4(421,428,441) Valuation of residential real estate. Residential real estate shall be assessed at its actual value as defined in Iowa Code section 441.21.

In determining the actual value of residential real estate, city and county assessors shall use the Iowa Real Property Appraisal Manual issued by the department pursuant to Iowa Code section 421.17(17) as well as a locally conducted assessment/sales ratio study, an analysis of sales of comparable properties, and any other relevant data available.

This rule is intended to implement Iowa Code sections 421.17, 428.4 and 441.21.

701—102.5(421,428,441) Valuation of commercial real estate.

102.5(1) *Actual value.* Commercial real estate shall be assessed at its actual value as defined in Iowa Code section 441.21. In determining the actual value of commercial real estate, city and county assessors shall use the Iowa Real Property Appraisal Manual issued by the department pursuant to

Iowa Code section 421.17(17) as well as a locally conducted assessment/sales ratio study, an analysis of sales of comparable properties, and any other relevant data available. In cases involving the valuation of owner-occupied commercial property, the data relating to the financial performance of the owner or the owner's business, including but not limited to its sales, revenue, expenses, or profits, shall not be considered relevant in determining the property's actual value.

102.5(2) *Low-income housing subject to IRC Section 42.*

a. Productive and earning capacity. In assessing property that is rented or leased to low-income individuals and families as authorized by IRC Section 42, which limits the amount that the individual or family pays for the rental or lease of units in the property, the assessor shall use the productive and earning capacity from the actual rents received as a method of appraisal and shall take into account the extent to which that use and limitation reduces the market value of the property.

b. Direct capitalization method.

(1) The income approach to valuation shall be applied using the direct capitalization method. The assessor may use the discounted cash flow method as a test of the reasonableness of the results produced by the direct capitalization method. The direct capitalization method of the income approach involves dividing the Net Operating Income (NOI) on a cash basis by an overall capitalization rate to derive an indication of the value of the property for the assessment year.

(2) In applying the direct capitalization method, the assessor shall develop a normalized measure of annual NOI based on the productive and earning capacity of the development utilizing:

1. The actual rent schedule applicable for each of the available units as of January 1 of the year of assessment indicating the actual rent to be paid by the resident plus any Section 8 rental assistance or other direct cash rental subsidy provided to the resident by federal, state or local rent subsidy programs as limited pursuant to IRC Section 42;
2. A normal vacancy/collection allowance;
3. The prior year's actual and current year's projected annual operating expenses associated with the property, excluding noncash items such as depreciation and amortization but including property taxes and those actual costs expected to be incurred and paid as required by IRC Section 42 regulations, provisions, and restrictions as applicable to the assessment year; and
4. An appropriate provision for replacement reserves.

(3) If no separate line item is included for reserves for replacement in the historic income and expense data, then the maintenance and repair categories of the historic expense data must be itemized. For properties that have attained a normalized operating history, the NOI results of the prior three years (as represented in the statements variously named as the Income and Loss Statement, the Profit and Loss Statement, the Income Statement, the Actual to Budget Comparison Statement, Balance Sheet, or some name variation of these) may be used to provide the basis for determining the normalized NOI used for purposes of applying the direct capitalization method for the year of assessment, provided an appropriate replacement reserve is included in the NOI determination and provided any additional costs required as a result of Section 42 regulation or compliance changes for the assessment year are included as an operating expense in the NOI determination. In addition, the assessor may utilize the current year operating budget to develop a measure of NOI for the assessment year. The assessor, in developing the measure of annual NOI on a cash basis, shall not consider as income any potential rental income differential that could otherwise be received from the property if the rents were not limited pursuant to IRC Section 42, any tax credit equity, any tax credit value, or other subsidized financing.

c. Filing of reports. It is the responsibility of the property owner to file income and expense data with the local assessor by March 1 of each year. The assessor may require the filing of additional information if deemed necessary.

d. Capitalization rate. The overall capitalization rate to be used in applying the direct capitalization method for a Section 42 property is developed through the band-of-investment technique. The capitalization rate will be calculated annually by the department and distributed to all Iowa assessors by March 1. The capitalization rate is a composite rate weighted by the proportions

of total property investment represented by debt and equity. The capital structure weighs equity at 80 percent and debt at 20 percent unless actual market capital structure can be verified to the assessor. The yield, or market rate of return, for equity is calculated using the capital asset pricing model (CAPM). The yield for debt is equivalent to the average yield on 20-year Treasury bonds referred to as the Treasury long-term average rate. An example of the band-of-investment technique to be utilized is as follows:

	% to Total	Yield	Composite
Equity	80%	11.05%	8.84%
Debt	20%	5.94%	1.19%
	100%		10.03%

e. Capital asset pricing model. CAPM is utilized to develop the equity rate. The formula is: Re = B (Rm - Rf) + Rf

	Re	=	B (Rm - Rf) + Rf
Where:	Re	=	return on equity
	B	=	beta
	Rm	=	return on the market
	Rf	=	risk-free rate of return
	Rm - Rf	=	market-risk premium

The beta is assumed to be 1, which indicates the risk level to be consistent with the market as a whole. The risk-free rate is calculated by finding the average of the three-month and six-month Treasury bill. The return on the market is calculated by taking the average of the return on the market for the Bank of America Universe and Standard and Poor's 500 or by reference to other published secondary sources.

f. Properties under construction. For Section 42 properties under construction, the assessor may value the property by applying the percentage of completion to the replacement cost new (RCN) as calculated from the Iowa Real Property Appraisal Manual and adding the fair market value of the land. Alternatively, projected income and expense data may be utilized if available.

g. Negative or minimal NOI. If the Section 42 property shows a negative or minimal net operating income (NOI), the indicator of value as set forth in these rules shall not be utilized.

This rule is intended to implement Iowa Code sections 421.17, 428.4, 441.21.

701—102.6(421,428,441) Valuation of industrial land and buildings. Industrial real estate shall be assessed at its actual value as defined in Iowa Code section 441.21.

In determining the actual value of industrial land and buildings, city and county assessors shall use the Iowa Real Property Appraisal Manual issued by the department pursuant to Iowa Code section 421.17(17), and any other relevant data available.

This rule is intended to implement Iowa Code sections 421.17, 428.4 and 441.21.

701—102.7(428,441) Abstract of assessment. Each city and county assessor shall submit annually to the department at the times specified in Iowa Code section 441.45 an abstract of assessment for the current year. The assessor shall use the form of abstract prescribed and furnished by the department and shall enter on the abstract all information required by the department. However, the department may approve the use of a computer-prepared abstract if the data is in essentially the same format as on the form prescribed by the department. The information entered on the abstract of assessment shall be reviewed and considered by the department in equalizing the valuations of classes of properties.

This rule is intended to implement Iowa Code sections 428.4 and 441.45.

701—102.8(428,441) Reconciliation report. The assessor's report of any revaluation required by Iowa Code section 428.4 shall be made on the reconciliation report prescribed and furnished by the department. The assessor shall enter on the report all information required by the department. The reconciliation report shall be a part of the abstract of assessment required by Iowa Code section 441.45 and shall be reviewed and considered by the department in equalizing valuations of classes of property.

This rule is intended to implement Iowa Code sections 428.4 and 441.45.

701—102.9(421) Assessment/sales ratio study.

102.9(1) *Basic data.* Basic data is the data submitted to the department by county recorders and city and county assessors on forms prescribed and provided by the department, information furnished by parties to real estate transactions, and information obtained by field investigations made by the department.

102.9(2) *Responsibility of recorders and assessors.* County recorders and city and county assessors shall complete the prescribed forms as required by Iowa Code section 421.17(6) and rule 701—109.3(428A) in accordance with instructions issued by the department. Assessed values entered on the prescribed form shall be those established as of January 1 of the year in which the sale takes place.

102.9(3) *Normal sales.* All real estate transfers shall be considered by the department to be normal sales unless there exists definite information that would indicate the transfer was not an arms-length transaction or is of an excludable nature as provided in Iowa Code section 441.21.

This rule is intended to implement Iowa Code section 421.17.

701—102.10(441) Equalization of assessments by class of property.

102.10(1) Every two years in odd-numbered years, the department shall order the equalization of the levels of assessment of each class of property as provided in rule 701—102.11(441) by adding to or deducting from the valuation of each class of property, as reported to the department on the abstract of assessment and reconciliation report that is a part of the abstract, the percentage in each case as may be necessary to bring the level of assessment to its actual value as defined in Iowa Code section 441.21. Valuation adjustments shall be ordered if the department determines that the aggregate valuation of a class of property as reported on the abstract of assessment submitted by the assessor is at least 5 percent above or below the aggregate valuation for that class of property as determined by the department pursuant to rule 701—102.11(441). All classifications of real estate shall be applied uniformly throughout the state of Iowa.

102.10(2) Equalization percentage adjustments.

a. Equalization percentage adjustments determined for residential realty located outside incorporated areas and not located on agricultural land shall apply to buildings located on agricultural land outside incorporated areas that are primarily used or intended for human habitation as defined in subrule 102.1(4).

b. Equalization percentage adjustments determined for residential realty located within incorporated cities and not located on agricultural land shall apply to buildings located on agricultural land within incorporated cities that are primarily used or intended for human habitation as defined in subrule 102.1(4).

This rule is intended to implement Iowa Code sections 441.21, 441.47, 441.48 and 441.49.

701—102.11(441) Determination of aggregate actual values.

102.11(1) *Agricultural real estate.*

a. Use of income capitalization study. The equalized valuation of agricultural realty shall be based upon its productivity and net earning capacity and shall be determined in accordance with the provisions of this subrule. Data used shall pertain to crops harvested during the five-year period

ending with the calendar year in which assessments were last equalized. The equalized valuation of agricultural realty shall be determined for each county as follows:

(1) Computation of county acres. This information shall be obtained from the USDA NASS. If this information is not available from the USDA NASS, this information shall be obtained from the U.S. Census of Agriculture.

1. Total acres in farms: Total acreage used for agricultural purposes.
2. Corn acres: Sum of corn acres harvested, including silage, popcorn, and acres planted for sorghum.
3. Oats and wheat acres: Sum of oats and wheat acres harvested.
4. Soybean acres: Soybean acres harvested.
5. Hay acres: All hay acres harvested.
6. Pasture acres: All pasture acres. Total pasture acres shall be determined by multiplying the total acres in farms reported by the USDA NASS by the percentage which total pasture land as reported in the most recent U.S. Census of Agriculture bears to the total acreage in farmland also reported in the most recent U.S. Census of Agriculture. The amount of tillable and nontillable pasture acres shall be determined as follows:

1.	From the most recent U.S. Census of Agriculture obtain the following:		
	Cropland used only for pasture and grazing	_____	acres
	Woodland pasture	_____	acres
	Pasture land and rangeland (other than cropland and woodland pasture)	_____	acres
	TOTAL PASTURE LAND (total of above):	_____	acres
2.	Determine what percentage of the total pasture land is cropland used only for pasture:	_____	%
3.	Apply the percentage in "2" above to the five-year average total acres of pasture as determined above to determine the pasture acres to be classified as tillable pasture. The remainder of the five-year average shall be classified as nontillable pasture land.	_____	acres

7. Government programs: Determine the five-year average acres participating in applicable government programs. Obtain data from the USDA FSA, including but not limited to acreage devoted to the Payment-In-Kind (PIK), diverted and deficiency programs.
8. Other acres: The difference between the total acreage for land uses listed above and the total of all land in farms. Add the total of the corn, oats, soybeans, hay, tillable and nontillable pasture and diverted acres. Subtract this total from total acres in farms. The residual is classified as other acres.

(2) Computation of county yields. This information shall be obtained for each county from the USDA NASS. If this information is not available from the USDA NASS Service, this information shall be obtained from the U.S. Census of Agriculture.

1. Corn yield (including silage): Number of bushels of corn harvested for grain per acre.
2. Oat yield (including wheat): Number of bushels of oats harvested per acre.
3. Soybean yield: Number of bushels per acre harvested.
4. Hay yield in tons: Number of tons per acre harvested.

(3) Computation of county gross income.

1. Corn: One-half of the five-year average production multiplied by the five-year average price received for corn.

2. Silage: One-half of the five-year average number of acres devoted to the production of silage multiplied by the five-year average production per acre for corn. The amount of production so determined shall be added to the five-year average production for corn and included in the determination of the gross income for corn.

3. Soybeans: One-half of the five-year average production multiplied by the five-year average price received.

4. Oats: One-half of the five-year average production of oats and wheat multiplied by the five-year average price received for oats.

5. Price adjustment: For corn, soybeans, hay, and oats, the USDA NASS district prices shall be used and shall be adjusted to reflect any individual county price conditions.

6. Government programs: Gross income shall be one-half of the five-year average amount of cash payments or equivalent (such as PIK bushels), including but not limited to diverted, deficiency, and PIK programs as reported by the USDA FSA.

7. Hay: Gross income shall be a cash rent amount determined by multiplying the five-year average number of acres devoted to hay by the product obtained by multiplying one-fourth of the five-year average hay yield by the five-year average price received for all types of hay.

8. Tillable pasture: Gross income shall be a cash rent amount determined by multiplying the five-year average number of acres devoted to tillable pasture by the product obtained in "hay" above.

9. Nontillable pasture: Gross income shall be a cash rent amount determined by multiplying the five-year average number of acres devoted to nontillable pasture by one-half the product obtained in "hay" above.

10. Other acres: Income shall be the product of the number of other acres multiplied by 17 percent of the net income per acre for all other land uses.

(4) Computation of county production costs. The following data and procedures shall be used to determine specific county production costs:

1. Basic average landlord production costs. Landlord production costs for corn, soybeans, oats, diverted acres, hay, tillable pasture, nontillable pasture, fertilizer costs, and facilities' costs shall be obtained for each year from Iowa State University.

2. Production cost adjustment. The production costs for corn, soybeans, oats, and hay are adjusted for each county by multiplying the difference between the five-year state average yield per acre and the five-year county average yield per acre by the five-year average facilities' costs. If a county's yield exceeds the state yield, production costs are increased by this amount. If a county's yield is less than the state yield, production costs are reduced by this amount.

3. Fertilizer cost adjustment. The adjustment for fertilizer costs is determined as follows: Multiply the difference between the five-year state average corn yield per acre and the five-year county average corn yield per acre obtained from the USDA NASS by the fertilizer cost amount per bushel determined by dividing the statewide average cost of landlord's share of fertilizer cost per acre from Iowa State University by the statewide average corn yield per acre to produce the corn fertilizer cost per bushel adjustment. This amount is then multiplied by the five-year county average corn acres determined in subparagraph 102.11(1)*"a"*(2).

4. Expense adjustments. If a county's five-year average corn yield is greater than the state five-year average corn yield, this amount is allowed as an additional expense. If the county's average is less than the state average, this amount is an expense reduction.

5. Liability insurance cost adjustment. The five-year average per acre cost of obtaining tort liability insurance shall be determined.

(5) Computation of county net income. From the total gross income, subtract the total expenses. Divide the resulting total by the total number of acres.

(6) Computation of dwelling adjustment factor. The amount determined in subparagraph 102.11(1)*"a"*(5) above shall be reduced by 10.6 percent.

(7) Computation of county tax adjustment. Subtract the five-year average per acre real estate taxes levied for land and structures including drainage and levee district taxes but excluding those

levied against agricultural dwellings from the amount determined in subparagraph 102.11(1)*"a"*(6) above. Taxes shall be the tax levied for collection during the five-year period as reported by county auditors, and reduced by the amount of the agricultural land tax credit.

(8) Calculation of county valuation per acre. Divide the net income per acre (subparagraph 102.11(1)*"a"*(7) above) for each county as determined above by the capitalization rate specified in Iowa Code section 441.21. The quotient shall be the actual per acre equalized valuation of agricultural land and structures for the current equalization year.

b. Use of other relevant data. The department may also consider other relevant data, including field investigations conducted by representatives of the department, to determine the level of assessment of agricultural real estate.

c. Determination of value. The aggregate actual value of agricultural real estate in each county shall be determined by multiplying the equalized per-acre value by the number of acres of agricultural real estate reported on the abstract of assessment for the current year, adjusted where necessary by the results of any field investigations conducted by the department and any other relevant data available.

102.11(2) *Residential real estate outside and within incorporated cities.*

a. Use of assessment/sales ratio study.

(1) Basic data shall be that set forth in rule 701—102.9(421) refined by eliminating any sales determined to be abnormal or by adjusting the sales to eliminate the effects of factors that resulted in the determination that the sales were abnormal. The basic data used shall be the assessment/sales ratio study conducted for sales taking place during the calendar year immediately preceding the year in which the equalization order is issued. The department may also supplement the assessment/sales ratio study with appraisals made by department appraisal personnel for the year immediately preceding the year in which the equalization order is issued. The assessment/sales ratio study, including relevant appraisals, if any, shall be used to determine the aggregate actual valuation of residential real estate in each assessing jurisdiction. The department may consider sales and appraisal data for prior years if it is determined the use of the sales and appraisal data for the year immediately preceding the year in which the equalization order is issued is insufficient to determine market value. If such sales and appraisal data for prior years is used, consideration shall be given for any subsequent changes in either assessed value or market value.

(2) Assessors shall provide any known facts or circumstances regarding reported sales transactions and department appraisals that indicate abnormal or unusual conditions or reporting discrepancies that necessitate exclusion or adjustment of sales or appraisals from the determination of aggregate actual values. Assessors shall provide those facts within 45 days of receipt from the department of information concerning sales and appraisal data proposed for assessment/sales ratio and equalization purposes.

b. Use of other relevant data. The department may also consider other relevant data, including field investigations conducted by representatives of the department, to determine the level of assessment of residential real estate.

c. Equalization appraisal selection procedures for residential real estate. Residential properties to be appraised by department personnel for use in supplementing the assessment/sales ratio study shall be selected for each jurisdiction in the following manner:

(1) The department appraiser assigned to the jurisdiction shall determine a systematic random sequence of numbers equal to the number of appraisals required and document the following steps.

1. The department appraiser shall compute the interval number by dividing the total number of improved properties in the classification to be sampled by the number of appraisals to be performed.

EXAMPLE 1: Ten appraisals are needed with a total of 1,397 improved residential units. Dividing 1,397 by 10 equals 139.7, which is rounded down to 139. This is the interval number.

2. The first sequence number shall be selected by having an available disinterested person randomly select a number from one through the interval number.

EXAMPLE 2: In the example above, a number from 1 to 139 must be selected. A disinterested person randomly selects number 20.

3. The department appraiser shall develop a systematic sequence of numbers equal to the number of appraisals required. Starting with the randomly selected number, add the interval number to this number and to each resulting number until a systematic sequence of numbers is obtained.

EXAMPLE 3: Ten appraisals are needed, so a sequence of ten numbers must be developed. Starting with number 20 and adding the interval number of 139 to it, each resulting number provides the following systematic sequence: 20, 159, 298, 437, 576, 715, 854, 993, 1,132, 1,271.

(2) For county jurisdictions, randomly assign a number to each parcel in the jurisdiction. Randomly generate as many numbers as parcels needed for the appraisal and determine which parcels match those numbers. If any of the selected parcels are exempt or have no improvements, select the next consecutively numbered parcel.

EXAMPLE 4:

City or Township	Number of Improved Residential Units	Code Numbers
Franklin Twp.	57	1-57
Pleasant View	160	58-217
Jackson Twp.	56	218-273
Johnston	300	274-573
Polk Twp.	110	574-683
Washington Twp.	114	684-797
Maryville	306	798-1103
Camden Twp.	110	1104-1213
Salem	184	1214-1397
Total	1,397	

(3) Determine the location of the improved properties selected for appraisal and document the procedure.

EXAMPLE 5:

City or Township	Number of Improved Residential Units	Code Numbers	Sequence Number	Entry on Rolls
Franklin Twp.	57	1-57	20	20
Pleasant View	160	58-217	159	102
Jackson Twp.	56	218-273		
Johnston	300	274-573	298,437	25,164
Polk Twp.	110	574-683	576	3
Washington Twp.	114	684-797	715	32
Maryville	306	798-1103	854,993	57,196
Camden Twp.	110	1104-1213	1132	29
Salem	184	1214-1397	1271	58
Total	1,397			

1. The department appraiser shall locate the property to be appraised by finding the relationship between the sequence numbers and the code numbers and identify the property.

EXAMPLE 6: The first sequence number is 20. Since the improved residential properties in Franklin Township have been assigned code numbers 1 to 57, sequence number 20 is in that location. To

identify this property, examine the Franklin Township assessment roll book and stop at the twentieth improved residential entry. Document the parcel number, owner's name, and legal description of this property.

2. The department appraiser shall appraise the property selected unless it is ineligible because of any of the following restrictions:

Current year sale
Partial assessment
Prior equalization appraisal
Tax-exempt
Value established by court action
Value is not more than $25,000
Building on leased land

Any other property that the department appraiser determines would be improper for use in supplementing the assessment/sales ratio study.

3. Substitute property.

(a) The department appraiser shall determine a substitute property if the originally selected one is ineligible. In ascending order, select code numbers until an eligible property is found.

EXAMPLE 7: If code number 20 is ineligible, use code number 21 as a substitute. If code number 21 is ineligible, use code number 22, etc., until an eligible property is found.

(b) If the procedure described in paragraph 102.11(2)*"c"*(3)"3"(a) moves the substitute property to another city or township, select substitute code numbers in descending order until an eligible property is found.

(c) If the procedure described in paragraph 102.11(2)*"c"*(3)"3"(b) moves the substitute property to a preceding city or township, go back to the procedure of paragraph 102.11(2)*"c"*(3)"3"(a) even if it moves the substitute property to a subsequent city or township.

4. Select an alternate property for the originally selected property that also would be eligible. This is necessary because at the time of appraisal the property may be found to be ineligible due to one of the restrictions in numbered paragraph 102.11(2)*"c"*(3)"2." Alternate properties are selected by using the same procedure described in numbered paragraph 102.11(2)*"c"*(3)"3."

5. Follow procedures in numbered paragraphs 102.11(2)*"c"*(3)"1" through "4" for each of the other originally selected sequence numbers.

102.11(3) *Commercial real estate.*

a. Use of assessment/sales ratio study.

(1) Basic data shall be that set forth in rule 701—102.9(421), refined by eliminating any sales determined to be abnormal or by adjusting the sales to eliminate the effects of factors that resulted in the determination that the sales were abnormal. The basic data used shall be the assessment/sales ratio study conducted for sales taking place during the calendar year immediately preceding the year in which the equalization order is issued. The department may also supplement the assessment/sales ratio study with appraisals made by department appraisal personnel for the year immediately preceding the year in which the equalization order is issued. The assessment/sales ratio study, including relevant appraisals, if any, shall be used to determine the aggregate actual valuation of commercial real estate in each assessing jurisdiction. The department may consider sales and appraisal data for prior years if it is determined the use of sales and appraisal data for the year immediately preceding the year in which the equalization order is issued is insufficient to determine market value. If such sales and appraisal data for prior years are used, consideration shall be given for any subsequent changes in either assessed value or market value. Properties receiving a dual classification with the primary use being commercial shall be included.

(2) Assessors shall provide any known facts or circumstances regarding reported sales transactions and department appraisals that indicate abnormal or unusual conditions or reporting discrepancies that necessitate exclusion or adjustment of sales or appraisals from the determination of aggregate actual values. Assessors shall provide those facts within 45 days of receipt from the

department of information concerning sales and appraisal data proposed for assessment/sales ratio and equalization purposes.

b. Use of other relevant data. The department may also consider other relevant data and statistical measures, including field investigations conducted by representatives of the department, to determine the level of assessment of commercial real estate. The diverse nature of commercial real estate precludes the use of a countywide or citywide income capitalization study.

c. Equalization appraisal selection procedures for commercial real estate. Commercial properties to be appraised by department personnel for use in supplementing the assessment/sales ratio study shall be selected for each jurisdiction in the manner outlined below. Properties receiving a dual classification with the primary use being commercial shall be included.

(1) The department appraiser assigned to the jurisdiction shall determine a systematic random sequence of numbers equal to the number of appraisals required and document the following steps.

1. The department appraiser shall compute the interval number by dividing the total number of improved properties in the classification to be sampled by the number of appraisals to be performed.

EXAMPLE 1: Ten appraisals are needed with a total of 397 improved commercial units. Dividing 397 by 10 equals 39.7, which is rounded down to 39. This is the interval number.

2. The selection of the first sequence number shall be accomplished by randomly selecting a number from one through the interval number.

3. The department appraiser shall develop a systematic sequence of numbers equal to the number of appraisals required. Starting with the randomly selected number, add the interval number to this number and to each resulting number until a systematic sequence of numbers is obtained.

EXAMPLE 2: Ten appraisals are needed, so a sequence of ten numbers must be developed. Starting with number 2 and adding the interval number of 39 to it, each resulting number provides the following systematic sequence: 2, 41, 80, 119, 158, 197, 236, 275, 314, 353.

(2) Number of improved properties.

1. City jurisdictions—Utilizing the assessment book or a computer printout that follows the same order as the assessment book, consecutively number all the improved units and document the procedure.

2. County jurisdictions—Randomly assign a number to each parcel in the jurisdiction. Randomly generate as many numbers as parcels needed for the appraisal and determine which parcels match those numbers. If any of the selected parcels are exempt or have no improvements, select the next consecutively numbered parcel.

EXAMPLE 3:

City or Township	Number of Improved Commercial Units	Code Numbers
Franklin Twp.	4	1-4
Pleasant View	60	5-64
Jackson Twp.	9	65-73
Johnston	100	74-173
Polk Twp.	10	174-183
Washington Twp.	14	184-197
Maryville	106	198-303
Camden Twp.	10	304-313
Salem	84	314-397
Total	397	

(3) The department appraiser shall determine the location of the improved properties selected for appraisal and document the procedure.

EXAMPLE 4:

City or Township	Number of Improved Commercial Units	Code Numbers	Sequence Number	Entry on Rolls
Franklin Twp.	4	1-4	2	2
Pleasant View	60	5-64	41	37
Jackson Twp.	9	65-73		
Johnston	100	74-173	80,119,158	7,46,85
Polk Twp.	10	174-183		
Washington Twp.	14	184-197	197	14
Maryville	106	198-303	236,275	39,78
Camden Twp.	10	304-313		
Salem	84	314-397	314,353	1,40
Total	397			

1. The department appraiser shall locate the property to be appraised by finding the relationship between the sequence numbers and the code numbers and identify the property.

EXAMPLE 5: The first sequence number is 2. Since the improved commercial properties in Franklin Township have been assigned code numbers 1 to 4, sequence number 2 is in that location. To identify this property, examine the Franklin Township assessment roll book and stop at the second improved commercial entry. The department appraiser shall document the parcel number, owner's name, and legal description of this property.

2. The department appraiser shall appraise the property selected unless it is ineligible because of any of the following restrictions:

Vacant building
Current-year sale
Partial assessment
Prior equalization appraisal
Tax-exempt
Only one portion of a total property unit (example—a parking lot of a grocery store)
Value established by court action
Value is not more than $25,000
Building on leased land

Any other property that the department appraiser determines would be improper for use in supplementing the assessment/sales ratio study.

3. Substitute property.

(a) The department appraiser shall determine a substitute property if the originally selected one is ineligible. In ascending order, select code numbers until an eligible property is found.

EXAMPLE 6: If code number 2 is ineligible, use code number 3 as a substitute. If code number 3 is ineligible, use code number 4, etc., until an eligible property is found.

(b) If the procedure described in paragraph 102.11(3)*"c"*(3)"3"(a) moves the substitute property to a city or township, select substitute code numbers in descending order until an eligible property is found.

(c) If the procedure described in paragraph 102.11(3)*"c"*(3)"3"(b) moves the substitute property to a preceding city or township, go back to the procedure of paragraph 102.11(3)*"c"*(3)"3"(a) even if it moves the substitute property to a subsequent city or township.

4. Select an alternate property for the originally selected property that also would be eligible. This is necessary because at the time of appraisal the property may be found to be ineligible due to one of the restrictions in numbered paragraph 102.11(3)*"c"*(3)"2." Alternate properties are selected by using the same procedure described in numbered paragraph 102.11(3)*"c"*(3)"3."

5. Follow procedures in numbered paragraphs 102.11(3)*"c"*(3)"1" through "4" for each of the other originally selected sequence numbers.

102.11(4) *Industrial real estate.* It is not possible to determine the level of assessment of industrial real estate by using accepted equalization methods. The lack of sales data precludes the use of an assessment/sales ratio study, the diverse nature of industrial real estate precludes the use of a countywide or citywide income capitalization study, and the limited number of industrial properties precludes the use of sample appraisals. The level of assessment of industrial real estate can only be determined by the valuation of individual parcels of industrial real estate. Any attempt to equalize industrial valuations by using accepted equalization methods would create an arbitrary result. However, under the circumstances set forth in Iowa Code section 421.17(10), the department may correct any errors in such assessments that are brought to the attention of the department, including errors related to property with a dual classification if the primary use of the property is from the industrial portions.

102.11(5) *Centrally assessed property.* Property assessed by the department pursuant to Iowa Code chapters 428, 434, 437 and 438 is equalized internally by the department in the making of the assessments. Further, the assessments are equalized with the aggregate valuations of other classes of property as a result of actions taken by the department pursuant to rule 701—102.10(441).

102.11(6) *Miscellaneous real estate.* Since it is not possible to use accepted equalization methods to determine the level of assessment of mineral rights and interstate railroad and toll bridges, these properties shall not be subject to equalization by the department. However, under the circumstances set forth in Iowa Code section 421.17(10), the department may correct any errors in assessments that are brought to the attention of the department.

This rule is intended to implement Iowa Code sections 441.21, 441.47, 441.48 and 441.49.

701—102.12(441) Tentative equalization notices. Prior to the issuance of the final equalization order to each county auditor, a tentative equalization notice providing for proposed percentage adjustments to the aggregate valuations of classes of property as set forth in rule 701—102.11(441) shall be mailed to the county auditor whose valuations are proposed to be adjusted. The tentative equalization notice constitutes the ten days' notice required by Iowa Code section 441.48.

This rule is intended to implement Iowa Code sections 441.47 and 441.48.

701—102.13(441) Tentative hearings.

102.13(1) *Appeals.*

a. An official of the assessing jurisdiction, as described in Iowa Code section 441.48(2), can submit a notice of intent to appeal the tentative notice and written appeal materials via GovConnectIowa.

b. Appeals of the adjustments in valuation contained in the tentative equalization notices shall be limited to a statement of the error or errors complained of and shall include such facts as might lead to their correction. No other factors shall be considered by the department in reviewing the appeal. Appeals and hearings on tentative equalization notices before the department are excluded from the provisions of the Iowa administrative procedure Act governing contested case proceedings.

102.13(2) *Conduct of hearing.* Upon receipt of a notice of intent to appeal, the department will schedule each hearing so as to allow the same amount of time for each assessing jurisdiction to make its presentation. During the hearing, each assessing jurisdiction shall be afforded the opportunity to present evidence relevant to its protest. The division administrator for the local government services division shall act as the department's representative. The department's representative shall preside at the hearing, which shall be held at the time and place designated by the department or such other time and place as may be mutually agreed upon by the department and the protesting assessing jurisdiction.

102.13(3) *Due date of written materials.* If the assessing jurisdiction elects to submit a written presentation in lieu of an oral hearing, the written presentation is due on the date the oral hearing

would have taken place. If the assessing jurisdiction elects to submit an oral presentation supported by written documentation, the written documentation must be submitted prior to the date of the hearing.

This rule is intended to implement Iowa Code section 441.48.

701—102.14(441) Final equalization order and appeals.

102.14(1) *Issuance of final equalization order.* The final order shall specify any percentage adjustments in the aggregate valuations of any class of property to be made effective for the county as of January 1 of the year in which the order is issued. The order shall be implemented by the county auditor.

102.14(2) *Appeal of final equalization order.* The city or county officials of the affected county or assessing jurisdiction may appeal a final equalization order by submitting an appeal via GovConnectIowa, via email to the department staff indicated on the final equalization order, by personal delivery to the Hoover State Office Building during regular business hours, or by mail to the address indicated on the final equalization order. The notice of appeal must be submitted or postmarked not later than ten days after the date the final equalization order is issued.

a. Form of appeal. The appeal shall be in writing and in the same format as provided in rule 701—7.5(17A).

(1) The appeal shall substantially state in separate numbered paragraphs the following:

1. The county or assessing jurisdiction;
2. The date on which the final equalization order was issued;
3. The portion of the equalization order being appealed;
4. A clear and concise assignment of each and every error;
5. A clear and concise statement of the facts upon which the affected county or assessing jurisdiction relies as sustaining the assignment of error;
6. The relief requested;
7. The signature of the city or county officials bringing the appeal, or their representative, along with the address to which all subsequent correspondence, notice or papers shall be served or mailed.

(2) A county or assessing jurisdiction may amend its appeal at any time prior to the commencement of the evidentiary hearing. The department may request that the county or assessing jurisdiction amend the notice of appeal for clarification.

b. Answer. The department shall file an answer with the clerk of the legal services and appeals division within 30 days after the filing of the pleading responded to, unless an additional motion is filed as provided in rules 7—2506.12(17A) and 7—2506.15(17A), and then the answer shall be filed within 30 days after the date on which the fact finder issues a ruling on the motion. The department may amend its answer at any time prior to the commencement of the evidentiary hearing.

c. Docketing. Appeals will be assigned a docket number as provided in rule 701—7.6(17A). Records consisting of the case name and the corresponding docket number assigned to the case must be maintained by the clerk of the legal services and appeals division. The records of each case shall also include each action and each act done, with the proper dates as follows:

(1) The title of the appeal;

(2) Brief statement of the date of the final equalization order, the property tax classification affected, and the relief sought;

(3) The manner and time of service of notice of appeal;

(4) The appearance of all parties;

(5) Notice of hearing, together with manner and time of service; and

(6) The decision of the director or administrative law judge or other disposition of the case and the date.

d. Hearing. Rules 7—2506.4(17A) through 7—2506.6(17A), 7—2506.9(17A), 7—2506.10(17A), 7—2506.12(17A) through 7—2506.16(17A), 7—2506.19(17A) through 7—2506.29(17A), 701—7.15(17A) and 701—2506.26(17A) shall apply to any hearing or proceeding regarding the appeal of a final equalization order to the director.

This rule is intended to implement Iowa Code chapter 17A and sections 441.48 and 441.49.

701—102.15(441) Alternative method of implementing equalization orders.

102.15(1) *Application for permission to use an alternative method.*

a. A request by an assessing jurisdiction for permission to use an alternative method of applying the final equalization order must be made in writing to the department within ten days from the date the county auditor receives the final equalization order. The written request shall include the following information:

(1) Facts evidencing the need to use an alternative method of implementing the final equalization order. Such facts shall clearly show that the proposed method is essential to ensure compliance with the provisions of Iowa Code section 441.21.

(2) The exact methods to be employed in implementing the requested alternative method for each class of property.

(3) The specific method of notifying affected property owners of the valuation changes.

(4) Evidence that the alternative method will result in an aggregate property class valuation adjustment equivalent to that prescribed in the department's final equalization order.

b. The department shall review each written request for an alternative method and shall notify the assessing jurisdiction of acceptance or rejection of the proposed method by October 15. The assessing jurisdiction shall immediately inform the county auditor of the department's decision. The county auditor shall include a description of any approved alternative method in the required newspaper publication of the final equalization order. In those instances where the approved alternative method includes individual property owner notification, the publication shall not be considered proper notice to the affected property owners.

102.15(2) *Implementation of alternative method.* If an alternative method is approved by the department, any individual notification of property owners shall be completed by the assessor by no later than October 25.

102.15(3) *Appeal by property owners.* If an alternative method is approved by the department, the special session of the local board of review to hear equalization protests shall be extended to November 30. In such instances, protests may be filed up to and including November 4.

This rule is intended to implement Iowa Code section 441.49.

701—102.16(441) Special session of boards of review.

102.16(1) *Grounds for protest.* The only ground for protesting to the local board of review reconvened in special session pursuant to Iowa Code section 441.49 is that the application of the department's final equalization order results in a value greater than that permitted under Iowa Code section 441.21.

102.16(2) *Authority of board of review.* When in special session to hear protests resulting from equalization adjustments, the local board of review shall only act upon protests for those properties for which valuations have been increased as a result of the application of the department's final equalization order.

The local board of review may adjust valuations of those properties it deems warranted, but under no circumstance shall the adjustment result in a value less than that which existed prior to the application of the department's equalization order. The local board of review shall not adjust the valuation of properties for which no protests have been filed.

102.16(3) *Report of board of review.* In the report to the department of action taken by the local board of review in special session, the board of review shall report the aggregate valuation adjustments by class of property as well as all other information required by the department to determine if such actions may have substantially altered the equalization order.

102.16(4) *Meetings of board of review.* If the final equalization order does not increase the valuation of any class of property, the board of review is not required to meet during the special session. If the final equalization order increases the valuation of one or more classes of property but

no protests are filed by the times specified in Iowa Code section 441.49, the board of review is not required to meet during the special session.

This rule is intended to implement Iowa Code sections 421.17(10) and 441.49.

701—102.17(441) Conference boards.

102.17(1) *Establishment and abolition of office.*

a. As referred to in Iowa Code section 441.1, "federal census" includes any special census conducted by the Bureau of the Census of the U.S. Department of Commerce as well as the Bureau's decennial census.

b. Within 60 days of receiving the certified results of a federal census indicating the population of a city having its own assessor has fallen below 10,000, the city council of the city shall repeal the ordinance providing for its own assessor.

c. Whenever the office of city assessor is abolished, all moneys in the assessment expense fund and the special appraiser fund shall be transferred to the appropriate accounts in the county assessor's office, and all equipment and supplies shall be transferred to the county assessor's office. Employees of the city assessor's office may, at the discretion of the county assessor, become employees of the county assessor. Any deputy assessor of the city may only be appointed a deputy county assessor if they are eligible for appointment pursuant to Iowa Code sections 441.5 and 441.10.

102.17(2) *Membership.* The members of a city or county conference board shall be as described in Iowa Code section 441.2. A member of the board of directors of a school district may serve on the county conference board even though the member lives in a city having its own assessor.

102.17(3) *Voting.*

a. Votes on matters before a conference board shall be by units as provided in Iowa Code section 441.2. At least two members of each voting unit must be present in order for the unit to cast a vote. In the event the vote of the members of a voting unit ends in a tie, that unit shall not cast a vote on the particular matter before the conference board.

b. If a member of a conference board is absent from a meeting, the member's vote may not be cast by another person, except that a mayor pro tem as provided in Iowa Code section 372.14(3) may vote for the mayor when the mayor is absent or unable to perform official duties.

This rule is intended to implement Iowa Code section 441.2.

701—102.18(441) Board of review.

102.18(1) *Membership.*

a. Occupation of members. One member of the county board of review must be actively engaged in farming as that member's primary occupation. However, it is not necessary for a board of review to have as a member one licensed real estate broker and one licensed architect or person experienced in the building and construction field if the person cannot be located after a good-faith effort to do so has been made by the conference board. In determining eligibility for membership on a board of review, a retired person is not considered to be employed in the occupation pursued prior to retirement unless that person remains in reasonable contact with the former occupation, including some participation in matters associated with that occupation.

b. Residency of members. A person must be a resident of the assessing jurisdiction served to qualify for appointment as a member of the board of review. However, a member changing assessing jurisdiction residency after appointment to the board may continue to serve on the board until the member's current term of office expires.

c. Appointments—death, resignation, or removal. In the event of the death, resignation, or removal from office of a member of a board of review, the conference board or city council shall appoint a successor to serve the unexpired term of the previous incumbent.

d. Membership on other boards. A member of a board of review shall not at the same time serve on either the conference board or the examining board or be an employee of the assessor's office.

e. Number of members. A conference board or city council may at any time change the composition of a board of review to either three or five members. To reduce membership from five members to three members, the conference board or city council shall not appoint successors to fill the next two vacancies that occur. To increase membership from three members to five members, the conference board or city council shall appoint two additional members whose initial terms shall expire at such times so that no two board members' terms expire at the end of the same year.

102.18(2) *Sessions of boards of review.*

a. A board of review shall convene and adjourn as described in Iowa Code section 441.33(1). However, if either date falls on a Saturday, Sunday, or legal holiday, the board of review shall convene or adjourn on the following Monday.

b. Extended session. If a board of review determines it will be unable to complete its work by May 31, it may request that the director extend its session up to July 15. The request must be signed by a majority of the membership of the board of review and must contain the reasons the board of review cannot complete its work by May 31. During the extended session, a board of review may perform the same functions as during its regular session unless specifically limited by the director.

c. Special session. If a board of review is reconvened by the director pursuant to Iowa Code section 421.17, the board of review shall perform those functions specified in the order of the director and shall perform no other functions.

102.18(3) *Actions initiated by boards of review.*

a. Internal equalization of assessments. A board of review in reassessment years as provided in Iowa Code section 428.4 has the power to equalize individual assessments as established by the assessor but cannot make percentage adjustments in the aggregate valuations of classes of property. In nonreassessment years, a board of review can adjust the valuation of an entire class of property by adjusting all assessments by a uniform percentage.

b. Omitted assessments. A board of review may assess for taxation any property that was not assessed by the assessor, including property that the assessor determines erroneously is not subject to taxation by virtue of enjoying an exempt status.

c. Notice to taxpayers. If the value of any property is increased by a board of review or a board of review assesses property not previously assessed by the assessor, the person to whom the property is assessed shall be notified by regular mail of the board's action. The notification shall state that the taxpayer may protest the action by filing a written protest with the board of review within five days of the date of the notice. After at least five days have passed since notifying the taxpayer, the board of review shall meet to take final action on the matter, including the consideration of any protest filed. However, if the valuations of all properties within a class of property are raised or lowered by a uniform percentage in a nonreassessment year, notice to taxpayers shall be provided by newspaper publication as described in Iowa Code section 441.35 and in the manner specified in Iowa Code section 441.36.

102.18(4) *Appeals to boards of review.*

a. Jurisdiction. A board of review may act only upon written protests which have been filed with the board of review in compliance with Iowa Code section 441.37(1)*"a."*

b. Filing requirements. Protests must meet the following filing requirements:

(1) Protests must be filed within the time frame described in Iowa Code section 441.37(1)*"a"*(1). In the event the due date falls on a Saturday or Sunday, protests filed the following Monday shall be considered to have been timely filed. Protests postmarked by the due date or the following Monday, if applicable, shall also be considered to have been timely filed.

(2) A protest shall not be rejected for the sole reason that the protest was not filed using the prescribed form if the protest otherwise complies with Iowa Code section 441.37(1)*"a."*

(3) A written request for an oral hearing must be made at the time of filing the protest. The protester may combine on one form assessment protests on parcels separately assessed if the same grounds are relied upon as the basis for protesting each separate assessment. If an oral hearing is

requested on more than one of the protests, the person making the combined protests may request that the oral hearings be held consecutively.

(4) A board of review may allow protests to be filed in electronic format. Protests transmitted electronically are subject to the same deadlines as written protests.

c. Grounds for protest. Taxpayers may protest to a board of review on one or more of the grounds specified in Iowa Code section 441.37. The grounds for protest and procedures for considering protests are as follows:

(1) The assessment is not equitable when compared with those of similar properties in the same taxing district. If this ground is a basis for the protest, the protester may identify comparable properties to support the claim. In considering a protest based upon this ground, the board of review should examine carefully all information used to determine the assessment of the subject property, consider any comparable properties, and determine whether the evidence demonstrates the subject property is inequitably assessed.

(2) The property is assessed at more than the value authorized by law. If this ground is the basis for a protest, the protester may indicate the amount considered to be the actual value of the property.

(3) The property is not assessable, is exempt from taxes, or is misclassified. If this ground is the basis for a protest, the protester may indicate why the property is exempt, misclassified, or not assessable.

(4) There is an error in the assessment. An error may include, but is not limited to, listing errors, assessment of subject property for less than authorized by law, or erroneous mathematical calculations. If this ground is the basis for a protest, the protester must indicate the alleged error. A board of review must determine:

1. If an error exists, and
2. How the error might be corrected.

(5) There is fraud or misconduct in the assessment. If this ground of protest is used, the protester must state the specific fraud or misconduct alleged, and the board of review must first determine if there is validity to the protester's allegation. If it is determined that there is fraud in the assessment or that there has been misconduct by the assessor, the board of review shall take action to correct the assessment and report the matter to the director. For purposes of this subrule, "misconduct" means the same as defined in Iowa Code section 441.9.

(6) Protests may be filed for previous years if the protester discovers that a mathematical or clerical error was made in the assessment, provided the taxes have not been fully paid or otherwise legally discharged.

d. Disposition of protests. After reaching a decision on a protest, the board of review shall give the taxpayer written notice of its decision. The decision shall be mailed no later than three days after the board of review's adjournment. The notice shall contain the following information:

(1) The valuation and classification of the property as determined by the board of review.

(2) If the protest was based on the ground the property was not assessable, the notice shall state whether the exemption is allowed and the value at which the property would be assessed in the absence of the exemption.

(3) The specific reasons for the board's decision with respect to the protest.

(4) That the board of review's decision may be appealed to either the property assessment appeal board or district court within 20 days of the board's adjournment or May 31, whichever date is later. If the adjournment date is known, the date shall be stated on the notice. If the adjournment date is not known, the notice shall state the date will be no earlier than May 31.

1. An appeal from the board of review to the property assessment appeal board may be made pursuant to the provisions of Iowa Code section 441.37A and 701—Chapter 115.

2. An appeal from the board of review to the district court may be made pursuant to the provisions of Iowa Code section 441.38. The appeal shall be filed in the county where the property is located. Notice of the appeal shall be served on the chairperson, presiding officer, or clerk of the board of review after the written notice of appeal has been filed with the clerk of district court.

This rule is intended to implement Iowa Code sections 441.31 through 441.37 and 441.38.

701—102.19(428,441) Assessors.

102.19(1) *Conflict of interest.* An assessor shall not act as a private appraiser or as a real estate broker or option agent in the jurisdiction in which serving as assessor.

102.19(2) *Listing of property.*

a. Forms. Assessors may design and use their own forms in lieu of those prescribed by the department provided that the forms contain all information contained on the prescribed form, are not substantially different from the prescribed form, and are approved by the director.

b. Assessment rolls. Assessment rolls must be prepared in duplicate for each property in a reassessment year as defined in Iowa Code section 428.4. However, the copy of the roll does not have to be issued to a taxpayer unless there is a change in the assessment or the taxpayer requests the issuance of the duplicate copy.

c. Whenever a date specified in Iowa Code chapter 441 falls on a Saturday, Sunday, or legal holiday, the action required to be completed on or before that date shall be considered to have been timely completed if performed on or before the following day which is not a Saturday, Sunday, or holiday.

This rule is intended to implement Iowa Code chapters 428 and 441.

701—102.20(421,428,441) Valuation of dual classification property. Real estate with a dual classification of commercial/residential or industrial/residential shall be assessed at its actual value as defined in Iowa Code section 441.21.

102.20(1) *Allocation of dual classification values.* The assessor shall value as a whole properties that have portions classified as residential and portions classified as commercial or industrial. After the assessor has assigned a value to the property, the value shall be allocated between the two classes of property based on the appropriate appraisal methodology. The assessor shall allocate land value proportionately by class.

102.20(2) *Notice of valuation.* The valuation notice issued pursuant to Iowa Code section 441.23 shall include a breakdown of the valuation by class for the current year and the prior year.

102.20(3) *Protest of assessment.* The valuation and assessment of property with a dual classification shall be considered one assessment, and any protest of assessment brought under Iowa Code section 441.37 or subsequent appeal must be made on the entire assessment. Protests of assessments on the valuation of only one class of property are not permitted. The board of review shall review the valuation in total as both classifications are subject to the board's adjustment in any review proceeding. Likewise, any tribunal or court reviewing the board's decision shall base its review on the entire assessment.

This rule is intended to implement Iowa Code sections 421.17, 428.4 and 441.21.

701—102.21(441,443) Omitted assessments.

102.21(1) *Property subject to omitted assessment.*

a. Land and buildings. An omitted assessment can be made only if land or buildings were not listed and assessed by the assessor. The failure to list and assess an entire building is an omission for which an omitted assessment can be made even if the land upon which the building is located has been listed and assessed. However, the failure to consider the value added as a result of an improvement made does not constitute an omission for which an omitted assessment can be made if the building or land to which the improvement was made has been listed and assessed.

b. Previously exempt property. Property that has been erroneously determined to be exempt from taxation may be restored to taxation by the making of an omitted assessment. An omitted assessment is also made to restore to taxation previously exempt property that ceases to be eligible for an exemption.

102.21(2) *Officials authorized to make an omitted assessment.*

a. Local board of review. A local board of review may make an omitted assessment of property during its regular session only if the property was not listed and assessed as of January 1 of the current assessment year.

EXAMPLE 1: During its regular session, which begins May 1, 2026, a local board of review may make an omitted assessment only of property that was not assessed by the assessor as of January 1, 2026. During that session, the board of review could not make an omitted assessment for an assessment year prior to 2026.

b. County auditor and local assessor. The county auditor and local assessor may make an omitted assessment. However, no omitted assessment can be made by the county auditor or local assessor if taxes based on the assessment year in question have been paid or otherwise legally discharged.

EXAMPLE 2: If a tract of land was listed and assessed and taxes levied against that assessment have been paid or legally discharged, no omitted assessment can be made of a building located upon that tract of land even though the building was not listed and assessed at the time the land was listed and assessed.

c. County treasurer. The county treasurer may make an omitted assessment within two years from the date the tax list that should have contained the assessment should have been delivered to the county treasurer.

EXAMPLE 3: For the 2023 assessment year, the tax list is to be delivered to the county treasurer on or before June 30, 2024. Thus, the county treasurer may make an omitted assessment for the 2023 assessment year at any time on or before June 30, 2026. The county treasurer may make an omitted assessment of a building even if taxes levied against the land upon which the building is located have been paid or legally discharged. The county treasurer may not make an omitted assessment if the omitted property is no longer owned by the person who owned the property on January 1 of the year the original assessment should have been made.

d. Department. The department may make an omitted assessment of any property assessable by the department at any time within two years from the date the assessment should have been made.

This rule is intended to implement Iowa Code chapter 440 and sections 443.6 through 443.15.

701—102.22(441) Assessor compliance.

102.22(1) The assessor shall determine the value of real property in accordance with rules adopted by the department and in accordance with forms and guidelines contained in the Iowa Real Property Appraisal Manual prepared by the department. The assessor may use an alternative manual to value property if it is a unique type of property not covered in the Iowa Real Property Appraisal Manual prepared by the department.

102.22(2) If the conference board disputes the determination of the department under Iowa Code section 441.21(1)*"i,"* the chairperson of the conference board may appeal the determination to the director under 701—Chapter 7.

This rule is intended to implement Iowa Code section 441.21.

701—102.23(441) Assessor shall not assess own property.

102.23(1) *Assessor and deputy assessor prohibited from assessing own property.* An assessor or deputy assessor shall not personally assess a property if the assessor or deputy assessor owns the property, has a financial interest in the property, or has a financial interest in the entity that owns the property. The assessing jurisdiction shall pay all costs and expenses associated with the assessment of the above property.

102.23(2) *Certification to the department.*

a. Not later than January 1 of each year, assessors shall certify to the director that the assessor did not personally assess the following property in the previous assessment year:

(1) Property owned by the assessor;

(2) Property in which the assessor has a financial interest;

(3) Property owned by an entity in which the assessor has a financial interest.

b. Not later than January 1 of each year, deputy assessors shall certify to the director that the deputy assessor did not personally assess the following property in the previous assessment year:

(1) Property owned by the deputy assessor;

(2) Property in which the deputy assessor has a financial interest;

(3) Property owned by an entity in which the deputy assessor has a financial interest.

c. Assessors and deputy assessors shall use forms and procedures prescribed and provided by the director for the certifications described in paragraphs 102.23(2)*"a"* and *"b."*

102.23(3) *Powers and duties of director.* The director shall have and assume all of the powers and duties under Iowa Code section 421.17 in administering this rule.

102.23(4) *Definitions.* For purposes of this rule, the following definitions shall govern:

"Financial interest" includes but is not limited to the holding of legal title to real property or any ownership interest in an entity that holds legal title to real property. Notwithstanding the preceding sentence, ownership interest in an entity shall not be deemed a "financial interest" when a person's ownership interest equals less than 10 percent of the entity's total ownership interest.

"Personally assess" means engaging in the listing, valuation, and classification of real property.

This rule is intended to implement Iowa Code section 441.17.

701—102.24(441) Special counsel.

102.24(1) Before the conference board may employ special counsel to assist the city legal department or county attorney under Iowa Code section 441.41, the city legal department in the case of cities having an assessor, or county attorney in the case of counties, shall first provide written approval of the employment of special counsel for each matter in which the special counsel will be employed on a case-by-case basis.

102.24(2) In the event special counsel is employed, the assessor shall provide the department with written notice of said employment, including the matter being litigated, justification for the hiring of special counsel, and the special counsel's name and hourly rate, within ten days of the hiring. On or before January 1 of each year, the assessor shall submit to the director, on forms prescribed by the director, a report of all matters litigated by special counsel in the previous 12-month period and the cost of said litigation for each case.

This rule is intended to implement Iowa Code section 441.41.

701—102.25(441) Application of two-tier assessment limitation.

102.25(1) Following receipt of the certification of assessment limitations described in Iowa Code section 441.21(9), the county auditor shall determine the assessed values of property by applying the assessment limitations as required under Iowa Code section 441.21(9).

102.25(2) When a property unit of commercial property, industrial property, or property valued by the department pursuant to Iowa Code chapter 434 is comprised of more than one parcel, the county auditor shall apply the assessment limitations described in Iowa Code section 441.21(5)*"b"*(2)(a) and *"c"*(2)(a), as applicable, to each parcel within the property unit by dividing 150,000 by the value of the entire property unit and multiplying the quotient by the value of each parcel within the property unit. Any remaining value of each parcel within the property unit shall receive the assessment limitations described in Iowa Code section 441.21(5)*"b"*(2)(b) and *"c"*(2)(b), as applicable. The assessment limitations shall be applied as whole numbers.

EXAMPLE 1: Parcels 1, 2, and 3 comprise one property unit of commercial, industrial, or railway property valued at $300,000 total.

Parcel 1 is assessed at $100,000.

Parcel 2 is assessed at $100,000.

Parcel 3 is assessed at $100,000.

The first $50,000 of value of each parcel receives the assessment limitation applicable to residential property. The additional value of each parcel receives the applicable assessment limitation

for commercial, industrial, or railway property assessed under Iowa Code chapter 434 described in Iowa Code section 441.21(5)*"b"*(2)(b) and *"c"*(2)(b).

EXAMPLE 2: Parcels 1, 2, 3, and 4 comprise one property unit of commercial, industrial, or railway property valued at $850,000 total.

Parcel 1 is assessed at $500,000.

Parcel 2 is assessed at $200,000.

Parcel 3 is assessed at $100,000.

Parcel 4 is assessed at $50,000.

The first $88,235 of value of Parcel 1 receives the assessment limitation applicable to residential property. The additional value of the parcel receives the applicable assessment limitation for commercial, industrial, or railway property assessed under Iowa Code chapter 434 described in Iowa Code section 441.21(5)*"b"*(2)(b) and *"c"*(2)(b).

The first $35,294 of value of Parcel 2 receives the assessment limitation applicable to residential property. The additional value of the parcel receives the applicable assessment limitation for commercial, industrial, or railway property assessed under Iowa Code chapter 434 described in Iowa Code section 441.21(5)*"b"*(2)(b) and *"c"*(2)(b).

The first $17,647 of value of Parcel 3 receives the assessment limitation applicable to residential property. The additional value of the parcel receives the applicable assessment limitation for commercial, industrial, or railway property assessed under Iowa Code chapter 434 described in Iowa Code section 441.21(5)*"b"*(2)(b) and *"c"*(2)(b).

The first $8,824 of value of Parcel 4 receives the assessment limitation applicable to residential property. The additional value of the parcel receives the applicable assessment limitation for commercial, industrial, or railway property assessed under Iowa Code chapter 434 described in Iowa Code section 441.21(5)*"b"*(2)(b) and *"c"*(2)(b).

EXAMPLE 3: Parcels 1 and 2 comprise one property unit of commercial, industrial, or railway property valued at $500,000 total.

Parcel 1 is assessed at $400,000.

Parcel 2 is assessed at $100,000.

The first $120,000 of value of Parcel 1 receives the assessment limitation applicable to residential property. The additional value of the parcel receives the applicable assessment limitation for commercial, industrial, or railway property assessed under Iowa Code chapter 434 described in Iowa Code section 441.21(5)*"b"*(2)(b) and *"c"*(2)(b).

The first $30,000 of value of Parcel 2 receives the assessment limitation applicable to residential property. The additional value of the parcel receives the applicable assessment limitation for commercial, industrial, or railway property assessed under Iowa Code chapter 434 described in Iowa Code section 441.21(5)*"b"*(2)(b) and *"c"*(2)(b).

This rule is intended to implement Iowa Code section 441.21(5) and 441.21(9).

RA 26-356

REVENUE DEPARTMENT[701]

Regulatory Analysis

Notice of Intended Action to be published: 701—Chapters 103 and 111 through 114
"Examination and Certification of Assessors and Deputy Assessors; Administration; Certification; Courses; Review of Agency Action"

Iowa Code section(s) or chapter(s) authorizing rulemaking: Iowa Code sections 421.14, 441.5, 441.6, and 441.10

State or federal law(s) implemented by the rulemaking: Iowa Code chapter 441

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 18, 2026 2 to 3 p.m.	Via videoconference call: meet.google.com/egs-ucjg-frv

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis, which must be received by the Department of Revenue no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Nick Behlke
Department of Revenue
Hoover State Office Building
P.O. Box 10457
Des Moines, Iowa 50306-3457
Phone: 515.336.9025
Email: nick.behlke@iowa.gov

Purpose and Summary

The purpose of this proposed rulemaking is to rescind and adopt a new Chapter 103, as well as to rescind Chapters 111 through 114 and readopt those rules into Chapter 103. Chapter 103 provides an overview of the appointment and reappointment process for assessors and deputy assessors, including taking the assessor examination, being placed on the assessor register, and continuing education. The Department proposes revisions to remove portions of the rules that the Department determined are obsolete, unnecessary, or duplicative of statutory language as required by Executive Order 10. Further, the Department proposes amendments to the chapter to add clarity and better organization to aid the public's understanding of the appointment process and duties of local assessors.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

This proposed rulemaking does not create costs for any classes of persons.

- **Classes of persons that will benefit from the proposed rulemaking:**

Assessors and deputy assessors will benefit from a deeper understanding of the requirements surrounding qualifications for appointment and reappointment. Conference boards will benefit from a deeper understanding of how to appoint assessors.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

There is no economic impact associated with this proposed rulemaking beyond what is contained in statute.

- **Qualitative description of impact:**

The qualitative benefits of this proposed rulemaking beyond what is already provided in statute is the value of having a clear understanding of what is required for an assessor or deputy assessor to qualify for appointment or reappointment in order to streamline the process and eliminate any confusion that could prevent an individual from being properly appointed.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

There are no costs to the State beyond what is already required to administer the relevant statutes.

- **Anticipated effect on State revenues:**

There is no anticipated effect on State revenues.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

The cost of not having rules is greater confusion about the requirements to be appointed or reappointed as an assessor, which could lead to fewer people qualifying for appointment. There are no costs associated with this proposed rulemaking.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

This proposed rulemaking is not costly or intrusive.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

The Department has provided website guidance where appropriate but determined that only providing website guidance instead of the chapter would not provide the intended benefit.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

Website guidance is not binding and does not provide individuals with as much certainty when they have questions about specific processes or procedures.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

This proposed rulemaking will not impact small businesses.

Text of Proposed Rulemaking

ITEM 1. Rescind 701—Chapter 103 and adopt the following **new** chapter in lieu thereof:

CHAPTER 103
EXAMINATION AND CERTIFICATION OF ASSESSORS AND DEPUTY ASSESSORS

701—103.1(441) Application for examination.

103.1(1) The application for the examination shall be made on a form prescribed by the director and shall constitute an integral part of the examination. The application form shall require information as to the education, training, and experience of the applicant, including evidence of successful completion of the preliminary education requirements required in subrule 103.3(2), and such other information as the director may deem pertinent. Applications are public records pursuant to Iowa Code chapter 22.

103.1(2) Upon receipt of a properly filed application, the department will provide to the applicant instructions on taking the online examination.

This rule is intended to implement Iowa Code section 441.5.

701—103.2(441) Examinations.

103.2(1) *Examination questions.* Examination questions and answers shall not be made available to persons other than employees of the department authorized by the director to have access to them. Persons who take the examination shall not discuss with anyone the specific questions contained in the examination. This shall not restrict persons who have taken the examination from discussing the general subject matter of the examination.

103.2(2) *Materials and supplies.* During the examination, applicants are only permitted to use calculators, writing utensils, and two pieces of blank scratch paper. Applicants shall show their identification card before the examination begins.

103.2(3) *Monitors.* Applicants shall be virtually monitored using an online software that accesses the applicant's camera and microphone. Department staff may view an applicant's examination video to ensure compliance.

103.2(4) *Violations.* Any person who intentionally violates any of the provisions of this rule, or is otherwise found to be noncompliant with examination rules, shall be subject to the penalties specified in this subrule. If an infraction occurs and is detected and confirmed, the examination of the person committing the infraction shall be reduced to a failing grade, and if necessary, the list of candidates eligible for the position of city or county assessor or deputy assessor shall be adjusted accordingly.

103.2(5) *Assessor examination scores.* The scores of persons who take the assessor or deputy assessor examination are public records pursuant to Iowa Code chapter 22.

103.2(6) *Length of examination.* The director shall determine the duration of the examination.

103.2(7) *Retaking examination.* A person who takes the examination for the position of city or county assessor is not eligible to take the examination again for a period of at least 30 days following the date the person receives the person's results.

This rule is intended to implement Iowa Code section 441.5.

701—103.3(441) Eligibility requirements to take the examination.

103.3(1) *High school diploma or its equivalent.* Only persons who possess a high school diploma or its equivalent are eligible to take the examination. The equivalent of high school diploma shall consist of a high school equivalency diploma issued by the department of education pursuant to

Iowa Code chapter 259A, a similar document issued by the U.S. armed forces, or a similar document issued by another state.

103.3(2) *Preliminary education requirements.*

a. Only persons who have successfully completed the preliminary education requirements are eligible to take the examination. These requirements may be met by achieving one of the following:

(1) Successful completion of a department-approved course on Iowa assessment and taxation that includes coursework on Iowa laws;

(2) Successful completion of a department-approved course on general appraisal and assessment practice in addition to a department-approved course on Iowa laws; or

(3) Receipt of a currently active department-approved professional appraisal designation from a recognized appraisal organization in conjunction with successful completion of a department-approved course on Iowa laws if the appraisal designation is not already specific to Iowa.

b. All preliminary education requirements described in paragraph 103.3(2)*"a"* must be completed within five years prior to the date of the examination. This requirement does not apply to persons currently serving as assessor taking the exam for a subsequent time.

c. For the purposes of this subrule, "successful completion" means answering a minimum of 70 percent of questions correctly on the test given at the completion of the course.

d. The department will publish a list of approved courses and professional designations on its website.

This rule is intended to implement Iowa Code section 441.5.

701—103.4(441) Appraisal-related experience. Appraisal-related experience shall include only such experience as may have been obtained through full-time paid employment consisting of the actual appraisal and valuation of property. The experience shall have included the physical inspection of property as part of the appraisal process and the setting of values for parcels of property.

This rule is intended to implement Iowa Code section 441.5.

701—103.5(441) Regular certification.

103.5(1) To obtain regular certification, a person must pass the examination and either:

a. Possess two years of appraisal-related experience at the time of passing the examination, or

b. Have obtained temporary certification, received a provisional appointment as assessor, and successfully completed the course of study prescribed by the director as provided in Iowa Code section 441.5.

103.5(2) If subsequent to passing the examination a person meets the requirements of paragraph 103.5(1)*"a"* but does not meet the requirements of paragraph 103.5(1)*"b,"* the person must again pass the examination to obtain regular certification.

103.5(3) A regular certificate expires two years after the most recent date certification is granted by the director. However, the regular certificate of a person who receives an appointment as assessor remains valid until the person's resignation or removal from the position of assessor, even if more than two years have passed since certification was last granted.

103.5(4) A regular certificate may be renewed at any time if the person possessing a certificate passes the assessor examination. A renewed regular certificate remains valid for a period of two years from the date certification was last granted, except as provided in subrule 103.5(3).

This rule is intended to implement Iowa Code section 441.5.

701—103.6(441) Temporary certification.

103.6(1) A person who passes the assessor examination but does not possess two years of appraisal-related experience will obtain temporary certification.

103.6(2) The temporary certificate of a person who does not receive a provisional appointment as assessor expires two years after the date the certification is granted.

103.6(3) The temporary certificate of a person who does not receive a provisional appointment as assessor may be renewed if the person retakes and passes the assessor examination. A renewed temporary certificate will remain valid for a period of two years from the date temporary certification was last granted.

103.6(4) The temporary certificate of a person who receives a provisional appointment as assessor expires upon the person's successful completion of the course of study provided in Iowa Code section 441.5 and the granting of regular certification by the director.

103.6(5) The director shall revoke the temporary certificate of a person who receives a provisional appointment as assessor and who does not complete the course of study provided in Iowa Code section 441.5 within 18 months of appointment as assessor. Upon the revocation of an assessor's temporary certificate, the director shall notify the person of the revocation and shall notify the conference board of the revocation and that the assessor whose temporary certificate has been revoked is no longer eligible to hold the position of assessor.

This rule is intended to implement Iowa Code section 441.5.

701—103.7(441) Appointment of deputy assessors.

103.7(1) The appointments and certifications of deputy assessors expire upon the death, resignation, or removal of the assessor, except that the appointment and certification of the chief deputy assessor shall not expire until the appointment of a new assessor.

103.7(2) After the appointment of a new assessor, the assessor may appoint one or more deputy assessors from the registers of persons certified as eligible for appointment as assessor or deputy assessor. The assessor shall notify the department immediately of persons appointed as deputy assessors, the vacating of office by a deputy assessor, or a change in a deputy assessor's legal name by sending an email to local government services staff.

This rule is intended to implement Iowa Code sections 441.5, 441.10 and 441.11.

701—103.8(441) Reappointment of deputy assessors. If a deputy assessor fails to comply with continuing education requirements, the deputy assessor shall be removed from that position and not reinstated until successful completion of the required hours of credit. Upon written request by a deputy assessor seeking a waiver of the continuing education requirements, the director may waive the requirements for good cause. The number of credit hours required for the deputy assessor to be eligible for appointment as a deputy assessor in another jurisdiction shall be prorated according to the completed portion of the deputy assessor's six-year term. Information about situations in which the required number of credit hours must be prorated can be found in rule 701—103.17(441).

This rule is intended to implement Iowa Code sections 441.8 and 441.11.

701—103.9(441) Special examinations. The conference board of the city or county in which a special examination is held shall reimburse the department for all expenses incurred in the administration of the examination. In determining the amount of reimbursement, the director shall take into consideration the following nonexclusive costs:

1. Traveling to and from the examination site;
2. Meals and lodging, if any, for the monitor administering the examination;
3. Preparing and grading the examinations; and
4. Salary of the monitor during the time expended on the examination.

This rule is intended to implement Iowa Code section 441.7.

701—103.10(441) Register of eligible candidates.

103.10(1) *Assessor and deputy assessor register.*

a. Following the administration and grading of an examination for assessor or deputy assessor, the director shall establish updated registers containing the names, in alphabetical order, and addresses of all persons eligible for appointment. The registers shall not contain test scores, but the scores shall be given to the city or county conference board upon request. Eligible candidates shall remain on the

register for two years following the date of certification by the director after which time the person must successfully retake the examination to be placed on the register. However, assessors and deputy assessors with six years of consecutive service shall be placed on the register without further testing being required. "Consecutive service" means service in which there was not more than 30 days' break in service. Assessor and deputy assessor service cannot be combined to meet the six-year consecutive service requirement. Assessors and deputy assessors are responsible for maintaining current contact information with the department, including mailing address, email address, and telephone number.

b. In maintaining the register, the department shall indicate which assessors and deputy assessors have retired from the profession. An assessor or deputy assessor may request to no longer be indicated as retired on the register.

c. Deceased assessors and deputy assessors shall be removed from the register.

103.10(2) *Continuing education requirements.* Assessors and deputy assessors must complete the continuing education requirements provided in Iowa Code sections 441.5 and 441.10 to be reappointed to the assessors' and deputy assessors' present position or appointed to the same position in a different assessing jurisdiction. It shall be the duty of the conference board in the case of assessor appointments and the duty of the assessor in the case of deputy assessor appointments to receive written verification of continuing education requirement compliance from the director. An assessor or deputy assessor appointed as such without having complied with continuing education requirements shall be removed from office on order of the director. No continuing education requirements need be met for an assessor to be appointed a deputy assessor nor for a deputy assessor to be appointed an assessor.

This rule is intended to implement Iowa Code sections 441.5 and 441.10.

701—103.11(441) Course of study for provisional appointees.

103.11(1) A person who possesses temporary certification and receives a provisional appointment as assessor shall within 18 months of the appointment complete a course of study prescribed and administered by the department. The course of study shall include the following:

a. Attendance of at least one basic assessment school conducted by the department;

b. Field instruction by appraisal personnel of the department;

c. Actual appraisal of representative properties in each class of real estate; and

d. Attendance at the annual school of instruction sponsored by the department and the Iowa State Association of Assessors. In the event a person is unable to attend the annual school of instruction due to circumstances beyond the person's control, the director may, upon the request of the person, substitute comparable instruction for the fulfillment of this requirement.

103.11(2) At three-month intervals following the appointment of the assessor, department appraisal personnel may complete a review of the assessor's performance and discuss the review with the assessor. If the review indicates unsatisfactory progress is being made toward developing a working knowledge of appraisal principles, the assessor shall be informed as to how the assessor's performance could be improved. Not less than 60 days before the expiration of the 18-month period, the director shall inform the assessor and the conference board of the assessor's jurisdiction of the director's determination as to whether the assessor satisfactorily completed the course of study. If the assessor satisfactorily completes the course of study, the assessor shall be granted regular certification. If the assessor does not satisfactorily complete the course of study, the director shall revoke the assessor's temporary certificate and notify the assessor and the conference board of the revocation and that the person is no longer eligible to hold the position of assessor.

This rule is intended to implement Iowa Code section 441.5.

701—103.12(441) Examining board.

103.12(1) *Membership.* Each voting unit of the conference board shall appoint a member of the examining board. Members of the examining board shall not be members of the conference board, a body that selects a member of the conference board, or the local board of review. A person must

be a resident of the assessing jurisdiction served to qualify for appointment as a member of the examining board. A member changing assessing jurisdiction residency after appointment to the board may continue to serve on the board until the member's current term of office expires.

103.12(2) *Terms of members.* Members of the examining board are appointed for terms of six years. In the event of death, resignation, or removal from office of a member of the examining board, the appropriate voting unit of the conference board shall appoint a successor to serve the unexpired term of the previous incumbent.

103.12(3) *Duties.* The examining board may, at its discretion, contact all or some of the persons on the register of candidates eligible for appointment as assessor. The examining board may conduct interviews with interested persons and may administer such further examinations as may enable the board to submit a recommendation to the conference board. In arriving at its recommendation, the examining board may set other professional standards, including but not limited to examination scores, education, and experience.

103.12(4) *Report to conference board.* The report to the conference board required pursuant to Iowa Code section 441.6 should contain a complete description of the examining board's investigations and activities. The report may, at the discretion of the examining board, contain recommendations to the conference board.

103.12(5) *Time for action.* The examining board shall take all steps necessary to comply with the time frames set forth in Iowa Code section 441.6.

This rule is intended to implement Iowa Code sections 441.2, 441.3, 441.4, and 441.6.

701—103.13(441) Appointment of assessor.

103.13(1) *Meeting of the conference board.*

a. At the time specified in Iowa Code section 441.6, the conference board shall hold a meeting and take action to appoint an assessor or request permission to hold a special examination. Within ten days of this meeting, the conference board shall notify the director of the appointment or request a special examination. The notice shall include a statement by the conference board stating whether there have been any charges or evidence of any misconduct, nonfeasance, malfeasance, or misfeasance against the appointee. If there have been charges or evidence of any misconduct, nonfeasance, malfeasance, or misfeasance against the appointee, the notice shall include a summary of the misconduct, nonfeasance, malfeasance, or misfeasance and any action taken.

b. For purposes of this rule, misconduct, nonfeasance, malfeasance, and misfeasance are defined as follows:

"Malfeasance" means the doing of an act that a person ought not do at all.

"Misconduct" means the same as defined in Iowa Code section 441.9.

"Misfeasance" means the improper performance of some act that a person may lawfully do.

"Nonfeasance" means the omission of an act that a person ought to do.

103.13(2) *Special examination.* A request for a special examination shall be made only after the conference board has made a good-faith attempt to appoint an assessor from the current register of eligible candidates. The request shall state the reasons the director should grant permission to hold the special examination.

103.13(3) *Confirmation by the director.*

a. The appointee selected by the conference board shall not assume the office of city or county assessor until such appointment is confirmed by the director. In considering whether to confirm the appointment, the director shall consider any charges or evidence of misconduct, nonfeasance, malfeasance, or misfeasance by the appointee. Within 30 days of receiving the notice contemplated in subrule 103.13(1), the director shall notify the conference board and assessor of the acceptance or rejection of the appointment. An appeal of the director's decision under this subrule may be made under rule 701—103.15(441).

b. Immediately following selection by the conference board, the appointee assessor shall submit information to the director as required for the director or designee to conduct a background check. The

director or designee may review the department's records and other records in considering whether to confirm the appointment of an assessor.

This rule is intended to implement Iowa Code section 441.6.

701—103.14(441) Reappointment of assessor.

103.14(1) *Time for reappointment.* A conference board must decide whether to reappoint an incumbent assessor at least 90 days before the expiration of the incumbent's term. If the incumbent is not to be reappointed, the conference board shall notify the incumbent in writing at least 90 days before the expiration of the incumbent's term. Failure of the conference board to provide timely notification of the decision not to reappoint the assessor shall result in the assessor being reappointed. In no case may an incumbent assessor be reappointed earlier than 180 days before the expiration of the incumbent's term. Within ten days of reappointment or notification of expiration of the incumbent's term, the conference board shall notify the director of the reappointment or notification of expiration of the incumbent's term. If the conference board reappoints an incumbent assessor, the notice shall include a statement by the conference board stating whether there have been any charges or evidence of any misconduct, nonfeasance, malfeasance, or misfeasance against the appointee. If there have been charges or evidence of any misconduct, nonfeasance, malfeasance, or misfeasance against the appointee, the notice shall include a summary of the misconduct, nonfeasance, malfeasance, or misfeasance and any action taken. For purposes of this rule, "misconduct," "nonfeasance," "malfeasance," and "misfeasance" mean the same as defined in paragraph 103.13(1)*"b."*

103.14(2) *Continuing education.* A conference board shall not reappoint an incumbent assessor if the board has not received from the assessor education advisory committee certification that the incumbent assessor has satisfied all continuing education requirements.

103.14(3) *Confirmation by the director.*

a. An assessor reappointed by the conference board shall not assume the office of city or county assessor in the subsequent term until such reappointment is confirmed by the director. In considering whether to confirm the reappointment, the director shall consider any charges or evidence of misconduct, nonfeasance, malfeasance, or misfeasance by the appointee. For purposes of this rule, "misconduct," "nonfeasance," "malfeasance," and "misfeasance" means the same as defined in subrule 103.13(1). Within 30 days of receiving notice of reappointment by the conference board, the director shall notify the conference board and assessor of the acceptance or rejection of the reappointment. An appeal of the director's decision under this subrule may be made under rule 701—103.15(441).

b. Immediately following selection by the conference board, the appointee assessor shall submit information to the director as required for the director or designee to conduct a background check. The director or designee may review the department's records and other records in considering whether to confirm the reappointment of an assessor.

This rule is intended to implement Iowa Code sections 441.6 and 441.8.

701—103.15(441) Appeals of director's rejection of assessor appointment or reappointment.

103.15(1) *Written request for appeal.* Any assessor or conference board wishing to contest the director's rejection of the conference board's appointment of an assessor under subrule 103.13(3) or reappointment of an assessor under subrule 103.14(3) shall file an appeal, in writing, within 30 days of the director's notice of decision. Any person who does not seek an appeal within 30 days of the director's notice shall be precluded from challenging the director's decision.

103.15(2) *Procedures.* Appeals will be governed by the procedures set forth in this rule together with the procedures set forth in the following:

a. Rule 701—8.8(17A,22,421,422).

b. Rules 7—2506.4(17A) and 7—2506.5(17A).

c. Rules 7—2506.12(17A), 7—2506.14(17A), 7—2506.15(17A), 7—2506.20(17A), 7—2506.22(17A); 7—2506.25(17A), 7—2506.27(17A), and 701—2506.25(17A); additionally, Iowa Code section 421.60 shall not apply; and rules 7—2506.10(17A) and 7—2506.29(17A).

d. Rule 7—2506.13(17A).

e. Rule 7—2506.16(17A).

f. Rule 7—2506.19(17A).

g. Rules 7—2506.21(17A) and 7—2506.24(17A).

h. Rule 7—2506.23(17A).

i. Rule 7—2506.28(17A).

j. 701—subrule 2507.3(2).

k. Rule 701—2507.7(17A).

l. The introductory paragraph of rule 701—2507.8(17A) and 701—subrule 2507.8(6).

m. 701—subrules 2507.11(1) through 2507.11(3).

n. Rule 701—2507.13(17A,421).

o. 701—subrules 2507.14(1) through 2507.14(3).

p. Rule 701—2507.15(17A).

103.15(3) *Presiding officer.* The director shall be the presiding officer in a contested case under this rule. The director may request that an administrative law judge assist and advise the director with any matters related to the contested case proceedings, including but not limited to ruling on any prehearing matters, presiding at the contested case hearing, and issuing orders and rulings.

103.15(4) *Contents of the appeal.* The appeal shall contain the following in separate numbered paragraphs:

a. A statement of the department action giving rise to the appeal.

b. The date of the department action giving rise to the appeal.

c. Each error alleged to have been committed, listed as a separate paragraph. For each error listed, an explanation of the error and all relevant facts related to the error shall be provided.

d. Reference to the particular statutes, rules, or agreement terms, if known.

e. References to and copies of any documents or other evidence relevant to the appeal.

f. Any other matters deemed relevant to the appeal.

g. A statement setting forth the relief sought.

h. The signature, mailing address, and telephone number of the person or that person's representative.

103.15(5) *Burden of proof.* The burden of proof is on the party challenging the director's decision under subrule 103.13(3) or 103.14(3).

This rule is intended to implement Iowa Code section 441.6(3) and chapter 17A.

701—103.16(441) Appeals and hearings regarding the director's intent to remove a member of the board of review.

103.16(1) *Written request for hearing.* A member of the board of review who has received from the director a notice of intent to remove the member of the board of review and who wishes to contest the removal shall file a written request for a hearing within 30 days after the receipt of the notice of the director's intent to remove the member of the board of review. Any person who does not seek a hearing within 30 days of receipt of the notice of the director's intent to remove a member of the board of review shall be precluded from challenging the removal.

103.16(2) *Procedures.* Hearings will be governed by the procedures set forth in this rule together with the procedures set forth in the following:

a. Rules 7—2506.4(17A) and 7—2506.5(17A).

b. Rules 7—2506.12(17A), 7—2506.14(17A), 7—2506.15(17A), 7—2506.20(17A), 7—2506.22(17A), 7—2506.25(17A), and 7—2506.27(17A); additionally, Iowa Code section 421.60 shall not apply; and rules 7—2506.10(17A) and 7—2506.29(17A).

c. Rule 7—2506.16(17A).

d. Rule 7—2506.19(17A).
e. Rules 7—2506.21(17A) and 7—2506.24(17A).
f. Rule 7—2506.28(17A).
g. Rule 701—2507.7(17A) and 701—subrule 2507.8(6).
h. 701—subrule 2507.8(1).
i. Rule 701—2507.9(17A).
j. 701—subrules 2507.11(1) through 2507.11(3).
k. Rule 701—2507.13(17A,421).
l. Rule 701—2507.14(17A).
m. Rule 701—2507.15(17A).

103.16(3) *Presiding officer.* The director shall be the presiding officer in a contested case under this rule. The director may request that an administrative law judge assist and advise the director with any matters related to the contested case proceedings, including but not limited to ruling on any prehearing matters, presiding at the contested case hearing, and issuing orders and rulings.

103.16(4) *Contents of the appeal.* The appeal shall contain the following in separate numbered paragraphs:

a. A statement of the department action giving rise to the appeal.
b. The date of the department action giving rise to the appeal.
c. Each error alleged to have been committed, listed as a separate paragraph. For each error listed, an explanation of the error and all relevant facts related to the error shall be provided.
d. Reference to the particular statutes, rules, or agreement terms, if known.
e. References to and copies of any documents or other evidence relevant to the appeal.
f. Any other matters deemed relevant to the appeal.
g. A statement setting forth the relief sought.
h. The signature, mailing address, and telephone number of the person or that person's representative.

103.16(5) *Burden of proof.* The burden of proof is on the party challenging the director's intent to remove a board member.

This rule is intended to implement Iowa Code section 441.32(2)*"e"* and chapter 17A.

701—103.17(441) Prorating hours for assessor continuing education.

103.17(1) Assessors must complete continuing education as required under Iowa Code section 441.8. A person who was appointed to complete an unexpired term shall be certified as eligible for reappointment if the person completes the required credits determined as follows:

$$\frac{\text{Number of months of unexpired term filled}}{72} \times 150$$

EXAMPLE: If a person were appointed to fill the last 24 months of an unexpired term, the credit necessary for certification would be 50 hours determined as follows:

$$\frac{24}{72} \times 150 = 50 \text{ hours}$$

103.17(2) If the person appointed to complete an unexpired term is an assessor, the assessor may carry forward any credit hours received in the previous position in excess of the number that would be necessary to be considered current in that position.

EXAMPLE: If the assessor had completed four years of a six-year term and had completed 120 hours of continuing education credit, the assessor could carry forward to the new assessment jurisdiction 20 hours of credit (120 - (4/6 × 150)).

103.17(3) In situations in which the required number of hours of credit must be prorated, at least 60 percent of the credits earned must be tested credit.

EXAMPLE: If a person must earn 31 hours of credit for certification during a 15-month period, at least 19 of the hours must be tested credit (31 × .60 = 18.6 = 19). Partial credit hours shall be rounded to the nearest whole number.

This rule is intended to implement Iowa Code section 441.8.

701—103.18(441) Assessor education advisory committee.

103.18(1) *Establishment.* Iowa Code section 441.8 establishes a program of continuing education to be developed and administered by the director. To administer the program, the director has established an assessor education advisory committee, hereinafter referred to as the committee.

103.18(2) *General operation.* The chairperson of the committee shall be the director or a designee. The director shall appoint to the committee a representative of the local government services division of the department and two assessor representatives. The assessor representatives shall serve four-year staggered terms. The committee will meet at least once each year.

103.18(3) *Purpose.* The committee is established to assist the director in developing and administering a program of continuing education for Iowa assessors and deputy assessors. The program will emphasize assessment and appraisal procedures, assessment laws, rights and responsibilities of taxpayers and property owners related to the assessment of property for taxation; duties of assessors and deputy assessors; and other matters related to the positions of assessor and deputy assessor. The director, with the assistance of the committee, will designate the courses to be offered in the program, the content of the courses, and the number of hours of classroom instruction for each course. An evaluation of the program will be conducted at least annually with any necessary changes made.

103.18(4) *Department certification.* The department shall certify those assessors and deputy assessors who have received sufficient credit to be eligible for reappointment to their present position.

This rule is intended to implement Iowa Code section 441.8.

701—103.19(441) Continuing education program for assessors. The department, with the assistance of the committee, shall recertify courses at least every six years. At the request of the department, the organization conducting a course shall provide the department with copies of course evaluation forms completed by students.

103.19(1) Upon registration for an approved course, it is the responsibility of the assessor or deputy assessor to request that notification of attendance and test score be forwarded by the appropriate organization(s) to the director justifying certification.

103.19(2) After completing a course, it is the responsibility of the assessor or deputy assessor to request credit for the course by completing an application provided by the department (Form 51-001 "Application for Course Credit"). Certification to the conference boards by the director shall be only that the incumbent has met the requirements of the continuing education program and is eligible for reappointment.

This rule is intended to implement Iowa Code section 441.8.

701—103.20(441) Continuing education courses.

103.20(1) Courses in the continuing education program may be taken for tested credit or nontested credit.

a. To receive tested credit for a course, an assessor or deputy assessor must attend each session of the course and attain a grade of at least 70 percent on an examination given at the conclusion of the course.

b. To receive nontested credit for a course, an assessor or deputy assessor must attend each session of the course.

103.20(2) Credit will be given for each course equal to the number of hours of classroom instruction contained in the course.

103.20(3) A course may be taken for credit only once during the assessor's or deputy assessor's current term of office. A person cannot receive both tested credit and nontested credit for the same course unless specifically designated by the director.

103.20(4) At the discretion of the director, up to 30 hours of tested credit may be granted for the completion of a narrative appraisal meeting the satisfactory criteria established by a professional appraisal society designated by the director. Only one narrative appraisal may be approved for credit during an assessor's or deputy assessor's current term of office. A term of office for purposes of these rules is six years.

This rule is intended to implement Iowa Code section 441.8.

701—103.21(421,441) Courses offered by the department.

103.21(1) *Class size.* The director may determine the maximum number of students for a particular class. Applications to take a course shall be accepted in the order in which they are received by the department. However, persons who are not currently serving as assessors or deputy assessors shall not be admitted to a course ahead of persons serving as assessors or deputy assessors, regardless of the date on which the applications of the persons who are not currently serving as assessors or deputy assessors were received.

103.21(2) *Examinations during the course.* Examination questions and answers shall not be made available to persons other than employees of the department authorized by the director to have access to such information. Persons who take the examination shall not discuss with anyone the specific questions contained in the examination. This shall not restrict persons who have taken a course examination from discussing the general subject matter of the examination.

103.21(3) *Materials and supplies.* During the examination, students may be permitted to use their own calculators, pencils, and two pieces of scratch paper. Students shall not be permitted to bring any other materials into the examination room.

103.21(4) *Violations.* Any person who intentionally violates any of the provisions of this rule, or is found to have cheated on the examination, shall be subject to the penalties specified in this subrule.

a. If an infraction occurs and is detected and confirmed during the examination, the examination of the person committing the infraction shall be confiscated by the instructor and shall not be scored.

b. If the infraction is detected and confirmed after the examination of the person committing the infraction has been scored, the score resulting from that examination shall be reduced to a failing grade and the director shall notify the assessor education advisory committee of the action taken.

c. If the infraction is detected and confirmed during the course, the instructor shall expel the student from the classroom, and the student shall not be permitted to take the examination for the course.

103.21(5) *Instructors.* Course instructors shall inform all students of the provisions of subrules 103.21(2) and 103.21(3). The instructors shall have the authority to enforce these rules in accordance with subrule 103.21(4).

103.21(6) *Retaking examination.* A person who receives a failing score on the examination for a course may retake the examination by submitting a request to the director within ten days of the date the director notifies the person of the examination score. The examination shall be retaken within 30 days of the date the original examination was taken. A person who retakes an examination cannot again take that particular course for credit until at least 30 days have passed from the date the examination was retaken. A special examination may be taken only once for a particular course, regardless of the number of times a student takes the course. A special examination shall be given only if the student took and failed the examination given at the end of a course taken for credit.

103.21(7) *Review of examination.* Persons who have taken a course examination may review their examinations within 60 days after the date the examination has been administered. The review shall consist only of examining the person's own answer sheet and the question book. Persons reviewing their examinations shall not be permitted to take notes or otherwise transcribe information during this review, nor shall they have access to the answers to questions contained

in the examination. Persons who review their examinations shall not be eligible to take the same examination for a period of at least 30 days following the date of the review of the examination.

103.21(8) *Length of examination.* The director shall determine the appropriate amount of time in which persons may take each examination. Any person who arrives at the examination site after the examination has begun shall not be permitted to complete the examination after the time scheduled for completion.

This rule is intended to implement Iowa Code section 441.8.

701—103.22(441) Confidentiality. Examinations shall be held confidential by the members of the assessor education advisory committee and by persons designated by the director to have access to the examinations. Persons given access to the examinations are those persons administering the examinations, the instructors of the course for which the examinations are given and those persons entrusted with the storage and retention of examinations by the director.

This rule is intended to implement Iowa Code section 441.8.

701—103.23(441) Type of credit. A course, seminar, workshop, or symposium for which an examination is given may be taken for tested credit or nontested credit at the discretion of the assessor or deputy assessor. However, a course cannot be taken twice—once for tested credit and again for nontested credit—unless specific approval is granted by the department. At the discretion of the department, up to 30 hours of tested credit may be given for a narrative appraisal approved by a professional organization. In order to receive credit for a narrative appraisal, an assessor or deputy assessor is required to provide a letter from the professional organization stating the date the appraisal was approved.

This rule is intended to implement Iowa Code section 441.8.

701—103.24(441) Retaking examination. If an assessor or deputy assessor successfully retakes an examination for a course for which nontested credit previously had been granted, the credit will be changed to tested credit upon receipt by the director of evidence of passing the examination.

This rule is intended to implement Iowa Code section 441.8.

701—103.25(441) Instructor credit. An assessor or deputy assessor who serves as an instructor for a course approved by the department for continuing education may receive nontested credit for the number of hours of classroom instruction. The credit shall be granted only once for each course and cannot be granted for a course for which the instructor previously received credit as a student.

This rule is intended to implement Iowa Code section 441.8.

701—103.26(441) Conference board and assessor notification. Upon receiving credit for the required number of hours of tested and nontested credit, an assessor or deputy assessor should request that the department notify the appropriate conference board or assessor that the continuing education requirements have been satisfied to ensure timely notification.

This rule is intended to implement Iowa Code section 441.8.

701—103.27(441) Petitioning to add, delete or modify courses.

103.27(1) Any person or group may petition to add, delete or modify all or part of the program by submitting a written request for the committee's consideration. An organization or person desiring accreditation of a course shall apply for accreditation at least 60 days in advance of the commencement of the course on an application provided by the director (Form 51-002 "Application for Course Certification"). The application shall state the following:

a. Date(s) of the course.
b. Subjects offered.
c. Total hours of instruction.
d. Names and qualifications of the instructor, discussion leader, or lecturer.

e. A statement of the objectives of the course and how the objectives will be attained.

f. An outline of the course content.

g. A copy of the final examination.

h. Any other pertinent information.

103.27(2) A continuing education course will qualify only if:

a. An outline of the course content and a description or copy of the final examination are prepared and filed with the director. In addition, any course changes are required to be filed with the director.

b. The course is at least one hour (60-minute period) in length.

c. The course is conducted by a qualified instructor, discussion leader, or lecturer. A qualified instructor, discussion leader, or lecturer is any individual whose background, training, education or experience makes it appropriate for that person to lead a discussion on the subject matter of the particular course.

d. The department approves the course.

This rule is intended to implement Iowa Code section 441.8.

701—103.28(441) Course participation. It is the responsibility of individual assessors or deputy assessors to comply with the enrollment provisions of respective courses designated and established by the committee. Certificates of attendance must be sent to the department and the student by the course instructor.

This rule is intended to implement Iowa Code section 441.8.

701—103.29(441) Retaking a course. If an assessor or deputy assessor fails a course by receiving a grade of less than 70 percent on the final examination or does not meet attendance requirements established by the director, the course may be retaken. Once a person has passed a course and received credit for the course, no further credit can be received by taking the course again, except for those courses so designated by the director. However, if an assessor or deputy assessor wishes to retake a course as a refresher for the materials contained in the course, the assessor or deputy assessor may do so, though no final examination need be taken. If a course is applied for by a person already having received credit, that person will only be allowed in the course if space is available after consideration is first given to persons seeking credit for certification in the course.

This rule is intended to implement Iowa Code section 441.8.

701—103.30(441) Grievance and appeal procedures. Prior to appealing to district court, any aggrieved person may petition the director in writing to reconsider an action. In addition, the director will consider grievances that have been filed based on any area in which the director has jurisdiction. A petition or grievance must be filed with the director within 30 days of the decision or action leading to the grievance. The petition must state the reasons for reconsideration of the director's action, and a grievance must contain the facts leading to the grievance and a statement showing the director has jurisdiction. The director shall appoint a grievance committee comprised of three members of the assessor education advisory committee to review petitions and grievances, meet with the affected parties if necessary, and recommend in writing to the director a proposed resolution of the matter. The director will consider the recommendation of the grievance committee at its next meeting and inform the affected parties of the decision in writing within ten days. The date of the written reply by the director shall constitute final agency action for purposes of appeal.

This rule is intended to implement Iowa Code section 441.8.

ITEM 2. Rescind and reserve **701—Chapter 111**.

ITEM 3. Rescind and reserve **701—Chapter 112**.

ITEM 4. Rescind and reserve **701—Chapter 113**.

ITEM 5. Rescind and reserve **701—Chapter 114**.

RA 26-357

REVENUE DEPARTMENT[701]

Regulatory Analysis

Notice of Intended Action to be published: 701—Chapter 104
"Property Tax Credit for Elderly and Disabled"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 425.37
State or federal law(s) implemented by the rulemaking: Iowa Code chapter 425

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 18, 2026 2 to 3 p.m.	Via videoconference call: meet.google.com/egs-ucjg-frv

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis, which must be received by the Department of Revenue no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Nick Behlke
Department of Revenue
Hoover State Office Building
P.O. Box 10457
Des Moines, Iowa 50306-3457
Phone: 515.336.9025
Email: nick.behlke@iowa.gov

Purpose and Summary

The purpose of this proposed rulemaking is to rescind and adopt a new Chapter 104. This chapter explains the property tax credit for elderly and disabled claimants. The Department proposes revisions to remove portions of the rules that the Department determined are obsolete, unnecessary, or duplicative of statutory language as required by Executive Order 10. Further, the Department proposes revisions to the chapter to add clarity and better organization to aid the public's understanding of the property tax credit for elderly and disabled claimants.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

There are no costs associated with this proposed rulemaking.

- **Classes of persons that will benefit from the proposed rulemaking:**

Local governments will benefit from a greater understanding of how to award and apply the property tax credit for the elderly and disabled. Credit claimants will benefit from an accurate implementation of the credit.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

This proposed rulemaking does not create costs for any classes of persons.

- **Qualitative description of impact:**

Ensuring that local governments understand the property tax credit for the elderly and disabled will ensure that taxpayers who are entitled to the benefit receive it.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

There are no costs to the State beyond what is already required to administer the relevant statutes.

- **Anticipated effect on State revenues:**

A greater understanding of the application of the property tax credit will ensure that the correct amount of property taxes is collected.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

The cost of inaction would be potential confusion about the application of the property tax credit for the elderly and disabled, which could lead to the credit being improperly applied and could increase the property tax bill of eligible claimants. There is no cost associated with this proposed rulemaking.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

This proposed rulemaking is not costly or intrusive.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

The Department did not consider any alternative methods.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

Failing to have rules on the property tax credit for the elderly and disabled would lead to greater confusion about the requirements and could lead to erroneous applications of the credit. This chapter is proposed to be updated to remove outdated and duplicative language.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

There is no impact on small business associated with this proposed rulemaking.

Text of Proposed Rulemaking

ITEM 1. Rescind 701—Chapter 104 and adopt the following **new** chapter in lieu thereof:

CHAPTER 104
PROPERTY TAX CREDIT FOR ELDERLY AND DISABLED

701—104.1(425) Eligible claimants.

104.1(1) *Availability generally.* The property tax credit is available to claimants who are domiciled in Iowa at the time the claim is filed, or were domiciled in Iowa at the time of the claimant's death, and one of the following:

a. Has attained the age of 65 years but has not attained the age of 70 years on or before December 31 of the base year.

b. Is totally disabled and was totally disabled on or before December 31 of the base year.

c. Has attained the age of 65 years on or before December 31 of the base year and who is domiciled in this state.

d. Has attained the age of 70 years on or before December 31 of the base year and has a household income of less than two hundred fifty percent of the federal poverty level as defined by the most recently revised poverty income guidelines published by the United States Department of Health and Human Services.

e. Has attained the age of 23 years on or before December 31 of the base year or was a head of household on December 31 of the base year and was not claimed as a dependent on any other person's tax return for the base year.

104.1(2) *Occupancy.* In the case of a claim for property tax credit, the claimant must have occupied the property during any part of the fiscal year beginning July 1 of the base year.

104.1(3) *Homestead with two or more claimants.* If a homestead is occupied by two or more eligible claimants, each person may file a claim based upon each person's income and each person's share of the property taxes due.

104.1(4) *Credit computation for claimants under Iowa Code section 425.17(2)"a"(1) and "a"(2).* The computed credit for claimants under Iowa Code section 425.17(2)*"a"*(1) and *"a"*(2) shall be determined in accordance with the applicable schedule provided in Iowa Code section 425.23(1) as adjusted by the indexed amount determined in Iowa Code section 425.23(4).

104.1(5) *Credit computation for claimants under Iowa Code section 425.17(2)"a"(3).* In the case of a claimant under Iowa Code section 425.17(2)*"a"*(3), the credit shall be determined under Iowa Code section 425.23(1)*"c."* The credit shall be the greater of either:

a. The amount of credit under the computation in Iowa Code section 425.23(1) for claimants under Iowa Code section 425.17(2)*"a"*(1) and *"a"*(2), and

b. The difference between the property taxes due on the homestead during the applicable fiscal year minus the property taxes due on the homestead based on a full assessment during the first fiscal year for which the claimant filed a claim for a credit and if the claimant has filed for the credit for each of the subsequent fiscal years after the first credit was claimed.

This rule is intended to implement Iowa Code sections 425.17(2) and 425.23.

701—104.2(425) Spouses on separate homesteads. If both spouses are qualified homeowners living in and maintaining separate and distinct homesteads and each is actually liable for and will pay the property tax for their respective homesteads, each is eligible to file an individual credit claim for property tax due.

This rule is intended to implement Iowa Code section 425.17(4).

701—104.3(425) Multipurpose building.

104.3(1) *Generally.* A multipurpose building is a building that is used for other purposes in addition to being used for living accommodations. If a portion of a homestead property is utilized for business purposes, the property is considered to be a multipurpose building.

104.3(2) *Computation.* The portion of the property tax due attributable to the homestead only is to be used in determining the allowable credit. This portion is to be calculated by determining the

percentage of the homestead square footage to the square footage of the entire multipurpose structure. This percentage is then to be applied to the property tax due in the current fiscal year.

This rule is intended to implement Iowa Code section 425.17(8).

701—104.4(425) Multidwelling.

104.4(1) *Generally.* A multidwelling is a structure that houses more than one homestead. This includes but is not limited to apartment buildings, duplexes, condominiums, town houses, nursing homes and rooming houses. A claimant owning a multidwelling whose homestead is a portion of the multidwelling is entitled to a credit for only that portion of the property tax due attributable to the homestead.

104.4(2) *Computation.* This calculation of the credit is to be performed the same as for a multipurpose building as described in rule 701—104.3(425).

This rule is intended to implement Iowa Code section 425.17(8).

701—104.5(425) Income. In determining income, net operating losses and net capital losses are not to be considered. If the comparison of gains and losses results in a net gain, such amount shall be considered income. If the comparison results in a net loss, the net loss shall be zero.

This rule is intended to implement Iowa Code section 425.17(7).

701—104.6(425) Joint tenancy. Joint tenancy for purposes of a property tax credit is the common ownership of a homestead by two or more persons, either as joint tenants with right of survivorship or tenants in common.

This rule is intended to implement Iowa Code section 425.17(8).

701—104.7(425) Amended claim.

104.7(1) *Generally.* An amended claim can only be filed by a claimant who has timely filed a claim for property tax credit for the appropriate base year.

104.7(2) *Filing.* The amended claim must be filed within three years from October 31 of the year in which the original claim was filed. The amended claim shall be clearly marked by the claimant with the word "AMENDED."

104.7(3) *Reimbursement upon acceptance.* If upon review by the department an additional credit is indicated, the claimant shall be reimbursed the additional amount.

This rule is intended to implement Iowa Code section 425.27.

701—104.8(425) Simultaneous homesteads. A person who owns or rents one property and also owns or rents another property for a simultaneous period of time is limited to claiming a property tax credit on the property that is considered the person's domicile.

This rule is intended to implement Iowa Code section 425.17(4).

701—104.9(425) Confidential information. The confidentiality of income tax information contained on a property tax credit claim form is waived by the claimant for the purposes of the department sharing information with county treasurers to verify eligibility for tax credit claims.

This rule is intended to implement Iowa Code section 425.28.

701—104.10(425) Mobile, modular, and manufactured homes.

104.10(1) *Mobile, manufactured, or modular homes assessed as real estate.* An eligible claimant whose homestead is a mobile, modular, or manufactured home that the claimant owns and that was assessed as real estate resulting in property tax due may file a claim for credit for property tax due on the home and the land on which the home is located provided the land is owned by the claimant.

104.10(2) *Mobile, manufactured, or modular homes taxed under Iowa Code chapter 435.* An eligible claimant whose homestead is a mobile, modular, or manufactured home subject to the annual

tax as provided in Iowa Code chapter 435 may file a claim for credit for property taxes due on the land upon which the home is located provided the land is owned by the claimant.

This rule is intended to implement Iowa Code section 425.17(4).

701—104.11(425) Totally disabled claimants.

104.11(1) *Generally.* A person who is totally disabled must be unable to engage in any substantial gainful employment by reason of any medically determinable physical or mental impairment. In addition, the impairment must have lasted or is reasonably expected to last for a continuous period of 12 months or is expected to result in death. This disabled condition must be the determining factor in the person's inability to engage in gainful employment. A claimant is considered totally disabled only if the physical or mental impairment or impairments are of such severity that the claimant is not only unable to do work previously performed but cannot, considering the claimant's age, education, and work experience, engage in any other kind of substantial gainful work that exists in the national economy, regardless of whether such work exists in the immediate area in which the claimant lives, whether a specific job vacancy exists, or whether the claimant would be hired if the claimant applied for work. More information is contained in 42 U.S.C. §423.

104.11(2) *Examples.* Examples of physical conditions that could possibly constitute total disability would include but are not limited to:

a. Loss of major function of one or both legs or arms;

b. Progressive diseases that have resulted in the loss of one or both legs or arms or that have caused them to become useless;

c. Severe arthritis;

d. Diseases of the heart, lungs or blood vessels that have resulted in serious loss of heart or lung reserve;

e. Diseases of the digestive system that have resulted in severe malnutrition, weakness and anemia prohibiting gainful employment;

f. Damage to the brain or brain abnormality that has resulted in severe loss of judgment, intellect, orientation or memory; or

g. Paralysis or diseases of the nervous system that prohibit coordination or major functioning of the body so as to prevent gainful employment.

104.11(3) *Age requirement.* For purposes of this rule, a person shall not be considered unable to engage in substantial gainful employment unless the person has attained the age of 18 on or before December 31 of the base year.

This rule is intended to implement Iowa Code section 425.17(11).

701—104.12(425) Household income.

104.12(1) *Generally.* Household income includes income of the claimant and the claimant's spouse and actual monetary payments made to the claimant by any other person living with the claimant. Household income does not include Social Security benefits received by the claimant's child and given to the claimant.

104.12(2) *Monetary payments.* Monetary payments do not include goods and services provided to the claimant by a person living with the claimant.

This rule is intended to implement Iowa Code section 425.17(6) and 425.17(7).

701—104.13(425) Timely filing of claims. If a timely mailed property tax credit claim is not received by the county treasurer or is received after the June 1 filing deadline, the claim will be considered to have been timely filed if the claimant complies with the provisions of Iowa Code section 622.105. The county treasurer may extend the time for filing a claim for property tax credit through March 31 of the fiscal year during which the property taxes are due.

This rule is intended to implement Iowa Code section 425.20.

701—104.14(425) Leased land. An individual who owns a dwelling located on land owned by another may claim a credit of property taxes due on the dwelling provided the individual pays property tax on the dwelling.

This rule is intended to implement Iowa Code section 425.17(4).

701—104.15(425) Suspended, delinquent, or canceled taxes.

104.15(1) *Suspended or canceled taxes.* No property tax credit shall be allowed to any person whose taxes have been canceled pursuant to Iowa Code section 427.8. A property tax credit shall be allowed to an eligible claimant whose taxes have been suspended pursuant to Iowa Code sections 427.8 and 427.9.

104.15(2) *Delinquent taxes.* A property tax credit shall be allowed to an eligible claimant even though the claimant's taxes for a previous fiscal year are delinquent. The claimant may receive a reimbursement for delinquent taxes paid provided the taxes are paid by December 31 following the fiscal year in which the taxes became delinquent.

This rule is intended to implement Iowa Code section 425.17(8).

701—104.16(425) Income: spouse. The income of a spouse does not have to be reported on the claimant's return unless the spouse lived with the claimant at the property upon which the property tax credit is claimed. If the spouse lived with the claimant for only a portion of the base year, only that portion of the spouse's income that was received while living with the claimant must be reported as income on the claimant's return. If the spouse is eligible to claim a credit, the spouse does not have to include any income that was reported on the other claimant's (spouse's) return.

This rule is intended to implement Iowa Code section 425.17(6).

701—104.17(425) Special assessment credit.

104.17(1) *Property taxes due.* Any person whose special assessment is paid by the department pursuant to Iowa Code section 425.23(3) cannot include the special assessment as property taxes due under Iowa Code section 425.17(10) for purposes of determining a property tax credit.

104.17(2) *Special assessment credit qualifications.* No special assessment credit claim shall be allowed pursuant to Iowa Code section 425.23(3) unless at the time the application for credit is filed the property upon which the levy is made includes a homestead dwelling as defined in Iowa Code section 425.17(4) and the claimant's household income does not exceed the indexed amount determined pursuant to Iowa Code section 425.23(4).

104.17(3) *Audit by the department.* The director may audit the books and records of the county treasurer to determine if the amounts certified by the county treasurer to the director pursuant to Iowa Code section 425.23(3) are true and correct. The director may also initiate investigations or assist the county treasurer's investigations into eligibility of a claimant for the special assessment credit in accordance with Iowa Code section 425.27. Upon investigation, the director may order the county treasurer to reimburse the state of Iowa any amounts that were erroneously paid to the county treasurer or issue a reimbursement directly to the claimant if it is determined the claimant did not receive the benefits to which the claimant is entitled pursuant to Iowa Code section 425.23(3).

This rule is intended to implement Iowa Code section 425.23(3).

701—104.18(425) Credit applied. The county treasurer shall apply the property tax credit equally to the claimant's first and second half tax liabilities provided the claim for credit is timely filed.

This rule is intended to implement Iowa Code sections 425.16 through 425.37, 425.39, and 425.40.

701—104.19(425) Audit of claim.

104.19(1) *Authority.* The department may audit the records of the county treasurer to determine the accuracy of claims filed for property tax credits. The department may also investigate the eligibility of a claimant for a property tax credit.

104.19(2) *Recomputed property tax credit claim.* If it is determined a computed property tax credit has been overpaid, the department shall notify the claimant and county treasurer of the overpayment. The county treasurer shall collect the overpayment from the claimant as if it were an unpaid property tax and reimburse the department for the amount of overpayment. However, if the property upon which the credit was allowed is no longer owned by the claimant, the department shall collect the amount of overpayment directly from the claimant. If it is determined a computed property tax credit has been underpaid, the department shall reimburse the claimant directly for the amount of underpayment.

This rule is intended to implement Iowa Code section 425.27.

701—104.20(425) Extension of time for filing a claim. The granting of an extension of time for filing a claim for credit does not extend the time within which or the dates on or by which eligibility requirements must be satisfied.

This rule is intended to implement Iowa Code section 425.20.

701—104.21(425) Annual adjustment factor. The income levels used for determining the allowable percent of property tax credit, special assessment credit, or the amount of the mobile home reduced tax rate shall be adjusted each year to reflect the inflation factor as computed pursuant to Iowa Code section 422.4. The annual adjustment factor does not apply to claimants pursuant to Iowa Code section 425.17(2)*"a"*(3) if the amount of the credit is calculated under Iowa Code section 425.23(1)*"c"*(2).

This rule is intended to implement Iowa Code sections 425.23 and 435.22(2).

701—104.22(425) Proration of claims. If the director determines that the amount of funding provided pursuant to Iowa Code section 425.39 will be insufficient to pay all property tax credit claims filed, the director shall estimate the percentage at which the claims will be paid and shall prorate the payment of each property tax credit claim by the same estimated percentage. The county treasurer shall, pursuant to Iowa Code section 25B.7, be required to extend to the claimant only that portion of the credit estimated by the department to be funded by the state appropriation. However, in the case of a claimant pursuant to Iowa Code section 425.17(2)*"a"*(3), the state will not fund the credit in excess of what is appropriated for the claimants calculating their credits pursuant to Iowa Code section 425.23(1)*"c"*(1).

This rule is intended to implement Iowa Code sections 25B.7 and 425.39.

RA 26-358

REVENUE DEPARTMENT[701]

Regulatory Analysis

Notice of Intended Action to be published: 701—Chapter 105
"Mobile, Modular, and Manufactured Home Tax"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 421.14
State or federal law(s) implemented by the rulemaking: Iowa Code chapter 435

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 18, 2026 2 to 3 p.m.	Via videoconference call: meet.google.com/egs-ucjg-frv

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis, which must be received by the Department of Revenue no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Nick Behlke
Department of Revenue
Hoover State Office Building
P.O. Box 10457
Des Moines, Iowa 50306-3457
Phone: 515.336.9025
Email: nick.behlke@iowa.gov

Purpose and Summary

The purpose of this proposed rulemaking is to rescind and adopt a new Chapter 105. These proposed rules describe the Department's interpretation of the underlying statutes on the taxation of mobile, modular, and manufactured homes. The Department proposes revisions to remove portions of the rules that the Department determined are obsolete, unnecessary, or duplicative of statutory language as required by Executive Order 10. Further, the Department proposes revisions to the chapter to add clarity and better organization to aid the public's understanding of the mobile, modular, and manufactured home tax.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

This proposed rulemaking does not create costs for any classes of persons.

- **Classes of persons that will benefit from the proposed rulemaking:**

Local governments will benefit from a greater understanding of the assessment and taxation of manufactured and mobile homes. Property owners of manufactured and mobile homes will benefit from consistent and accurate application of the law to their property.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

There is no economic impact associated with this proposed rulemaking beyond what is contained in statute.

- **Qualitative description of impact:**

The qualitative benefits of this proposed rulemaking beyond what is already provided in statute is the value of having a clear understanding of how to properly tax manufactured and mobile homes in order to ensure a consistent application of the law across the state and eliminate any confusion that could prevent an individual's property from being improperly taxed.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

There are no costs to the State beyond what is already required to administer the relevant statutes.

- **Anticipated effect on State revenues:**

A greater understanding of the taxation of manufactured and mobile homes will ensure that the correct amount of taxes is collected.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

The cost of inaction would be potential confusion about taxation of manufactured and mobile homes. There is no cost associated with this proposed rulemaking.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

This proposed rulemaking is not costly or intrusive.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

The Department did not consider any alternative methods.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

Failing to have rules on the taxation of manufactured and mobile homes would lead to greater confusion about the application of the tax and could lead to property being improperly taxed. The chapter is proposed to be updated to remove outdated and duplicative language.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

There is no impact on small business associated with this proposed rulemaking.

Text of Proposed Rulemaking

ITEM 1. Rescind 701—Chapter 105 and adopt the following **new** chapter in lieu thereof:

CHAPTER 105
MOBILE, MODULAR, AND MANUFACTURED HOME TAX

701—105.1(435) Movement of home to another county. If one or both installments of the tax for the current fiscal year have been paid and subsequently the home is moved to another county, the tax paid shall remain in the county that originally collected. No reimbursement shall be made either to the owner of the home or to the county to which the home is moved. If only the first installment has been paid and the home is moved prior to January 1, the second installment shall be made to the county to which the home is moved.

This rule is intended to implement Iowa Code section 435.24.

701—105.2(435) Sale of home. If the owner of a home has paid one or both installments of the tax for the current fiscal year and subsequently sells the home, no reimbursement shall be made to the seller for any portion of the tax paid. If only the first installment has been paid and the home is sold prior to January 1, the purchaser is responsible for the second installment.

This rule is intended to implement Iowa Code section 435.24.

701—105.3(435) Reduced tax rate.

105.3(1) *Claimant.* The claimant's name must appear on the title to the home to receive the reduced rate of tax provided in Iowa Code section 435.22.

105.3(2) *Claims.* Claims for the reduced tax rate must be filed with the county treasurer between January 1 and June 1 immediately preceding the fiscal year during which the taxes are due. The county treasurer may extend the time for filing a claim for reduced tax rate through March 31 of the fiscal year during which the property taxes are due if good cause exists. The director may also extend the time for filing a claim through June 30 of the fiscal year during which the property taxes are due if good cause exists. Late reduced tax rate claims will be reimbursed by the director directly to the claimant upon proof of tax payment. The claimant must own and occupy the home at the time the claim for credit is filed or, if the claimant is deceased, at the time of the claimant's death. The claim forms shall be provided by the department.

EXAMPLE: A taxpayer wants to submit a claim reducing the taxpayer's taxes payable in September 2024 and March 2025. The taxpayer's application for credit must be submitted by June 1, 2024. The taxpayer becomes ill and is unable to submit the taxpayer's application on time. The taxpayer asks the treasurer for an extension, and the treasurer extends the deadline to March 31, 2025. The department may extend the deadline to June 30, 2025.

105.3(3) *Reports to department.* On or before May 1 of each year, the county treasurer of each county shall report to the department the amount of taxes not to be collected for the current fiscal year as a result of the reduced tax rate provided in Iowa Code section 435.22(2). All reports shall be made on forms provided by the department.

105.3(4) *Payment of claims.* On June 15 of each year, the department shall remit to each county treasurer an amount equal to the taxes not collected during the current fiscal year as a result of the granting of the reduced tax rate.

This rule is intended to implement Iowa Code section 435.22.

701—105.4(435) Taxation—real estate. Homes located outside of mobile home parks or manufactured home communities must be placed on a permanent foundation and are subject to assessment and taxation as real estate. The homes are eligible for all property tax credits and exemptions applicable to other real estate. The assessor shall collect the title to a home only when a

security interest is noted on the title and the secured party is given a mortgage on the land on which the home is located.

This rule is intended to implement Iowa Code section 435.26.

701—105.5(435) Taxation—square footage. It shall be the responsibility of the owner to provide the county treasurer with appropriate documentation to verify eligibility for the reduced tax due to the home's age. Modular homes placed in mobile home parks or manufactured home communities that were not in existence on or before January 1, 1998, shall be subject to assessment and taxation as real estate.

This rule is intended to implement Iowa Code sections 435.22 and 435.24(3).

701—105.6(435) Audit by department. The director may audit the books and records of the county treasurer to determine if the amounts certified by the county treasurer to the director as tax not collected due to the reduced tax rate are true and correct. Upon investigation, the director may order the county treasurer to reimburse the state of Iowa any amounts that were erroneously paid to the county treasurer. The director may also require that additional payments be made to the county treasurer by the owner of a home if investigation reveals that the county treasurer did not receive the full amounts due in accordance with Iowa Code section 435.22.

The director may initiate investigations or assist the county treasurer's investigations into eligibility of a claimant for the reduced tax rate in accordance with Iowa Code section 435.22. Upon investigation, the director may order a claimant to reimburse the state of Iowa any amount erroneously claimed as a reduced tax rate that was reimbursed by the department to the county treasurer in accordance with Iowa Code section 435.22. The director may also issue a reimbursement directly to the claimant if it is determined the claimant did not receive the full benefits to which the claimant was entitled pursuant to Iowa Code section 435.22.

This rule is intended to implement Iowa Code section 435.22.

701—105.7(435) Collection of tax.

105.7(1) *Partial payment of tax.* Partial payments of taxes may be allowed at the discretion of the county treasurer. If the treasurer elects to permit partial payments, the authorization shall apply to all taxpayers within the county. If the partial payments made are insufficient to fully satisfy an installment due by the delinquency date, the unpaid portion of the installment shall draw interest as provided in Iowa Code section 445.39. Current year taxes may be paid at any time regardless of any prior year delinquent taxes. The minimum payment for delinquent taxes must be equal to or exceed the interest, fees, and costs of the installment being paid.

105.7(2) *When delinquent.* The date on which unpaid taxes become delinquent is to be determined as follows:

a. If the home is put to use between January 1 and March 31, the prorated tax for the period from the date the home is put to use through June 30 becomes delinquent on April 1.

b. If the home is put to use between April 1 and June 30, the prorated tax for the period from the date the home is put to use through June 30 becomes delinquent on October 1.

c. If the home is put to use between July 1 and September 30, the prorated tax for the period from the date the home is put to use through December 31 becomes delinquent on October 1.

d. If the home is put to use between October 1 and December 31, the prorated tax for the period from the date the home is put to use through December 31 becomes delinquent on April 1 of the following calendar year.

e. For purposes of this rule, a home is "put to use" upon its acquisition from a dealer or its being brought into Iowa for immediate use by a person who is not engaged in the business of manufacturing, sale, or transportation of homes.

This rule is intended to implement Iowa Code sections 435.24 and 435.25.

RA 26-359

REVENUE DEPARTMENT[701]

Regulatory Analysis

Notice of Intended Action to be published: 701—Chapters 106 and 107
"Centrally Assessed Properties"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 421.17(2)"c," 434.8, 434.9, 434.11, 438.3(9) and 438.8 through 438.10

State or federal law(s) implemented by the rulemaking: Iowa Code chapters 428, 434, 437, and 438

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 18, 2026 2 to 3 p.m.	Via videoconference call: meet.google.com/egs-ucjg-frv

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis, which must be received by the Department of Revenue no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Nick Behlke
Department of Revenue
Hoover State Office Building
P.O. Box 10457
Des Moines, Iowa 50306-3457
Phone: 515.336.9025
Email: nick.behlke@iowa.gov

Purpose and Summary

The purpose of this proposed rulemaking is to rescind and adopt a new Chapter 106 and rescind Chapter 107 to locate in Chapter 106 all central assessment regulations. These proposed rules describe the Department's interpretation of the underlying statutes on the central assessment of railroads, pipelines, and other utility companies. These proposed rules are intended to help the public understand the assessment of these properties. The Department proposes revisions to remove portions of the rules that the Department determined are obsolete, unnecessary, or duplicative of statutory language as required by Executive Order 10. Further, the Department proposes revisions to the chapter to add clarity and better organization to aid the public's understanding of the assessment of centrally assessed properties.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

This proposed rulemaking does not create costs for any classes of persons.

- **Classes of persons that will benefit from the proposed rulemaking:**

Property owners will benefit from a greater understanding of the property tax administration for centrally assessed properties. Local governments will benefit from a greater understanding of whether properties are subject to local assessment or central assessment.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

There is no economic impact associated with these proposed rules beyond what is contained in statute.

- **Qualitative description of impact:**

The qualitative benefits of this proposed rulemaking beyond what is already provided in statute are the value of having a clear understanding of centrally assessed properties in order to ensure a consistent application of the law across the state and eliminate any confusion that could prevent property from being properly assessed.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

There are no costs to the State beyond what is already required to administer the relevant statutes.

- **Anticipated effect on State revenues:**

A greater understanding of centrally assessed properties will ensure that these properties are equitably assessed.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

The cost of not having rules is greater confusion about assessment methodologies applicable to centrally assessed properties, which could lead to improper assessment and the improper amount of tax being levied. There are no costs associated with this proposed rulemaking.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

This proposed rulemaking is not costly or intrusive.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

The Department did not seriously consider alternative methods.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

Failing to have rules on central assessments would lead to confusion, which could cause erroneous assessment. The rules were updated to remove outdated and duplicative language.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

This proposed rulemaking may have an impact on a small business if the small business is subject to central assessment. The impact on the small business would be ensuring that the small business's centrally assessed properties are assessed equitably and as required by Iowa law.

Text of Proposed Rulemaking

ITEM 1. Rescind 701—Chapter 106 and adopt the following **new** chapter in lieu thereof:

CHAPTER 106
CENTRALLY ASSESSED PROPERTIES

701—106.1(434) Definitions of terms. The following definitions are applicable to this chapter:

"Comparable sales" means actual sales transactions, between willing buyers and willing sellers, neither being under any compulsion to buy or sell, of property that is similar in purpose, function and design to the property to which the comparison is being made.

The sale of a portion of a unit that is nominally similar in purpose and function to the unit being valued shall not be considered a comparable sale. However, if there is evidence other than the terms of the sale itself that the sales price was based on some unit of measurement that is common both to the property sold and the property being valued and that is not affected by the fact that less than the entire unit is being sold, then the sale may be considered a comparable sale. For example, (1) the price per mile of track and (2) the price per square foot of the property.

"Cost approach to unit value" means the estimate of value determined by combining the original cost less a depreciation allowance for the operating property of a company.

"Income approach to unit value" means the estimate of unit market value obtained by dividing an appropriate income stream by an appropriate and compatible discount rate.

"Lease" includes but is not limited to capital leases, finance leases, and operating leases.

"Nonoperating property" means all property owned by a company not defined as "operating property."

"Operating property" means all property owned by or leased to a company, not otherwise taxed separately or made nontaxable by law, which is necessary to and without which the railroad or utility company could not perform the activities for which the railroad or utility is formed, such as (by way of illustration and not limitation) transporting freight over rail. With regard to property whose identity as "operating property" or "nonoperating property" is not clearly ascertainable, the property shall be considered operating property if the railroad or utility could not reasonably be expected to perform the referenced activities in the absence of such property.

"Original cost" means the actual cost of the property to its present owner, not the first cost at the time it was originally constructed and placed in service.

"Railroad" means and includes all individuals or corporations engaged in the operation of a railway in this state and subject to valuation pursuant to Iowa Code chapter 434.

"Replacement cost new less depreciation" or *"RCNLD"* means the cost to the present owner of acquiring or constructing at current prices a property that is the functional equivalent of an existing property less an allowance for depreciation.

"Respondent" includes the railroad or utility company whose property is to be valued.

"Stock and debt approach to unit value" means the estimate of unit market value determined by combining the estimate of market value of the stock; debt; current liabilities; other liabilities, including leases; and deferred credits associated with the operating property of a railroad or utility company.

"Unit value" or *"unit market value"* means the market value arrived at by using the appraisal method of valuing an entire operating property, considered as a whole and capable of performing the function for which it was created.

"Utility company" means and includes all persons engaged in the operating of gasworks, waterworks, pipelines, electric transmission lines, and electric light or power plants as set forth in Iowa Code chapters 428, 437, and 438. Any utility company subject to taxation under Iowa Code chapter 437A or 437B shall not be subject to valuation under this chapter.

This rule is intended to implement Iowa Code chapters 434, 437, and 438 and section 428.24.

701—106.2(434) Filing of annual reports.

106.2(1) Annual reports, including any additional schedules or attachments, required to be filed by the reporting company can be filed in GovConnectIowa.

106.2(2) The department may require the filing of additional information if deemed necessary. The respondent shall provide the additional information to the department in a timely manner.

This rule is intended to implement Iowa Code chapters 434, 437, and 438 and section 428.24.

701—106.3(434) Comparable sales. Sale prices of comparable property in normal transactions shall be taken into consideration in arriving at its market value. In the event comparable sales are not available, the market value of operating property shall be determined by utilizing the three recognized unit approaches to value (i.e., stock and debt approach, income capitalization approach and the cost approach).

This rule is intended to implement Iowa Code sections 428.29, 434.15, 437.6, and 438.13.

701—106.4(434) Stock and debt approach to unit value.

106.4(1) The stock and debt approach to unit value determines the market value of the operating property by combining the market values of the common stock, preferred stock, debt, current liabilities, other liabilities, leases, and deferred credits associated with the operating property of the company.

106.4(2) Market value of debt.

a. The market value of the long-term debt associated with the operating property is calculated by first determining a ratio based on book values. The numerator is the operating property, and the denominator is the total property of the company. This ratio is then multiplied by the gross market value of the long-term debt, and the result is the market value of the long-term debt associated with the operating property.

b. The market value of publicly traded debt is determined by utilizing an average of the monthly high and low value of the debt for the 12 months preceding the valuation date. The values shall be obtained by reference to any acceptable reporter of the market on which the securities are traded. If all or some of the securities are not publicly traded, the value of the securities shall be determined by appropriate comparable securities. The comparable securities shall be publicly traded, have a similar maturity date and coupon rate, and risk indicators similar to the untraded security. In each instance, the company shall provide the department a statement of the market value of all the company's securities and an explanation of how that market value was derived, including the identity of any comparable securities utilized. If all or some of the securities are not publicly traded and there are no appropriate comparable securities, the company shall provide the department with the company's own determination of the fair market value of the company's untraded securities together with a complete explanation of why the foregoing rule was not used and a detailed explanation of the method used.

106.4(3) Market value of stock.

a. The market value of the preferred stock associated with the operating property is calculated by multiplying the ratio determined in paragraph 106.4(2)*"a"* by the gross market value of the preferred stock.

b. The market value of publicly traded shares of preferred stock is determined by utilizing an average of the monthly high and low value of the preferred stock for the 12 months preceding the valuation date. The values to be utilized shall be obtained by reference to any acceptable reporter of the market on which the preferred stock is traded. If all or some series of the preferred stock are

not publicly traded, the value of such preferred stock shall be determined by appropriate comparable securities. The comparable securities shall be publicly traded, have the same or a similar dividend rate, and have risk indicators similar to the untraded preferred stock. In each instance, the company shall provide to the department a statement of the market value of the company's preferred stock and an explanation of how that market value was derived, including the identity of any comparable securities utilized. The company shall provide the department with the company's own determination of the fair market value of the company's untraded securities together with a complete explanation of why the foregoing rule was not used and a detailed explanation of the method used.

106.4(4) The market value of the common equity of a company associated with the company's operating property is determined by capitalizing the income available to the common equity holders from the operating property by an appropriate and compatible common equity return rate.

a. The calculation of the income to be capitalized begins with the company's net income after taxes but before interest charges and preferred dividends for the 12-month period preceding the valuation date determined from the company's regulatory report, or if no regulatory report is filed, from the audited financial statements of the company. In the event the company has no income or has a negative income, an alternative method may be used to determine the market value of the common equity.

b. For rate base regulated companies that do not earn a return on construction-work-in-progress, the income determined in subrule 106.4(4) shall be increased by the amount of income associated with the construction-work-in-progress that will be placed into service within one year of the assessment date. The income associated with the construction-work-in-progress shall be determined by multiplying the cost of said construction by the latest overall cost of capital as determined by the regulatory agency.

c. The income determined in paragraph 106.4(4)*"a"* shall be adjusted by deducting any net income received from nonoperating property and shall be increased to account for any net loss created by any nonoperating property.

d. The income determined in paragraph 106.4(4)*"a"* shall be reduced by that portion of the preferred dividends serviced by the income generated by the operating property, which is calculated by multiplying the total preferred dividend requirement by the ratio determined in subrule 106.4(3).

e. The income determined in paragraph 106.4(4)*"a"* shall be reduced by that portion of the debt service provided by the income generated by the operating property, which is calculated by multiplying the total debt service by the ratio determined in subrule 106.4(2).

f. If there are any other interest payments required, a determination shall be made as to whether the underlying obligation was used to purchase operating assets or nonoperating assets. If no direct determination can be made, the interest payment shall be allocated in the same fashion as the debt service and preferred dividends. If the underlying obligation can be shown to be associated particularly, or in some specific proportion, to operating property or nonoperating property, the interest payment shall be allocated either entirely or in such proportion to operating property or nonoperating property. It shall be the obligation of the company, in its reports to the department, to identify and detail any interest payments that are particularly associated with operating property or nonoperating property, and if the company fails to do so, the department may determine that all such payments may be allocated between operating property and nonoperating property in the same ratio as is the debt service and preferred stock dividends (more information is contained in subrules 106.4(2) and 106.4(3)).

g. Any extraordinary item affecting the income determined shall be eliminated in the calculation of the income under this rule. For pipelines and utility companies, any construction-work-in-progress not placed into service within one year of the assessment date shall be separately valued by the department.

h. The income determined in paragraph 106.4(4)*"a"* for pipeline companies shall be further reduced by deducting the current year net adjustment expense for investment tax credits.

i. The equity rate of return for the company shall be determined by the use of the capital asset pricing model; although, where appropriate, discounted cashflow models may be utilized as an alternative. Only in circumstances where these models are not able to be utilized will reliance be placed on a risk premium model or upon an earnings-price ratio, or other similar model, for determining the expected market rate of return on equity.

j. The income attributable to operating property available to the common equity holder as determined in paragraphs 106.4(4)*"a"* through *"g"* shall then be divided by the equity rate as determined in paragraph 106.4(4)*"i,"* and the result shall be the market value of the common equity associated with the operating property.

106.4(5) In the event the company has entered into finance leases of operating property, the market value of the property leased shall be determined by calculating the net present value of the leases or net book value of the leases. The net present value shall be accomplished by discounting the future lease payments for each lease. The following is offered as an illustration of the calculation of such market value:

Length of Lease	Annual Lease Payments
1. Lease (a) 5 years	$1,500,000
2. Lease (b) 7 years	$ 800,000
3. Lease (c) 3 years	$ 120,000

Net present value of leases (assuming 8 percent rate)

Lease (a) = $1{,}500{,}000 \div (1.08)^1 + 1{,}500{,}000 \div (1.08)^2 \ldots 1{,}500{,}000 \div (1.08)^5$

Lease (b) = $800{,}000 \div (1.08)^1 + 800{,}000 \div (1.08)^2 \ldots 800{,}000 \div (1.08)^7$

Lease (c) = $120{,}000 \div (1.08)^1 + 120{,}000 \div (1.08)^2 \ldots 120{,}000 \div (1.08)^3$

Net Present Value of Lease (a)	=	$ 5,989,065
Net Present Value of Lease (b)	=	$ 4,165,096
Net Present Value of Lease (c)	=	$ 309,251
Total Lease Values		$10,463,412

The discount rate is equal to the company's overall market debt rate of return.

106.4(6) In the event the company has other sources of capital, including but not limited to other liabilities, finance leases, and accumulated investment tax credits that cannot be identified as having been utilized to purchase specific assets, the market value of the sources of capital shall be allocated between operating assets and nonoperating assets in the same manner as long-term debt or preferred stock. Current liabilities and accumulated deferred income taxes should not be included in this calculation. The book value of accumulated deferred income taxes should be deducted from the market value of the stock and debt approach before making this calculation. Current liabilities should be deducted from current assets, and the resulting figure, if positive, should be added to the market value of the stock and debt approach and, if negative, should be deducted. The resulting figure, "net working capital," shall be allocated in the same manner as long-term debt or preferred stock (more information is contained in subrules 106.4(2) and 106.4(3)). If any source of capital was created specifically for the purchase of property that can be identified as operating property or nonoperating property, the company must identify the sources of capital in its annual report to the department, together with the appropriate evidence. If the company fails to provide the information, the department may determine that the sources of capital may be allocated in the same manner as

long-term debt or preferred stock (more information is contained in subrules 106.4(2) and 106.4(3)). The market value of any source of capital, in the absence of evidence to the contrary submitted by the company with its annual report, shall be the book value.

106.4(7) The value determined by summing the portions of the enumerated sources of capital associated with the operating property of the company provided in subrules 106.4(2) through 106.4(6) shall be the unit value of the operating properties determined by the stock and debt approach to unit value.

This rule is intended to implement Iowa Code sections 428.24 and 434.15 and chapters 437 and 438.

701—106.5(434) Income capitalization approach to unit value.

106.5(1) The income capitalization approach to unit value determines the market value of the operating property by dividing the income stream generated by the operating assets by a market-derived capitalization rate based on the costs of the various sources of capital utilized or available for use to purchase the assets generating the income stream. The purpose and intent of the income indicator of value is to match income with sources of capital, and therefore, every source of capital used or available to be used to purchase assets should be reflected in the capitalization rate determination as well as all operating income.

a. The net operating income to be capitalized shall be a weighted average net operating income. The weighted average net operating income shall consist of an average of the three 12-month periods immediately preceding the valuation date. Each of the three preceding 12-month periods shall be weighted by multiplying the first preceding period by 60 percent, the second preceding period by 30 percent, and the third preceding period by 10 percent. There shall be no adjustment for the company's current-year deferred income taxes to this income stream. The income stream for pipeline companies shall be further reduced by deducting the current year net adjustment expense for investment tax credits.

If the utility company has no income or has a negative income, the indicator of value set forth in this subrule shall not be utilized.

b. The department may also utilize a free cash flow model in calculating the operating income to be capitalized. The "free cash flow model" shall consist of an average of the five 12-month periods immediately preceding the valuation date. Each of the five preceding 12-month periods shall be given equal weighting in the calculation of the five-year average operating income to be capitalized. Each year, the net operating income shall be adjusted by adding the current-year deferred income taxes associated with maintenance expenditures, adding the current-year depreciation expense, and subtracting the current-year capital expenditures necessary to maintain the plant.

c. The department may give consideration to both calculations of operating income as described in this subrule to determine the operating income to be capitalized. The department may also consider, in both calculations, adjustments for extraordinary, unusual, and infrequent items. These adjustments would not be expected to occur annually and are different from the typical business operations. In the event the company has no income or has a negative income, the indicator of value set forth in this subrule shall not be utilized.

106.5(2) If any operating property is clearly not income producing and, therefore, is not reflected in the income stream, the value of that asset shall be determined separately and added to the value of the other operating property as determined using the income indicator of value. The capitalization rate shall be adjusted, if necessary, for the market rate of return for the sources of capital utilized to purchase such non-income-producing properties where the sources can be clearly identified; otherwise, the cost of the sources of capital shall be presumed to be equal to the overall market-weighted costs of the other sources of capital.

106.5(3) If the company is one that can earn a return on assets purchased with sources of capital, excluding the company's deferred income taxes, the income will reflect the earnings on those assets, and as a consequence, a separate adjustment to the capitalization rate is required. The capitalization

rate shall be determined by utilizing, where appropriate, market rates of return weighted according to a market-determined capital structure. All sources of capital shall be considered in the capital structure as well as market costs associated with each source of capital; otherwise, the cost of the sources of capital shall be presumed to be equal to the overall market-weighted costs of the identified sources of capital. The following is an example of the application of this rule.

	(1) Market Value	(2) Market Rate of Return	(3) % to Total	(4) Component (Col. 2 × Col. 3)
Common Stock	60,000	15%	66.67	10.00
Preferred Stock	5,000	13%	5.55	.72
Debt	25,000	12%	27.78	3.33
	90,000		100.00	14.05

This rule is intended to implement Iowa Code sections 428.24 and 434.15 and chapters 437 and 438.

701—106.6(434) Cost approach to unit value. The cost approach to unit value shall be determined by combining the cost of the operating properties of the company and deducting an allowance for depreciation calculated on a straight-line basis. Other forms of depreciation may be deducted if found to apply.

This rule is intended to implement Iowa Code sections 428.24 and 434.15 and chapters 437 and 438.

701—106.7(434) Correlation.

106.7(1) In making a final determination of value for railroad companies, the department shall give consideration to each of the methodologies described in these rules, the use of which will result in the determination of the fair and reasonable market value of the railroad company's entire operating property. The stock and debt indicator of value and the income indicator of value shall each be weighted at 50 percent. In this particular circumstance, when the department utilizes the stock and debt indicator and the income indicator in the correlation process, the cost indicator will be given no weighting. If circumstances dictate that a particular method is inappropriate for a specific company, that method shall be given little or no weight in the final correlation of value.

106.7(2) The correlation for pipeline and water companies will consider the cost indicator to be the most useful, the income indicator the next most useful, and the stock and debt indicator the least useful. In making the final determination of value, the department will weigh the stock and debt indicator of value at 10 percent, the income indicator of value at 40 percent and the cost indicator of value at 50 percent.

106.7(3) The correlation for steam companies will consider the cost indicator to be most useful.

106.7(4) The correlation for electric cooperative companies will consider the cost indicator to be most useful.

This rule is intended to implement Iowa Code sections 428.24 and 434.15 and chapters 437 and 438.

701—106.8(434) Allocation of unit value to state.

106.8(1) *Allocation by the department of railroad companies.* The department shall allocate that portion of the total unit value of the railroad company's operating property to the state of Iowa based on factors that are representative of the ratio that the railroad company's property and activity in the state of Iowa bear to the railroad company's total property and activity. These factors are:

a. Gross operating revenue weighted 40 percent.

b. All track mileage weighted 35 percent.

c. Revenue traffic units weighted 15 percent.

d. Car and locomotive mileage weighted 10 percent.

106.8(2) *Allocation by the department of utility companies.*

a. The department shall allocate that portion of the total unit value of the utility company's operating property to the state of Iowa based on factors that are representative of the ratio that the utility company's property and activity in the state of Iowa bear to the utility company's total property and activity. These factors are:

(1) Gross operating property weighted 75 percent.

(2) Gross operating revenues, or MCF miles, or barrel miles weighted 25 percent.

b. The selection of the property and use factor to be utilized shall depend on the type of utility being valued.

106.8(3) *Alternative methods.* In the event that the allocation prescribed by subrule 106.8(1) or 106.8(2) does not fairly and reasonably allocate unit value of the company's operating property to the state of Iowa, the department shall consider such other factors as the department deems appropriate by the exercise of sound appraisal judgment.

This rule is intended to implement Iowa Code sections 428.24 and 434.15 and chapters 437 and 438.

701—106.9(434) Railroad valuation exclusions. From the determination of value pursuant to rule 701—106.7(434), there shall be a deduction for:

106.9(1) Pollution-control or recycling property as provided in Iowa Code section 427.1(19).

106.9(2) Interstate bridges and other locally assessed property. Locally assessed property shall mean all property subject to an assessing authority pursuant to Iowa Code section 441.54. The respondent shall supply a schedule providing the actual value as determined by the local assessor on or nearest to the current assessment date, including parcel numbers for all locally assessed property.

106.9(3) The value of Iowa personal property. The computation for the percentage of personal property shall be equal to the ratio of the net book value of personal property divided by the net book value of the total property.

106.9(4) The intangible value. The deduction shall be equal to 6.6 percent of the correlated system value for the stock and debt indicator and the income indicator.

This rule is intended to implement Iowa Code sections 427.1(19), 434.15 and 434.20.

ITEM 2. Rescind and reserve **701—Chapter 107**.

RA 26-360

REVENUE DEPARTMENT[701]

Regulatory Analysis

Notice of Intended Action to be published: 701—Chapter 109
"Real Estate Transfer Tax and Declarations of Value"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 428A.11
State or federal law(s) implemented by the rulemaking: Iowa Code chapter 428A

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 18, 2026 2 to 3 p.m.	Via videoconference call: meet.google.com/egs-ucjg-frv

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis, which must be received by the Department of Revenue no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Nick Behlke
Department of Revenue
Hoover State Office Building
P.O. Box 10457
Des Moines, Iowa 50306-3457
Phone: 515.336.9025
Email: nick.behlke@iowa.gov

Purpose and Summary

The purpose of this proposed rulemaking is to rescind and adopt a new Chapter 109. These proposed rules provide an overview of real estate transfer tax and declarations of value, including the responsibilities of county recorders and local assessors relating to those processes. The Department proposes revisions to remove portions of the rules that the Department determined are obsolete, unnecessary, or duplicative of statutory language as required by Executive Order 10. Further, the Department proposes revisions to the chapter to add clarity and better organization to aid the public's understanding of real estate transfer tax and declarations of value.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

This proposed rulemaking does not create costs for any classes of persons.

- **Classes of persons that will benefit from the proposed rulemaking:**

Local governments will benefit from a clearer understanding of how and when to collect and remit real estate transfer tax and of when declarations of values are required to be submitted. Property owners will benefit from a clearer understanding of when they owe real estate transfer tax and when they are required to submit a declaration of value.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

There is no economic impact associated with this proposed rulemaking beyond what is contained in statute.

- **Qualitative description of impact:**

The qualitative benefits of this proposed rulemaking beyond what is already provided in statute are the value of having a clear understanding of the real estate transfer tax and declarations of value in order to ensure a consistent application of the law across the State and eliminate confusion.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

There are no costs to the State beyond what is already required to administer the relevant statutes.

- **Anticipated effect on State revenues:**

A greater understanding of real estate transfer tax and declarations of value will ensure that the correct amount of property taxes is collected.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

The cost of inaction would be potential confusion about real estate transfer tax and declarations of value, which could lead to an improper amount of tax collected. Additionally, declarations of value are required for the Department's statewide equalization process. There is no cost associated with this proposed rulemaking. This proposed rulemaking will ensure consistent application of the law across the State.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

This proposed rulemaking is not costly or intrusive.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

The Department did not consider any alternative methods.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

Failing to have a dedicated chapter on real estate transfer tax and declarations of value would lead to greater confusion about the application of those concepts, which could result in improper application of the law. The rules are proposed to be updated to remove outdated and duplicative language.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

These proposed rules may impact small businesses when the small businesses purchase or sell real property in the State. This proposed rulemaking does not impose any requirements on small businesses aside from what is contained in statute but seeks to ensure that small businesses are only subject to declaration of value requirements if required under the law.

Text of Proposed Rulemaking

ITEM 1. Rescind 701—Chapter 109 and adopt the following **new** chapter in lieu thereof:

CHAPTER 109
REAL ESTATE TRANSFER TAX AND DECLARATIONS OF VALUE

701—109.1(428A) Real estate transfer tax: responsibility of county recorders.

109.1(1) *Forms.* County recorders shall use only forms provided by the department for the collection of real estate transfer tax and the recording and reporting of such tax collections.

109.1(2) *Monthly reports.* County recorders shall submit a report to the department on forms prescribed by the department on or before the tenth day of each month enumerating real estate transfer tax collection information for the preceding month.

109.1(3) *Evidence of payment.* The recorder or authorized employee of the recorder must enter the tax payment amount on the face of the instrument of conveyance presented for recording.

109.1(4) *Recording refused.* The county recorder shall refuse to record any deed, instrument, or writing regardless of any statement by the grantor, grantee, or their agents that the transaction is exempt pursuant to Iowa Code section 428A.2, if, in the recorder's judgment, additional facts are necessary to clarify the taxable status of the transfer or determine the full consideration paid for the property. The county recorder may request from the grantor, grantee, or their agents any information necessary to determine the taxable status of the transfer or the full amount of consideration involved in the transaction. County recorders shall not record any deed or instrument of conveyance for which the proper amount of real estate transfer tax has not been collected. This applies to the collection of tax in excess of the amount due for the actual amount of consideration as well as situations in which an insufficient amount of tax has been collected.

109.1(5) *Refunds or underpayments.* County recorders shall not refund any overpayment of a real estate transfer tax. The grantor of the real property for which the real estate transfer tax has been overpaid may petition the state appeal board for a refund of the overpayment amount paid to the treasurer of state. A refund of the remaining portion of the overpayment may be petitioned from the board of supervisors of the county in which the tax was paid. Collection of underpayments shall be made as described in Iowa Code section 428A.8(1)*"c."*

109.1(6) *Multiple parcels.* If the real estate conveyance contains multiple parcels and the parcels are located in more than one county, the tax is to be paid to each county in which the property parcels are located based on the consideration paid for each property parcel or proportionate parcel located in each county.

This rule is intended to implement Iowa Code chapter 428A.

701—109.2(428A) Taxable status of real estate transfers.

109.2(1) *Transfer of realty to a corporation or partnership.* Capital stock, partnership shares, and debt securities received in exchange for real property constitute consideration subject to the real estate transfer tax. Where the value of the capital stock is definite or may be definitely determined in a dollar amount, the specific dollar amount is subject to the tax. Where the value of the capital stock is not definitely measurable in a dollar amount, the tax imposed is to be calculated on the market value of the realty transferred. For purposes of this subrule, "market value" is defined in Iowa Code section 441.21.

109.2(2) *Exchanges of real estate.* Real estate transfers involving the exchange of one piece of real property for another are transfers subject to the real estate transfer tax. Each grantor of the real estate is liable for the tax based on the market value of the property received in the exchange as well as other consideration, including but not limited to cash and assumption of debt. For purposes of this subrule, "market value" is defined in Iowa Code section 441.21.

109.2(3) *Conveyance to the United States government or the state of Iowa.* Any conveyance of real estate to the United States or any agency or instrumentality thereof or to the state of Iowa or any agency, instrumentality, or political subdivision thereof not exempt from the real estate transfer tax pursuant to Iowa Code section 428A.2 is subject to the real estate transfer tax. An exception to this subrule is any conveyance to the United States Department of Agriculture, Farmers Home Administration, which is specifically exempted by 7 U.S.C. §1984.

109.2(4) *Conveyance of property on leased land.* The transfer of buildings or other structures located on leased land is subject to the real estate transfer tax. The fact that the person who owns a building or other structure does not own the land upon which the property is located does not exempt this type of conveyance from the real estate transfer tax.

109.2(5) *Mortgage default.* When a defaulting mortgagor issues a deed or other conveyance instrument to the mortgagee as satisfaction of the mortgage debt, the transaction is subject to the real estate transfer tax. The consideration upon which the tax is calculated is the outstanding unsatisfied mortgage debt. However, a conveyance of real property to lienholders in lieu of forfeiture or foreclosure action is exempt from real estate transfer tax.

109.2(6) *Completion of contract.*

a. A deed or other conveyance instrument given at the time of completion of a single real estate contract is subject to the real estate transfer tax. The tax is to be computed on the full amount of the purchase price as stated in the contract and not solely on the last installment payment made prior to the issuance of the deed or other conveyance instrument. If the original contract is assigned to a third party or parties prior to fulfillment of such contract, the tax is to be computed only on the original contract price upon completion of the contract.

b. When a single deed or other conveyance instrument is given at the time of completion of multiple successive real estate contracts, separate taxes are to be computed and paid based upon the full purchase price stated in each contract.

EXAMPLE: If A sells real estate to B on an installment contract, and then B sells the same property to C on another installment contract and subsequently both A and B transfer their respective interests in the property to C via one deed, A is liable for a tax computed on the full purchase price stated in the original contract to which A was a party and B is liable for a tax computed on the full purchase price stated in the subsequent contract to which B was a party.

109.2(7) *Assignments of contract.* Assignments of real estate contracts by contract sellers and contract buyers are not subject to the real estate transfer tax.

109.2(8) *Corporate and partnership dissolution.* A conveyance of realty by a corporation or partnership in liquidation or in dissolution to its shareholders or partners subject to the debts of the corporation or partnership is a conveyance subject to the real estate transfer tax. However, if there are no debts and the conveyance is made solely for the cancellation and retirement of the capital stock or dissolution, the tax does not apply.

109.2(9) *Family debt cancellation exemption.* The family debt cancellation exemption from the real estate transfer tax provided in Iowa Code section 428A.2(11) applies only to real estate conveyances between spouses or parent and child and indebtedness between these parties. The amount of indebtedness subject to exemption shall not exceed the market value of the property being transferred.

EXAMPLE 1: A son is indebted to his father for $10,000. The debt is secured by real property. The son transfers the real property with a market value of $12,000 to his father as satisfaction of the indebtedness. No real estate transfer tax is due in this situation.

EXAMPLE 2: A son is indebted to his father for $10,000. The debt is secured by real property. The son transfers the real property with a market value of $4,000 to his father as satisfaction of the indebtedness. Real estate transfer tax is due on $6,000 in this situation.

109.2(10) *Assumption of debt.* Any outstanding debt on the property conveyed that is not assumed by the grantee is not to be included as consideration in computing the amount of real estate transfer tax due.

EXAMPLE: Property with a mortgage of $40,000 is transferred from A to B. B pays A $60,000 but does not assume the $40,000 mortgage. The real estate transfer tax is to be computed on the $60,000 cash payment only. If B had assumed the mortgage in addition to making the cash payment, the real estate transfer tax would be computed on $100,000 (the sum of the payment and mortgage).

109.2(11) *Mergers, consolidations, and reorganizations.* Conveyances of real estate resulting from corporate or limited liability company mergers, consolidations, or reorganizations are exempt from the real estate transfer tax. For purposes of this rule, the following definitions apply:

"Consolidation" means the uniting of two or more corporations or companies into a single new corporation or company, all of the constituent corporations or companies thereby ceasing to exist as separate entities.

"Merger" means the uniting of two or more corporations or companies into one corporation or company in such manner that the corporation or company resulting from the merger retains its existence and absorbs the other constituent corporation(s) or company(ies), which thereby lose its or their existence.

"Reorganization" means the transfer of substantially all of the assets of one corporation or company to another corporation or company where the persons having an interest in the old corporation or company maintain substantially the same interest in the new corporation or company.

This rule is intended to implement Iowa Code sections 428A.1 and 428A.2.

701—109.3(428A) Declarations of value: responsibility of county recorders and local assessors.

109.3(1) *Form and procedures.* County recorders and local assessors shall use a real estate transfer—declaration of value form and the procedures prescribed and provided by the director for reporting real estate transfers.

109.3(2) *Report of sales.* County recorders and local assessors shall complete the appropriate portions of a real estate transfer—declaration of value form for each real estate transfer for which a declaration of value has been completed by the buyer, seller, or agent. The completed real estate transfer—declaration of value form shall be used in preparing the quarterly sales report to be submitted to the department as required by Iowa Code section 421.17(6).

109.3(3) *Transmittal of form.* A real estate transfer—declaration of value form filed with the county recorder shall be transmitted promptly to the department. Nothing in this subrule shall be construed to relieve, limit, or prohibit local assessors from completing the requirements set forth in Iowa Code section 421.17(6)*"a"* and *"b."*

109.3(4) *Completion of form.* County recorders and local assessors shall complete a real estate transfer—declaration of value form in accordance with instructions issued by the department. The assessed values entered on the form are to be the final values as of January 1 of the year in which the transfer occurred.

This rule is intended to implement Iowa Code section 428A.1.

701—109.4(428A) Certain transfers of agricultural realty. In determining whether agricultural realty is purchased by a corporation, limited partnership, trust, alien, or nonresident alien for purposes of providing information required for such transfers by Iowa Code section 428A.1, the following definitions apply.

"Alien" means a person born out of the United States and unnaturalized under the Constitution and laws of the United States.

"Corporation" means a domestic or foreign corporation and includes a nonprofit corporation and cooperatives.

"Limited partnership" means a partnership as defined in Iowa Code section 488.102(12) and that owns or leases agricultural land or is engaged in farming.

"Nonresident alien" means an alien as defined in this rule who is not a resident of the state of Iowa.

"Trust" means a fiduciary relationship with respect to property, subjecting the person by whom the property is held to equitable duties to deal with the property for the benefit of another person, which arises as a result of a manifestation of an intention to create it. A trust includes a legal entity holding property as a trustee, agent, escrow agent, attorney-in-fact, and in any similar capacity. Trust does not include a person acting in a fiduciary capacity as an executor, administrator, personal representative, guardian, conservator or receiver.

This rule is intended to implement Iowa Code section 428A.1.

701—109.5(428A) Form completion and filing requirements.

109.5(1) *Real estate transfer—declaration of value: real estate transfer tax.* Requirements for completing a real estate transfer—declaration of value form or exceptions from filing the form shall not be construed to alter the liability for the real estate transfer tax or the amount of such tax as provided in Iowa Code chapter 428A.

109.5(2) *Agent defined.* As used in Iowa Code section 428A.1, an agent is defined as any person designated or approved by the buyer or seller to act on behalf of the buyer or seller in the real estate transfer transaction.

109.5(3) *Recording refused.* The county recorder shall refuse to record any document for which a real estate transfer—declaration of value form is required if the form is not completed accurately and completely by the buyer or seller or the agent of either. The real estate transfer—declaration of value form shall include all information required by the director.

109.5(4) *Multiple parcels.* Separate declarations of value are to be submitted to each county recorder if the real estate conveyed consists of parcels located in more than one county. The consideration paid for each property must be separately stated on the declaration of value or the recorder shall refuse to record the instrument of conveyance.

This rule is intended to implement Iowa Code sections 428A.1, 428A.2, and 428A.4.

701—109.6(428A) Public access to declarations of value. Declarations of value are public records and must be made available for public inspection in accordance with Iowa Code chapter 22. However, if a real estate transfer—declaration of value form contains the social security number or federal tax identification number of the buyer or seller, the social security number or the federal tax identification number must be redacted by the government official in possession of the real estate transfer—declaration of value form prior to the form being released to the public.

This rule is intended to implement Iowa Code section 428A.7.

RA 26-361

REVENUE DEPARTMENT[701]

Regulatory Analysis

Notice of Intended Action to be published: 701—Chapter 110
"Property Tax Credits and Exemptions"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 421.17(18), 427.1(38)"c," and 427.1(40)"h"

State or federal law(s) implemented by the rulemaking: Iowa Code chapters 425, 425A, 426, 426A, 427C, and 441 and section 427.1

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 18, 2026 2 to 3 p.m.	Via videoconference call: meet.google.com/egs-ucjg-frv

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis, which must be received by the Department of Revenue no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Nick Behlke
Department of Revenue
Hoover State Office Building
P.O. Box 10457
Des Moines, Iowa 50306-3457
Phone: 515.336.9025
Email: nick.behlke@iowa.gov

Purpose and Summary

The purpose of this proposed rulemaking is to rescind and readopt Chapter 110. This chapter contains an overview of the different property tax credits and exemptions available to property owners in the State. The Department proposes revisions to remove portions of the rules that the Department determined are obsolete, unnecessary, or duplicative of statutory language as required by Executive Order 10. Further, the Department proposes revisions to the chapter to add clarity and better organization to aid the public's understanding of property tax credits and exemptions.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

There are no costs associated with this rulemaking beyond those contained in statute.

- **Classes of persons that will benefit from the proposed rulemaking:**

Taxpayers will benefit from a greater understanding of when their property qualifies for a tax credit or exemption, as well as how to apply and receive the credit or exemption. Local governments will benefit from a greater understanding of how to apply tax credits and exemptions to properties in their jurisdiction.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

There is no economic impact associated with this rulemaking beyond what is contained in statute.

- **Qualitative description of impact:**

The qualitative benefits of this rulemaking beyond what is already provided in statute is the value of having a clear understanding of property tax credits and exemptions offered in the State in order to ensure that taxpayers know how to qualify and local jurisdictions know how to apply the credit or exemption.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

There are no costs to the State beyond what is already required to administer the relevant statutes.

- **Anticipated effect on State revenues:**

A greater understanding of property tax credits and exemptions will ensure that the correct amount of property taxes are collected.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

The cost of inaction would be potential confusion about the application of property tax credits and exemptions, which could lead to a property owner failing to receive an exemption or credit they are otherwise qualified for. There is no cost associated with this rulemaking.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

This rulemaking is not costly or intrusive.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

The Department did not consider any alternative methods.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

Failing to have this rulemaking would lead to greater confusion about the application of property tax credits and exemptions and could lead to taxpayers paying more in property tax than they should. The chapter was updated to remove outdated and duplicative language.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

This rulemaking does not have a special impact on small business. A small business that qualifies for a property tax credit or exemption will benefit from a clear understanding of the application of the credits and exemptions.

Text of Proposed Rulemaking

ITEM 1. Rescind 701—Chapter 110 and adopt the following **new** chapter in lieu thereof:

CHAPTER 110
PROPERTY TAX CREDITS AND EXEMPTIONS

701—110.1(425) Homestead tax credit and exemptions.

110.1(1) *Homestead tax exemption.*

a. Beginning with assessment year 2026, the homestead tax credit is replaced with a homestead exemption. The homestead exemption is equal to 10 percent of the taxable value of the homestead but not less than $5,500 or more than $20,000 in the first year of the exemption.

b. The maximum assessment amount will be adjusted annually as described in Iowa Code section 425.1A. The department will publish the maximum amount annually.

110.1(2) *Exemption for individuals 65 and older.*

a. A $6,500 homestead exemption may be claimed by claimants who qualify for the homestead tax credit or exemption and have reached the age of 65 years or older by January 1 of the assessment year.

b. Claimants who received the homestead credit and met the age requirement on or before May 4, 2023, shall receive the exemption for claimants aged 65 and older without further filing if the assessor has appropriate information to verify eligibility. Claimants receiving the homestead credit or exemption who meet the age requirement in successive years will need to refile in order to receive the exemption.

EXAMPLE 1: A claimant who is 60 years of age applies for and is awarded the homestead exemption. Once the claimant has reached the age of 65, the claimant must reapply in order to receive the homestead exemption for claimants aged 65 and older.

EXAMPLE 2: A husband and wife apply for and are awarded the 10 percent homestead exemption. The husband is 66 years old, and the wife is 62. The husband applies for and receives the homestead exemption for claimants aged 65 and older. He dies when he is 68 years old. The wife will continue to receive the homestead exemption as a surviving spouse occupying the homestead but would not receive the homestead exemption for claimants aged 65 and older because she is 64.

EXAMPLE 3: Same facts as Example 2, except both spouses are above age 65. Since the husband was the one who applied for and received the homestead exemption for claimants aged 65 and older, the wife will need to reapply in order to receive the exemption.

110.1(3) *Disabled veteran property tax credit.*

a. Qualification for credit. The disabled veteran tax credit may be claimed by a qualifying owner as defined in Iowa Code section 425.1(2)*"b"* as amended by 2026 Iowa Acts, Senate File 2472.

b. Under honorable conditions. A veteran, as defined in Iowa Code section 35.1, may qualify for the disabled veteran tax credit. In addition to the other requirements under Iowa Code section 35.1, to qualify as a veteran under Iowa Code section 35.1, an individual must have been discharged under honorable conditions from the armed forces of the United States, the reserve forces of the United States, the Iowa national guard, or the merchant marines. For purposes of benefits granted under Iowa Code section 425.15 and this rule, "under honorable conditions" means that the character of an enlisted member's discharge from the armed forces of the United States, the reserve forces of the United States, the Iowa national guard, or the merchant marines was "honorable" or "general (under honorable conditions)." "Under honorable conditions" does not include any other character of discharge, including but not limited to:

(1) Under other than honorable conditions;

(2) Dishonorable;

(3) Bad conduct;

(4) Uncharacterized; or

(5) A similar expression indicating that the discharge or release was not under honorable circumstances.

c. Application for credit. A valid application for the disabled veteran tax credit is subject to all of the following requirements:

(1) The application must be accompanied by the Homestead Tax Exemption Form (54-028).

(2) An application for the disabled veteran tax credit must be filed with the local assessor on or before July 1 of the assessment year. Any supporting documentation required by the assessor as evidence of a veteran's service-connected disability status or rating must be current within the previous 12 months of the date on which the application is filed.

(3) For persons applying for the disabled veteran tax credit under Iowa Code section 425.1(2)*"b"*(1)(a), (b), and (c), a DD-214 (Certificate of Release or Discharge from Active Duty), or an equivalent document indicating the veteran's type of separation and character of service, is required with an application for the credit to verify that the applicant meets the requirements of Iowa Code sections 425.1 and 35.1.

(4) For persons applying for the disabled veteran tax credit under Iowa Code section 425.1(2)*"b"*(1)(b) and (c), a U.S. Department of Veterans Affairs Benefit Summary Letter (also known as a Veterans Affairs award letter) stating the veteran's qualifying service-connected disability rating(s) is required with an application for the disabled veteran tax credit as certification of the veteran's service-connected disability by the U.S. Department of Veterans Affairs. Where a veteran seeks eligibility as a result of a permanent and total disability rating based on individual unemployability, the Benefit Summary Letter must also indicate that the veteran is entitled to individual unemployability that is compensated at the 100 percent disability rate.

d. Multiple discharges. A person who has received a nonqualifying character of discharge may still qualify for the disabled veteran tax credit if it is established through the required documents under paragraph 110.1(3)*"c"* that the person has a service-connected disability that is related to the person's service in the armed forces of the United States for which the person was discharged under honorable conditions, and the other requirements of Iowa Code section 425.1 and this rule are also met. In such a case, in addition to a DD-214, the applicant must include a DD-256 (Certificate of Honorable Discharge), a DD-257 (General Discharge Certificate), or an equivalent document from the relevant time of service with the application for the disabled veteran tax credit. The applicant's Benefit Summary Letter must also indicate the applicant's periods of service and each character of discharge.

e. Amount of credit. The amount of the credit is equal to the entire amount of tax payable on the homestead. For applications received on or after July 1, 2026, the homestead does not include appurtenances and is limited to one-half acre.

f. Surviving spouse and child eligibility. A surviving spouse or child can receive the disabled veteran tax credit if they fall under one of the following circumstances. If an owner or beneficiary of an owner ceases to qualify for the credit, the owner or beneficiary must notify the assessor of the termination of eligibility.

(1) The credit is continued to the surviving spouse and any child, as defined in Iowa Code section 234.1, if they are the beneficiaries of a deceased owner as long as the surviving spouse remains unmarried.

(2) A surviving spouse or a child and who is receiving dependency and indemnity compensation (DIC), as certified by the United States Department of Veterans Affairs, is eligible for the credit. If the surviving spouse changes homesteads, or the homestead did not receive the credit during the qualified veteran's life, the surviving spouse will need to provide a current DIC or compensation and pension death (CPD) letter to receive the tax credit. A surviving spouse who receives DIC payments is eligible for the credit even upon remarriage.

110.1(4) *Eligibility for credit or exemption.*

a. Ownership. In order to qualify for the homestead credit or exemption, an individual must be an owner as defined in Iowa Code section 425.11(1)*"e."*

(1) If homestead property is owned jointly by persons who are not related or formerly related by blood, marriage or adoption, no homestead tax credit or exemption shall be allowed unless all the owners actually occupy the homestead property on July 1 of each year.

(2) No homestead tax credit or exemption shall be allowed if the homestead property is owned or listed and assessed to a corporation, partnership, company or any other business or nonbusiness organization. However, a family farm corporation as defined in Iowa Code section 9H.1 where a shareholder of the family farm corporation occupies a homestead as defined in Iowa Code section 425.11(1) may receive the homestead tax credit or exemption.

(3) A person acquiring homestead property under a contract of purchase remains eligible for a homestead tax credit or exemption even though such person has assigned equity in the homestead property as security for a loan.

(4) A person occupying homestead property pursuant to Iowa Code chapter 499A or 499B is eligible for a homestead tax credit or exemption.

(5) A person who has a life estate interest in homestead property shall be eligible for a homestead tax credit or exemption, provided the remainderman is related or formerly related to the life estate holder by blood, marriage or adoption or the reversionary interest is held by a nonprofit corporation organized under Iowa Code chapter 504.

(6) A person occupying homestead property under a trust agreement is considered the owner of the property for purposes of the homestead tax credit or exemption.

(7) A remainderman is not eligible to receive a homestead tax credit or exemption until expiration of the life estate to which such person has the remainder interest.

(8) In order for a person occupying homestead property under a contract of purchase to be eligible for a homestead tax credit or exemption, the contract of purchase must be recorded in the office of the county recorder where the property is located. A recorded memorandum or summary of the actual contract of purchase is not sufficient evidence of ownership to qualify a person for a homestead tax credit or exemption.

(9) A person owning a homestead dwelling pursuant to Iowa Code chapter 499B, or a person owning a homestead dwelling on land owned by a community land trust pursuant to 42 U.S.C. Section 12773, is eligible for the homestead tax credit or exemption, provided that such a person is liable for and pays property tax on the homestead.

(10) An heir occupying homestead property that is part of an estate in the process of administration is considered an owner of the property and is eligible for the homestead credit or exemption.

(11) A person occupying the homestead as a leasehold interest and who is liable for and pays property tax on the homestead is eligible for the homestead tax credit or exemption.

b. Eligible homestead. A homestead includes the dwelling house that an eligible owner occupies as a home on July 1 of the year for which the credit is claimed and occupies as a home for at least six months during the calendar year in which the fiscal year begins. The homestead exemption also applies to land up to one-half acre in a city or 40 acres not in a city and all appurtenances. For applications for the disabled veteran tax credit filed on or after July 1, 2026, the credit is limited to one-half acre of land and does not include appurtenances.

(1) Only one homestead tax credit or exemption can be allowed per legally described tract of land. For purposes of this rule, a legally described tract of land shall mean all land contained in a single legal description.

(2) A homestead tax credit or exemption may not be allowed upon a mobile home that is not assessed as real estate.

(3) An owner of homestead property who is in the military service or confined in a nursing home, extended-care facility or hospital shall be considered as occupying the property during the period of service or confinement. The fact that the owner rents the property during the period of military service

is immaterial to the granting of the homestead tax credit or exemption. However, no homestead tax credit or exemption shall be allowed if the owner received a profit for the use of the property from another person while such owner is confined in a nursing home, extended-care facility, or hospital.

(4) If the homestead property contains two dwelling houses and one of the dwelling houses and a portion of the land is sold after a valid application for homestead tax credit or exemption has been filed, the assessor shall prorate the assessment so as to allow the seller a homestead tax credit or exemption on that portion of the property that is retained and also allow the purchaser a homestead tax credit or exemption on that portion of the property that is purchased, provided the purchaser files a valid application for homestead tax credit or exemption by July 1 of the claim year.

(5) A homestead tax credit or exemption shall be allowed against the assessed value of the land on which a dwelling house did not exist as of January 1 of the year in which the credit or exemption is claimed provided a dwelling house is owned and occupied by the claimant on July 1 of that year.

(6) If the homestead property is conveyed to another person prior to July 1 of any year, the new owner must file a claim for credit or exemption on or before July 1 to obtain the credit or exemption for that year. If the property is conveyed on or after July 1, the credit, exemption, or both shall remain with the property for that year provided the previous owner was entitled to the credit. However, when the property is transferred as part of a distribution made pursuant to Iowa Code chapter 598, the transferee spouse retaining ownership and occupancy of the homestead is not required to refile for the credit.

110.1(5) *Application for credit or exemption.*

a. An application for the homestead tax exemption or disabled veteran tax credit must be signed by the owner of the property or the owner's qualified designee and filed with the city or county assessor on or before July 1 of the current assessment year. Once filed, the claim for credit or exemption is applicable to subsequent years and no further filing is required as long as the homestead is owned and occupied by the claimant or the claimant's spouse on July 1 of each year and for at least six months during each calendar year in which the fiscal year for which the credit or exemption is claimed begins. The six-month period of time does not need to be consecutive. If the credit or exemption is disallowed and the claimant fails to give written notice to the assessor that the claimant ceased to use the property as a homestead, a civil penalty equal to 5 percent of the amount of the disallowed credit will be assessed against the claimant in addition to the amount of credit allowed.

b. In the event July 1 falls on either a Saturday or Sunday, applications for the homestead tax credit or exemption may be filed the following Monday. Applications submitted by mail shall be accepted if postmarked on the following Monday.

c. In order to receive the disabled veteran tax credit, the applicant must file both the application for The Homestead Tax Exemption Form and the Disabled Veteran Homestead Property Tax Credit Form.

d. An assessor may not refuse to accept an application for homestead tax credit or exemption. If it is the opinion of the assessor that a homestead tax credit or exemption should not be allowed, the assessor shall accept the application and recommend disallowance.

e. If the owner of the homestead is on active duty in the armed forces of this state or of the United States, or is 65 years of age or older or is disabled, the application for homestead tax credit or exemption may be signed and delivered by a member of the owner's family or the owner's guardian, conservator or designated attorney-in-fact. For purposes of this rule, any person related to the owner by blood, marriage or adoption shall be considered a member of the owner's family.

f. If a person makes a false application for credit or exemption with fraudulent intent to obtain the credit or exemption, the person is guilty of a fraudulent practice and the claim shall be disallowed. If the credit has been paid, the amount of the credit plus a penalty equal to 25 percent of the amount of the disallowed credit and interest shall be collected by the county treasurer.

g. For purposes of the homestead tax exemption and credit, the occupancy of the homestead may constitute actual occupancy or constructive occupancy. However, more than one homestead cannot be simultaneously occupied by the claimant and multiple simultaneous homestead tax credits

are not allowable. Generally, a homestead is occupied by the claimant if the premises constitute the claimant's usual place of abode. Once the claimant's occupancy of the homestead is established, such occupancy is not lost merely because the claimant, for some valid reason, is temporarily absent from the homestead premises with an intention of returning.

h. A homestead tax credit or exemption may be allowed even though the property taxes levied against the homestead property have been suspended by the board of supervisors.

i. A homestead tax credit or exemption shall not be allowed if the property taxes levied against the homestead property have been canceled or remitted by the board of supervisors.

110.1(6) *Recipients of both credit and exemption—order of operations.* If a taxpayer is eligible for the 10 percent exemption under Iowa Code section 425.1A, the 65+ exemption under Iowa Code section 425.1A(1), and the military service exemption under Iowa Code chapter 426A, the 10 percent exemption will apply first, followed by the 65+ exemption, followed by the military service exemption. These exemptions are applied to the taxable value of the property. Any applicable credits would be applied to the tax amount.

This rule is intended to implement Iowa Code chapter 425.

701—110.2(22,35,426A) Military service tax exemption.

110.2(1) *Application for exemption.*

a. A claim filed after July 1 of any calendar year applies to the following assessment year.

b. In the event July 1 falls on either a Saturday or Sunday, applications for the military service tax exemption may be filed the following Monday, and applications submitted by mail shall be accepted if postmarked on the following Monday.

c. An assessor may not refuse to accept an application for a military service tax exemption. If it is the opinion of the assessor that a military service tax exemption should not be allowed, the assessor shall accept the application for exemption and recommend disallowance.

d. If the owner of the property is on active duty in the armed forces of this state or of the United States, or is 65 years of age or older or is disabled, the application for military service tax exemption may be signed and delivered by a member of the owner's family or the owner's guardian, conservator or designated attorney-in-fact. For purposes of this rule, any person related to the owner by blood, marriage or adoption shall be considered a member of the owner's family.

110.2(2) *Eligibility for exemption.*

a. A person who was discharged from the draft is not considered a veteran of the military service and is not entitled to a military service tax exemption.

b. A military service tax exemption shall not be allowed to a person whose only service in the military was with a foreign government.

c. If former members of the United States armed forces were on active duty for at least 18 months, it is not necessary that their service be performed during one of the war or conflict time periods. There is no minimum number of days a former member of the armed forces of the United States must have served on active duty if the service was performed during one of the war or conflict time periods, nor is there a minimum number of days a former member of the armed forces of the United States must have served on active duty if the person was honorably discharged because of a service-related injury sustained while on active duty.

d. Former and current members of the Iowa national guard and reserve forces of the United States need not have performed any active duty if they served at least 20 years. Otherwise, they must have been activated for federal duty, for purposes other than training, for a minimum of 90 days. It is not a requirement for a member of the Iowa national guard or a reservist to have performed service within a designated war or conflict time period.

e. With the exception of members of the Iowa national guard and members of the reserve forces of the United States who have served at least 20 years and continue to serve, a military service tax exemption shall not be allowed unless the veteran has received a complete and final separation from active duty service.

f. As used in Iowa Code section 426A.12(1)*"c,"* the term minor child means a person less than 18 years of age or less than 21 years of age and enrolled as a full-time student at an educational institution.

g. A veteran of more than one qualifying war period is entitled to only one military service tax exemption.

h. The person claiming a military service tax exemption must be an Iowa resident. If the exemption is claimed by a qualified individual enumerated in Iowa Code section 426A.12, the veteran need not be an Iowa resident but the individual enumerated in Iowa Code section 426A.12 claiming the exemption must be an Iowa resident.

i. A person who has a life estate interest in property may claim a military service tax exemption on such property.

j. A remainder is not eligible to receive a military service tax exemption on property to which a remainder interest is held until expiration of the life estate.

k. A military service tax exemption shall not be allowed on a mobile home that is not assessed as real estate.

l. An annulled marriage is considered to have never taken place and the parties to such a marriage are restored to their former status. Neither party to an annulled marriage can thereafter be considered a spouse or surviving spouse of the other party for purposes of receiving the military service tax exemption.

m. No military service tax exemption shall be allowed on property that is owned by a corporation, partnership, company or any other business or nonbusiness organization. However, a family farm corporation may receive the military service tax exemption.

n. In the event both a husband and wife are qualified veterans, they may each claim their military service tax exemption on their jointly owned property. If property is solely owned by one spouse, the owner spouse may claim both exemptions on the property providing the nonowner spouse's exemption is not claimed on other property.

o. No military service tax exemption shall be allowed if on July 1 of the claim year, the claimant or the claimant's unremarried surviving spouse is no longer the owner of the property upon which the exemption was claimed.

p. A person shall not be denied a military service tax exemption even though the property upon which the exemption is claimed has been pledged to another person as security for a loan.

q. A qualified veteran who has conveyed property to a trustee shall be eligible to receive a military service tax exemption on such property providing the trust agreement gives the claimant a beneficial interest in the property.

r. A person owning property pursuant to Iowa Code chapter 499A or 499B is eligible for a military service tax exemption.

s. The person claiming the exemption shall have recorded in the office of the county recorder evidence of property ownership and either the military certificate of satisfactory service or, for a current member of the Iowa national guard or a member of the reserve forces of the United States, the veteran's retirement points accounting statement issued by the armed forces of the United States or the state adjutant general. The military certificate of satisfactory service shall be considered a confidential record pursuant to Iowa Code section 22.7.

t. An heir of property that is part of an estate in the process of administration is considered an owner of the property and is eligible for the military exemption.

u. Former members who opted to serve five years in the reserve forces of the United States qualify if any portion of their enlistment would have occurred during the Korean Conflict (June 25, 1950, to January 31, 1955).

110.2(3) *Under honorable conditions.* A veteran, as defined in Iowa Code section 35.1, may qualify for the military service tax exemption. In addition to the other requirements under Iowa Code section 35.1, to qualify as a veteran under Iowa Code section 35.1, an individual must have been discharged under honorable conditions from the armed forces of the United States, the reserve forces

of the United States, the Iowa national guard, or the merchant marines. For purposes of benefits granted under Iowa Code chapter 426A and this rule, "under honorable conditions" means that the character of an enlisted member's discharge from the armed forces of the United States, the reserve forces of the United States, the Iowa national guard, or the merchant marines was "honorable" or "general (under honorable conditions)." "Under honorable conditions" does not include any other character of discharge including but not limited to:

(1) Under other than honorable conditions;

(2) Dishonorable;

(3) Bad conduct;

(4) Uncharacterized; or

(5) A similar expression indicating that the discharge or release was not under honorable circumstances.

110.2(4) *Application of exemption.*

a. When the owner of homestead property is also eligible for a military service tax exemption, the exemptions shall apply in the order described in subrule 110.1(5).

b. If a portion of the property upon which a valid military service tax exemption was claimed is sold on or before July 1 of the year in which the exemption is claimed, the seller shall be allowed a military service tax exemption on that portion of the property that is retained by the seller on July 1. The purchaser is also eligible to receive a military service tax exemption on that portion of the property that was purchased, provided the purchaser is qualified for the exemptions and files a valid application for the exemption on or before July 1 of the claim year.

c. A military service tax exemption may be allowed even though the taxes levied on the property upon which the exemption is claimed have been suspended by the board of supervisors.

d. A military service tax exemption shall not be allowed if the taxes levied on the property upon which the exemption is claimed have been canceled or remitted by the board of supervisors.

This rule is intended to implement Iowa Code sections 22.7, 35.1, and 35.2 and chapter 426A.

701—110.3(427) Pollution control and recycling property tax exemption.

110.3(1) An assessor may not refuse to accept an application for a pollution control exemption if timely filed and if the necessary certification has been obtained from the department of natural resources.

110.3(2) In the event February 1 falls on either a Saturday or Sunday, applications for the exemption may be filed the following Monday and applications submitted by mail shall be accepted if postmarked on the following Monday.

110.3(3) The sale, transfer, or lease of property does not affect its eligibility for exemption as long as the requirements of Iowa Code section 427.1(19) and rule 701—110.3(427) are satisfied.

110.3(4) In the event that qualified property is assessed as a unit with other property not having a pollution control or recycling function, the exemption shall be limited to the increase in the assessed valuation of the unit that is attributable to the pollution control or recycling property.

EXAMPLE

Valuation of unit with pollution control or recycling property	$100,000
Valuation of unit without pollution control or recycling property	50,000
Allowable amount of exemption	$ 50,000

110.3(5) The value of property to be exempt from taxation shall be the fair and reasonable market value of such property as of January 1 of each year for which the exemption is claimed, rather than the original cost of such property.

This rule is intended to implement Iowa Code section 427.1(19).

701—110.4(427) Low-rent housing for the elderly and persons with disabilities.

110.4(1) Definitions. The terms used in Iowa Code section 427.1(21) have the following definitions:

"Elderly" means any person at least 62 years of age.

"Low-rent housing" means housing the rent for which is less than that being received or that could be received for similar properties on the open market in the same assessing jurisdiction. Federal rent subsidies received by the occupant shall be excluded in determining whether the rental fee charged meets this definition.

"Nonprofit organization" means an organization, no part of the net income of which is distributable to its members, directors or officers.

"Persons with physical or mental disabilities" means a person whose physical or mental condition is such that the person is unable to engage in substantial gainful employment.

110.4(2) The exemption granted in Iowa Code section 427.1(21) extends only to property that is owned and operated, or controlled, by a nonprofit organization recognized as such by the Internal Revenue Service. Property owned and operated, or controlled, by a private person is not eligible for exemption under Iowa Code section 427.1(21).

110.4(3) The income of persons living in housing eligible for exemption under Iowa Code section 427.1(21) shall not be considered in determining the property's taxable status.

110.4(4) An organization seeking an exemption under Iowa Code section 427.1(21) shall file a statement with the local assessor pursuant to Iowa Code section 427.1(14).

110.4(5) This exemption for refinanced projects applies to those projects refinanced on or after January 1, 2005.

110.4(6) In complying with the requirements of Iowa Code section 427.1(14), the provisions of rule 701—101.2(437A,437B) shall apply.

110.4(7) In determining the taxable status of property for which an exemption is claimed under Iowa Code section 427.1(21), the appropriate assessor shall follow rules 701—101.1(437A,437B) through 701—101.3(437A,437B).

110.4(8) If a portion of a structure is used to provide low-rent housing units to elderly persons and persons with disabilities and the other portion is used to provide housing to persons who are not elderly or disabled, the exemption for the property on which the structure is located shall be limited to that portion of the structure used to provide housing to the elderly and disabled. Vacant units and projects under construction that are designated for use to provide housing to elderly and disabled persons shall be considered as being used to provide housing to elderly and disabled persons. The valuation exempted shall bear the same relationship to the total value of the property as the area of the structure used to provide low-rent housing for the elderly and persons with disabilities bears to the total area of the structure unless a better method for determining the exempt valuation is available. The valuation of the land shall be exempted in the same proportion.

110.4(9) The property tax exemption provided in Iowa Code section 427.1(21) shall be based upon occupancy by elderly or persons with disabilities as of July 1 of the assessment year. However, nothing in this subrule shall prevent the taxation of such property in accordance with the provisions of Iowa Code section 427.19.

This rule is intended to implement Iowa Code section 427.1(14) and 427.1(21).

701—110.5(427) Speculative shell buildings.

110.5(1) *Authority of city council and board of supervisors.* A city council or county board of supervisors may enact an ordinance granting property tax exemptions for value added as a result of new construction of speculative shell buildings or additions to existing buildings or structures, or may exempt the value of an existing building or structure being reconstructed or renovated and the value of the land on which the building or structure is located, if the reconstruction or renovation constitutes complete replacement or refitting of an existing building or structure owned by community development organizations, not-for-profit cooperative associations under Iowa Code chapter 499A,

or for-profit entities. More information for definitions can be found in Iowa Code section 427.1(27). The value added exemption for new construction includes reconstruction and renovation constituting complete replacement or refitting of existing buildings and structures if the reconstruction or renovation is required due to economic obsolescence, or to implement industry standards in order to competitively manufacture or process products, or to market a building or structure as a speculative shell building. The exemption for reconstruction or renovation not constituting new construction does not have to meet these requirements but has to meet only the requirements set forth in the definition of a speculative shell building. The council or board in the ordinance authorizing the exemption shall specify if the exemption will be allowed to community development organizations, not-for-profit cooperative associations under Iowa Code chapter 499B, or for-profit entities, and the length of time the exemption is to be allowed.

110.5(2) *Eligibility for exemption.* The value added by new construction, reconstruction, or renovation and first assessed prior to January 1 of the calendar year in which an ordinance authorizing a tax exemption becomes effective is not eligible for exemption. However, the value added as of January 1 of the calendar year in which the ordinance becomes effective is eligible for exemption if the ordinance is in effect on February 1 of that calendar year. This subrule does not apply to new construction projects having received prior approval. For reconstruction and renovation projects not constituting new construction, the ordinance authorizing the exemption must be in effect by February 1 of the year the project commences for the exemption to be allowable in the subsequent assessment year.

110.5(3) *Application for exemption.*

a. A community development organization, not-for-profit cooperative association, or for-profit entity must file an application for exemption with the assessor between January 1 and February 1, inclusive, of the year in which the value added for new construction is first assessed for the exemption to be allowable for that assessment year. For reconstruction and renovation projects not constituting new construction, an application for exemption must be filed by February 1 of the assessment year in which the project commences for the exemption to be allowable the following assessment year. If approved, no application for exemption is required to be filed in subsequent years for the value added exemption or the reconstruction or renovation exemption not constituting new construction. An application cannot be filed if a valid ordinance has not been enacted. If an application is not filed by February 1 of the year in which the value added for new construction is first assessed, the organization, association, or entity cannot receive, in subsequent years, the exemption for that value added. However, if the organization, association, or entity has received prior approval, the application must be filed by February 1 of the year in which the total value added for the new construction is first assessed.

b. If February 1 falls on either a Saturday or Sunday, applications for exemption may be filed the following Monday, and applications submitted by mail will be accepted if postmarked the following Monday.

110.5(4) *Prior approval.* To obtain prior approval for a project, the proposal of the organization, association, or entity must be approved by a specific ordinance addressing the proposal and passed by the city council or board of supervisors. The original ordinance providing for the exemption does not constitute the granting of prior approval for a project. If an organization, association, or entity has obtained a prior approval ordinance from a city council or board of supervisors, the exemption for new construction cannot be obtained until the year in which all value added for the completed project is first assessed. Reconstruction and renovation projects constituting new construction must receive prior approval to qualify for exemption. Reconstruction and renovation projects that do not constitute new construction need not receive prior approval.

110.5(5) *Termination of exemption.* The exemption continues until the property is leased or sold, the time period for the exemption specified in the ordinance elapses, or the exemption is terminated by ordinance of the city council or board of supervisors. If the ordinance authorizing the exemption is repealed, all existing exemptions continue until their expiration and any projects having received prior

approval for exemption for new construction are to be granted an exemption upon completion of the project. If the shell building or any portion of the shell building is leased or sold, the exemption for new construction shall not be allowed on that portion of the shell building leased or sold in subsequent years. If the shell building or any portion of the shell building is leased or sold, the exemption for reconstruction or renovation not constituting new construction shall not be allowed on that portion of the shell building leased or sold and a proportionate share of the land on which the shell building is located in subsequent years.

This rule is intended to implement Iowa Code section 427.1(27).

701—110.6(427B) Industrial property tax exemption.

110.6(1) *Definitions.* For purposes of this rule:

"Distribution center" means the same as defined in Iowa Code section 427B.1(1)*"a."*

"Owner-operated cattle facility" means a building or structure used primarily in the raising of cattle and that is operated by the person owning the facility.

"Qualifying property" means property classified and assessed as real estate pursuant to 701—subrule 102.1(6), warehouses and distribution centers, research service facilities, and owner-operated cattle facilities.

"Research service facility" means the same as defined in Iowa Code section 427B.1(1)*"c."*

"Warehouse" means the same as defined in Iowa Code section 427B.1(1)*"d."*

110.6(2) *Authority of city council and board of supervisors.* A partial exemption ordinance enacted pursuant to Iowa Code section 427B.1 shall be available to all qualifying property. A city council or county board of supervisors does not have the authority to enact an ordinance granting a partial exemption to only certain qualifying properties.

110.6(3) *Prior approval.* Only upon enactment of a partial property tax exemption ordinance in accordance with Iowa Code section 427B.1 may a city council or board of supervisors enact a prior approval ordinance for pending individual projects in accordance with Iowa Code section 427B.4. To obtain prior approval for a project, a property owner's proposal must be approved by a specific ordinance addressing the proposal and passed by the city council or board of supervisors. The original ordinance providing for the partial exemption does not constitute the granting of prior approval for a project. Also, prior approval for a project can only be granted by ordinance of the city council or board of supervisors; an official or representative of a city or county does not have the independent authority to grant prior approval for a project. If a taxpayer has obtained a prior approval ordinance from a city council or board of supervisors, the partial exemption cannot be obtained until the year in which all value added for the project is first assessed.

110.6(4) *Repeal of ordinance.* A new construction project having received prior approval for exemption in accordance with subrule 110.6(2) shall be granted such exemption upon completion of the project even if the city council or board of supervisors subsequently repeals the ordinance passed in accordance with Iowa Code section 427B.1.

110.6(5) *Annexation of property previously granted exemption.* A partial property tax exemption that has been granted and is in existence shall not be discontinued or disallowed in the event that the property upon which such exemption has been previously granted is located in an area that is subsequently annexed by a city or becomes subject to the jurisdiction of a county in which an ordinance has not been passed by the city council or county board of supervisors allowing such exemptions within that jurisdiction. The existing exemption shall continue until its expiration.

110.6(6) *Eligibility for exemption.*

a. The value added by new construction or reconstruction and first assessed prior to January 1 of the calendar year in which an ordinance authorizing a partial property tax exemption becomes effective, and new machinery and equipment assessed as real estate acquired and utilized prior to January 1 of the calendar year in which the ordinance or resolution becomes effective, are not eligible for exemption. However, the value added as of January 1 of the calendar year in which the ordinance

becomes effective is eligible for exemption if the ordinance is in effect prior to February 1 of that calendar year and if all other eligibility and application requirements are satisfied.

EXAMPLE 1: A $1,000,000 new construction project on qualifying property is begun in July 1984. $500,000 in value of the partially completed project is completed in 1984 and first assessed as of January 1, 1985. The project is completed in 1985 adding an additional value of $500,000, which is first assessed as of January 1, 1986, bringing the total assessed value of the completed project to $1,000,000 as of the January 1, 1986, assessment.

A city ordinance authorizing the partial exemption program is passed and becomes effective January 15, 1987. This project is not eligible for a property tax exemption for any value added as a result of the new construction project.

EXAMPLE 2: Assuming the same factual situation as in Example 1, except that the ordinance authorizing the partial exemption program becomes effective on January 15, 1986, the $500,000 in assessed value added as of the January 1, 1986, assessment is eligible for the partial exemption if an application is filed with the assessor between January 1 and February 1, 1986, inclusive.

EXAMPLE 3: Assuming the same factual situation as in Example 1, except that the ordinance authorizing the partial exemption program becomes effective on February 15, 1986. Since the statutory application filing deadline is February 1, no value added and first assessed as of January 1, 1986, is eligible for a partial exemption. The project in this example would receive no exemption for any value added as a result of the new construction.

This subrule does not apply to new construction projects having received prior approval in accordance with subrule 110.6(3).

b. New machinery and equipment assessed as real estate shall be eligible for partial exemption only if used primarily in the manufacturing process. For example, computer equipment used primarily to maintain payroll records would not be eligible for exemption, whereas computer equipment utilized primarily to control or monitor actual product assembly would be eligible.

c. If any other property tax exemption is granted for the same assessment year for all or any of the property that has been granted a partial exemption, the partial property tax exemption shall be disallowed for the year in which the other exemption is actually received.

d. Only qualifying property is eligible to receive the partial property tax exemption.

e. A taxpayer cannot receive the partial property tax exemption for industrial machinery or equipment if the machinery or equipment was previously assessed in the state of Iowa. Industrial machinery and equipment previously used in another state may qualify for the partial exemption if all criteria for receiving the partial exemption are satisfied.

f. Industrial machinery and equipment is eligible to receive the partial property tax exemption if it changes the existing operational status other than by merely maintaining or expanding the existing operational status. This rule applies whether the machinery and equipment is placed in a new building, an existing building, or a reconstructed building. If new machinery is used to produce an existing product more efficiently or to produce merely a more advanced version of the existing product, the existing operational status would only be maintained or expanded and the machinery would not be eligible for the exemption. However, if the new machinery produces a product distinctly different from that currently produced, the existing operational status has been changed.

110.6(7) *Application for exemption.*

a. An eligible property owner shall file an application for exemption with the assessor between January 1 and February 1, inclusive, of the year for which the value added is first assessed for tax purposes. The amount of "actual value added" shall be the difference between the assessed value of the property on January 1 of the year value is added to the property and the assessed value of the property the following assessment year. An application cannot be filed if a valid ordinance has not been enacted in accordance with Iowa Code section 427B.1. If an application is not filed by February 1 of the year for which the value added is first assessed, the taxpayer cannot receive in subsequent years the partial exemption for that value added. However, if a taxpayer has received prior approval in accordance with Iowa Code section 427B.4 and subrule 110.6(2), the application is to be filed by

no later than February 1 of the year for which the total value added is first assessed as the approved completed project.

b. In the event that February 1 falls on either a Saturday or Sunday, applications for the industrial property tax exemption may be filed the following Monday and applications submitted by mail will be accepted if postmarked the following Monday.

110.6(8) *Change in use of property.* If property ceases to be used as qualifying property, no partial exemption shall be allowed as of January 1 of the year following the calendar year in which the change in use takes place or for subsequent years. If property under construction ceases to be constructed for use as qualifying property, no partial exemption shall be allowed as of January 1 of the year following the calendar year in which this cessation occurs. However, such a change in the use of the property does not affect the validity of any partial exemption received for the property while it was used or under construction as qualifying property.

This rule is intended to implement Iowa Code sections 427B.1 through 427B.7.

701—110.7(404) Urban revitalization partial exemption.

110.7(1) *Area designated.* An area containing only one building or structure cannot be designated as an urban revitalization area.

110.7(2) *Prior approval.* To obtain prior approval for a project, a property owner's proposal must be approved by a specific resolution addressing the proposal and passed by the city council or county board of supervisors. The original ordinance providing for the urban revitalization area does not constitute the granting of prior approval for any particular project. Prior approval for a project can only be granted by resolution of the city council or county board of supervisors; an official or representative of a city or county does not have the independent authority to grant prior approval for a project.

110.7(3) *Eligibility for exemption.* Improvements made as a result of a project begun more than one year prior to a city's or county's adoption of an urban revitalization ordinance are not eligible to receive the partial exemption even though some of the improvements are added during the time the area was designated as an urban revitalization area. For a project commenced within one year prior to the adoption of an urban revitalization ordinance, the partial exemption can be allowed only for those improvements constructed on or after the effective date of the ordinance.

110.7(4) *Minimum value added.* Once the minimum value added required by Iowa Code section 404.3(8) has been assessed, any amount of additional value added to the property in subsequent years is eligible for the partial exemption. The value added subject to partial exemption for the first year for which an exemption is claimed and allowed shall include value added to the property for a previous year even if the value added in the previous year was not by itself sufficient to qualify for the partial exemption.

EXAMPLE: An urban revitalization project is begun on commercial property having an actual value of $50,000 as of January 1, 2023. As a result of improvements made during 2023, the actual value of the property as of January 1, 2024, is determined to be $55,000. Additional improvements made during 2024 increase the actual value of the property to $70,000 for the 2025 assessment. In this example, no partial exemption can be allowed for 2024 since the value added for that year is less than 15 percent of the actual value of the property prior to construction of the improvements. A partial exemption can be allowed for 2025 and subsequent years for the $20,000 value added in both 2024 and 2026, providing a valid application for the partial exemption is filed between January 1, 2025, and February 1, 2025, inclusive.

110.7(5) *Application for partial exemption.*

a. Prior approval. If a taxpayer has secured a prior approval resolution from the city council or the county board of supervisors, the partial exemption cannot be obtained until the year in which all value added for the project is first assessed. A partial exemption can be allowed only if an application is filed between January 1 and February 1, inclusive, of the year in which all value added for the project is first assessed. If an application is not filed during that period, no partial exemption can be

allowed for that year or any subsequent year. The submission to the city council or the county board of supervisors of a proposal to receive prior approval does not by itself constitute an application for the partial exemption.

EXAMPLE: A city council approves a prior approval resolution in April 2022 for a revitalization project to be completed in September 2024. Assuming all construction on the project is completed in 2024, no partial exemption can be allowed until 2025 since that would be the year in which all value added for the project is first assessed. To receive the partial exemption, a valid application would have to be filed between January 1, 2025, and February 1, 2025, inclusive.

b. No prior approval. If a project has not received a prior approval resolution, a taxpayer has the option of receiving the partial exemption beginning with any year in which value is added to the property or waiting until all value added to the property is first assessed in its entirety. To secure a partial exemption prior to the completion of the project, an application must be filed between January 1 and February 1, inclusive, in each year for which the exemption is claimed.

EXAMPLE: A revitalization project began in June 2023 and completed in September 2024. No prior approval resolution for the project was approved, and a ten-year exemption period was selected. As a result of construction on the project, value is added for the assessment years 2024 and 2025. If an application is filed between January 1, 2024, and February 1, 2024, inclusive, a partial exemption could be allowed for the value added for 2024 beginning with the 2024 assessment and ending with the 2033 assessment. If an application is filed between January 1, 2025, and February 1, 2025, inclusive, a partial exemption could be allowed for the value added for 2025 beginning with the 2025 assessment and ending with the 2034 assessment. The partial exemption allowable for the years 2025 through 2034 would be against the value added for 2025 as a result of improvements made during calendar year 2024.

In the example above, the taxpayer may elect not to file an application for the partial exemption in 2024. In this situation, if an application is filed between January 1, 2025, and February 1, 2025, inclusive, a partial exemption could be allowed for the total value added for 2024 and 2025 and would apply to assessments for the years 2025 through 2034.

c. Extended filing deadline. The exemption is allowable for the total number of years in the exemption schedule if a claim for exemption is filed within two years of the original February 1 filing deadline. The city council or county board of supervisors may by resolution provide that an application for the partial exemption can be filed by February 1 of any assessment year the area is designated as an urban revitalization area. The exemption shall be allowed for the same number of years remaining in the exemption schedule selected as would have been remaining had the claim for exemption been timely filed.

110.7(6) *Value exempt.* The partial exemption allowed for a year in which an application is filed shall apply to the value added and first assessed for that year and any value added to the project and assessed for a preceding year or years and for which a partial exemption had not been received.

110.7(7) *Minimum assessment.* The partial exemption shall apply only to the value added in excess of the actual value of the property as of the year immediately preceding the year in which value added was first assessed. If the actual value of the property is reduced for any year during the period in which the partial exemption applies, any reduction in value resulting from the partial exemption shall not reduce the assessment of the property below its actual value as of January 1 of the assessment year immediately preceding the year in which value added was first assessed. This subrule applies regardless of whether the reduction in actual value is made by the assessor, the board of review, a court order, or an equalization order of the department.

110.7(8) *Value added.* As used in this rule, the term "value added" means the amount of increase in the actual value of real estate directly attributable to improvements made as part of a revitalization project. The amount of "actual value added" is the difference between the assessed value of the property on January 1 of the year value is added to the property and the assessed value of the property the following assessment year. "Value added" does not include any increase in actual (market) value attributable to that portion of the real estate assessed prior to the year in which revitalization

improvements are first assessed. The sales price of the property rather than the assessed value of the property may be used in determining the percentage increase required to qualify for exemption if the improvements were begun within one year of the date the property was purchased.

110.7(9) *Repeal of ordinance.* An urban revitalization project that has received proper prior approval shall be eligible to receive the partial exemption following completion of the project even if the city council or county board of supervisors subsequently repeals the urban revitalization ordinance before improvements in the project are first assessed.

This rule is intended to implement Iowa Code chapter 404.

701—110.8(427C,441) Forest and fruit-tree reservations.

110.8(1) *Determination of eligibility for exemption.* Property for which an application for exemption as a forest or fruit-tree reservation has been filed shall be inspected by the assessor or county conservation board. The county board of supervisors designates whether all inspections in the county are to be made by the assessor, including any city assessor, or by the county conservation board. When appropriate, aerial photographs may be used in place of an on-site inspection of the property. The assessment or exemption of the property is to be based upon criteria established by the state conservation commission and findings obtained by the inspection of the property or the examination of aerial photographs of the property.

110.8(2) *Application for exemption.*

a. An application for exemption must be filed with the appropriate assessor between January 1 and February 1, inclusive, of the assessment year for which the exemption is first claimed. If the inspection of the property is to be made by the county conservation board, the assessor shall forward the application to the board for its recommendation. Once the application has been accepted, the exemption is applicable to the current and subsequent assessment years and no further application will be required so long as the property remains eligible for the exemption.

b. If February 1 falls on a Saturday or Sunday, an application for exemption may be filed the following Monday and applications submitted by mail will be accepted if postmarked the following Monday.

110.8(3) *Notification to property owner.* If the property is to be inspected by the county conservation board, the board shall make every effort to submit its recommendation to the assessor in sufficient time for the assessor to notify the claimant by April 1. The assessor shall notify the claimant by April 1 of the disposition of the application for exemption. If because of the date on which an application is filed a determination of eligibility for the exemption cannot be made in sufficient time for notification to be made by April 1, the assessor shall assess the property and notify the property owner of the inability to act on the application. The notification shall contain the actual value and classification of the property and a statement of the claimant's right of appeal to the local board of review.

110.8(4) *Appeal of eligibility determination.* If a property for which a claim for exemption as a forest or fruit-tree reservation is assessed for taxation, the property owner may appeal the assessment to the board of review under Iowa Code section 441.37.

110.8(5) *Valuation of property.* For each assessment year for which property is exempt as a forest or fruit-tree reservation, the assessor shall determine the actual value and classification that would apply to the property were it assessed for taxation that year. In any year for which the actual value or classification of property so determined is changed, the assessor shall notify the property owner pursuant to Iowa Code sections 441.23, 441.26 and 441.28.

110.8(6) *Recapture tax.*

a. Assessment of property. If the county conservation board or the assessor determines a property has ceased to meet the eligibility criteria established by the state conservation commission, the property shall be assessed for taxation and subject to the recapture tax. The property shall be subject to taxes levied against the assessment made as of January 1 of the calendar year in which the property ceased to qualify for exemption. In addition, the property shall be subject to the tax that

would have been levied against the assessment made as of January 1 of each of the five preceding calendar years for which the property received an exemption.

b. Assessment procedure. If the determination that a property has ceased to be eligible for exemption is made by the assessor by April 15, the assessor shall notify the property owner of the assessment as of January 1 of the year in which the determination is made in accordance with Iowa Code sections 441.23, 441.26, and 441.28. The assessment of the property for any of the five preceding years and for the current year, if timely notice by April 15 cannot be given, shall be by means of an omitted assessment as provided in Iowa Code section 443.6. Appeal of the omitted assessment may be taken pursuant to Iowa Code sections 443.7 and 443.8.

c. Computation of tax. The county auditor shall compute the tax liability for each year for which an assessment has been made pursuant to paragraph 110.8(6)*"b."* The tax liability shall be the amount of tax that would have been levied against each year's assessment had the property not received the exemption. In computing the tax, the valuations established by the assessor shall be adjusted to reflect any equalization order or assessment limitation percentage applicable to each year's assessment.

d. Entry on tax list. The tax liability levied against assessments made as of January 1 of any year preceding the calendar year in which the property ceased to qualify for exemption shall be entered on the tax list for taxes levied against all assessments made as of January 1 of the year immediately preceding the calendar year in which the property ceased to qualify for exemption. However, if those taxes have already been certified to the county treasurer, the recapture taxes shall be entered on the tax list for taxes levied against assessments made as of January 1 of the year in which the property ceased to qualify for exemption. The tax against the assessment made as of January 1 of the year in which the property ceased to qualify for exemption shall be levied at the time taxes are levied against all assessments made as of that date.

e. Delinquencies. Recapture taxes shall not become delinquent until the time when all other unpaid taxes entered on the same tax list become delinquent.

f. Exceptions to recapture tax.

(1) Fruit-tree or forest reservations. Property that has received an exemption as a fruit-tree or forest reservation is not subject to the recapture tax if the property is maintained as a fruit-tree or forest reservation for at least five full calendar years following the last calendar year for which the property was exempt as a fruit-tree or forest reservation.

(2) Property that has been owned by the same person or the person's direct descendants or antecedents for at least ten years prior to the time the property ceases to qualify for exemption shall not be subject to the recapture tax.

(3) Property described in subparagraphs 110.8(6)*"f"*(1) and *"f"*(2) is subject to assessment as of January 1 of the calendar year in which the property ceases to qualify for exemption.

This rule is intended to implement Iowa Code chapter 427C and sections 441.23 and 441.22.

701—110.9(425A) Family farm tax credit.

110.9(1) *Eligibility for credit.* Generally, the family farm tax credit is only intended to benefit tracts of agricultural land that are owned by certain individuals or enumerated legal entities if the owner or other specified persons are actively engaged in farming.

a. In order for a tract of land to qualify for the family farm tax credit, the following three criteria must be satisfied:

(1) The tract of land must be an "eligible tract of agricultural land" as defined in Iowa Code section 425A.2(5). This means the tract must be ten acres or more or contiguous to a tract of more than ten acres and used in good faith for agricultural or horticultural purposes. More than half of the acres in the tract must be devoted to the production of crops or livestock by a designated person. Contiguous tracts under the same legal ownership and located within the same county are considered one tract. Only tracts of land that are classified as agricultural real estate qualify for the credit.

(2) The tract of land must be owned by an eligible owner as defined by Iowa Code section 425A.3(2).

The ownership criteria must be met on June 30 of the fiscal year prior to the fiscal year in which the application for credit is filed. For example, the ownership criteria must be met on June 30, 2025, for applications for credit filed in 2025.

(3) A designated person, as defined in Iowa Code section 425A.2(4), must be "actively engaged in farming" the tract during the fiscal year prior to the fiscal year in which the application for credit is filed. A relative within the third degree of consanguinity includes the owner's child, stepchild, grandchild, great-grandchild, parent, grandparent, great-grandparent, brother, sister, uncle, aunt, niece, or nephew or their spouses. The only step relative that may qualify as a designated person is a stepchild.

b. In order to be "actively engaged in farming" the designated person must be personally involved in the production of crops or livestock on the "eligible tract" on a regular, continuous and substantial basis. Personal involvement in the production of crops or livestock includes not only field activities such as soil preparation and testing, planting, fertilizing, spraying, inspecting, cultivating and harvesting but also managerial decision-making activities relating to hybrid selection, crop rotation planning, crop selection, equipment purchases and marketing strategies. Personal involvement in the production of crops or livestock also includes activities pertaining to crop insurance selection, loan selection, and financial record maintenance and preparation. A person performing activities in the capacity of a lessor, whether under a cash or crop-share lease and whether under a written or oral lease, is not actively engaged in farming on the area of the tract covered by the lease.

c. In lieu of satisfying the "actively engaged in farming" test, a designated person may demonstrate that the person was in general control of the tract that was subject to a federal program pertaining to agricultural land during the prior fiscal year. This alternative test is intended to apply in circumstances where the active farming criteria cannot be met because the land is in the Conservation Reserve Program (commonly referred to as the CRP) or a program substantially similar to the 0/92 option where the tract has been taken out of production.

d. The following examples illustrate family farm tax credit eligibility under various circumstances:

EXAMPLE 1: A and B jointly own land and were both personally involved in the farming operation. They are not related. No credit is allowable because it is a requirement that individual owners be related. If A and B were siblings, the land would qualify for the credit.

EXAMPLE 2: A owns the land and is retired. A leased the land to B, who is B's child. B was personally involved in the farming operation. The land is eligible for the credit even though a lease arrangement existed because the actively engaged in farming requirement can be satisfied through the activities of the owner's spouse, or the owner's relative within the third degree of consanguinity or the relative's spouse. Subparagraph 110.9(1)*"a"*(3) contains more information. No credit would be allowable if A and B were not related.

EXAMPLE 3: A owns two contiguous 40-acre tracts. A farmed all of one tract but only 15 acres of the other tract. The other 25 acres of the second tract were leased to a nondesignated person. Both tracts qualify for the credit because contiguous tracts under the same legal ownership are considered one tract and more than half of the total of 80 acres (40 + 15 = 55) were farmed by A.

EXAMPLE 4: The land is owned by a partnership in which the partners A, B, C and D are brothers. A and B farm the land but C and D have no involvement in the farming operation. The land is eligible for the credit because it makes no difference what level of involvement each partner had nor does it matter that one or more of the partners were not personally involved in the farming operation. The only requirement for qualifying for the credit is that at least one of the partners or one of the partners' spouses was personally involved in the farming operation. No credit would be allowable if all the partners were not related to each other.

EXAMPLE 5: The land is owned by a family farm corporation in which the stock is owned equally by A, B and C. A and B are brothers but not related to C. All three partners were personally involved in the farming operation. The land qualifies for the credit because it is only a requirement that a family member who is a shareholder in the family farm corporation be involved in the farming operation. The

land would qualify for the credit even if B was not involved in the farming operation. However, no credit would be allowable if only C was involved in the farming operation.

EXAMPLE 6: The land is owned by an authorized farm corporation in which 60 percent of the stock is owned by A and 40 percent of the stock is owned by B. Both A and B were personally involved in the farming operation. The credit is allowable as long as the stockholder who owns at least 51 percent of the stock was personally involved in the farming operation. No credit would be allowable if A was not personally involved in the farming operation.

110.9(2) *Application for credit.* To obtain the credit, the owner must file an application for credit with the assessor by November 1. If the claim for credit is approved, no further filing shall be required provided the ownership and the designated person actively engaged in farming the property remain the same during successive years. A new application for credit shall be required only if the property is sold or the designated person changes. The county board of supervisors shall review all claims and make a determination as to eligibility. The claimant may appeal a decision of the board to district court by giving written notice to the board within 20 days of the board's notice.

110.9(3) *Application of credit.* The county auditor shall certify to the department by April 1 the total amount of family farm tax credits due the county. The county auditor shall apply the credit to each eligible tract of land in an amount equal to the school district tax rate that is in excess of $5.40 multiplied by the taxable value of the eligible tract.

110.9(4) *Penalty.* The owner shall provide written notice to the assessor if the designated person changes. Failure to do so shall result in the owner being liable for the amount of the credit plus a penalty equal to 5 percent of the amount of the credit granted.

This rule is intended to implement Iowa Code chapter 425A.

701—110.10(427B,476B) Wind energy conversion property.

110.10(1) *Special valuation allowed by ordinance.* The property qualifies for special valuation provided the taxpayer files a declaration of intent with the local assessor by February 1 of the assessment year in which the property is first assessed for tax to have the property locally assessed. The property must not be assessed until the assessment year following the year the entire wind plant is completed. A wind plant is completed when it is placed in service.

110.10(2) Reserved.

This rule is intended to implement Iowa Code section 427B.26 and chapter 476B.

701—110.11(426) Agricultural land tax credit.

110.11(1) *Eligibility for credit.* The credit shall be allowed on land in tracts of ten acres or more, or land of less than ten acres if part of other land of more than ten acres, and used for agricultural or horticultural purposes.

110.11(2) *Application for credit.* No application for credit is required.

110.11(3) *Application of credit.* The county auditor shall certify to the department by April 1 the total amount of agricultural land tax credits due the county. The county auditor shall apply the credit to each eligible tract of land in an amount equal to the school district tax rate that is in excess of the levy rate under Iowa Code section 257.3(1)*"a"* multiplied by the taxable value of the eligible tract.

This rule is intended to implement Iowa Code chapter 426.

701—110.12(427) Property used in value-added agricultural product operations. Fixtures used for cooking, refrigeration, or freezing of value-added agricultural products used in value-added agricultural processing or used in direct support of value-added agricultural processing are not subject to tax. The following definitions apply to this rule:

"Fixture" means property that was originally personal property but that by being physically attached to the realty becomes part of the realty and upon removal does not destroy the property to which it is attached.

"Value-added agricultural processing" means an operation whereby an agricultural product is subjected to some special treatment by artificial or natural means that changes its form, context, or condition, and results in a marketable agricultural product to be sold at retail. These operations are commonly associated with fabricating, compounding, germinating, or manufacturing.

"Value-added agricultural product" means an agricultural product that, through a series of activities or processes, may be sold at a higher price than its original purchase price.

This rule is intended to implement Iowa Code section 427A.1.

701—110.13(427) Nursing facilities. If the assessor determines that property is being used for a charitable purpose pursuant to Iowa Code section 427.1(8), it shall be fully exempt from tax if it is licensed as a nursing facility under Iowa Code section 135C.1(13) by the department of inspections, licensing, and appeals, exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, and a valid application for exemption has been filed with the assessor by February 1 of the assessment year.

This rule is intended to implement Iowa Code section 427.1(14).

701—110.14(368) Annexation of property by a city. A city council may provide a partial tax exemption from city taxes against annexed property for a period of ten years. The exemption schedule is contained in Iowa Code section 368.11(3)*"m."* All property owners included in the annexed area must receive the exemption if the city elects to allow the exemption.

This rule is intended to implement Iowa Code section 368.11(3)*"m."*

701—110.15(427A) Concrete batch plants and hot mix asphalt facilities. A concrete batch plant includes the machinery, equipment, and fixtures used at a concrete mixing facility to process cement dry additive and other raw materials into concrete. A hot mix asphalt facility is any facility used to manufacture hot mix asphalt by heating and drying aggregate and mixing it with asphalt cements. These facilities shall not be assessed and taxed as real property regardless of the property's attachment to real estate. The land on which the facilities are located is taxable.

This rule is intended to implement Iowa Code section 427A.1.

701—110.16(427) Web search portal and data center business property. The exemptions for web search portal, web search, and data center business property do not apply to land, buildings, and improvements. The owner of the property must file a claim for exemption with the assessor by February 1 of the first year the exemption is claimed. Claims for exemption in successive years will be required only for property additions.

This rule is intended to implement Iowa Code section 427.1(35) through 427.1(37).

701—110.17(427) Geothermal heating and cooling systems installed on property classified as residential.

110.17(1) *In general.* An exemption from property tax shall be allowed for any value added to property by any new construction or refitted installation of a geothermal heating or cooling system if the geothermal heating or cooling system is constructed or installed on or after July 1, 2012, on property classified as residential. The exemption shall also be allowed for a residential dwelling on agricultural land. The exemption does not have to be claimed the year subsequent to the year the geothermal system is constructed or installed. However, every individual claiming the exemption under this rule shall file with the appropriate assessor, not later than February 1 of the year for which the exemption is requested, an application for exemption.

a. Upon the filing and allowance of the claim, the claim shall be allowed on the property for ten consecutive years without further filing as long as the property continues to be classified as residential. However, if the property ceases to be classified as residential or if the geothermal heating and cooling system ceases to exist before the ten years have expired, no exemption is allowed for the year in which the change in classification took place or for any subsequent years. The exemption

amount shall remain fixed at the same amount that was allowed in the first year the exemption was allowed.

b. The property tax exemption applies to any value added by the addition of mechanical, electrical, plumbing, ductwork, or other equipment, labor, and expenses included in or required for the construction or installation of the geothermal system that would not have been included in the home if not for the installation of the geothermal heating and cooling system. Additionally, the proportionate value of any well field associated with the system and attributable to the owner is exempt.

110.17(2) *Calculation of value added.* As used in this rule, the terms "any value added" and "value added" mean the amount of increase in the actual assessed value of the property that is directly attributable to the new construction or refit installation of a geothermal heating or cooling system as of the first year for which the geothermal heating and cooling system is actually assessed. "Any value added" does not include speculative or indirect increases in value that, for example, may be attributable to reductions in energy consumption or reductions in the negative impact to the environment. "Any value added" does not include changes in value that are attributable to general housing market fluctuations. Cost of the new construction or refit installation of the geothermal heating or cooling system is not determinative of the value added to a property. In the event the exemption is not filed in the same year the geothermal heating and cooling system is first assessed, the amount of the exemption, upon filing, shall be the same amount as it would have been had the exemption been filed in the year the geothermal heating and cooling system was first assessed.

In the case of new construction and refit installation of a geothermal heating or cooling system, the value added is the value that would not have been included in the home if not for the construction or refit installation of the geothermal heating and cooling system. That is, the value of mechanical, electrical, plumbing, ductwork, or other equipment, labor, and expenses that would have been included with a standard heating and cooling system are not considered in calculating the value added. To measure the value added by a geothermal heating and cooling system, the assessor should compute the difference between the assessed value of the residential property if the property were outfitted with a non-geothermal (standard) heating and cooling system and the assessed value of the property outfitted with the geothermal system. In the case that the new construction or refit installation takes more than one year, the assessor shall make the comparison in the year the new construction or refit installation is completed.

EXAMPLE 1: Mrs. Smith wants to upgrade her current standard heating and cooling system in her home with a geothermal system. The geothermal system installation is completed on August 1, 2012. On January 22, 2013, Mrs. Smith files a claim for exemption for the value added to her property that is directly attributable to the refit installation of the geothermal system. To determine the value added that is directly attributable to the geothermal system, the assessor shall compare the value of the home as though it were outfitted with the standard heating and cooling system that was upgraded with the value of the home outfitted with the geothermal heating and cooling system; the difference between the two values is the exemption amount. That exemption amount will remain fixed for the next ten years, until Mrs. Smith's home ceases to be classified as residential, or until the geothermal system ceases to exist, whichever occurs first. For years subsequent to 2013, any increase in the value of Mrs. Smith's home beyond the assessed value of the home outfitted with the geothermal heating and cooling system is not attributable to the geothermal system and is subject to property tax. The property tax exemption amount for the geothermal heating and cooling system will remain the same as the first year for which the exemption was received even if the assessed value of Mrs. Smith's home drops.

EXAMPLE 2: Same facts as Example 1, except that on January 1 of year seven, Mrs. Smith's home is reclassified as commercial property. No property tax exemption is allowed for the value added by the geothermal system for year seven or any subsequent years.

EXAMPLE 3: Mr. Larson is building a new home and plans to construct a new geothermal system in lieu of a standard heating and cooling system. The home and geothermal system are completed on October 24, 2012. To determine the value added that is directly attributable to the installation of the geothermal system, the assessor shall assess the home as though it had been outfitted with a standard

heating and cooling system and compare that value with the assessed value of the home outfitted with the geothermal heating and cooling system. The difference between the two amounts is the value added that is directly attributable to the geothermal system and is the exemption amount. In 2013, the assessed value of Mr. Larson's home with a standard heating and cooling system is $200,000. The assessed value of Mr. Larson's home with the geothermal system is $210,000. Therefore, the value added to the property that is directly attributable to the geothermal system is $10,000. Mr. Larson may claim an exemption amount of $10,000 starting in assessment year 2013. Mr. Larson does not lose the exemption if he fails to claim the exemption by February 1, 2013; he may claim the exemption in any year subsequent to the completion of the construction of the home. An exemption amount of $10,000 will continue for ten consecutive years after the exemption is claimed, until the property ceases to be classified as residential, or until the geothermal system ceases to exist, whichever occurs first.

EXAMPLE 4: Same facts as Example 3, except that Mr. Larson claims the exemption in 2019. The exemption amount in 2019, and the nine subsequent years, is the value added in the year the geothermal heating and cooling system was first assessed; here, $10,000 in 2013. The value added and exemption amount is not calculated in the year Mr. Larson claims the exemption. The $10,000 exemption will then continue until 2028, until the property ceases to be classified as residential or until the geothermal system ceases to exist, whichever occurs first.

This rule is intended to implement Iowa Code section 427.1(38).

701—110.18(427) Broadband infrastructure.

110.18(1) *Definitions.* For purposes of this rule, terms shall have the same definitions as Iowa Code section 8.76 and as follows:

"Certified project" means the installation of broadband infrastructure certified by the office of the chief information officer to serve a targeted service area.

"Date of commencement" means the date first occurring after July 1, 2015, and before July 1, 2020, in which broadband infrastructure used in a certified project becomes property taxed as real property as determined by Iowa Code section 427A.1.

"Date of completion" or *"completed"* means the date that a communications service provider offers or facilitates broadband service delivered at or above 25 megabits per second of download speed and 3 megabits per second of upload speed in a targeted service area.

"Installation of the broadband infrastructure" means the labor, construction, building, and furnishing of new physical infrastructure used for the transmission of data that provides broadband services. "Installation of the broadband infrastructure" does not include the process of removing existing infrastructure, fixtures, or other real property in preparation of installation of the broadband infrastructure.

110.18(2) *Exemption.* An exemption from property tax shall be allowed for each certified project in the amount equal to 100 percent of the actual value added by installation of the broadband infrastructure in a targeted service area that facilitates broadband service for the public at or above 25 megabits per second of download speed and 3 megabits per second of upload speed, as certified by the office of the chief information officer. The exemption shall be allowed beginning January 1 of the assessment year in which an application for exemption is approved until the exemption is revoked or at the expiration of ten years, whichever occurs earlier.

110.18(3) *Calculation of actual value added by installation of the broadband infrastructure.* The actual value added by installation of the broadband infrastructure is the amount of increase in the actual assessed value of the property that is directly attributable to the installation of broadband infrastructure in a targeted service area for the assessment year in which the property receives the exemption. Changes in the value of the property that are attributable to general market fluctuations are not to be included in the calculation of the actual value added by installation of the broadband infrastructure. Installation of broadband infrastructure that is not part of a certified project is not eligible to receive the exemption. The local assessor shall determine the actual value added by

installation of broadband infrastructure using the methodologies required under Iowa Code section 441.21.

110.18(4) *Commencement and completion of project.* To be eligible for the exemption, the date of commencement of the installation of the broadband infrastructure must occur on or after July 1, 2015, and the date of completion of the installation of the broadband infrastructure must occur on or before July 1, 2020.

110.18(5) *Application for exemption.* The owner of broadband infrastructure shall file one application with the department. The department shall forward the application to the appropriate county boards of supervisors for approval or denial for broadband infrastructure associated with property subject to local assessment.

a. Application deadline. The owner of the property shall file the application with the department by February 1 of the year in which the broadband infrastructure is first assessed for taxation or by February 1 of the following two assessment years. If approved, the exemption shall be allowed for ten years from January 1 of the assessment year in which the application is filed or until revoked without further application. However, at any time prior to the completion of the installation of the broadband infrastructure, an owner may submit a proposal to the department requesting that the owner be allowed to file an application for exemption by February 1 of any other assessment year following completion of the installation of broadband infrastructure. The board of supervisors shall approve the proposal by resolution for property that is locally assessed. If approved, the exemption shall be allowed for ten years from January 1 of the assessment year in which the application is approved or until revoked without further application. If an exemption that was revoked is reinstated on appeal, the exemption shall remain in effect only for the remaining period of exemption. No property shall receive an exemption for the installation of broadband infrastructure for a period greater than ten years.

The board of supervisors shall not approve an application for exemption that is missing any of the requirements listed in this subrule. The board of supervisors may consult with the office of the chief information officer in order to obtain additional information necessary to review an application for exemption.

b. Application requirements. The owner shall submit the application to the department. It is the responsibility of the owner to ensure that the application is complete and accurate. The application must be made on forms prescribed by the department. In addition, the application must contain the following information, certifications and documentation:

(1) The nature of the broadband infrastructure installation, including the number of new line miles installed within the jurisdiction of the assessing authority to which the owner is applying for exemption, and a description of the property and how it is directly related to delivering broadband services.

(2) The percentage of homes, farms, schools, and businesses in the targeted service area that will be provided access to broadband service.

(3) The actual cost of installing the broadband infrastructure under the project, if available. The application shall contain supporting documents demonstrating actual cost.

(4) Certification from the office of the chief information officer pursuant to Iowa Code section 8.79 that the installation is being performed or was completed in a targeted service area, including whether or not the targeted service area designation is under appeal pursuant to rule 129—21.7(8B,427), and that it facilitates broadband service at or above 25 megabits per second of download speed and 3 megabits per second of upload speed.

(5) Certification by the company of the date of commencement and actual or estimated date of completion. If an application contains only an estimated date of completion, the owner must notify the department of the actual completion date once the certified project is completed. If the actual completion date occurs after July 1, 2020, the exemption may be revoked.

(6) A copy of any nonwireless broadband-related permit issued by a political subdivision, if applicable.

c. Special application requirements. If an owner submits a proposal to the department prior to the completion of the installation of broadband infrastructure requesting to file an application for exemption in any other assessment year following completion of the project, the owner must provide the following information and documentation in addition to those required under paragraph 110.18(5)*"b."*

(1) The actual cost already incurred for installation of broadband infrastructure, if any, with supporting documentation demonstrating the actual cost.

(2) The estimated costs for project completion.

(3) The estimated date of project completion. Once the project has been completed, the owner must notify the department of the actual completion date. If the actual completion date occurs after July 1, 2020, the exemption may be revoked.

d. Approval or denial of application. All applications shall be submitted to the department. The department shall forward applications for property subject to local assessment to the board of supervisors of the county in which the exempt property is located. The board of supervisors shall notify an applicant of approval or denial of an application for exemption by March 1 of the assessment year in which the application was submitted. The notification shall include a notification of the applicant's right to appeal. The board of supervisors shall forward all approved applications and any necessary information regarding the applications to the appropriate local assessor by March 1 of the assessment year in which the application was submitted.

Approval of an application involving a targeted service area that is under appeal pursuant to rule 129—21.7(8B,427) shall be contingent on the outcome of the appeal. In the event that an application is approved and the targeted service area designation subsequently is revoked upon appeal, the approved exemption shall also be revoked at that time.

110.18(6) *Revocation of exemption.* The board of supervisors may revoke the exemption at any time after the exemption is granted if the board of supervisors determines that the property owner no longer provides the broadband service to a targeted service area at the speeds required under Iowa Code section 427.1(40). The property owner has the responsibility to provide the department, the board of supervisors or the office of the chief information officer the information required to substantiate that the broadband infrastructure meets the requirements of the exemption. The board of supervisors, as applicable, shall provide notice of revocation to the property owner. An owner may appeal the decision to revoke the exemption within 30 days of the issuance of the notice of revocation.

110.18(7) *Appeals.*

a. Appeal of denial of application for exemption. An applicant may appeal the denial of its application for exemption by the board of supervisors to the property assessment appeal board within 30 days of the issuance of the denial.

b. Appeal of revocation of exemption. An owner may appeal the revocation of its exemption by the board of supervisors to the property assessment appeal board within 30 days of the issuance of the revocation.

c. Appeal of value of exemption. A property owner who is dissatisfied with the value of the owner's exemption may appeal the value assigned by the local assessor using the protest procedures under Iowa Code section 441.37. A property owner who is dissatisfied with the value of the owner's exemption may appeal the value assigned by the department using the appeal procedures under Iowa Code section 429.2.

This rule is intended to implement Iowa Code section 427.1(40).

701—110.19(427,428,433,434,435,437,438) Property aiding in disaster or emergency-related work. Property that is brought into Iowa to aid in the performance of disaster or emergency-related work during a disaster response period and is removed from the state after the conclusion of the disaster response period is exempt from property assessment and taxation.

This rule is intended to implement Iowa Code sections 427.1(41) and 29C.24(3).

701—110.20(427,441) Responsibility of local assessors.

110.20(1) The assessor shall determine the taxable status of all property. If an application for exemption is required to be filed, the assessor shall consider the information contained in the application in determining the taxable status of the property. The assessor may also request from any property owner or claimant any additional information necessary to the determination of the taxable status of the property. For property subject to Iowa Code section 427.1(14), the assessor shall not base the determination of the taxable status of property solely on the statement of objects or purposes of the organization, institution, or society seeking an exemption. The use of the property rather than the objects or purposes of the organization, institution, or society is the controlling factor in determining the taxable status of property.

110.20(2) If the assessor determines that all or part of a property is subject to taxation, the assessor shall notify the taxpayer by the issuance of an assessment roll as provided in Iowa Code sections 441.26 and 441.27. If the assessor determines that property has been erroneously exempted from taxation, the assessor shall revoke the exemption for the current assessment year but not for prior assessment years.

110.20(3) The assessor's determination of the taxable status of property may be appealed to the local board of review pursuant to Iowa Code section 441.37.

This rule is intended to implement Iowa Code chapter 427 and sections 441.17(11), 441.26, and 441.27.

701—110.21(441) Responsibility of local boards of review.

110.21(1) If the board of review determines that property has been erroneously exempted from taxation, the board of review shall revoke the exemption for the current assessment year, but not for prior assessment years, and shall give notice to the taxpayer as provided in Iowa Code section 441.36.

110.21(2) If the board of review acts in response to a protest arising from an assessor's determination of the taxable status of property, the board of review shall notify the taxpayer of its disposition of the protest in accordance with the provisions of Iowa Code section 441.37.

This rule is intended to implement Iowa Code sections 441.35, 441.36, and 441.37.

701—110.22(427) Application for exemption.

110.22(1) Each society or organization seeking an exemption under Iowa Code section 427.1(5), 427.1(8), 427.1(21), or 427.1(33) shall file with the appropriate assessor a statement containing the following information:

a. The legal description of the property for which an exemption is requested.

b. The use of all portions of the property, including the percentage of space not used for the appropriate objects of the society or organization and the percentage of time such space is so utilized.

c. A financial statement showing the income derived and the expenses incurred in the operation of the property.

d. The name of the organization seeking the exemption.

e. If the exemption is sought under Iowa Code section 427.1(8), the appropriate objects of the society or organization.

f. The book and page number on which is recorded the contract of purchase or the deed to the property and any lease by which the property is held.

g. An oath that no persistent violations of the laws of the state of Iowa will be permitted or have been permitted on such property.

h. The signature of the president or other responsible official of the society or organization showing that information contained in the claim has been verified under oath as correct.

110.22(2) The statement of objects and uses required by Iowa Code section 427.1(14) shall be filed only on forms prescribed by the director and made available by assessors.

110.22(3) Applications for exemptions required under Iowa Code section 427.1(14) must be filed with the assessor not later than February 1 of the year for which the exemption is requested.

110.22(4) If a properly completed application is not filed by February 1 of the assessment year for which the exemption would apply, no exemption shall be allowed against the property for that year.

This rule is intended to implement Iowa Code section 427.1(5), 427.1(8), 427.1(14), 427.1(19) through 427.1(24), 427.1(27), and 427.1(29) through 427.1(33).

701—110.23(427) Partial exemptions. In the event a portion of property is determined to be subject to taxation and a portion of the property exempt from taxation, the taxable value of the property shall be an amount that bears the same relationship to the total value of the entire property as the area of the portion subject to taxation bears to the area of the entire property. If a portion of a structure is subject to taxation, a proportionate amount of the value assigned to the land upon which the structure is located shall also be subject to taxation.

This rule is intended to implement Iowa Code section 427.1(14).

701—110.24(427,441) Taxable status of property.

110.24(1) The status of property on July 1 of the fiscal year that commences during the assessment year determines eligibility of the property for exemption in situations where no claim is required to be filed to procure a tax exemption. If the property is in a taxable status on July 1, no exemption is allowable for that fiscal year. If the property is in an exempt status on July 1, no taxes are to be levied against the property during that fiscal year. Exceptions to this rule are as follows:

a. Land acquired by the state of Iowa or a political subdivision thereof after July 1 in connection with the establishment, improvement, or maintenance of a public road shall be taxable for that portion of the fiscal year in which the property was privately owned.

b. All current and delinquent tax liabilities are to be canceled and no future taxes levied against property acquired by the United States or its instrumentalities, regardless of the date of acquisition, unless the United States Congress has authorized the taxation of specific federally owned property. The following exceptions apply:

(1) Property owned by the Federal Housing Authority (FHA) and property owned by the Federal Land Bank Association are subject to taxation, and any tax liabilities existing at the time of the acquisition are not to be canceled.

(2) Existing tax liabilities against property acquired by the Small Business Administration are not to be canceled if the acquisition takes place after the date of levy. However, no taxes are to be levied if the acquisition takes place prior to the levy date or for subsequent fiscal years in which the Small Business Administration owns the property on July 1.

c. Land owned by the state and leased by the department of corrections or the department of health and human services pursuant to Iowa Code section 904.302, 904.705, or 904.706 to an entity that is not exempt from property tax is subject to taxation for the term of the lease. This provision applies to leases entered into on or after July 1, 2003. The lessor shall file a copy of the lease with the county assessor of the county where the land is located.

110.24(2) The status of property during the fiscal year for which an exemption was claimed determines eligibility of the property for exemption in situations where a claim is required to be filed to procure a tax exemption. If the property is used for an appropriate purpose for which an exemption is allowable for all of the fiscal year for which the exemption is claimed, no taxes are to be levied against the property during that fiscal year. If the property for which an exemption has been claimed and received is used for an appropriate purpose for which an exemption is allowable for only a portion of the fiscal year for which the exemption is claimed, the taxes shall be prorated in accordance with the period of time the property was in a taxable status during the fiscal year.

This rule is intended to implement Iowa Code sections 427.1(1), 427.1(2), 427.2, 427.18, and 427.19.

RA 26-362

REVENUE DEPARTMENT[701]

Regulatory Analysis

Notice of Intended Action to be published: 701—Chapter 116
"Reassessment Expense Fund"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 421.14
State or federal law(s) implemented by the rulemaking: Iowa Code section 421.30

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 18, 2026 2 to 3 p.m.	Via videoconference call: meet.google.com/egs-ucjg-frv

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis, which must be received by the Department of Revenue no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Nick Behlke
Department of Revenue
Hoover State Office Building
P.O. Box 10457
Des Moines, Iowa 50306-3457
Phone: 515.336.9025
Email: nick.behlke@iowa.gov

Purpose and Summary

The purpose of this proposed rulemaking is to rescind and readopt Chapter 116, which explains how to apply for and receive a loan from the Reassessment Expense Fund. The Department proposes revisions to remove portions of the rules that the Department determined are obsolete, unnecessary, or duplicative of statutory language as required by Executive Order 10. Further, the Department proposes updates to the chapter to add clarity and better organization to aid the public's understanding of the Reassessment Expense Fund.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

The proposed rulemaking does not create costs for any classes of persons.

- **Classes of persons that will benefit from the proposed rulemaking:**

Members of local conference boards will benefit from a greater understanding of how to apply for a loan from the Reassessment Expense Fund.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

There is no economic impact associated with this rulemaking beyond what is contained in statute.

- **Qualitative description of impact:**

The qualitative benefit of this rulemaking beyond what is already provided in statute is the value of having a clear understanding of the Reassessment Expense Fund.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

There are no costs to the State beyond what is already required to administer the relevant statutes.

- **Anticipated effect on State revenues:**

A greater understanding of the Reassessment Expense Fund will ensure that only the proper number of loans from the fund will be awarded.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

The benefits of having a chapter on the Reassessment Expense Fund is to ensure correct and consistent application when it comes to granting loans from the fund. There are no costs associated with this rulemaking.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

This rulemaking is not costly or intrusive.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

The Department did not consider any alternative methods.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

Failing to have this chapter would lead to confusion regarding the application of the Reassessment Expense Fund. This chapter only contains two rules and they were updated to remove outdated language.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

There is no substantial impact on small business.

Text of Proposed Rulemaking

ITEM 1. Rescind 701—Chapter 116 and adopt the following **new** chapter in lieu thereof:

CHAPTER 116
REASSESSMENT EXPENSE FUND

701—116.1(421) Application for loan. Applications for loans from the reassessment expense fund may be made by a conference board established under Iowa Code section 441.2. The application shall be submitted to the director. Applications shall contain the following information:

116.1(1) A statement of any unencumbered balance in the assessment expense fund, the amount of funds available to the assessor in any other fund, and the maximum amount of revenue that could be raised for the assessor's office.

116.1(2) A detailed statement as to how moneys obtained from the reassessment expense fund will be expended, such statement to be itemized to indicate specific expenditures for personnel, supplies and materials, mileage, public information, and payment for any work performed under contract with a professional appraisal firm.

116.1(3) A copy of the assessing jurisdiction's most recent budget as approved by the department of management.

116.1(4) A copy of any proposed contract with a professional appraisal company.

This rule is intended to implement Iowa Code section 421.30.

701—116.2(421) Criteria for granting loan. In determining whether to grant a loan from the reassessment expense fund and the amount of any loan, the director will consider the following factors:

116.2(1) The amount of moneys presently on hand and not encumbered or intended for another purpose.

116.2(2) The reasonableness and accuracy of the jurisdiction's statement as to how the funds are to be expended, giving special attention as to whether such funds will be expended in such a manner as to ensure compliance with the reassessment order.

116.2(3) The capability of the jurisdiction to repay the loan within the time period specified in Iowa Code section 421.30.

This rule is intended to implement Iowa Code section 421.30.

RA 26-363

REVENUE DEPARTMENT[701]

Regulatory Analysis

Notice of Intended Action to be published: 701—Chapters 300, 305, 306, 500, 600, and 603
"Income Tax Administration; Individual Income Tax Checkoffs;
Penalty and Interest; Assessments, Refunds, Appeals"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 422.5, 422.8, 422.15, 422.21, and 422.25

State or federal law(s) implemented by the rulemaking: Iowa Code sections 422.2, 422.3, 422.4, 422.5, 422.7, 422.8, 422.9, 422.15, 422.16, 422.17, 422.21, 422.25, 422.30, 422.35, 422.66, 422.70, 422.71, and 422.73

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 18, 2026 9 to 10 a.m.	Via videoconference call: meet.google.com/sbm-ihix-ere

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis, which must be received by the Department of Revenue no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Kurt J. Konek
Department of Revenue
Hoover State Office Building
P.O. Box 10457
Des Moines, Iowa 50306-3457
Phone: 515.587.0440
Email: kurt.konek@iowa.gov

Purpose and Summary

The purpose of this proposed rulemaking is to rescind and readopt Chapters 300 and 305, and rescind and reserve Chapters 306, 500, 600, and 603 (Chapter 603 is also proposed to be repromulgated with new subject matter in **RA 26-377**, IAB 10/28/26). The Department determined that some of the chapters governing separate areas of income tax were duplicative of each other and could be combined into one uniform chapter for the administration of all income tax types under Chapter 300. Additionally, rules related to individual income tax checkoffs are proposed to be repromulgated under Chapter 305. The Department proposes revisions to these rules in order to provide better organization and clarification and to remove portions of the rules that the Department determined unnecessary, obsolete, and duplicative of statutory language.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

There are no costs to the proposed rulemaking beyond those that are imposed by the underlying statutes.

- **Classes of persons that will benefit from the proposed rulemaking:**

The public will benefit from the proposed rulemaking because including an updated version of rules on the administration of income tax in one chapter will provide easier accessibility to those rules and reduce confusion related to income tax.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

There are no significant quantitative impacts known to be associated with these rules.

- **Qualitative description of impact:**

The proposed rulemaking will reduce uncertainty about which administrative rules apply to each respective area of income tax since the rules will all be contained within a single chapter.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

There are no costs to the Department to implement the proposed rulemaking beyond what would otherwise be required to administer the underlying statutes.

- **Anticipated effect on State revenues:**

There is no anticipated effect on State revenues, although the revised, repromulgated rules and the elimination of rules that are no longer necessary or are obsolete will provide clarity to the public.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

There is no benefit to retaining 701—Chapters 500, 600, and 603. The cost of inaction would be confusion and frustration. The benefits to the proposed rulemaking are to eliminate unnecessary and obsolete language and rules and to make it easier for the public to find guidance on income tax by placing rules in the proper chapter.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

No less costly or intrusive methods have been identified.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

The Department considered rescinding any and all of the rules in these chapters but determined that the proposed rulemaking was necessary to provide guidance and clarification to the public beyond what is provided in the underlying statutes.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

The Department determined that retention of rules in the proposed amendments will reduce confusion about the subjects of those rules. Proceeding without these rules could negatively impact the public by complicating good-faith taxpayers' ability to comply with Iowa tax law in a proper and timely manner.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.

- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

The proposed rulemaking does not have a substantial impact on small business and does not impose any additional requirements on businesses other than what is imposed by the underlying statutes.

Text of Proposed Rulemaking

ITEM 1. Rescind 701—Chapter 300 and adopt the following **new** chapter in lieu thereof:

CHAPTER 300
INCOME TAX ADMINISTRATION

701—300.1(422) Definitions. Except as otherwise provided, all words and phrases that are defined under Iowa Code sections 422.3, 422.4, and 422.16 have the same meaning as provided to them under that Iowa Code section. For purposes of this chapter and subsequent chapters governing the administration of income tax, the following definitions apply unless context indicates otherwise.

"Association" means any organization created for the transaction of designated affairs or the attainment of some object that, like a corporation, continues notwithstanding that its members or participants change and the affairs of which, like corporate affairs, are conducted by a single individual, a committee, a board, or some other group acting in a representative capacity.

"Computed tax" means, for purposes of the individual and fiduciary income tax, the amount of tax remaining before deductions of the personal exemption credit and other credits in Iowa Code chapter 422 and before the computation of the school district surtax and the emergency medical services income surtax.

"Corporation" means the same as defined in Iowa Code chapter 422. "Corporation" is not limited to the artificial entity usually known as a corporation, but also an association, a trust classed as an association because of its nature or its activities, a joint stock company, and certain kinds of partnerships. Any association or organization that is required to report as a corporation, for federal income tax purposes under the Internal Revenue Code (IRC) as amended, will be considered a corporation for the purposes of Iowa income tax on corporations. "Corporation" includes publicly traded partnerships, limited liability companies, and partnerships taxed as corporations under the Internal Revenue Code.

"Employee" means and includes every individual who is a resident or is domiciled in Iowa, or any nonresident or corporation performing services within the state of Iowa, the performance of which services constitutes, establishes, and determines the relationship between the parties as that of employer and employee. This includes officers of corporations, individuals, including elected officials performing services for the United States government or any agency or instrumentality thereof, or the state of Iowa, or any county, city, municipality or political subdivision thereof.

This rule is intended to implement Iowa Code sections 422.3, 422.4 and 422.16.

701—300.2(422) Statute of limitations. Iowa Code section 422.25 sets forth the applicable statute of limitations.

300.2(1) *Waiver of statute of limitations.* When the taxpayer and the department enter into an agreement to extend the period of limitation, interest continues to accrue on any deficiency or overpayment during the period of the waiver. The taxpayer may claim a refund during the period of the waiver.

300.2(2) *Amended returns filed within 60 days of the expiration of the statute of limitations for assessment.* If a taxpayer files an amended return within 60 days prior to the expiration of the statute of limitations for assessment, the department has 60 days from the date the amended return is received to issue an assessment for applicable tax, interest, or penalty.

This rule is intended to implement Iowa Code sections 422.25, 422.30, 422.35, and 422.66.

701—300.3(422) Retention of records.

300.3(1) *Applicability.* Every individual subject to the tax imposed by Iowa Code section 422.5 and every withholding agent subject to the provisions of Iowa Code section 422.16 shall retain those books and records pursuant to the Internal Revenue Code, including the federal income tax return and all supporting federal schedules.

300.3(2) *Retention.* Records relating to other deductions or additions to federal taxable income and Iowa tax credits shall be retained so long as the contents may be material in the administration of the Iowa Code under the statutes of limitations for audit specified in Iowa Code section 422.25.

300.3(3) *Corporation income tax.*

a. Every corporation subject to the tax imposed by Iowa Code section 422.33 shall retain its books and records pursuant to IRC Section 6001 and Treasury Regulation Section 1.6001-1(e).

b. Records relating to the computation of the Iowa apportionment factor, allocable income, other deductions or additions to federal taxable income and Iowa tax credits shall be retained so long as the contents may be material in the administration of the Iowa Code under the statutes of limitation for audit specified in Iowa Code section 422.25.

This rule is intended to implement Iowa Code sections 422.25 and 422.70.

701—300.4(422) Delegations to audit and examine. The director delegates to authorized assistants and employees the power to examine returns and make audits and to determine the correct amount of tax due, subject to review by or appeal to the director.

This rule is intended to implement Iowa Code sections 422.66, 422.70, and 422.71.

701—300.5(422) Federal rulings and regulations. In determining whether taxable income, or any other deductions, are computed for federal tax purposes under, or have the same meaning as provided by, the Internal Revenue Code, the department will use applicable rulings and regulations that have been duly promulgated by the commissioner of internal revenue unless the director has created rules and regulations or has exercised discretionary powers as prescribed by statute that call for an alternative method for determining taxable income, net operating loss deduction, or any other deduction or unless the department finds that an applicable internal revenue ruling or regulation is unauthorized according to the Iowa Code.

This rule is intended to implement Iowa Code sections 422.7 and 422.9.

701—300.6(422) Bonding procedure for income tax withholding. Pursuant to Iowa Code section 422.16, the director has determined that the following procedures will be instituted with regard to bonds.

300.6(1) *When required.*

a. New applications by withholding agents. A new withholding agent applicant will be requested to post a bond or security if:

(1) It is determined upon a complete investigation of the applicant's financial status that the applicant would be unable to timely remit the tax,

(2) The new applicant held a withholding agent's identification number for a prior business and the remittance record of the tax under the prior identification number falls within one of the conditions in paragraph 300.6(1)*"b,"* or

(3) The department experienced collection problems while the applicant was engaged in business under the prior identification number.

b. Existing withholding agents. Existing withholding agents are to post a bond or security upon request when they have had two or more delinquencies in remitting the withholding tax during the last 24 months if remitting payments on a quarterly basis. The simultaneous late filing of the return and late payment of the tax will count as one delinquency. However, the late filing of the return or the late payment of the tax will not count as a delinquency if the withholding agent can satisfy one of the conditions set forth in Iowa Code section 421.27.

c. Waiver of bond. Upon the filing of the bond or security, if the withholding agent maintains a good filing record for a period of two years, the withholding agent may request that the department waive the continued bond or security requirement.

300.6(2) *Type of security or bond.* When it is determined that a withholding agent or withholding agent applicant (applicant) is required to post collateral to secure the collection of income tax withholding, the following types of collateral will be considered as sufficient: surety bonds, securities, or certificates of deposit. When the withholding agent is a corporation, an officer or employee of the corporation may assume personal liability as security for the payment of the withholding tax. The officer or employee will be evaluated as provided in paragraph 300.5(1)*"a"* as if the officer or employee applied as the withholding agent as an individual.

300.6(3) *Amount of bond or security.* If the withholding agent or applicant is or will be a semi-monthly depositor, a bond or securities in an amount sufficient to cover three months' income tax withholding liability will be required. If the withholding agent or applicant is or will be a monthly depositor, a bond or securities in an amount sufficient to cover five months' income tax withholding liability will be required. If the withholding agent or applicant is or will be a quarterly depositor, the bond or securities will be required is an amount sufficient to cover nine months' or three quarters of tax liability. If the withholding agent or applicant is or will be an annual depositor, a bond or securities in an amount sufficient to cover one year's withholding liability will be required.

300.6(4) *Penalty for failure of a withholding agent to file bond.* If the withholding agent is requested by the department to file a bond to secure collection of the state income tax withholding and fails to file the bond, the withholding agent is subject to a penalty as provided in Iowa Code section 422.16.

This rule is intended to implement Iowa Code section 422.16.

701—300.7(422) Reciprocal tax agreements.

300.7(1) *Applicability.* The department may enter into reciprocal agreements with tax administration agencies of other states pursuant to Iowa Code section 422.8(4). Rule 701—303.5(422) provides more information on the treatment of deferred compensation, pensions, or annuities received by a nonresident of Iowa related to the documented retirement of a participant in a deferred compensation plan, a pensioner, or an annuitant. The provisions of rule 701—303.5(422) supersede the definition of "income earned from personal services" under any reciprocal agreement as it relates to deferred compensation, pensions, or annuities.

300.7(2) *Reciprocal tax agreement with Illinois.* The Iowa-Illinois reciprocal tax agreement cannot be terminated by the Iowa department of revenue unless the termination is authorized by a constitutional majority of each house of the general assembly and is approved by the governor. The Iowa-Illinois reciprocal tax agreement includes the following terms:

a. No Illinois or Iowa employer is required to withhold Illinois income tax from compensation paid to an Iowa resident for personal services in Illinois.

b. No Illinois or Iowa employer is required to withhold Iowa income tax from compensation paid to an Illinois resident for personal services in Iowa.

c. Every Iowa employer who is subject to the jurisdiction of Illinois is liable to the state of Illinois for withholding of Illinois income tax from compensation paid to Illinois residents.

d. Every Illinois employer who is subject to the jurisdiction of Iowa is liable to the state of Iowa for the withholding of Iowa income tax from compensation paid to Iowa residents.

e. The Illinois department of revenue will encourage Illinois employers that are not subject to the jurisdiction of Iowa to withhold and remit Iowa income tax from wages paid to Iowa residents employed in Illinois.

f. The Iowa department of revenue will encourage Iowa employers that are not subject to the jurisdiction of Illinois to withhold and remit Illinois income tax from compensation paid to Illinois residents from employment in Iowa.

g. For purposes of the agreement, "compensation" means wages, salaries, commissions, tips, deferred compensation, pensions, and annuities and any other remuneration paid for personal services. In the case of deferred compensation, pensions, and annuities, those incomes are deemed to have been earned at the time of employment. Therefore, if an Illinois resident receives a pension or annuity from employment in Iowa at the time the reciprocal agreement was in effect, the pension or annuity income is not taxable to Iowa since it is "compensation" covered by the reciprocal agreement. Rule 701—303.5(422) provides more information on the treatment of deferred compensation, pensions, or annuities received by an Illinois resident related to the documented retirement of a participant in a deferred compensation plan, a pensioner, or an annuitant. The provisions of rule 701—303.5(422) supersede the definition of "compensation" under the reciprocal agreement with Illinois. "Compensation" does not include unemployment compensation benefits that an Illinois resident receives due to employment in Iowa.

h. No Iowa resident is required to pay Illinois income tax or file an Illinois return from compensation paid from personal services in Illinois.

i. No Illinois resident is required to pay Iowa income tax or to file an Iowa return on compensation for personal services in Iowa.

j. For purposes of the agreement, "Iowa resident" means an individual who is a resident under the laws of the state of Iowa and "Illinois resident" means an individual who is a resident as defined in the Illinois income tax Act.

This rule is intended to implement Iowa Code sections 422.8 and 422.15.

701—300.8(422) Information returns for reporting income payments to the department. Every person, corporation, or agent of a person or corporation, lessees or mortgagors of real or personal property, fiduciaries, employers, and all officers and employees of the state or of any political subdivision of the state having control, receipt, custody, or disposal of any income shall file information returns with the department by February 15 following the end of the year in which the payments were made.

This rule is intended to implement Iowa Code section 422.15.

701—300.9(422) Relief from joint and several liability under Iowa Code section 422.21(7) for substantial understatement of tax attributable to nonrequesting spouse or former spouse. Under Iowa Code section 422.21(7), a person eligible for relief under the criteria established in IRC Section 6015 may be relieved of liability for an understatement of Iowa tax that is attributable to erroneous items of the nonrequesting spouse or former spouse. For state income tax purposes, the requirements set forth in this rule shall control to the extent that they conflict with IRC Section 6015.

300.9(1) *Filing status required for relief from joint and several liability.* For state income tax purposes, a married or formerly married taxpayer may qualify for relief from joint and several liability under Iowa Code section 422.21(7) only if the taxpayer filed a joint return.

300.9(2) *Scope of relief for Iowa income tax purposes.* An understatement of the tax is the excess of the tax required to be shown over the tax actually shown on the return. An erroneous item is any item resulting in an understatement or deficiency in Iowa taxes to the extent that the item is omitted from, or improperly reported or characterized on, an Iowa tax return, including Iowa deductions and tax credits that would not be included on a federal return.

300.9(3) *IRS determination or other evidence of eligibility.*

a. If the person seeking relief from joint and several liability under Iowa Code section 422.21(7) also applied for tax relief from the federal government under IRC Section 6015 and received a final determination letter or other document issued by the Internal Revenue Service in connection with relief requested under IRC Section 6015, the person is to provide the department with a copy of such letter or document within the time frame set forth in subrule 300.9(6). Failure to provide this information, if it exists, will result in the denial of the request for relief from joint and several liability under Iowa Code section 422.21(7).

b. If the person seeking relief from joint and several liability under Iowa Code section 422.21(7) also applied for federal relief under IRC Section 6015 but did not receive a final determination letter or other document issued by the Internal Revenue Service in connection with the requested relief, the person must provide the department with other evidence to support the position that the taxpayer is eligible for relief under Iowa Code section 422.21(7).

c. If the person seeking relief under Iowa Code section 422.21(7) did not apply for federal relief under IRC Section 6015, the person must submit a written statement to the department detailing the reason for not applying for relief under IRC Section 6015 as well as evidence to support the position that the taxpayer is eligible for relief under Iowa Code section 422.21(7).

300.9(4) *Burden of proof; evaluation of criteria listed under IRC Section 6015.* The burden is on the person seeking relief from joint and several liability to show that the person is eligible for relief under Iowa Code section 422.21(7). In determining whether the person seeking relief from joint and several liability is eligible for relief under Iowa Code section 422.21(7), the department shall apply this rule and the relevant criteria set forth in IRC Section 6015 and the related federal regulations.

300.9(5) *Appealing a denied request for relief from joint and several liability.* If the department denies a claim for relief from joint and several liability under Iowa Code section 422.21(7), the person seeking relief may appeal the department's determination under 701—Chapter 7. The department will evaluate the appeal by applying the criteria set forth in this rule and IRC Section 6015 and the related regulations. In appeal proceedings, the burden is on the person seeking relief from joint and several liability to show that the person meets the criteria for relief under this rule and IRC Section 6015.

300.9(6) *Time period for requesting relief from joint and several liability.* Relief from joint and several liability must be requested within two years after the date of the notice of assessment. However, an applicant who fails to meet this deadline may be granted equitable relief if the applicant satisfies applicable criteria listed under IRC Section 6015(f).

300.9(7) *Notice to nonrequesting spouse or former spouse.* On or before 60 days from the date the person seeking relief from joint and several liability files a request with the department, the department may notify the nonrequesting spouse or former spouse of the request for relief. The notice will advise the nonrequesting spouse or former spouse of the right to intervene by filing a notice of intervention with the department in accordance with subrules 300.9(8) and 300.9(9). The notice shall not include the current address or contact information of the spouse or former spouse requesting relief. The department will use the last-known address of the nonrequesting spouse when sending the notice.

300.9(8) *Intervention by nonrequesting spouse or former spouse.* If the nonrequesting spouse or former spouse desires to intervene, such individual shall file a notice of intervention with the department not later than 60 days after the date the notice of the request for relief from joint and several liability is sent by the department to the nonrequesting spouse or former spouse, unless the department directs otherwise.

300.9(9) *Contents of notice of intervention.*

a. A notice of intervention must be in the following format:

DEPARTMENT OF REVENUE

Name of Intervenor

NOTICE OF INTERVENTION

Address of Intervenor	Docket No. _____

b. A notice of intervention must contain all of the following, where applicable and known to the intervenor:

(1) The name, address, telephone number, and identification number of the taxpayer (i.e., social security number (SSN); federal identification number (FEIN); or individual tax identification number (ITIN) of the person who is requesting intervention);

(2) The docket number of the proceeding initiated by the person seeking relief from joint and several liability under Iowa Code section 422.21(7);

(3) A copy of a determination letter or other document, if any, issued by the Internal Revenue Service showing that the person seeking relief from joint and several liability under IRC Section 6015 has been granted or denied relief for the relevant tax years;

(4) A clear and concise statement of the grounds for intervention, all relevant facts, and the reasons why the intervenor agrees or disagrees with the person seeking relief from joint and several liability as to that person's entitlement to such relief;

(5) A citation to any specific statutes, rules, policies, decisions, or orders that may be relevant in the department's determination of the applicability of relief from joint and several liability to the person seeking such relief;

(6) Any information known to the petitioner relating to the department's treatment of similar cases; and

(7) The signature of the intervenor at the conclusion of the notice of intervention attesting to the accuracy and truthfulness of the information set forth in the notice of intervention.

This rule is intended to implement Iowa Code section 422.21.

701—300.10(422) Preparation of taxpayers' returns by department employees. A department employee can assist a taxpayer in the preparation and completion of the taxpayer's individual income tax returns and other state tax returns during the employee's hours of employment for the department in either of the following situations:

300.10(1) When the department employee is conducting an audit of the taxpayer.

300.10(2) When the department employee is requested to prepare a taxpayer's individual income tax return or other tax returns by the taxpayer, the taxpayer's spouse, or the taxpayer's authorized representative.

This rule is intended to implement Iowa Code section 421.17.

701—300.11(422) Resident determination. For Iowa individual income tax purposes, an individual is a "resident" if: (1) the individual maintains a permanent place of abode within the state or (2) the individual is domiciled in the state. An individual who is determined to be a resident of Iowa is subject to Iowa income tax on all the individual's income for the taxable year, no matter whether the income is earned within Iowa or outside of Iowa, except when an item of income is specifically exempted from taxation by a provision of federal or Iowa law.

300.11(1) *Permanent place of abode.*

a. The establishment of a permanent place of abode requires the maintenance of a place of abode over a sufficient period of time to create a well-settled physical connection with a given locality. Significant factors, among others, to be considered in determining whether an individual maintains such a permanent place of abode are:

(1) The amount of time the individual spends in the locality;

(2) The nature of the individual's place of abode;

(3) The individual's activities in the locality; and

(4) The individual's intentions with regard to the length and nature of the individual's stay.

b. There is a rebuttable presumption that an individual is maintaining a "permanent place of abode" if the individual maintains a place of abode within this state and spends more than 183 days

of the tax year within this state. "Place of abode" includes a house, apartment, condominium, mobile home, or other dwelling place maintained or occupied by the individual whether or not owned or rented by the individual. Situations where presence in the state for 183 days of the tax year may not cause an individual to be considered to be maintaining a "permanent place of abode" would include situations where presence in the state is not voluntary, such as confinement to a correctional facility or an extended hospital stay.

300.11(2) *Domicile.*

a. An individual is "domiciled" in this state if the individual intends to permanently or indefinitely reside in Iowa and intends to return to Iowa whenever the individual may be absent from this state. Individuals who have moved into this state are domiciled in Iowa if the following three elements exist: (1) a definite abandonment of a former domicile, (2) actual removal to and physical presence in this state, and (3) a bona fide intention to change domicile and to remain in this state permanently or indefinitely.

(1) Every person has only one domicile. "Domicile," for purposes of determining when an individual is "domiciled in this state," is largely a matter of intention that must be freely and voluntarily exercised. The intention to change one's domicile must be present and fixed and not dependent upon the happening of some future or contingent event. Because it is essentially a matter of intent, precedents are of slight assistance and the determination of the place of domicile depends upon all the facts and circumstances in each case.

(2) Once an individual is domiciled in Iowa, that status is retained until such time as the individual takes positive action to become domiciled in another state or country, relinquishes the rights and privileges of residency in Iowa, and meets the criteria set forth from Julson v. Julson, 255 Iowa 301, 122 N.W.2d, 329, 331 (1963). The director may require an individual claiming domicile outside the state of Iowa to provide documentation supporting establishment of another domicile. Absence from the state for 183 days of the tax year or for any other extended period of time does not alone show abandonment of an Iowa domicile.

b. There is a rebuttable presumption that an individual is domiciled in Iowa if the individual meets the following conditions:

(1) Maintains a residence or place of abode in Iowa, whether owned, rented, or occupied, even if the individual is in Iowa less than 183 days of the tax year, and either

(2) Claims a homestead or military tax exemption, or both, on a home in Iowa, or

(3) Is registered to vote in Iowa, or

(4) Maintains an Iowa driver's license, or

(5) Does not reside in an abode in any other state for more days of the tax year than the individual resides in Iowa.

c. There is a rebuttable presumption that an individual is not domiciled in Iowa if the individual meets all of the following conditions:

(1) Does not claim a homestead or military exemption on a home in Iowa,

(2) Is not registered to vote in Iowa,

(3) Does not maintain an Iowa driver's license,

(4) Is in Iowa less than 183 days of the tax year; and

(5) Maintains a place of abode outside of Iowa where the individual resides for at least 183 days of the tax year.

d. In addition to the conditions listed for the above rebuttable presumptions for "permanent place of abode" or "domicile," some of the nonexclusive conditions to consider in determining whether an individual is a resident of Iowa are as follows:

(1) Maintains a place of abode in Iowa, whether owned, rented, or occupied.

(2) Maintains an Iowa driver's license.

(3) Maintains active membership in an Iowa church, club, or professional organization and participates as a result of such membership.

(4) Documents, such as tax forms, legal documents, and correspondence, initiated during tax periods use an Iowa address. Legal documents could include wills, deeds, or other contracts.

(5) Immediate family members residing in Iowa are claimed as dependents or rely, in whole or in part, on the taxpayer for their support.

(6) Vehicles registered in Iowa.

(7) Location of employment or active participation in a business within Iowa.

(8) Active checking or savings accounts or use of safe deposit boxes located in Iowa.

(9) Claims a benefit on the federal income tax return based upon an Iowa home being the principal place of residence. Examples include mortgage interest on principal residence and travel expenses while away from the principal place of residence.

(10) Receives a number of services in Iowa from doctors, dentists, attorneys, CPAs or other professionals.

e. Unless shown to the contrary, married persons are presumed to have the same residence. Ordinarily, the residence of a minor is that of the person who has permanent custody over the minor.

f. An individual may qualify as a part-year resident of Iowa by: (1) not maintaining a permanent place of abode; and (2) not having a domicile in Iowa for the entire tax year. In determining part-year resident status, whether an individual is in or out of Iowa for 183 days may not be a factor.

300.11(3) *Resident determination for individuals on active duty military service.* Rule 701—302.10(422) contains more information regarding the exemption of active duty pay for both resident and nonresident members of the armed forces, armed forces military reserve, or the national guard.

a. Members of the armed forces of the United States shall not be deemed to have lost a residence or domicile in any state solely by being absent from that state in compliance with military or naval orders or to have acquired a residence or domicile in another state while being absent from the state of residence. Thus, residents of Iowa who enter military service will retain their Iowa residence during the tenure of their military service or until they take positive action to change their state of residence.

b. Residents of Iowa in military service will have Iowa income tax withheld from their military pay except when the military pay is earned in a combat zone and is totally or partially exempt from both federal and state income tax. An Iowa resident in military service can change state of residence for purposes of withholding of state income tax by completing Form DD2058 and designating a state other than Iowa as the individual's new state of residence. The military payroll officer of the service person will accept the DD2058 form and stop withholding Iowa income tax from the service person's military pay and start withholding the state income tax of the state of new residence of the service person. However, the completion of the DD2058 form by the "former Iowa resident" will not be considered as a valid change of residence for Iowa income tax purposes unless the service person was physically residing in the new state of residence at the time the DD2058 form was completed and the service person took other actions to show intent to change state of residence. Other actions to show intent to change state of residence would include:

(1) Registering to vote in the new state;

(2) Purchasing real property in the new state;

(3) Titling and registering vehicles in the new state;

(4) Notifying the state of previous residence of the state of residence change;

(5) Preparing a new last will and testament that indicates the new residence; and

(6) Complying with the tax laws of the state of new residence.

c. Military personnel who are residents of other states and who come to Iowa as a result of military or naval orders, but who later decide to become legal or actual residents of Iowa, or military personnel who purchase residential property in Iowa and claim the homestead exemption or the military exemption for the property for property tax purposes are presumed to be residents of Iowa for income tax purposes.

d. Military personnel who are not residents of the state of Iowa and who receive military pay for service in Iowa shall not be considered to have received this income for services performed within Iowa or from sources within Iowa. These nonresidents of Iowa will be taxable on nonmilitary wages for personal services in Iowa they receive while stationed in Iowa. These individuals will also be taxable to Iowa on incomes they receive from businesses, trades, professions, or occupations operated in Iowa during the time they are stationed in Iowa as well as on nonmilitary incomes from any other sources within Iowa.

(1) Since military nonresidents of Iowa cannot be taxed on their military pay while they are stationed in Iowa, the military pay cannot be considered for purposes of Iowa's taxation of nonresidents in accordance with the Servicemembers Civil Relief Act, Public Law 108-189.

(2) The military pay of the nonresident of Iowa must be excluded from the computation of the nonresident credit set forth in rule 701—800.4(422). This exclusion from the computation of the nonresident credit applies to military pay of nonresident servicemembers who are in an active duty status as defined under Title 10 of the United States Code.

e. Spouses of military personnel who earn wages and other incomes from Iowa sources are taxed on these incomes similarly to other nonresidents of Iowa. Spouses of Iowa resident military personnel who were nonresidents of Iowa at the time of the marriages with the Iowa residents will not be considered to be residents of Iowa until they actually reside in Iowa with their spouses. Spouses who earn wages from Iowa sources are not subject to Iowa income tax on these wages if one spouse who is present in Iowa is a member of the armed forces, the other spouse is present in Iowa solely to be with the military spouse, and the spouse who is a member of the armed forces maintains a domicile in another state.

300.11(4) *Examples of resident determination.*

EXAMPLE 1: Fred and Mary were domiciled in Iowa when Fred retired in 2025. They have a house in Iowa and a condominium in Florida. Prior to 2025, Fred and Mary spent four months in Florida and eight months in Iowa. Fred owned a small business when he retired and was retained as a consultant and remained a member of the board of directors after retirement. Fred and Mary have friends and family in both Iowa and Florida. They are also involved in the activities of the local country club as well as other civic and service organizations in both locations. When Fred retired, he and Mary decided to spend more time in Florida, especially during the winter months. They usually leave for Florida in late October and return to Iowa in early April. They have transferred their automobile registrations to Florida and have acquired Florida driver's licenses. They have registered to vote in Florida and have voted in Florida elections. They visit doctors and dentists in both locations. They maintain bank accounts in both locations and have mail sent to the location at which they are physically residing. Fred and Mary usually return to Iowa for holidays, and Fred returns once a month to attend board meetings. They do not claim a homestead exemption or military tax exemption on their Iowa home, but they do use their Iowa address on most of their legal documents and on their federal tax return. They also travel and vacation during the winter months and oftentimes leave Florida to vacation.

Fred and Mary would be considered Iowa residents because they have retained a permanent abode in Iowa.

EXAMPLE 2: Susan rents an apartment in Des Moines when her employer assigns her to the regional office for a temporary period. She spends more than 183 days in Iowa, but she returns to her apartment in Ohio once a month to visit her friends and to check her mail. She intends to return to Ohio when her assignment in Des Moines is terminated. She has retained her Ohio driver's license and is registered to vote in Ohio.

Susan would not be considered to be an Iowa resident because she has not established a permanent place of abode in Iowa, even though she is present in Iowa for more than 183 days. Also, she has not had a definite abandonment of her former domicile. Susan would be taxed on her Iowa income as a nonresident. However, if Susan were assigned to Des Moines on a permanent basis, she may be considered an Iowa resident even though she retains her apartment in Ohio.

EXAMPLE 3: John is a truck driver, and his job takes him out of Iowa for approximately 240 days a year. His wife, Veronica, lives in Marshalltown, Iowa. His two children attend school in that community, and Veronica has a part-time job as a nurse. John is home for most weekends and for the holidays. He is registered to vote in Iowa and utilizes the Iowa homestead and military tax exemptions. He does not own any other real property, except a lakeside cabin in Minnesota where the family vacations during the summer.

John would be considered an Iowa resident even though he is not present in the state for more than 183 days because John intends to return to Iowa whenever he is absent and has not taken any steps to establish residency in any other state.

EXAMPLE 4: Wilber, who is a resident of Idaho, is hospitalized in a hospital in Iowa. While there, the doctors discover that he has a blood disorder and Wilber is confined to the hospital for nearly nine months receiving treatment.

Wilber's presence in Iowa is for a medical emergency. When an individual suffers a medical emergency while present in this state for other purposes and cannot be realistically moved from the state or in situations where an individual is confined to an institution as a result of seeking treatment, the time spent in Iowa would not count toward the 183-day rule. Also, Wilber's hospital room would not be considered a permanent place of abode.

EXAMPLE 5: Chuck and Linda both worked for a company in Iowa, and both of them decided to take advantage of an early retirement package offered by their employer. They do not have any children, but Chuck has a brother who lives in Davenport, Iowa, and Linda has a sister who lives in Phoenix, Arizona. After retirement, Chuck and Linda sell their house and purchase a motor home. They spend their time traveling the United States and Canada. They do not have a place of abode in any state as they live in their new vehicle. They do not spend more than 183 days in any state during the year. They retain their Iowa driver's licenses, and their motor home is registered in Iowa. They also have bank accounts in both Iowa and Arizona, and they have their mail sent to Chuck's brother and Linda's sister. They show Iowa as their state of residence for federal income tax purposes. They are not registered to vote in any state. Chuck and Linda would be considered residents of Iowa. They have not shown an intention to change domicile and remain in another state permanently or indefinitely.

This rule is intended to implement Iowa Code sections 422.3, 422.4 and 422.16.

701—300.12(422) Tax treatment of income repaid in current tax year that had been reported on prior Iowa individual income tax return.

300.12(1) *Administration.* If a taxpayer repays in the current tax year an amount of income that had been reported on the taxpayer's Iowa individual income tax return for a prior year that had been filed with the department and the taxpayer would have been eligible for a tax benefit under similar circumstances under IRC Section 1341, the taxpayer will be eligible for a tax benefit on the Iowa return for the current tax year. The tax benefit will be either the reduced tax on the Iowa return for the current tax year due to the deduction of the repaid income or the reduction in tax on the Iowa return or returns for the prior year(s) due to the exclusion of the repaid income. The reduction in tax from the return for the prior year may be claimed as a refundable credit on the return for the current tax year.

300.12(2) *Examples.*

EXAMPLE 1: A taxpayer reported $7,000 in unemployment benefits on the taxpayer's 2025 Iowa return that the taxpayer had received in 2025. In early 2026, the taxpayer was notified that $4,000 of the unemployment benefits had to be repaid. The benefits were repaid by the end of 2026. The taxpayer claimed a deduction on the 2026 Iowa return for the amount of unemployment benefits repaid during 2026 that had been reported on the taxpayer's 2025 Iowa return because that action gave the taxpayer a greater reduction in Iowa income tax liability than the taxpayer would have received from a reduction in tax on the 2025 return by recomputing the liability by excluding the repaid income.

EXAMPLE 2: A taxpayer had received a $5,000 bonus in 2025 that was reported on the taxpayer's 2025 Iowa return. In 2026, the taxpayer's employer advised the employee that the bonus was awarded in error and to be repaid. The $5,000 bonus was repaid to the employer by the end of 2026. The taxpayer claimed a credit of $440 on the 2026 Iowa return for repayment of the bonus in 2026. This represented the reduction in tax for 2025 from recomputing the tax liability for that year without the $5,000 bonus. This provided the taxpayer a greater tax benefit than the taxpayer would have received from claiming a deduction on the 2026 Iowa return from repayment of the bonus.

This rule is intended to implement Iowa Code section 422.5.

701—300.13(422) Notice of discrepancies.

300.13(1) *Notice of adjustments.* A department employee designated by the director to examine returns and make audits who discovers discrepancies in returns or learns that the income of the taxpayer may not have been listed, in whole or in part, or that no return was filed when one was due is authorized to notify the taxpayer of this discovery by mail. The notice is not an assessment but may inform the taxpayer what amount would be due if the information discovered is correct.

300.13(2) *Right of taxpayer upon receipt of notice of adjustment.* A taxpayer who has received notice of an adjustment in connection with a return may pay the additional amount stated to be due. If payment is made and the taxpayer wishes to contest the matter, the taxpayer should then file a claim for refund. However, payment will not be required until assessment has been made (although interest will continue to accrue if payment is not made).

This rule is intended to implement Iowa Code sections 422.25 and 422.30.

701—300.14(422) Notice of assessment, supplemental assessments and refund adjustments. If no agreement is reached and the taxpayer does not pay the amount determined to be correct, a notice of assessment shall be sent to the taxpayer by mail. If the period in which the correct amount of tax can be determined is nearly at an end, either a notice of assessment or a jeopardy assessment may be issued. All notices of assessment shall bear the signature of the director.

300.14(1) The department may, at any time within the period prescribed for assessment or refund adjustment, make a supplemental assessment or refund adjustment whenever it is ascertained that any assessment or refund adjustment is imperfect or incomplete in any respect.

300.14(2) If an assessment or refund adjustment is appealed and is resolved, whether by informal proceedings or by adjudication, the department and the taxpayer are precluded from making a supplemental assessment or refund adjustment concerning the same issue involved in the appeal for the same tax period unless there is a showing of mathematical or clerical error or a showing of fraud or misrepresentation. Nothing in this rule prevents the making of an assessment or refund adjustment for the purpose of taking into account the impact upon Iowa net income of federal audit adjustments.

This rule is intended to implement Iowa Code sections 422.25 and 422.30.

701—300.15(422) Overpayments of tax. The following are provisions for refunding or crediting to the taxpayer's deposits or payments for tax in excess of amounts legally due.

300.15(1) *Claims for refund.* A claim for refund is a formal request made by the taxpayer or the taxpayer's personal representative to the department for repayment of state income tax that was paid. In order for a claim for refund to be valid, the taxpayer or representative must file the claim on an Amended Form IA 1040 Income Tax Return for the appropriate tax year and include an Amended Return Schedule.

a. Claims for refund must be filed within one of the time periods specified in Iowa Code section 422.73(1) in order for the refund claim to be timely so that the claim may be considered on its merits by the department.

b. If the department determines the taxpayer's claim is without merit and the claim for refund should be rejected, the department will notify the taxpayer or representative by mail that the claim for refund has been rejected and of the reason for rejection. In addition, the rejection letter will advise that

the taxpayer has 60 days from the date of the letter to file an appeal of the department's rejection of the claim for refund.

300.15(2) *Offsetting refunds.* A taxpayer shall not offset a refund or overpayment of tax for one year as a prior payment of tax of a subsequent year on the return of a subsequent year without authorization in writing by the department. The department may, however, apply an overpayment, or a refund otherwise due the taxpayer, to any tax due or to become due from the taxpayer.

300.15(3) *Setoff of qualifying debts.* Before any refund or rebate from a taxpayer's individual income tax return is considered for purposes of setoff, the refund or rebate will be applied first to any outstanding tax liability of that taxpayer with the department. After all outstanding tax liabilities are satisfied, any remaining balance of refund or rebate will be set off against any debt of the taxpayer in accordance with Iowa Code section 421.65.

300.15(4) *Overpayment credited to estimated tax.* Any remaining balance of overpayment, at the election of the taxpayer, will be refunded to the taxpayer or credited as a first payment of the taxpayer's estimated tax for the following year. However, a taxpayer may elect to credit an overpayment from a return to the estimated tax for the following tax year only in cases when the return is filed in the same calendar year that the return is due, including extensions. For example, a taxpayer's 2024 return is due on April 30, 2025. If the taxpayer files that return on or before December 31, 2025, the taxpayer can elect to credit an overpayment on that return to estimated tax for 2025 and this election will be honored by the department.

a. If an overpayment of income tax is shown as a credit to estimated tax for the succeeding taxable year, the amount will be considered as a payment of the income tax for the succeeding taxable year and no claim for credit or refund of the overpayment will be allowed on the return where the overpayment arose.

b. When a taxpayer elects to have an overpayment credited to estimated tax for the succeeding year, interest may properly be assessed on a deficiency of income tax for the year in which the overpayment arose. If a taxpayer elects to have all or part of an overpayment shown on the return applied to the estimated income tax for the succeeding taxable year, the election is binding to the taxpayer.

c. An overpayment of tax may be used to offset any outstanding tax liability owed by the taxpayer, but once an elected amount is credited as a payment of estimated tax for the succeeding year, it loses its character as an overpayment for the year in which it arose and thereafter cannot offset any subsequently determined tax liability.

300.15(5) *Refunds—statute of limitations for taxpayers who paid 90 percent of the tax by the due date and filed the original return in the six-month extended period.* If a taxpayer has paid 90 percent of the income tax due by the original due date of the return and has filed the original income tax return sometime in the six-month extended period after the original due date, the taxpayer may file an amended return within three years of the extended due date for the original return.

EXAMPLE 1: Joe Barnes had paid at least 90 percent of the tax shown due on his 2024 Iowa income tax return by the April 30 original due date and filed his original 2024 Iowa return on May 15, 2025. Joe determined that he had failed to claim several deductions on the original 2024 Iowa return, so he filed an amended 2024 return on October 31, 2028. The amended return was filed within the three-year statute of limitations for refund since it was filed within three years of the extended due date of the return, October 31, 2025. The six-month extended due date applied in this case because the original return was filed within the six-month extended period.

EXAMPLE 2: Deshaun Jones paid 90 percent of the tax shown due on his 2024 return by the April 30 original due date and filed the original return on or before the April 30, 2025, original due date for this return. Deshaun determined that when he filed the original 2024 Iowa return, he failed to claim the Iowa income tax withheld from a part-time job he held in 2024. Deshaun filed an amended 2024 Iowa return on May 15, 2028, to claim the Iowa tax withheld that he had failed to claim on the original return. This claim for refund was rejected by the department because the amended return was not filed within three years of the due date of the return. Although Deshaun had paid 90 percent of the

tax by the due date, the due date was not extended because the original return had been filed by the due date of April 30, 2025.

This rule is intended to implement Iowa Code sections 421.17, 422.2, 422.16 and 422.73.

ITEM 2. Rescind 701—Chapter 305 and adopt the following **new** chapter in lieu thereof:

CHAPTER 305
INDIVIDUAL INCOME TAX CHECKOFFS

701—305.1(422) Optional designations of funds by taxpayer.

305.1(1) *Iowa fish and game protection fund.*

a. A taxpayer filing an individual income tax return may designate a checkoff to be donated to any checkoff fund provided Iowa Code chapter 422. If the overpayment shown on the return or the payment remitted with the return is insufficient to pay the amount designated to the checkoff fund, the amount credited to the fund will be reduced accordingly. The designation to the fund is irrevocable and cannot be made on an amended return.

EXAMPLE 1: Overpayment as shown on the return is $50, and $25 is designated to the fund. Due to an error on the return, only $20 is an overpayment. The taxpayer would not receive any refund, and all $20 of the overpayment would be credited to the fund.

EXAMPLE 2: Overpayment as shown on the return is $50, and $25 is designated to the fund. Due to an error on the return, no overpayment occurred but instead the taxpayer owes $20. No money would be credited to the fund.

EXAMPLE 3: Amount shown due on the return is $30, and $20 is designated to the fund. A $50 payment was made with the return. Due to an error on the return, the taxpayer owes $40. Only $10 would be credited to the fund.

b. A designation to a checkoff fund may be allowed only after the taxpayer's obligations to the department of revenue, the child support recovery unit of the department of health and human services, the foster care recovery unit of the department of health human services, the college student aid commission, the office of investigations of the department of health human services, the district courts, and other state agencies are satisfied.

c. On or before January 31 of the year following each year in which returns with a fund checkoff are due, the department of revenue shall certify the amount designated to the checkoff fund and report this amount to the state treasurer.

305.1(2) *Child abuse prevention program fund checkoff.*

a. A taxpayer filing an individual income tax return may designate a checkoff to be donated to the child abuse prevention program fund. If the overpayment shown on the return or the payment remitted with the return is insufficient to pay the amount designated by the taxpayer to the child abuse prevention program fund, the amount credited to the child abuse prevention program fund will be reduced accordingly. The designation to the child abuse prevention program fund is irrevocable and cannot be made on an amended return.

b. A designation to the child abuse prevention program fund may be allowed only after the taxpayer's obligations to the department of revenue, the child support recovery unit of the department of health and human services, the foster care recovery unit of the department of health and human services, the college student aid commission, the office of investigations of the department of health and human services, the district courts, other state agencies, the Iowa fish and game protection fund checkoff, and the state fair foundation fund checkoff are satisfied.

c. On or before January 31 of the year following each year in which returns with the child abuse prevention program fund checkoff are due, the department of revenue shall transfer the total amount designated to the child abuse prevention program fund.

305.1(3) *Limitation of checkoffs on the individual income tax return.*

a. Only four checkoffs may be included on the individual income tax return for a given tax year. If the same four checkoffs have been listed on the individual income tax return for two consecutive

years, the two checkoffs that, in the aggregate, have received the lowest contribution amounts are repealed effective December 31 after the end of the second tax year and will be removed from the individual income tax return. To determine contribution amounts, the department will consider the contributions made to each fund for the first tax year and contributions made to each fund up to and including March 15 after the end of the second tax year. The department will notify the Iowa Code editor of the checkoffs that are repealed under this paragraph by July 1 after the end of the second tax year.

EXAMPLE: Checkoffs A, B, C, and D are included on the individual income tax return for tax years 2021 and 2022. Taxpayers begin filing their 2021 tax returns in January 2022. To determine which two checkoffs received the lowest contribution amounts, the department will review the contributions received in the period January 1, 2022, through March 15, 2023 (March 15 after the end of the second tax year).

b. If the general assembly, in the same legislative session, enacts more checkoffs than may be included on the individual income tax form, only the earliest enacted checkoffs will be listed on the form. The department will determine which enacted checkoffs will be included on the form pursuant to Iowa Code section 3.7. If it is indeterminable which checkoffs were first enacted under Iowa Code section 3.7, the director of revenue shall determine the checkoffs that will be included on the individual income tax form. The department will notify the Iowa Code editor of any checkoffs that must be repealed under this paragraph by September 1 of any applicable year.

This rule is intended to implement Iowa Code sections 422.12E, 422.12H, and 422.12K.

ITEM 3. Rescind and reserve **701—Chapter 306**.

ITEM 4. Rescind and reserve **701—Chapter 500**.

ITEM 5. Rescind and reserve **701—Chapter 600**.

ITEM 6. Rescind and reserve **701—Chapter 603**.

RA 26-364

REVENUE DEPARTMENT[701]

Regulatory Analysis

Notice of Intended Action to be published: 701—Chapter 301
"Filing Return and Payment of Tax"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 422.13, 422.16, 422.17, 422.21, 422.24, and 422.25

State or federal law(s) implemented by the rulemaking: 422.3, 422.5, 422.12, 422.13, 422.16, 422.17, 422.21, 422.24, 422.25, and 422.73

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 18, 2026 9 to 10 a.m.	Via videoconference call: meet.google.com/sbm-ihix-ere

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis, which must be received by the Department of Revenue no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Kurt J. Konek
Department of Revenue
Hoover State Office Building
P.O. Box 10457
Des Moines, Iowa 50306-3457
Phone: 515.587.0440
Email: kurt.konek@iowa.gov

Purpose and Summary

The purpose of this proposed rulemaking is to rescind and readopt Chapter 301. Chapter 301 provides the rules pertaining to the filing of returns and payment of income tax. After review, the Department determined the rules aid the public's understanding of this topic and provide guidance on how to comply with all types of income tax obligations. The Department proposes a revised chapter with more concise language in order to provide better organization and clarification and to remove portions of the rules that the Department determined unnecessary, obsolete, and duplicative of statutory language.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

There are no costs to the proposed rulemaking beyond those that are imposed by the underlying statutes.

- **Classes of persons that will benefit from the proposed rulemaking:**

The public will benefit from the proposed rulemaking because revising or rescinding rules on the administration of income tax under Chapter 301 will provide enhanced accessibility to those rules and reduce confusion related to income tax.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

There are no significant quantitative impacts known to be associated with these rules.

- **Qualitative description of impact:**

The proposed rulemaking will reduce uncertainty about administrative rules and provide clarity by ensuring the language is concise, is necessary, and avoids restrictive language or language duplicative of statute.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

There are no costs to the Department to implement the proposed rulemaking beyond what would otherwise be required to administer the underlying statutes.

- **Anticipated effect on State revenues:**

There is no anticipated effect on State revenues, although the revision of repromulgated rules and the elimination of other rules that are no longer necessary or are obsolete will provide clarity to the public.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

There is no benefit to retaining the rules that the Department has determined to rescind. The cost of inaction of updating the remaining rules would lead to confusion and frustration. The benefits of this proposed rulemaking are to eliminate unnecessary and obsolete language and rules and to make it easier for the public and tax preparers to find guidance from the Department's rules.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

No less costly or less intrusive methods have been identified.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

The Department considered rescinding any and all of the rules under this chapter but determined that the proposed rulemaking was necessary to retain and revise some rules to provide guidance and clarification to the public beyond what is provided in the underlying statutes.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

The Department determined that retention of some of the rules will reduce confusion about those rules. Proceeding without these rules could negatively impact the public by complicating good-faith taxpayers' ability to comply with Iowa tax law in a proper and timely manner.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.

- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

The proposed rulemaking does not have a substantial impact on small business and does not impose any additional requirements on business, other than what is imposed by the underlying statutes.

Text of Proposed Rulemaking

ITEM 1. Rescind 701—Chapter 301 and adopt the following **new** chapter in lieu thereof:

CHAPTER 301
FILING RETURN AND PAYMENT OF TAX

701—301.1(422) Who must file.

301.1(1) *Residents of Iowa.* Except as provided in Iowa Code sections 422.5 and 422.13, every resident of Iowa with taxable income is required to file an Iowa return.

301.1(2) *Nonresidents and part year residents of Iowa.* Except as provided in Iowa Code sections 422.5 and 422.13, every nonresident or part year resident of Iowa with taxable income of $1,000 or more from Iowa sources is required to file an Iowa return.

301.1(3) *Net income calculation.* The portion of a lump sum distribution subject to separate federal tax, the federal standard deduction, or itemized deductions to the extent it does not exceed federal adjusted gross income, the personal exemption allowed for federal purposes, the qualified business income deduction allowed for federal purposes, and any net operating loss carryover taken for federal purposes is included in net income to determine if a person must file a return.

301.1(4) *Incapacity to file a return.* If a taxpayer is physically or mentally unable to make a return, the return shall be made by a duly authorized agent, guardian or other person charged with the care of the person or property of such taxpayer. A power of attorney must accompany a return made by an agent or guardian.

301.1(5) *Minimum income requirement.* Iowa Code section 422.7 provides the computation of net income to determine whether a taxpayer meets the minimum filing requirements described in subrules 301.1(1) and 301.1(2). 701—Chapter 302 contains more information.

301.1(6) *Returns filed for refund.* A taxpayer whose Iowa source net income or all source net income is less than the amount for which the filing of an Iowa individual income tax return is required must file a return to receive a refund of Iowa income tax withheld or Iowa estimated tax paid in the tax year or to receive a refund from an Iowa refundable tax credit.

This rule is intended to implement Iowa Code sections 422.5 and 422.13.

701—301.2(422) Time and place for filing.

301.2(1) *Returns of individuals.* A return of income must be filed on or before the due date. The due date is the last day of the fourth month following the close of the taxpayer's taxable year, whether the return be made on the basis of the calendar year or fiscal year, or the last day of the period covered by an extension of time granted by the department. Iowa Code section 421.9A contains information on due dates that fall on a Saturday, Sunday, or holiday. If a return is placed in the mail, properly addressed and postage paid on or before the due date for filing, no penalty will attach should the return not be received until after that date. Mailed returns should be addressed as provided in the form instructions.

301.2(2) *Extension of time for returns.*

a. Good cause extension. Taxpayers required to file individual income returns on or before the due date of the return with payment in full. However, in any instance where the taxpayer is unable

to file the return by the due date because of illness or death in the taxpayer's immediate family, unavoidable absence of the taxpayer, or other legitimate reason, the director may grant an extension of time to file the return.

b. Ninety percent paid extension. If the taxpayer has paid at least 90 percent of the tax due by the due date and has not filed a return by the due date, the director will consider that the taxpayer has requested an extension of time to file the return and will automatically grant an extension of up to six months. If the taxpayer wants to make a tax payment to ensure that at least 90 percent of the tax has been paid on or before the due date, the payment should be made via GovConnectIowa or mailed as provided in the instructions.

(1) To determine whether or not at least 90 percent of the tax was paid on or before the due date, the aggregate amount of tax credits applicable on the return plus the tax payments made on or before the due date are divided by the tax due on the return. The tax due on the return is the sum of the income tax, lump-sum tax, minimum tax, school district income surtax, and emergency medical services income surtax. The tax credits applicable are the credits set out in Iowa Code chapter 422, subchapter II, and section 422.111. The tax payments to be considered for purposes of determining whether 90 percent of the tax was paid are the withholding tax payments, estimated payments, and any other payments made by the taxpayer for Iowa individual income tax for the applicable tax year.

(2) If the aggregate of the tax credits and the tax payments are equal to or greater than 90 percent of the tax shown due, the taxpayer will have met the "90 percent" test and no penalty will be assessed. However, the taxpayer will still be subject to statutory interest on any tax due when the return is filed.

(3) Any tax elections will be considered to be valid in instances when the return is filed within the six-month extended period after the due date.

c. Extensions for taxpayers with tax homes outside the United States and Puerto Rico. Taxpayers with tax homes outside the United States and Puerto Rico may, in some situations, be granted additional time to file their federal income tax returns beyond the six-month period after the federal due date. In some cases, this additional time is needed to meet residency time minimums in a foreign country so the taxpayer will be eligible for the foreign income exclusion that is also applicable to filing Iowa income tax returns. In cases where the taxpayer's tax home is outside the United States and the taxpayer has been granted additional time to file the federal income tax return which is greater than six months from the due date, the taxpayer will be deemed to have the same additional time to file the Iowa return and not be subject to penalty for late filing if 90 percent of the tax shown due on the return was paid by the original due date. Taxpayers with tax elections filing returns under these circumstances will be considered to have made these elections timely. However, the taxpayers should attach to their Iowa return documentation showing they were granted additional time after the six-month period from the due date to file their federal returns.

This rule is intended to implement Iowa Code sections 422.21 and 422.25.

701—301.3(422) Form for filing.

301.3(1) *Use of and completeness of prescribed forms.* Returns shall be made by residents and nonresidents on forms supplied by the department. Each question shall be answered and each direction complied with in the same manner as if the forms and instructions were embodied in these regulations. A return not signed by the taxpayer or the taxpayer's agent or guardian is not valid. Failure to receive the proper form does not relieve the taxpayer from the obligation of making any return pursuant to statute.

301.3(2) *Copy of federal income tax return to be filed by nonresident.* Nonresident taxpayers must file a copy of their federal income tax return for the current tax year with their Iowa income tax return. The copy shall include full and complete copies of all schedules that were filed with the federal return.

301.3(3) *Amended returns.* If it becomes known to a taxpayer that the amount of income reported to be federal net income or Iowa taxable income was erroneously stated on the Iowa return,

or changed by an Internal Revenue Service audit, or otherwise, the taxpayer shall file an amended Iowa return along with supporting schedules, to include the amended federal return if applicable.

This rule is intended to implement Iowa Code sections 421.17, 422.13 and 422.21.

701—301.4(422) Filing status. Taxpayers must use the same filing status for Iowa income tax purposes as the taxpayer used for federal income tax purposes for the same tax period.

This rule is intended to implement Iowa Code section 422.12.

701—301.5(422) Payment of tax.

301.5(1) *Balance of tax due.* If the computation on the tax return shows tax due, it shall be paid in full by the due date of the return, not including extensions.

301.5(2) *Payment of tax by uncertified checks.* The department will accept uncertified checks in payment of income taxes, provided the checks are collectible for their full amount without any deduction for exchange or other charges. The date on which the department receives the check will be considered the date of payment unless the check is returned dishonored. If one check is remitted to cover two or more individuals' taxes, the remittance must be accompanied by a letter of transmittal stating:

a. The name of the drawer of the check;

b. The amount of the check;

c. The amount of any cash, money order or other instrument included in the same remittance;

d. The name of each individual whose tax is to be paid by the remittance; and

e. The amount of payment on account of each individual.

301.5(3) *Procedure with respect to dishonored checks.* If any check is returned unpaid, all expenses incidental to the collection thereof will be charged to the taxpayer. If any taxpayer whose check has been returned by the depository bank uncollected should fail at once to make that check good, the director will proceed to collect the tax as though no check has been given. A taxpayer who tenders a certified check in payment for taxes is not relieved from obligation until the check has been paid.

This rule is intended to implement Iowa Code sections 422.5, 422.16, 422.17, 422.21, 422.24, and 422.25.

701—301.6(422) Tax on lump sum distributions. Iowa Code section 422.5 provides that in addition to the tax computed on the taxable income, a tax is imposed on the amount of a lump sum distribution for which the taxpayer has elected under Section 402(e) of the Internal Revenue Code (IRC) to be separately taxed for federal income tax purposes for the tax year. The rate of this tax is 25 percent of the separate federal tax imposed on the amount of the lump sum distribution. The tax on lump sum distributions does not apply if the distribution is received by a person who qualifies under Iowa Code section 422.5(7)*"b."*

This rule is intended to implement Iowa Code section 422.5.

701—301.7(422) State income tax limited to taxpayer's net worth immediately before a distressed sale.

301.7(1) Taxpayers whose net incomes include gains or losses from distressed sales may limit their state income tax liabilities for the tax years in which the distressed sales occurred to their net worths immediately before the distressed sales. The state income tax liability of a taxpayer is the aggregate of the taxpayer's income tax plus the taxpayer's lump sum tax. For purposes of this provision, a distressed sale is the forfeiture of an installment real estate contract, the transfer of real or personal property securing a debt to a creditor in cancellation of that debt, or the sale or exchange of property as a result of actual notice of foreclosure. Proof of forfeiture of the installment real estate contract, proof of transfer of property to a creditor in cancellation of a debt, or a copy of the notice of foreclosure will constitute documentation of the distressed sale and must be made a part of the return.

A copy of the balance sheet showing the taxpayer's net worth immediately before the distressed sale must also be provided with the return.

301.7(2) The balance sheet supporting the taxpayer's net worth must include the taxpayer's personal assets and liabilities as well as the assets of the taxpayer's farm or other business. In the case of married taxpayers, except in the case of spouses who lived apart at all times during the tax year, the assets and liabilities of both spouses must be considered in determining the taxpayers' net worth immediately before a distressed sale.

This rule is intended to implement Iowa Code section 422.5.

701—301.8(422) Special tax computation for all low-income taxpayers except single taxpayers.

301.8(1) *General.* A special tax computation is available for determining the state income tax liability for all low-income taxpayers, except single taxpayers. Under this provision, the taxpayer multiplies the net income for the tax year in excess of $13,500 by 4.3 percent. The tax amount computed by this procedure is then compared to the tax amount on the individual's taxable income. The taxpayer is subject to the lesser of the two tax amounts.

a. In the case of married taxpayers electing to file separate returns, the incomes of both spouses must be considered for purposes of determining the tax liability from the special tax computation. The tax liability calculated from the special tax computation is allocated between the spouses in the ratio of each spouse's net income to the combined net income of both spouses.

b. The special tax computation for low-income taxpayers is not available if the taxpayer is required to annualize the taxpayer's income.

301.8(2) *Special tax computation for taxpayers who are age 65 or older.* A special tax computation is available for determining the state income tax liability for certain taxpayers, except single taxpayers described in rule 701—301.4(422), who are 65 years of age or older. For married persons filing jointly, filing separately on a combined return or filing separate returns, only one spouse is required to be 65 years of age or older on December 31 of the tax year. Under this provision, the taxpayer multiplies the net income for the tax year in excess of $32,000 by 3.8 percent the maximum individual income tax rate. The tax amount computed by this procedure is then compared to the tax amount on the individual's taxable income from the tax tables or the tax-rate schedule. The taxpayer is subject to the lesser of the two tax amounts. In the case of married taxpayers electing to file separate returns or separately on the combined return, the incomes of both spouses must be considered for purposes of determining the tax liability from the special tax computation. The tax liability calculated from the special tax computation is allocated between the spouses in the ratio of each spouse's net income to the combined net income of both spouses.

The special tax computation for low-income taxpayers is not available to married taxpayers filing separate state returns or to married taxpayers filing separately on the combined return form in instances when one of the spouses has a net operating loss described in Iowa Code section 422.9(3), and the spouse elects to carry back or carry forward the net operating loss. Also, the special tax computation for low-income taxpayers is not available if the taxpayer is required to annualize the taxpayer's income.

This rule is intended to implement Iowa Code section 422.5.

701—301.9(422) Election to report excess income from sale or exchange of livestock due to drought in the next tax year. This election is available only to a taxpayer on the cash receipts and disbursements method of accounting whose principal trade or business is farming as described in IRC Section 6420(c)(3). For purposes of this rule, the election applies to all livestock held for sale or exchange, whether raised or purchased for resale. This election also applies to livestock used for draft, breeding, dairy, or sporting purposes that were held less than two years in the case of cattle and horses and less than one year in the case of other livestock. For purposes of this election, livestock does not include poultry.

The area in which the livestock was sold or exchanged must have been declared a disaster area due to drought. However, the sale or exchange can take place before or after the area is declared a disaster area as long as the same disaster (the drought) caused the livestock sale. In order for the election to report excess income in the following tax year to be valid, the election must be made by the due date of the return, including extensions. Additional information about computing the excess income as well as information needed on the statement for making the election is described in Treas. Reg. Section 1.451-7.

This rule is intended to implement Iowa Code section 422.5.

701—301.10(422) Forgiveness of tax for an individual whose federal income tax was forgiven because the individual was killed outside the United States due to military or terroristic action. An individual's Iowa income tax is forgiven if the person's federal income tax was forgiven because the individual was killed in a combat zone, was missing in action and presumed dead, or was killed outside the United States due to terrorist or military action while the person was a military or civilian employee of the United States.

301.10(1) The Iowa income tax is forgiven on the return for the tax year in which the individual was killed or was missing and was presumed dead and is forgiven on the return for the tax year prior to the year of death. In a situation where the person that was killed was married at the time of death, no tax will be due on the return filed for the year of death if a joint state return is filed for that tax year. In the case of the return for the tax year prior to the year of death for the person killed in military or terrorist action, all the tax will be forgiven on the return if the person was married at the time of death and a joint state return or a married filing separate state return was filed for this prior year.

301.10(2) When a state income tax return or claim for refund is filed for forgiveness of tax for an individual who was killed in military or terrorist action, a statement should be included with the return "Forgiveness of Tax—Killed in Military Action" or "Forgiveness of Tax—Killed in Terrorist Action" depending on how the individual was killed. In addition, a copy of the death certificate, or other evidence of the person's death or evidence establishing that the individual is missing in action and presumed dead, should be attached to the claim for refund or the tax return. A refund claim for forgiveness of tax will be honored only if the claim is made within the statute of limitations for refund provided in Iowa Code section 422.73(2).

This rule is intended to implement Iowa Code sections 422.5 and 422.73.

701—301.11(422) Tax benefits for persons in the armed forces deployed outside the United States and for certain other persons serving in support of those forces.

301.11(1) *Extension of deadlines.*

a. Extension of certain deadlines for certain military personnel.

(1) The time period to file state income tax returns and to perform certain other acts related to the department, as defined in paragraph 301.11(1)*"e,"* is extended for persons in the armed forces who:

1. Serve in an area designated by the President or the Congress as a combat zone.

2. Serve in an area designated by the President or the Congress as a qualified hazardous duty area.

3. Were deployed outside the United States in an operation designated by the Secretary of Defense as a contingency operation as defined in 10 U.S.C. §101(a)(13) or that became a contingency operation by the operation of law.

(2) The additional time to file returns and perform other acts related to the department described in this subrule is available to all active duty military service members in the armed forces, all armed forces military reservists, and all national guard personnel who are deployed outside the United States. These armed forces, armed forces reserve and national guard personnel do not need to be deployed outside the United States in a combat zone, qualified hazardous duty area, or contingency operation to be allowed the additional time to file Iowa returns and perform other acts related to the department.

b. Extension applicable to certain civilians. Those persons who were serving in support of armed forces personnel in a combat zone or those persons who were serving in support of armed forces personnel in a qualified hazardous duty area are also eligible for the extension of the time period to file state income tax returns and to perform certain other acts related to the department. Persons eligible under this provision include certain civilians who were working in a combat zone and directly supporting military operations. Iowa allows this extension for those civilians who qualify for a federal extension under IRC Section 7508(a). Examples of civilians who may be eligible are members of the Red Cross and contractors or civilian employees who worked in a combat zone.

c. Extension applicable to spouses of eligible individuals. The additional time period for filing returns and performing other acts applies to the spouse of a person who was in the combat zone, was in the qualified hazardous duty area, or was serving in support of persons in the combat zone or the hazardous duty area to the extent the spouse files jointly or separately on the combined return with the person who was in the combat zone or the hazardous duty area, or when the spouse is a party with the person who was serving in support of persons in the combat zone or hazardous duty area to any tax matter with the department for which the additional time period is allowed.

d. Length of the extension period. Eligible individuals are given the same additional time period to file state income tax returns and perform other acts related to the department as would constitute timely filing of returns or timely performance of other acts as described in IRC Section 7508(a). The additional time period for filing state returns and performing other acts is 180 days after the person leaves the combat zone or hazardous duty area or ceases to participate in the contingency operation. However, a person who was hospitalized because of illness or injury in the combat zone or hazardous duty area has up to five years to file returns or perform certain acts with this department after leaving the combat zone or hazardous duty area.

e. Other acts related to the department defined. "Other acts related to the department" includes filing claims for refund for any type of tax administered by the department, making tax payments other than withholding payments, filing appeals on tax matters, filing returns for taxes other than income tax, and performing other acts such as making timely contributions to individual retirement accounts.

301.11(2) *Application for the extension.* In order to claim the extension described in subrule 301.11(1), eligible taxpayers should notify the department of their eligibility by sending the information listed below in writing.

a. Contents of the notification. The notification sent to the department should include:

(1) The taxpayer's name and spouse's name, if applicable.

(2) The taxpayer's stateside address and spouse's address, if applicable.

(3) The taxpayer's date of birth and spouse's date of birth, if applicable.

(4) The date the taxpayer was deployed to the combat zone or other qualifying area.

(5) For military personnel, an official document that indicates the taxpayer's area of operation.

(6) For qualifying civilians, a letter of authorization or similar letter from the taxpayer's employer or a letter from the military stating that the taxpayer served in a "tax-free zone" or "Combat Zone Tax Exclusion Area (CZTE)."

b. Who may submit the notification of eligibility for the extension. The notification of eligibility to the department may be submitted by the taxpayer, the taxpayer's spouse, or an authorized agent or representative of the taxpayer.

This rule is intended to implement Iowa Code sections 422.3 and 422.21.

701—301.12(257,422) School district surtax. Iowa law provides for the implementation of an income surtax for increasing local school district budgets. The surtax must be approved by the voters of a school district in a special election or by a resolution of the board of directors of a school district. The surtax rate is determined by the department of management on the basis of the revenue to be raised by the surtax for the particular school district with the surtax.

301.12(1) *Imposing the school district surtax.* The school district surtax is imposed on the income tax liabilities of all taxpayers residing in the school district on the last day of the taxpayers' tax years. For purposes of the school district surtax, income tax liability is the tax computed under Iowa Code section 422.5, less the nonrefundable credits against computed tax that are authorized in Iowa Code chapter 422, subchapter II.

301.12(2) *Residing in a school district.*

a. Death of a taxpayer. In a situation where an individual is residing in a school district with a surtax and the individual dies during the tax year, the individual will be considered to be subject to the surtax since the individual was residing in the school district on the last day of the individual's tax year.

b. Taxpayer serving in the armed forces. An individual serving in the armed forces of the United States who maintains permanent residence in an Iowa school district with a surtax is subject to the surtax regardless of whether the individual is physically residing in the school district on the last day of the tax year. A person who is present in the school district on the last day of the tax year on a temporary basis due to annual leave or in transit between duty stations is not subject to the surtax.

This rule is intended to implement Iowa Code sections 257.21, 257.29, and 422.15.

701—301.13(422D) Emergency medical services income surtax. A county board of supervisors may offer for voter approval a local option income surtax, an ad valorem property tax, or a combination of the two taxes to generate revenues for emergency medical services.

301.13(1) *Tax years applicable.* If a majority of those voting in the election approve the emergency medical services income surtax, the income surtax will be imposed for tax years beginning on or after January 1 following the date the ordinance is filed with the director. When the emergency medical income surtax is repealed pursuant to Iowa Code section 422D.1(5), the income surtax is repealed as of December 31 for tax years beginning on or after that date. If the emergency medical income surtax is repealed by election, it is repealed for tax years beginning on or after the date of the election.

301.13(2) *The rate of the income surtax imposed for emergency medical services.* The board of supervisors will set the rate of tax to be imposed, which can be expressed in tenths of 1 percent or hundredths of 1 percent but cannot exceed 1 percent. The cumulative total of the percents of income surtax imposed on any taxpayer in the county cannot exceed 20 percent. If a school district income surtax and emergency medical income surtax are approved on or about the same date and the cumulative total of the income surtaxes is greater than 20 percent, the income surtax approved on the earlier of the two dates will be allowed at the rate approved and the second income surtax approved will be limited accordingly so that the cumulative rate will not exceed 20 percent. If a school district income surtax and an emergency medical income surtax are approved on the same date with a proposed cumulative rate that exceeds 20 percent, each of the surtaxes will be reduced equally so that the cumulative surtax rate will not exceed 20 percent.

301.13(3) *Imposing the emergency medical income surtax.* The emergency medical income surtax will be imposed on the state income tax liability on each individual residing in the county at the end of the individual's tax year. For purposes of the emergency medical income surtax, an individual's income tax liability is the aggregate of the state income taxes determined in Iowa Code section 422.5 less the nonrefundable credits against computed income tax that are authorized in Iowa Code chapter 422, subchapter II.

This rule is intended to implement Iowa Code chapter 422D.

RA 26-365

REVENUE DEPARTMENT[701]

Regulatory Analysis

Notice of Intended Action to be published: 701—Chapters 302 and 303
"Determination of Net Income; Iowa-Source Income"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 421.14, 422.7, and 422.8

State or federal law(s) implemented by the rulemaking: Iowa Code sections 99G.31, 422.5, 422.7, and 422.8

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 18, 2026 9 to 10 a.m.	Via videoconference call: meet.google.com/sbm-ihix-ere

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis, which must be received by the Department of Revenue no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Kurt J. Konek
Department of Revenue
Hoover State Office Building
P.O. Box 10457
Des Moines, Iowa
50306-3457
Phone: 515.587.0440
Email: kurt.konek@iowa.gov

Purpose and Summary

The proposed rulemaking rescinds Chapters 302 and 303 and replaces them with a new Chapter 302 that describes how to calculate net income for individual taxpayers and a new Chapter 303 that describes how income is sourced to Iowa for individual income tax purposes. This rulemaking will remove outdated language that relates to adjustments that are no longer required by Iowa law and language that is redundant to statute as required by Executive Order 10. This rulemaking will also remove rules related to the sourcing of Iowa net income from the present Chapter 302 and move that content to Chapter 303. Citations in the proposed rules to Iowa Code chapter 12L are to that chapter as enacted by 2026 Iowa Acts, Senate File 2472.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

There are no costs associated with the proposed rulemaking beyond that of the statutes it implements.

- **Classes of persons that will benefit from the proposed rulemaking:**

Taxpayers, nonresidents of Iowa, part-year residents of Iowa, tax practitioners, and the Department will benefit from the proposed rulemaking.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

There are no costs associated with the proposed rulemaking beyond that of the requirements in the statutes it implements.

- **Qualitative description of impact:**

The rulemaking provides guidance to individual taxpayers on how to calculate their Iowa net income and how to determine what portion of their income is subject to Iowa individual income tax.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

The rulemaking is implementing requirements in statute and does not have any additional cost to the agency beyond any associated with the statutory requirements.

- **Anticipated effect on State revenues:**

The rulemaking shall have no effect on State revenues because the requirements are already included in law. The guidance may reduce costs for the State in compliance and enforcement costs.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

The proposed rulemaking provides guidance to taxpayers on how to calculate their Iowa taxable income and how their income is sourced to Iowa. Without this guidance, taxpayers could have increased costs in seeking guidance or incorrectly reporting their Iowa net income.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

There are no known less costly or less intrusive methods.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

The only alternatives are no guidance or informal guidance.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

No guidance or informal guidance given on a case-by-case basis would be less helpful to taxpayers, tax practitioners, and the Department. There could be increased costs to taxpayers to request guidance and informal guidance could be inconsistent over time.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

The requirements in this proposed rulemaking are imposed by statute, and the Department does not have the authority to make exceptions to them for small businesses.

Text of Proposed Rulemaking

ITEM 1. Rescind 701—Chapter 302 and adopt the following **new** chapter in lieu thereof:

CHAPTER 302
DETERMINATION OF NET INCOME

701—302.1(422) Net income defined. Net income for state individual income tax purposes means federal taxable income as properly computed under the Internal Revenue Code (IRC) and shall include the adjustments in Iowa Code section 422.7.

This rule is intended to implement Iowa Code section 422.7.

701—302.2(422) Interest and dividends from federal securities. For individual income tax purposes, the state is prohibited by federal law from taxing dividends from corporations owned or sponsored by the federal government or interest derived from obligations of the United States and its possessions, agencies, and instrumentalities. Additionally, stocks and obligations of the United States government are exempt from state income taxation. Therefore, if the federal taxable income of an individual includes dividends or interest of this type, the amount of the dividend or interest must be deducted from the Iowa net income. Also, preemptive federal law may preclude state taxation of interest income from the securities of federal government-sponsored enterprises and agencies and from the obligations of U.S. territories. Any profit or gain on the sale or exchange of these securities is taxable.

302.2(1) Definition. For purposes of this chapter:

"Obligations of the United States" means those obligations issued to secure credit to carry on the necessary functions of government. A governmental obligation that is secondary, indirect, or contingent, such as a guaranty of a nongovernmental obligor's primary obligation to pay the principal amount of and interest on a note, is not an obligation of the United States.

302.2(2) The following is a nonexhaustive list of widely held obligations of the United States.

a. Obligations of the United States: United States Treasury—Principal and interest from bills, bonds, and notes issued by the United States Treasury exempt under 31 U.S.C. §3124(a).

(1) Series E, F, G, H, and I bonds.

(2) United States Treasury bills.

(3) U.S. Government certificates.

(4) U.S. Government bonds.

(5) U.S. Government notes.

(6) Original issue discount (OID) on a United States Treasury obligation.

b. Territorial obligations:

(1) Guam—Principal and interest from bonds issued by the Government of Guam (48 U.S.C. §1423a).

(2) Puerto Rico—Principal and interest from bonds issued by the Government of Puerto Rico (48 U.S.C. §745).

(3) Virgin Islands—Principal and interest from bonds issued by the Government of the Virgin Islands (48 U.S.C. §1403).

(4) Northern Mariana Islands—Principal and interest from bonds issued by the Government of the Northern Mariana Islands (PL 94-241, §607, 90 Stat. 263 (1976)).

c. Federal agency obligations:

(1) Commodity Credit Corporation—Principal and interest from bonds, notes, debentures, and other similar obligations issued by the Commodity Credit Corporation (15 U.S.C. §713a-5).

(2) Banks for Cooperatives—Principal and interest from notes, debentures, and other obligations issued by Banks for Cooperatives (12 U.S.C. §2134).

(3) Farm Credit Banks—Principal and interest from systemwide bonds, notes, debentures, and other obligations issued jointly and severally by Banks of the Federal Farm Credit System (12 U.S.C. §2023).

(4) Federal Land Bank Association—Principal and interest from bonds, notes, debentures, and other obligations issued by the Federal Land Bank Association (12 U.S.C. §2098).

(5) Production Credit Association—Principal and interest from notes, debentures, and other obligations issued by Production Credit Association (12 U.S.C. §2077).

(6) Federal Deposit Insurance Corporation (FDIC)—Principal and interest from notes, bonds, debentures, and other such obligations issued by the FDIC (12 U.S.C. §1825).

(7) Federal Financing Bank—Interest from obligations issued by the Federal Financing Bank. Considered to be United States Government obligations (12 U.S.C. §2290, 31 U.S.C. §3124(a)).

(8) Federal Home Loan Bank—Principal and interest from notes, bonds, debentures, and other such obligations issued by any Federal Home Loan Bank and consolidated Federal Home Loan Bank bonds and debentures (12 U.S.C. §1433).

(9) Financing Corporation (FICO)—Principal and interest from any obligation of the Financing Corporation (12 U.S.C. §1441(e)(7) and §1433).

(10) General Services Administration (GSA)—Principal and interest from General Services Administration participation certificates (considered to be United States Government obligations) (31 U.S.C. §3124(a)).

(11) Housing and Urban Development (HUD).

1. Principal and interest from War Housing Insurance debentures (12 U.S.C. §1739(d)).

2. Principal and interest from Rental Housing Insurance debentures (12 U.S.C. §1747g(g)).

3. Principal and interest from Armed Services Mortgage Insurance debentures (12 U.S.C. §1748b(f)).

4. Principal and interest from National Defense Housing Insurance debentures (12 U.S.C. §1750c(d)).

5. Principal and interest from Mutual Mortgage Insurance Fund debentures (12 U.S.C. §1710(d)).

(12) National Credit Union Administration Central Liquidity Facility—Income from notes, bonds, debentures, and other obligations issued on behalf of the National Credit Union Administration Central Liquidity Facility (12 U.S.C. §1795k(b)).

(13) Resolution Funding Corporation—Principal and interest from obligations issued by the Resolution Funding Corporation (12 U.S.C. §1441b(f)(7) and §1433).

(14) Student Loan Marketing Association (Sallie Mae)—Principal and interest from obligations issued by the Student Loan Marketing Association. Considered to be United States Government obligations (20 U.S.C. §1087-2, 31 U.S.C. §3124(a)).

(15) Tennessee Valley Authority—Principal and interest from bonds issued by the Tennessee Valley Authority (16 U.S.C. §831n-4(d)).

(16) United States Postal Service—Principal and interest from obligations issued by the United States Postal Service (39 U.S.C. §2005(d)(4)).

(17) Treasury Investment Growth Receipts.

(18) Certificates on Government Receipts.

302.2(3) Taxable securities. There are a number of securities issued under the authority of an Act of Congress that are subject to Iowa individual income tax. Examples of securities that fall into this category are those issued by the following agencies and institutions:

a. Federal agency obligations:

(1) Federal or State Savings and Loan Associations.

(2) Export-Import Bank of the United States.

(3) Building and Loan Associations.

(4) Interest on federal income tax refunds.
(5) Postal Savings Account.
(6) Farmers Home Administration.
(7) Small Business Administration.
(8) Federal or State Credit Unions.
(9) Mortgage Participation Certificates.
(10) Federal National Mortgage Association.
(11) Federal Home Loan Mortgage Corporation (Freddie Mac).
(12) Federal Housing Administration.
(13) Federal National Mortgage Association (Fannie Mae).
(14) Government National Mortgage Association (Ginnie Mae).
(15) Merchant Marine (Maritime Administration).
(16) Federal Agricultural Mortgage Corporation (Farmer Mac).

b. Obligations of international institutions:
(1) Asian Development Bank.
(2) Inter-American Development Bank.
(3) International Bank for Reconstruction and Development (World Bank).

c. Other obligations:
(1) Washington, D.C., Metro Area Transit Authority.
(2) Interest from repurchase agreements involving federal securities Interest from Mortgage Backed Certificate Guaranteed by Ginnie Maes.

Rule 701—302.3(422) provides information for the treatment of interest or dividends from regulated investment companies (mutual funds) that invest in obligations of the type discussed in this rule.

This rule is intended to implement Iowa Code section 422.7.

701—302.3(422) Mutual funds.

302.3(1) Iowa does not tax dividend or interest income from regulated investment companies to the extent that such income is derived from interest on obligations of the United States Government or obligations of this state and its political subdivisions. The exemption is also applicable to income from regulated investment companies that is derived from interest on government-sponsored enterprises and agencies where federal law specifically precludes state taxation of such interest. Income derived from interest on securities that are merely guaranteed by the federal government or from repurchase agreements collateralized by the United States Government obligations is not excluded and is subject to Iowa income tax. There is no distinction between the treatment of interest received by a direct investor as compared with a mutual fund shareholder. The interest retains its same character when it flows through the mutual fund and is subject to taxation accordingly.

302.3(2) Taxpayers may subtract from net income any income received from any of the obligations listed in subrule 302.2(1) and Iowa Code section 422.7(2), even if the obligations are owned indirectly through owning shares in a mutual fund:

a. If the fund invests exclusively in these state tax-exempt obligations, the entire amount of the distribution (income) from the fund may be subtracted.

b. If the fund invests in both exempt and nonexempt obligations, the amount represented by the percentage of the distribution that the mutual fund identifies as exempt may be subtracted.

c. If the mutual fund does not identify an exempt amount or percentage, taxpayers may figure the amount to be subtracted by multiplying the distribution by the following fraction: as the numerator, the amount invested by the fund in state-exempt United States obligations; as the denominator, the fund's total investment. If the percentage ratio has remained constant throughout the year, the year-end amounts are used to figure the fraction. If the percentage ratio has not remained constant, the average of the ratios from the fund's quarterly financial reports is used.

This rule is intended to implement Iowa Code section 422.7.

701—302.4(422) Additional deduction for wages paid or accrued for work done in Iowa by certain individuals. A taxpayer who operates a business that is considered to be a small business as defined in Iowa Code section 422.7(6)*"c"*(2) is allowed an additional deduction of 65 percent of the first 12 months of wages paid or accrued during the tax year for work done in Iowa by certain employees first hired during the accounting period ending with or during the tax year. The employee must meet the criteria in Iowa Code section 422.7(6)*"a"*(1), *"a"*(2), or *"a"*(3).

302.4(1) Definitions.

"Annual gross revenues" means total sales, before deducting returns and allowances but after deducting corrections and trade discounts, sales taxes and excise taxes based on sales, as determined in accordance with generally accepted accounting principles.

"Has a record of such impairment" means has a history of, or has been misclassified as having, a mental or physical impairment that substantially limits one or more major life activities.

"Individual with a disability" means any person who has a physical or mental impairment that substantially limits one or more major life activities, has a record of such impairment, or is regarded as having such an impairment. "Individual with a disability" does not include any person whose current use of alcohol or controlled substances prevents the person from performing the duties of employment or whose employment, by reason of current use of alcohol or controlled substances, would constitute a direct threat to the property or the safety of others.

"Is regarded as having such an impairment" means:

1. Has a physical or mental impairment that does not substantially limit major life activities but that is perceived as constituting such a limitation;
2. Has a physical or mental impairment that substantially limits major life activities only as a result of the attitudes of others toward such impairment; or
3. Has none of the impairments defined as physical or mental impairments but is perceived as having such an impairment.

"Major life activities" means functions such as caring for one's self, performing manual tasks, walking, seeing, hearing, speaking, breathing, learning, and working.

"Physical or mental impairment" means:

1. Any physiological disorder or condition, cosmetic disfigurement, or anatomical loss affecting one or more of the following body systems: neurological; musculoskeletal; special sense organs; respiratory, including speech organs; cardiovascular; reproductive; digestive; genitourinary; hemic and lymphatic; and skin and endocrine, or
2. Any mental or psychological disorder, such as intellectual disability, organic brain syndrome, emotional or mental illness, and specific learning disabilities.

"Probationary period" means the period of probation for newly hired employees if the employer has a written probationary policy. If the employer has no written probationary policy for newly hired employees, the probationary period shall be considered to be six months from the date of hire.

"Small business" means a business entity organized for profit including but not limited to an individual proprietorship, partnership, joint venture, association or cooperative. "Small business" does not include the practice of a profession.

"Successfully completing a probationary period" includes those instances where the employee quits without good cause attributable to the employer during the probationary period or was discharged for misconduct during the probationary period.

"The practice of a profession" means vocation requiring specialized knowledge and preparation including but not limited to the following: medicine and surgery, podiatry, osteopathy, osteopathic medicine and surgery, psychology, psychiatry, chiropractic, nursing, dentistry, dental hygiene, optometry, speech pathology, audiology, pharmacy, physical therapy, occupational therapy, mortuary science, law, architecture, engineering and surveying, and accounting.

302.4(2) A taxpayer who operates a business that does not qualify as a small business as defined in Iowa Code section 422.7(6)*"c"*(2) may claim an additional deduction for wages paid or accrued for work done in Iowa by certain convicted felons as described in Iowa Code section 422.7(7)*"a."* The

additional deduction is 65 percent not to exceed $20,000 for the first 12 months of wages paid for work done in Iowa.

302.4(3) The following conditions apply to a business entity that is a small business for purposes of the additional deduction for wages:

a. The small business shall not have had more than 20 full-time equivalent employee positions during each of the 26 consecutive weeks within the 52-week period immediately preceding the date on which an individual for whom an additional deduction for wages is taken was hired. Full-time equivalent position means any of the following:

(1) An employment position requiring an average work week of 40 or more hours;

(2) An employment position for which compensation is paid on a salaried full-time basis without regard to hours worked; or

(3) An aggregation of any number of part-time positions that equal one full-time position. For purposes of this subrule, each part-time position shall be categorized with regard to the average number of hours worked each week as a one-quarter, half, three-quarter, or full-time position, as set forth in the following table:

Average Number of Weekly Hours	Category
More than 0 but less than 15	¼
15 or more but less than 25	½
25 or more but less than 35	¾
35 or more	1 (full-time)

b. The small business cannot have more than $3 million in annual gross revenues or as the average of the three preceding tax years.

c. The small business shall not be an affiliate or subsidiary of a business that is dominant in its field of operation.

302.4(4) If a newly hired employee has been certified as either a vocational rehabilitation referral or an economically disadvantaged ex-convict for purposes of qualification for the work opportunity tax credit under IRC Section 51, that employee shall be considered to have met the qualifications for the additional wage deduction.

a. A vocational rehabilitation referral is any individual certified by a state employment agency as having a physical or mental disability that, for the individual, constitutes or results in a substantial handicap to employment. In addition, the individual must have been referred to the employer after completion or while receiving rehabilitation services pursuant to either a state or federal approved vocational rehabilitation program.

b. For all other newly hired employees, the employer has the burden of proof to show that the employees meet the qualifications for the additional wage deduction.

302.4(5) The taxpayer shall include a schedule with the filing of its tax return showing the name, address, social security number, date of hiring and wages paid of each employee for which the taxpayer claims the additional deduction for wages.

302.4(6) If the employee for which an additional deduction for wages was allowed fails to successfully complete a probationary period and the taxpayer has already filed an Iowa individual income tax return taking the additional deduction for wages, the taxpayer shall file an amended return adding back the additional deduction for wages. The amended return shall state the name and social security number of the employee who failed to successfully complete a probationary period.

This rule is intended to implement Iowa Code section 422.7.

701—302.5(422) Disability income exclusion.

302.5(1) A taxpayer who is permanently and totally disabled and has not attained 65 years of age by the end of the tax year or reached mandatory retirement age can exclude from Iowa taxable income a maximum of $100 per week of payments received in lieu of wages. In order for the payments to qualify for the exclusion, the payments must be made under a plan providing payment of such

amounts to an employee for a period during which the employee is absent from work on account of permanent and total disability.

302.5(2) In the case of a married couple where both spouses meet the qualifications for the disability exclusion, each spouse may exclude $5,200 of income received on account of disability.

302.5(3) There is a reduction in the exclusion, dollar for dollar, to the extent that a taxpayer's federal adjusted gross income (determined without this exclusion and without the deduction for the two-earner married couple) exceeds $15,000. In the case of a married couple, both spouses' incomes must be considered for purposes of determining if the disability income exclusion is to be reduced for income that exceeds $15,000. The taxpayers' disability income exclusion is eliminated when the taxpayers' federal adjusted gross income is equal to or exceeds $20,200.

EXAMPLE: A married couple is filing their Iowa return. Spouse A retired during the year and received $8,000 in disability income during the 40-week period that year that he was retired. Spouse A's other income for the tax year was $2,500, and Spouse B's income was $7,500. Of the $8,000 in disability payments, only $4,000 is eligible for the exclusion. This is because the maximum amount that can be excluded on a weekly basis as a result of the disability exclusion is $100.

However, the $4,000 that qualifies for the exclusion must be reduced to the extent that Spouse A's federal adjusted gross income exceeds $15,000. Spouse A's federal adjusted gross income is $18,000, which exceeds $15,000 by $3,000. Therefore, the amount eligible for exclusion of $4,000 must be reduced by $3,000, resulting in an exclusion of $1,000.

302.5(4) For purposes of the disability income exclusion, "permanent and total disability" means the individual is unable to engage in any substantial gainful activity by reason of a medically determinable physical or mental impairment that (1) can be expected to last for a continuous period of 12 months or more or (2) can be expected to result in death. A certificate from a qualified physician is required attesting to the taxpayer's permanent and total disability as of the date the individual claims to have retired on disability. The certificate must include the name and address of the physician and contain an acknowledgment that the certificate will be used by the taxpayer to claim the exclusion. In an instance where an individual has been certified as permanently and totally disabled by the Veterans Administration, Form 6004 may be used instead of the physician's certificate. Form 6004 must be signed by a physician on the VA disability rating board.

302.5(5) Mandatory retirement age is the age at which the taxpayer would have been required to retire under the employer's retirement program.

302.5(6) The disability income exclusion is not applicable to federal income tax for tax years beginning after 1983. However, the revenue rulings, court cases and other provisions that were relevant to the disability income exclusion for the tax periods when the exclusion was available on federal returns are applicable to the disability income exclusion for Iowa purposes.

This rule is intended to implement Iowa Code section 422.7.

701—302.6(422) Capital gain exclusion for elected employee-owned stock in a qualified corporation.

302.6(1) *In general.* Employee-owners may make a single, irrevocable lifetime election to exclude from net income the net capital gain from the sale or exchange of capital stock from a qualified corporation.

302.6(2) *Definitions.* Unless otherwise indicated in this rule or required by the context, all words and phrases used in this rule that are defined under Iowa Code section 422.7(42) shall have the same meaning as provided to them under that Iowa Code section.

302.6(3) *Qualifying for the exclusion.* For the employee-owner's sale or exchange to qualify for this exclusion, the capital stock must be acquired by the employee-owner while employed and on account of employment with a qualified corporation.

a. While employed. The capital stock must have been acquired while the employee-owner was employed by the qualifying corporation. Capital stock received as compensation is acquired by the employee-owner while employed. Capital stock acquired from a stock right, stock warrant, or stock

option is only acquired by the employee-owner while employed if such right, warrant, or option is exercised while the employee-owner is employed by the qualifying corporation.

b. On account of employment. For capital stock to have been acquired on account of employment, the employee-owner must have acquired the capital stock in a manner only available to employees of the qualified corporation. Capital stock acquired at formation in exchange for capital contribution is not acquired on account of employment.

c. Holding period. To qualify for the exclusion, the employee-owner must own the capital stock for at least ten cumulative years. If the employee-owner owns any capital stock in the qualified corporation for at least ten cumulative years, then every share of the employee-owner's capital stock in that qualified corporation is considered to meet the holding period requirement. For stock rights, stock warrants, or stock options, the holding period does not begin until the right, warrant, or option is exercised.

302.6(4) *Electing capital stock for exclusion.*

a. General. The employee-owner shall make the election to exclude capital gain from the sale of capital stock of a qualified corporation on a form prescribed by the department with the employee-owner's Iowa income tax return for the tax year in which the election is made. The form shall be available on the department's website. To qualify for the exclusion, the employee-owner must include all information required by the form.

b. Election when sale or exchange takes place over multiple transactions. The election applies to all subsequent sales or exchanges of capital stock of the same qualified corporation of which the initial election was made, within 15 years of the date the election was made. The employee-owner shall include the form prescribed by the department with the employee-owner's Iowa income tax return when claiming the exclusion for a subsequent sale or exchange.

c. Election can only be made once. An employee-owner may only make one lifetime election to exclude the qualifying capital stock of a single qualifying corporation under this rule. The election is irrevocable once made.

302.6(5) *Election by a party other than the employee-owner.*

a. Election upon death of the employee-owner. If the employee-owner dies after having sold or exchanged qualifying capital stock without having made an election, the surviving spouse or, if there is no surviving spouse, the personal representative of the employee-owner's estate may make a qualifying election in the manner described in subrule 302.6(4) for the tax year in which the employee-owner died.

b. Inter vivos transfer of qualifying capital stock. After the election described in this rule has been made, the election applies to capital stock transferred from the employee-owner to the employee-owner's spouse as an inter vivos gift or to an inter vivos trust primarily for the benefit of the employee-owner's spouse. Capital stock transferred through a will or testamentary trust does not qualify for this exclusion. The election only applies if the spouse was married to the employee-owner on the date of the sale or exchange or the date of death of the employee-owner.

This rule is intended to implement Iowa Code section 422.7.

701—302.7(422) Exclusion of pensions and other retirement benefits for disabled individuals, individuals who are 55 years of age or older, surviving spouses, and survivors. An individual who is disabled, is 55 years of age or older, is a surviving spouse, or is a survivor with an insurable interest in an individual who would have qualified for the exclusion at the time of death is eligible for an exclusion of retirement benefits received in the tax year. More information can be found in rule 701—302.12(422) for the exclusion of military retirement pay.

302.7(1) *Retirement income.*

a. Qualifying retirement income. Generally, distributions from documented retirement plans meeting the qualification requirements in the Internal Revenue Code qualify for the retirement income exclusion. The following is a nonexclusive list of plans that qualify for the retirement income exclusion:

(1) Traditional individual retirement account (IRA) authorized under IRC Section 408(a).

(2) Roth individual retirement account (Roth IRA) authorized under IRC Section 408A.

(3) Roth conversion income.

(4) Simplified employee pension individual retirement arrangement (SEP-IRA) defined in IRC Section 408(k).

(5) Savings incentive match plan for employees (SIMPLE IRA) defined under IRC Section 408(p).

(6) Qualified deferred compensation plans including those authorized under IRC Section 401(k).

(7) Eligible deferred compensation plans including those authorized under IRC Section 457(b).

(8) A defined benefit plan, pension plan, profit-sharing plan, or stock bonus plan qualified under IRC Section 401 including IPERS and employee stock ownership plans (ESOPs).

(9) Keogh plans or HR 10 plans.

(10) Eligible combined plans described in IRC Section 414(x).

b. Retirement income that does not qualify. Generally, distributions from retirement plans that do not meet the qualification requirements in the Internal Revenue Code do not qualify for the retirement income exclusion. The following nonexclusive list of plans does not qualify for the retirement income exclusion:

(1) Nonqualified deferred compensation plans described in IRC Section 409A.

(2) Nonqualified annuities.

302.7(2) *Survivors having an insurable interest.*

a. Insurable interest. "Insurable interest" is a term used in life insurance that also applies to this rule and means an interest in the life of the person insured arising from the relations of the party obtaining the insurance, either as credit of or surety for the insured, or from the ties of blood or marriage to the insured, as would justify a reasonable expectation of advantage or benefit from the continuance of the life of the insured. For purposes of this rule, "insurable interest" applies to a beneficiary receiving retirement benefits due to the death of a decedent under the same circumstances as if the beneficiary were receiving life insurance benefits as a result of the death of the decedent. Case law related to an insurable interest in the life insurance context is relevant in determining whether a beneficiary is a survivor with an insurable interest.

b. Survivors with an insurable interest must be natural persons. Only natural persons may be a survivor with an insurable interest for purposes of this exclusion.

c. Parties deemed to have an insurable interest by relationship. Some relationships are deemed so close that the individual will have an insurable interest in the decedent, including spouses in each other's lives, parents in the lives of their children, and children in the lives of their parents.

d. Individuals other than close relations may be a survivor with an insurable interest. Individuals other than those with a relationship with the decedent described in paragraph 302.7(2)*"c"* must establish that they had a pecuniary interest in the continuation of the life of the decedent at the time of death to be considered a survivor with an insurable interest. The beneficiary has the burden of proof to show that the beneficiary had a reasonable expectation of an advantage or benefit that the beneficiary would have received with the continuance of the life of the decedent. Being named a beneficiary of the retirement plan alone does not establish that an individual is a survivor with an insurable interest.

EXAMPLE: A grandson was receiving college tuition regularly from his grandfather and received the grandfather's pension as a beneficiary of the grandfather after the grandfather's death. The grandson would be deemed to have an insurable interest in the benefits and would be eligible for the retirement income exclusion.

302.7(3) *Disabled individuals.* For purposes of this rule, a disabled individual is a person who is receiving benefits as a result of retirement from employment or self-employment due to disability. In addition, a person is considered to be a disabled individual if the individual is determined to be disabled in accordance with criteria established by the Social Security Administration or other federal or state governmental agency.

This rule is intended to implement Iowa Code sections 422.5 and 422.7.

701—302.8(422) Health insurance premiums deduction. A taxpayer who is 65 years of age or older and whose net income is less than $100,000 may exclude from net income the amounts paid for health benefits coverage or insurance for the taxpayer, the taxpayer's spouse, and the taxpayer's dependents to the extent the amounts paid were not otherwise deductible in computing federal taxable income.

302.8(1) *Qualifying expenses.*

a. Health benefits coverage or health insurance payments that qualify for the federal medical expense deduction under IRC Section 213(d)(1)(D) qualify for this deduction.

b. Amounts paid by a taxpayer for health insurance on a pretax basis whereby the portion of the wages of the taxpayer used to pay health insurance premiums is not included in the taxpayer's gross wages for income tax or social security tax purposes are not deductible.

c. Amounts paid under an insurance contract for nonmedical care (e.g., payment for loss of limb, life or sight) are not deductible unless the medical charge is stated separately in the contract or provided in a separate statement.

302.8(2) *Married taxpayers.* In situations where married taxpayers pay health insurance premiums from a joint bank account and the taxpayers are filing separate returns, the taxpayers must allocate the deduction between the spouses on the basis of the net income of each spouse to the combined net income unless one spouse can show that only that spouse's income was deposited to the joint account.

302.8(3) *Long-term care limitations.* The limitations for premiums for long-term care health insurance set forth in IRC Section 213(d)(10) do not apply for this deduction.

EXAMPLE: A 65-year-old taxpayer who paid $2,000 in premiums for long-term health insurance for the tax year would be allowed a deduction for Iowa purposes for the entire $2,000, even though the limitation for the federal deduction for this taxpayer is $1,800.

This rule is intended to implement Iowa Code section 422.7.

701—302.9(422) Deduction for contributions by taxpayers to the Iowa educational savings plan trust and addition to income for refunds of contributions previously deducted. The Iowa educational savings plan trust (trust) includes the college savings Iowa plan and the Iowa advisor 529 plan. The following subrules provide details on how individuals' net incomes are affected by contributions to beneficiaries' accounts, interest and any other earnings earned on beneficiaries' accounts, and refunds of contributions that were previously deducted. Definitions and other information about establishing college savings Iowa accounts may be found in 781—Chapter 16.

302.9(1) *Deduction from net income for contributions made to the trust on behalf of beneficiaries.*

a. An individual referred to as a participant can deduct from Iowa net income contributions made by that individual to the trust on behalf of a beneficiary.

b. If a participant makes a contribution to the trust on or after January 1, but on or before the deadline for filing an Iowa individual income tax return, excluding extensions, the participant may elect to have the deduction for the contribution apply to that participant's Iowa individual income taxes for the calendar year immediately preceding the year in which the contribution was made. Once a participant has elected to apply a contribution to the calendar year immediately preceding the year in which the contribution was made, the contribution is deemed to have been made on December 31 of that previous calendar year. Once the election has been made, the deduction for that contribution may only be applied in computing the taxpayer's Iowa net income for the calendar year immediately preceding the year in which the contribution was made. Contributions made on or after January 1, but before the deadline for filing Iowa individual income taxes, that the participant elects to have applied to the immediately preceding calendar year shall count toward the maximum contribution that may be deducted for that previous year. Paragraph 302.9(1)*"c"* provides more detail.

EXAMPLE: An individual makes a contribution to her Iowa educational savings plan account on April 5. The deadline for filing an Iowa income tax return is April 30 of that year. The individual elects to have the contribution apply to her prior year's individual income taxes instead of her current year's Iowa individual income taxes. The department will consider the individual's contribution to have been made on December 31 of the prior year. The individual may now claim a deduction for the contribution, up to the annual maximum deduction, on her prior year's Iowa income taxes. However, because the individual elected to have her contribution apply to her prior year's Iowa income taxes, she cannot claim the deduction for the April 5 contribution on her current year's Iowa income taxes.

c. If a taxpayer or spouse participates in the college savings Iowa plan ISave 529 or the Iowa advisor 529 Plan, each may deduct the amount contributed not to exceed the amount published annually by the department per beneficiary. This deduction is only available for contributions to Iowa 529 plans.

302.9(2) *Exclusion of interest and earnings on beneficiary accounts in the trust.* To the extent that interest or other earnings accrue on a beneficiary's account in the trust, the interest or other earnings are excluded for purposes of computing net income of the participant or the beneficiary.

302.9(3) *Amounts refunded to the participant from the Iowa educational savings plan trust that were previously deducted.* The refund or withdrawal of funds is to be included in a participant's net income to the extent that contributions to the account had been deducted in a prior tax year. This amount is to be included if the participant cancels a beneficiary's account in the trust and receives a refund of the funds in the account made on behalf of the beneficiary or if the participant makes a withdrawal from the trust for purposes other than the following.

a. Qualifying higher education withdrawals. The payment of qualified higher education expenses as defined in IRC Section 529(e)(3). The term "qualified higher education expenses" does not include tuition expenses related to attendance at an elementary or secondary school.

b. Qualifying elementary and secondary tuition withdrawals. The payment of tuition expenses in connection with and required for enrollment or attendance at an elementary or secondary school in Iowa that is accredited under Iowa Code section 256.11 and that adheres to the provisions of the federal Civil Rights Act of 1964 and Iowa Code chapter 216.

(1) These qualified tuition expenses shall not exceed $20,000 per beneficiary per year. This limitation is based on the beneficiary, not the participant.

(2) Participants are responsible for tracking the amount of qualified tuition expense payments a beneficiary may receive from other participants. If a beneficiary's distributions exceed this annual limitation, the most recent payments are presumed to be the nonqualifying payments. By agreement amongst themselves, account holders are permitted to choose an alternative method for determining which payments are nonqualifying. An alternative method is presumed valid if, after the additions to income required by this paragraph, the beneficiary's total qualifying tax-free withdrawals for elementary or secondary school tuition expenses do not exceed the $20,000 limitation. However, upon request, the account holders are responsible for providing the department with adequate documentation to substantiate the method used.

c. Change in beneficiaries. A change in beneficiaries under, or transfer to another account within, the trust.

d. ABLE rollovers. A transfer to the Iowa ABLE savings plan trust, provided such change or transfer is permitted under Iowa Code section 12D.6(5).

EXAMPLE 1: A participant in the Iowa educational savings plan trust canceled the participant agreement for a beneficiary who died during the tax year and received a refund of $4,200 of funds in the beneficiary's account. Because $4,000 of the refund represented contributions that the participant had deducted on prior Iowa individual income tax returns, the participant must include $4,000 of the refund in net income for the tax year.

EXAMPLE 2: Beneficiary A is an elementary school student who attends an accredited elementary school located in Iowa. Participant B and participant C have each opened an Iowa educational savings plan trust account with A as the designated beneficiary. In January, participant B withdraws $11,000

from B's account to pay A's spring semester tuition. In August, participant C withdraws $11,000 from C's account to pay for A's fall semester tuition. Although neither B nor C has made a withdrawal in excess of $20,000, the limitation is based on the beneficiary, A, who has received a total of $22,000 in distributions in the tax year. Because A's total distributions have exceeded the annual limitation on distributions related to elementary or secondary school tuition, the participants must include the $2,000 excess in their net income. Because C's withdrawal was made after B's, the entire excess is presumed attributable to C, and therefore, C must include the entire $2,000 excess in C's Iowa net income unless B and C can show that they agreed to an alternative method of allocating the excess amount.

This rule is intended to implement Iowa Code section 422.7.

701—302.10(422) Section 179 expensing.

302.10(1) *In general.* Iowa taxpayers who elect to expense certain depreciable business assets in the year the assets were placed in service under IRC Section 179 must also expense those same assets for Iowa income tax purposes in that year.

302.10(2) *Claiming the deduction.*

a. Timing and requirement to follow federal election. A taxpayer who takes a federal section 179 deduction must also take the deduction for the same asset in the same year for Iowa purposes.

b. Qualifying for the deduction. Whether a specific business asset qualifies for a section 179 deduction is determined by the IRC and applicable federal regulations for both federal and Iowa purposes.

c. Amount of the Iowa deduction. Generally, the Iowa deduction must equal the amount of the federal deduction taken for the same asset in the same year, subject to special Iowa limitations. The following chart provides a comparison of the Iowa and federal section 179 dollar limitations and reduction limitations. Rule 701—502.10(422) provides section 179 rules applicable to corporations (both C and S corporations) and other entities subject to the corporate income tax, while rule 701—602.10(422) provides section 179 rules applicable to financial institutions subject to the franchise tax.

Section 179 Deduction Allowances Under Federal and Iowa Law				
	Federal		Iowa	
Tax Year	Dollar Limitation	Reduction Limitation	Dollar Limitation	Reduction Limitation
2003	$ 100,000	$ 400,000	$ 100,000	$ 400,000
2004	102,000	410,000	102,000	410,000
2005	105,000	420,000	105,000	420,000
2006	108,000	430,000	108,000	430,000
2007	125,000	500,000	125,000	500,000
2008	250,000	800,000	250,000	800,000
2009	250,000	800,000	133,000	530,000
2010	500,000	2,000,000	500,000	2,000,000
2011	500,000	2,000,000	500,000	2,000,000
2012	500,000	2,000,000	500,000	2,000,000
2013	500,000	2,000,000	500,000	2,000,000
2014	500,000	2,000,000	500,000	2,000,000
2015	500,000	2,000,000	500,000	2,000,000
2016	500,000	2,010,000	25,000	200,000
2017	510,000	2,030,000	25,000	200,000

2018	1,000,000	2,500,000	70,000	280,000
2019	1,020,000	2,550,000	100,000	400,000
2020 and later	Iowa limitations are the same as federal			

d. Reduction. Both the federal and the Iowa deductions for section 179 assets are reduced (phased out dollar for dollar) for taxpayers whose total section 179 assets placed in service during a given year cost more than the amount specified (reduction limitation) for that year.

e. Income limitation. The Iowa section 179 deduction for any given year is limited to the taxpayer's income from active conduct in a trade or business in the same manner that the section 179 deduction is limited for federal purposes. If an allowable Iowa section 179 deduction exceeds the taxpayer's business income for Iowa purposes for a given year, any excess may be carried forward as described in paragraph 302.10(2)*"g."*

f. Carryforward. As with the federal deduction, allowable Iowa section 179 deductions claimed in a given year that exceed a taxpayer's business income may be carried forward and claimed in future years.

EXAMPLE: A taxpayer purchases a $100,000 piece of equipment and places it in service in 2019. The taxpayer claims a section 179 deduction of $100,000 for the full cost of the equipment on the 2019 federal return. The taxpayer is also required to claim a section 179 deduction of $100,000 on the 2019 Iowa return (because the federal deduction is equal to the Iowa limit for the year, the Iowa and federal deductions are the same). However, the taxpayer has only $50,000 in business income for 2019, so the allowable deduction for that year is limited to $50,000. The remaining $50,000 may be carried forward and applied as a section 179 deduction (subject to all limitations) in 2020 and in any future years until the amount is fully deducted.

g. Differences in basis. Iowa adjustments for differences between the Iowa and federal section 179 deduction limitations may cause the taxpayer to have a different basis in the same asset for Iowa and federal purposes. Taxpayers are required to use forms made available on the department's website to calculate and track these differences.

This rule is intended to implement Iowa Code section 422.7.

701—302.11(422) Exemption of active duty pay for armed forces, armed forces military reserve, or the national guard. All pay received from the federal government for military service performed while on active duty status in the armed forces, armed forces military reserve, or national guard is excluded from Iowa net income to the extent the pay was included in federal taxable income.

302.11(1) *Definition of active duty personnel.* Active duty personnel who qualify for the exclusion include the following:

a. Active duty members of the regular armed forces, which include the Army, Navy, Marines, Air Force, Coast Guard, and Space Force of the United States.

b. Members of a reserve component of the Army, Navy, Marines, Air Force, Coast Guard, and Space Force who are on an active duty status as defined in Title 10 of the United States Code (10 U.S.C.).

c. Members of the national guard who are in an active duty status as defined in 10 U.S.C.

302.11(2) *Military personnel who do not qualify.* Military personnel who do not qualify for the exclusion include the following:

a. Members of a reserve component of the Army, Navy, Marines, Air Force, Coast Guard, and Space Force who are not in an active duty status as defined in 10 U.S.C.

b. Full-time members of the national guard who perform duties in accordance with 32 U.S.C.

c. Other members of the national guard who are not in an active duty status as defined in 10 U.S.C.

d. Other members of the national guard who do not receive pay from the federal government.

302.11(3) *Income from nonmilitary activities.* Any wages earned from nonmilitary wages for personal services conducted in Iowa by both residents and nonresidents of Iowa will still be subject

to Iowa individual income tax. In addition, both residents and nonresidents of Iowa who earn income from businesses, trades, professions or occupations operated in Iowa that are unrelated to military activity will be subject to Iowa individual income tax on that income.

302.11(4) *Exemption from Iowa withholding.* Active duty personnel meeting the requirements of subrule 302.11(1) who are receiving pay from the federal government that is exempt from Iowa individual income tax may complete an IA W-4 Employee Withholding Allowance Certificate and claim exemption from Iowa income tax for active duty pay received from the federal government.

This rule is intended to implement Iowa Code section 422.7.

701—302.12(422) Exemption for military retirement pay. Retirement pay received by taxpayers from the federal government for military service performed in the armed forces, armed forces reserves, or national guard is exempt from state income tax. In addition, amounts received by a surviving spouse, former spouse, or other beneficiary of a taxpayer who served in the armed forces, armed forces reserves, or national guard under the Survivor Benefit Plan are also exempt from state income tax. The retirement pay is only excluded from Iowa net income to the extent it is included in the taxpayer's federal taxable income.

302.12(1) *Coordination with pension exclusion.* Taxpayers who receive retirement pay under federal law that combines retirement pay for both uniformed service and the federal civil service retirement system or federal employees' retirement system must prorate the retirement pay based on years of service.

EXAMPLE: A single taxpayer who is not disabled and is 50 years of age receives $60,000 as a federal pension during the tax year. The taxpayer has 20 years of military service and 10 years of civilian employment with the federal government. The military retirement pay portion is $40,000 (20 years, divided by 30 years, multiplied by $60,000). The taxpayer can exclude $40,000 of military retirement pay. The taxpayer cannot exclude the $20,000 of civilian retirement pay since it does not qualify for the exclusion in rule 701—302.7(422) because the taxpayer is under 55 years of age and is not disabled.

302.12(2) *Coordination with filing threshold and alternate tax.* The military retirement pay is excluded from the calculation of income used to determine whether an Iowa income tax return is required to be filed pursuant to Iowa Code section 422.13. In addition, the military retirement pay is excluded from the calculation of the special tax computation for all low-income taxpayers, except single taxpayers pursuant to Iowa Code section 422.5(2)*"a,"* and is excluded from the calculation of the special tax computation for taxpayers who are 65 years of age or older under Iowa Code section 422.5(3)*"a."*

302.12(3) *Iowa withholding.* The amount of military retirement pay is excluded from the calculation of payments used to determine whether Iowa tax should be withheld from pension and annuity payments as determined pursuant to 701—subrule 307.4(4).

This rule is intended to implement Iowa Code sections 422.5 and 422.7.

701—302.13(422) Iowa ABLE savings plan trust. The Iowa ABLE savings plan program is administered by the treasurer of state under the terms of Iowa Code chapter 12I. The following subrules provide details about how an individual's net income is affected by contributions to a beneficiary's account, by interest and any other earnings on a beneficiary's account, and by distributions of contributions that were previously deducted.

302.13(1) *Definitions.*

"Account owner" means an individual who enters into a participation agreement under Iowa Code chapter 12I for the payment of qualified disability expenses on behalf of a designated beneficiary.

"Designated beneficiary" means an individual who is a resident of this state or a resident of a contracting state and who meets the definition of "eligible individual" in IRC Section 529A.

"Iowa ABLE savings plan trust" means a qualified ABLE program administered by the Iowa treasurer of state under the terms of Iowa Code chapter 12I.

"Other qualified ABLE program" refers to any qualified ABLE program administered by another state with which the Iowa treasurer of state has entered into an agreement under the terms of Iowa Code section 12I.10 (more information is available in subrule 302.13(2)).

"Qualified ABLE program" means the same as defined in IRC Section 529A.

"Qualified disability expenses" means the same as defined in IRC Section 529A.

302.13(2) *Contracting with other states.* Iowa Code section 12I.10 allows the treasurer of state to choose to defer implementation of Iowa's own qualified ABLE program and instead enter into an agreement with another state that already has a qualified ABLE program to provide Iowa residents access to that state's qualified ABLE program, provided that the other state's program meets the qualifications set out in Iowa Code section 12I.10(1).

302.13(3) *Subtraction from net income for contributions made to the Iowa ABLE savings plan trust or other qualified ABLE program.* Individuals can subtract from their Iowa net income the amount contributed to the Iowa ABLE savings plan trust or other qualified ABLE program on behalf of a designated beneficiary during the tax year, subject to the maximum contribution level for that year. This subtraction is not allowed for any contribution that is a transfer from an Iowa educational savings plan trust account and that was previously deducted as a contribution to the Iowa educational savings plan trust.

302.13(4) *Exclusion of interest and earnings on beneficiary accounts in the Iowa ABLE savings plan trust or other qualified ABLE program.* A taxpayer may exclude from Iowa net income interest or other earnings that accrue on an account in the Iowa ABLE savings plan trust or other qualified ABLE program if the account owner is an Iowa resident.

302.13(5) *Addition to net income of amounts distributed to the participant from the Iowa ABLE savings plan trust or other qualified ABLE program that had previously been deducted.*

a. If an account owner cancels their account in the Iowa ABLE savings plan trust or other qualified ABLE program and receives a distribution of the funds in the account, the amount of the distribution shall be included in the account owner's net income to the extent that contributions to the account had been deducted in a prior tax year by the account owner or any other person as a contribution to the Iowa ABLE savings plan trust or other qualified ABLE program or as a contribution to an Iowa educational savings plan trust account.

b. If a taxpayer makes a withdrawal of funds previously deducted by the taxpayer or any other person from the Iowa ABLE savings plan trust or other qualified ABLE program for purposes other than the payment of qualified disability expenses, the amount of the withdrawal shall be included in the Iowa net income to the extent that contributions to the account had been deducted in a prior tax year by the taxpayer or any other person as contributions to a qualified ABLE program or an Iowa educational savings plan trust account.

302.13(6) *Maximum contribution level.* The amount of the deduction available for an individual taxpayer each year for contributions on behalf of any one designated beneficiary to the Iowa ABLE savings plan trust or other qualified ABLE program cannot exceed the maximum contribution level for that year. The maximum contribution level is set by the treasurer of state. The maximum contribution level is indexed yearly for inflation pursuant to Iowa Code section 12D.3(1).

This rule is intended to implement Iowa Code section 422.7.

701—302.14(422,541B) First-time homebuyer savings accounts.

302.14(1) *Definitions.* Definitions that apply to the first-time homebuyer savings account program may be found in Iowa Code section 541B.2.

302.14(2) *Establishing an account.*

a. Account holders.

(1) A first-time homebuyer savings account holder must be an individual or married couple.

(2) Any individual may establish a first-time homebuyer savings account by opening an account that meets the requirements provided in this rule.

(3) A married couple who files a joint Iowa income tax return may establish a joint first-time homebuyer savings account by opening a joint savings account that meets the requirements provided in this rule. Married couples who file separately for Iowa income tax purposes cannot establish a joint first-time homebuyer savings account.

(4) There is no limit on the number of first-time homebuyer savings accounts that any account holder may open. However, account holders are subject to other restrictions under the Iowa Code and these rules, including but not limited to the annual contribution limits and aggregate lifetime limits in paragraph 302.14(4)*"c."*

(5) No account holder may open or hold more than one account for the same designated beneficiary.

(6) The account holder may change the designated beneficiary of the account at any time.

(7) No new accounts can be opened on or after July 1, 2026.

b. Beneficiaries.

(1) In order to be a designated beneficiary of a first-time homebuyer savings account, an individual must:

1. Be a resident of Iowa, as defined in Iowa Code section 422.4,
2. Not own, either individually or jointly, any single-family or multifamily residence, and
3. Not have owned or purchased, individually or jointly, any single-family or multifamily residence at any time in the three years immediately prior to both:

- The date on which the individual is designated the beneficiary of a first-time homebuyer savings account, and
- The date of the qualified home purchase for which the eligible home costs are paid or reimbursed from the first-time homebuyer savings account.

(2) The designated beneficiary may also be the account holder.

(3) Each account shall have only one designated beneficiary.

(4) The account holder must designate a beneficiary, on forms provided by the department, by April 30 of the year immediately following the tax year in which the account holder opened the account.

c. Account requirements. To qualify as a first-time homebuyer savings account, the account must be:

(1) An interest-bearing savings account meeting the qualifications for a savings deposit under 12 CFR §204.2(d),

(2) At a state or federally chartered bank, savings and loan association, credit union, or trust company in Iowa, and

(3) Used exclusively as a first-time homebuyer savings account in compliance with the requirements of this rule.

302.14(3) *Maintaining the account.*

a. Contributing to the account.

(1) Any person may make cash contributions to a first-time homebuyer savings account. Cash contributions may be made by people other than the account holder or the beneficiary. However, only the account holder may claim a deduction for contributing to a first-time homebuyer savings account, as described in subrule 302.14(4).

(2) There is no limit on the amount of contributions that may be made to or retained in a first-time homebuyer savings account. However, there are restrictions on the amounts that can be deducted from Iowa net income, as described in subrule 302.14(4).

b. Documenting transactions.

(1) Annual reports. For each tax year beginning with the tax year in which the first-time homebuyer savings account is established, the account holder must submit a report to the department showing all account activity during the tax year. The report shall be included with the taxpayer's Iowa individual income tax return and must show the account number of, all deposits into, and withdrawals

from the first-time homebuyer savings account, along with any other information required by the forms provided by the department.

(2) Withdrawal reports. All withdrawals must be reported, on forms provided by the department, within 90 days of the date of the withdrawal or, for withdrawals made less than 90 days before an account holder files an income tax return with the department, no later than the date the return is filed. Account holders must report both withdrawals for eligible home costs and any nonqualifying withdrawals. Any withdrawal that appears on the annual report but that is not properly reported at the time it is made shall be deemed to be a nonqualifying withdrawal that must be included in the account holder's Iowa net income for the tax year in which the withdrawal was made.

(3) Account fees. Fees and charges for the maintenance of the account that are deducted from the account by the financial institution in which the first-time homebuyer savings account is held shall not be considered withdrawals for the purposes of the reporting requirements described in paragraph 302.14(3)*"b."*

c. Nonqualifying withdrawals. Funds may be withdrawn from a first-time homebuyer savings account at any time. However, once any nonqualifying withdrawal, as defined in subparagraph 302.14(5)*"a"*(2), is made, the account holder may no longer claim the Iowa income tax benefits related to the first-time homebuyer savings account described in subrule 302.14(4). Furthermore, any nonqualifying withdrawal shall also result in an addition to income and penalty as described in subrule 302.14(5).

d. Ten-year limitation. An account shall not remain designated a first-time homebuyer savings account for more than ten years, beginning with the year in which the account was first opened. Any funds remaining in the account on January 1 of the tenth calendar year following the year in which the account holder first opened the account shall be deemed immediately withdrawn and may be subject to Iowa income taxes and penalties as described in subrule 302.14(5). The account holder has no obligation to close the account, but as of January 1 of the tenth calendar year after the year in which the account was opened, the account will no longer be a first-time homebuyer savings account entitled to the Iowa income tax benefits described in this rule. A change in the designated beneficiary of the account does not extend the ten-year period in which the account holder may maintain a first-time homebuyer savings account; the period still runs from the year the account was first opened.

e. Exclusively first-time homebuyer account. For an account to qualify as a first-time homebuyer savings account, the account holder shall use the account exclusively as a first-time homebuyer savings account consistent with these rules.

f. Withdrawal for deposit into FirstHome Iowa program trust account. First-time homebuyer account balances may be withdrawn without penalty or taxation in Iowa if such withdrawal is deposited in an account within the FirstHome Iowa program trust under Iowa Code chapter 12L within 30 days of the withdrawal.

302.14(4) *Deductions.*

a. Deduction for contributions. Any funds contributed to the first-time homebuyer savings account by the account holder during the tax year may be deducted from the account holder's net income for that tax year, subject to the limitations described in paragraph 302.14(4)*"c."* Although anyone may contribute funds to the first-time homebuyer savings account, only the account holder may claim the deduction, and the deduction may be claimed only for amounts the account holder personally contributed.

b. Deduction for interest. To the extent that any interest earned on the funds in a first-time homebuyer savings account is included in the account holder's Iowa net income for a tax year, the amount of that interest may be deducted from the account holder's net income for that tax year, subject to the lifetime limitation.

c. Limitations.

(1) Annual limitation. The deduction described in paragraph 302.14(4)*"a"* is subject to the limitations described in Iowa Code section 422.7(27)*"a"*(1).

(2) Lifetime limitation. Account holders are subject to an aggregate lifetime limit on the deductions described in paragraphs 302.14(4)*"a"* and *"b"* as described in Iowa Code section 422.7(27)*"b."*

(3) Annual publication of limitations. Each year, the department will provide the annual contribution limit as indexed for inflation and the lifetime limit applicable to account holders who open accounts during that year on the department's website.

302.14(5) *Additions to income.*

a. Nonqualifying withdrawals.

(1) Addition to income. If there is any nonqualifying withdrawal, as defined in subparagraph 302.14(5)*"a"*(2), during the tax year, the account holder must add to the account holder's Iowa net income for that year the full amount of the nonqualifying withdrawal, to the extent such income was previously deducted under paragraph 302.14(4)*"a."* Any nonqualifying withdrawal also makes the account holder ineligible to claim any further deductions described in subrule 302.14(4) in any future tax year.

(2) Nonqualifying withdrawal defined.

1. Any withdrawal from a first-time homebuyer savings account for any purpose other than the payment or reimbursement of the designated beneficiary's eligible home costs in connection with a qualified home purchase is a nonqualifying withdrawal. A nonqualifying withdrawal includes but is not limited to a withdrawal caused by the death of the account holder and withdrawal made pursuant to garnishment, levy, bankruptcy order, or any other order. If a nonqualifying withdrawal occurs, the account holder cannot cure the nonqualifying withdrawal by returning funds to the account.

2. A withdrawal shall be presumed to be a nonqualifying withdrawal unless:

- Ownership of the qualifying home that the funds from the account are used to purchase passes to the designated beneficiary within 60 days of the date the funds are withdrawn, and
- The designated beneficiary actually occupies the home as the designated beneficiary's primary residence within 90 days of the date the funds are withdrawn.

3. Notwithstanding subparagraph 302.14(5)*"a"*(2), any amount transferred between different first-time homebuyer savings accounts of the same account holder by a person other than the account holder shall not be considered a nonqualifying withdrawal.

b. Unused funds. Any amount remaining in a first-time homebuyer savings account on January 1 of the tenth calendar year after the calendar year in which the account holder first opened any first-time homebuyer savings account shall be considered immediately withdrawn.

c. Penalties. For any amount considered a withdrawal required to be added to net income pursuant to this subrule, the account holder shall be assessed a penalty equal to 10 percent of the amount of the withdrawal. The penalty shall not apply to withdrawals made by reason of the death of the account holder or to withdrawals made pursuant to a garnishment, levy, or other order, including but not limited to an order in bankruptcy following a filing for protection under the federal Bankruptcy Code, 11 U.S.C. §101 et seq.

d. Examples.

EXAMPLE 1: Taxpayer eligible for the deduction; no addition to income or penalty from nonqualifying withdrawal. A is an individual. A creates a new interest-bearing savings account with a financial institution. A submits a form to the department designating the account as a first-time homebuyer savings account and designating Z, an Iowa resident who has never owned a home, as the beneficiary of the account. A contributes $1,000 per year to the first-time homebuyer savings account over a period of four years. Every year, A timely submits the required annual reports and all accompanying information. After four years, Z made a qualified home purchase. A withdrew the entire balance of the first-time homebuyer savings account and applied the amount to eligible home costs. Within 90 days of withdrawing the funds, A submitted the required withdrawal report and the necessary supporting documentation to the department.

Result: A is allowed to deduct from net income the amount of the contributions generated from the first-time homebuyer account, since the yearly contributions are below the annual limits. A is allowed

to deduct $1,000 each year for the four-year period A made contributions. Additionally, A is allowed to deduct income from interest generated from the account each year. A does not have any addition to net income or any penalties associated with the withdrawal or usage of the funds.

EXAMPLE 2: Nonqualifying withdrawal of entire account due to voluntary withdrawal by A. Assume the same facts as Example 1. However, rather than making a qualified withdrawal, A withdraws the entire balance of the first-time homebuyer savings account and pays for Z's college tuition.

Result: The withdrawal is a nonqualified withdrawal. Any withdrawal that is not for eligible home costs is a nonqualified withdrawal. A's nonqualified withdrawal has three results. First, the amount of the nonqualified withdrawal is added back to A's net income for the tax year in which the nonqualified withdrawal occurred (Iowa Code section 422.7(27)*"c"*(1)). Second, A will be assessed a penalty equal to 10 percent of the total contributions that A previously deducted (Iowa Code section 422.7(27)*"d"*). Third, A will no longer be able to claim the first-time homebuyer deduction in any future tax years (Iowa Code section 422.7(27)*"b"*(2)(b)). A is barred from claiming the first-time homebuyer deduction in the future, even if A attempts to open a first-time homebuyer account for a different beneficiary in a different tax year.

EXAMPLE 3: Nonqualifying withdrawal of entire account by legal process. Assume the same facts as Example 1. However, rather than a qualifying withdrawal occurring, a creditor levies the entire balance of the first-time homebuyer account in order to satisfy A's debt to the creditor.

Result: The levy is a nonqualified withdrawal. Any withdrawal, including a withdrawal that is caused by a legal process not initiated by A, that is not for a qualified home purchase is a nonqualified withdrawal. Example 3 has the same result as Example 2, except in Example 3, A does not incur a 10 percent penalty because the withdrawal was due to a levy (Iowa Code section 422.7(27)*"d"*).

EXAMPLE 4: Nonqualifying withdrawal of a partial balance of a first-time homebuyer savings account. Assume the same facts as Example 1, except A withdraws $1,000 from the account in order to pay for personal expenses.

Result: The $1,000 withdrawal is a nonqualifying withdrawal. A must file a withdrawal report with the department within 90 days of the withdrawal. The $1,000 withdrawal will result in the addition of $1,000 to A's net income. A will also be assessed a $100 penalty. The balance of the first-time homebuyer account is $3,100. Subject to the ten-year limitation and the other requirements of the deduction, A may use the remaining $3,100 for Z's eligible home costs before the ten-year period expires. If A does so, A will not have the $3,000 added back to A's net income or face any penalties associated with the $3,000 eligible home costs. A will be prohibited from claiming the first-time homebuyer deduction for any period after the date of the nonqualified withdrawal. This is true even if A attempts to repay the $1,000 withdrawal or if A attempts to open any other first-time homebuyer accounts.

EXAMPLE 5: No withdrawals made within ten years of opening the account. Assume the same facts as Example 1, except A does not make a withdrawal within ten years of opening the account. The account is no longer a first-time homebuyer savings account, and the entire account balance is deemed to have been withdrawn in a nonqualifying withdrawal. A is required to include the entire $10,000 previously deducted for contributions to the account in net income in the tax year following the expiration of the ten-year period and pay a $1,000 penalty for the nonqualifying withdrawal. A can no longer open a new first-time homebuyer savings account or take any deductions for contributions made to another account under the program.

EXAMPLE 6: Divorce between taxpayers with a joint account. A and B are a married couple who file a joint Iowa income tax return. A and B open a joint savings account and take the necessary steps to designate it as a joint first-time homebuyer savings account. A and B contribute $2,000 to the account and deduct the full amount on their joint Iowa income tax return. They contribute the same amount, file joint returns, and deduct the full amount in the next three tax years. In the fifth tax year, A and B divorce. The divorce decree divides the funds in the account evenly between A and B. When the funds from the account are distributed between A and B, the entire withdrawal is deemed to be

a nonqualifying withdrawal and A and B are jointly and severally liable for the payment of the tax and penalty due on the entire amount that they previously deducted for contributions to the first-time homebuyer savings account.

Alternatively, prior to the divorce decree, A and B can each open a new first-time homebuyer savings account individually. If the divorce decree orders that funds from the original joint first-time homebuyer savings account be transferred to A's and B's new individual accounts, the funds may be transferred without triggering a nonqualifying withdrawal. A and B will not be subject to taxes or penalties on their previous contributions to the account, and each will still be eligible to take deductions for contributions to their new accounts, subject to the applicable limitations. The transfer must occur as a direct result of a court order; if A or B transfers funds themselves, the transfer is deemed to be a nonqualifying withdrawal.

Even if the funds in A and B's original joint account are successfully transferred without triggering a nonqualifying withdrawal as described above, both A and B will still be jointly and severally liable for any tax or penalty due on any nonqualifying withdrawal that either makes later up to the amount they deducted on their joint returns prior to the divorce.

EXAMPLE 7: Death of the account holder. Assume the same facts as Example 1, except after contributing to the account for four years, A dies without having withdrawn any funds from the account either for a qualifying home purchase for Z or for any other reason. All of the funds in the account are deemed immediately withdrawn at the time of A's death. Because this is a nonqualifying withdrawal, the $4,000 in contributions that A previously deducted must be included as income on A's final return. However, because the reason for the deemed withdrawal was A's death, the 10 percent penalty is not included on A's final return.

This rule is intended to implement Iowa Code section 422.7 and chapter 541B.

701—302.15(422,12L) FirstHome Iowa accounts.

302.15(1) *General provisions.* General provisions that apply to the FirstHome Iowa accounts may be found in Iowa Code chapter 12L.

302.15(2) *Withdrawal for deposit into FirstHome Iowa program trust account.* First-time homebuyer account balances may be withdrawn without penalty or taxation in Iowa if such withdrawal is deposited in an account within the FirstHome Iowa program trust under Iowa Code chapter 12L within 30 days of the withdrawal.

302.15(3) *Cancellation of agreement.* Iowa Code section 12L.5 governs the cancellation of a participant agreement.

302.15(4) *Deductions.*

a. Deduction for contributions. Any funds contributed to the FirstHome Iowa account by the account participant during the tax year may be deducted from the account participant's net income for that tax year, subject to the limitations described in paragraph 302.15(4)*"c."* Although anyone may contribute funds to the first-time homebuyer savings account, only the account holder may claim the deduction, and the deduction may be claimed only for amounts the account holder personally contributed.

b. Deduction for interest. To the extent that any interest earned on the funds in a FirstHome Iowa account is included in the account participant's Iowa net income for a tax year, the amount of that interest may be deducted from the account participant's net income for that tax year, subject to the lifetime limitation described in subparagraph 302.15(4)*"c"*(2).

c. Annual limitation. The deduction described in paragraph 302.15(4)*"a"* is subject to the limitations described in Iowa Code section 12L.3(1).

302.15(5) *Additions to income.* Any withdrawal from a FirstHome Iowa account for any purpose other than a qualified homebuyer expense, described in Iowa Code section 12L.1(2)*"j,"* is a nonqualifying withdrawal. A nonqualifying withdrawal includes but is not limited to a withdrawal caused by the death of the account holder, cancellation of a participation agreement, and a withdrawal made pursuant to garnishment, levy, bankruptcy order, or any other order. If a nonqualifying

withdrawal occurs, the account holder cannot cure the nonqualifying withdrawal by returning funds to the account.

This rule is intended to implement Iowa Code chapter 12L and section 422.7.

701—302.16(422) Broadband infrastructure grant exemption.

302.16(1) *General.* Certain qualifying communications service providers may subtract, to the extent included in net income, the amount of qualifying government grants used to install broadband infrastructure that facilitates broadband service in targeted service areas at or above download and upload speeds identified by the Federal Communications Commission pursuant to Section 706 of the federal Telecommunications Act of 1996 as amended.

302.16(2) *Definitions.*

"Facilitate" shall have the same meaning as defined in Iowa Code section 8.76.

"Grant" means a transfer for a governmental purpose of money or property to a transferee that is not a related party to or an agent of the transferor. The transfer must not impose any obligation or condition to directly or indirectly repay any amount to the transferor or a related party. Obligations or conditions intended solely to assure expenditure of the transferred moneys in accordance with the governmental purpose of the transfer do not prevent a transfer from being a grant.

1. "Federal grant" means any grant issued by the United States government, including any agency or instrumentality thereof.

2. "State grant" means any grant issued by any state of the United States, the District of Columbia, or a territory or possession of the United States, including any agency or instrumentality thereof.

3. "Local grant" means any grant issued by any city, county, township, school district, or any other unit of local government, including any agency or instrumentality thereof.

This rule is intended to implement Iowa Code 422.7.

701—302.17(422) Interest expense deduction adjustments. The limit on the amount of business interest expense that a taxpayer may deduct in a taxable year under IRC Section 163(j) does not apply for Iowa purposes. This rule provides information on how taxpayers must calculate and report their business interest expense deduction for Iowa purposes. All references to the Code of Federal Regulations ("Treas. Reg." or "CFR") and certain other information in this rule are based on final Internal Revenue Service (IRS) regulations and guidance in effect on January 13, 2021.

302.17(1) *Definitions.* The following terms apply to the interpretation and application of this rule.

"Current-year business interest expense" means the same as defined in Treas. Reg. Section 1.163(j)-1(b)(9).

"Excess business interest expense" means the same as defined in Treas. Reg. Section 1.163(j)-1(b)(16).

"Iowa partnership" means any entity required to file an Iowa return (IA 1065) for the relevant tax year.

"Iowa S corporation" means any S corporation required to file an Iowa return (IA 1120S) for the relevant tax year.

"Non-Iowa partnership" means any entity that is not required to file an Iowa return (IA 1065) for the relevant tax year.

"Non-Iowa S corporation" means any S corporation that is not required to file an Iowa return (IA 1120S) for the relevant tax year.

302.17(2) *Individual business interest expense.* Iowa does not conform with the IRC Section 163(j) business interest expense deduction limitation. The following adjustments may be required for corporations due to this nonconformity.

a. Current-year business interest expense. A taxpayer's current-year business interest expense is fully deductible to the extent permitted by IRC Section 163 for Iowa purposes without regard to

any limitation under IRC Section 163(j). Even though Iowa does not conform to IRC Section 163(j), provisions of the IRC other than Section 163(j) may subject interest expense to disallowance, deferral, capitalization, or other limitations, and those other provisions of the IRC still generally apply for Iowa purposes. No additional Iowa adjustments are permitted for federal limitations such as those described in Treas. Reg. Section 1.163(j)-3(b)(4), which are determined after the application of IRC Section 163(j) for federal purposes. Treas. Reg. Section 1.163(j)-3 contains examples of other provisions of the IRC that may restrict interest expense deductions for federal and Iowa purposes, independent of the IRC Section 163(j) limitation.

b. Carryforward. When current-year interest expense is limited at the federal level, the disallowed business interest expense, as defined in Treas. Reg. Section 1.163(j)-1(b)(10), is carried forward to be deducted in future years for federal purposes when certain conditions are met. Iowa law allows taxpayers to fully deduct current-year business interest expense, and no amounts are carried forward for Iowa purposes. Disallowed business interest expense carryforward amounts from prior years, including excess business interest expense allocated to a partner in a prior year, cannot be deducted for Iowa purposes. All prior-year disallowed business interest expense carryforward amounts deductible under IRC Section 163(j) in the current year at the federal level, including excess business interest expense allocated to a partner in a prior year, must be added back in computing the taxpayer's Iowa income for the year.

EXAMPLE: In 2020, taxpayer X has $100,000 in current-year business interest expense. For federal purposes, X is subject to the IRC Section 163(j) limitation. X deducts $70,000 in business interest expense on X's federal return and carries the remaining $30,000 forward to be deducted in future years. For Iowa purposes, X deducts the full $100,000 in current-year business interest expense.

In 2021, X has $50,000 in current-year business interest expense. For federal purposes, X is permitted to deduct the full $50,000 in interest expense generated in the current year, plus $5,000 of the amount that was disallowed in the previous year for a total federal deduction of $55,000. X must add the federal carryforward amount ($5,000) back to X's current year Iowa net income, limiting X's Iowa deduction to the $50,000 in current-year business interest expense.

302.17(3) *Partners and partnerships.*

a. Partnership-level adjustments. An Iowa partnership that is subject to the IRC Section 163(j) limitation for federal purposes is permitted to deduct all current-year business interest expense at the partnership level in that tax year for Iowa purposes.

(1) Excess business interest expense. A partnership may include as a reduction on the partnership's Iowa income tax return any excess business interest expense, as defined in Treas. Reg. Section 1.163(j)-1(b)(16), of the partnership that was disallowed and allocated to the partners for that tax year for federal purposes.

(2) Tiered partnerships. For partnerships that receive excess business interest expense passed through from a partnership in which they are a partner, paragraph 302.17(3)*"b"* contains information on how to report Iowa adjustments for that passed-through income.

b. Partner-level adjustments.

(1) Interest expense from Iowa partnerships. Iowa adjustments related to excess business interest expense of an Iowa partnership are made at the entity level as described in subparagraph 302.17(3)*"a"*(1) and are reported to partners on an IA 1065 Schedule K-1. Partners are not permitted to make any Iowa adjustment at the partner level to their federal interest expense deduction for amounts of excess business interest expense allocated from an Iowa partnership on the partner's federal Schedule K-1 related to that Iowa partnership.

EXAMPLE 1: P, a partnership doing business in Iowa, has $100,000 in current-year business interest expense. For federal purposes, $20,000 of that amount is disallowed under IRC Section 163(j). The partnership deducts $80,000 at the entity level, and the remaining disallowed $20,000 is allocated to the partners to be deducted in future years. For Iowa purposes, the $80,000 of business interest expense allowed for federal purposes is included in the partnership's non-separately stated ordinary business income (loss) and the partnership will make an adjustment on the entity's IA 1065 to deduct

the $20,000 of current-year business interest expense that was disallowed for federal purposes. The $20,000 additional Iowa deduction will be reported to the partners as an all source modification on the partners' IA 1065 Schedules K-1, and partners will receive the benefit of this all source modification item when the partners report their Iowa partnership income on their own Iowa tax return for the year. The partners will not be permitted to make further Iowa adjustments on their own Iowa tax return for the excess business interest expense amounts passed through to them from the partnership for federal purposes.

(2) Interest expense from non-Iowa partnerships. Partners may include as part of their Iowa business interest expense deduction the total amount of current-year excess business interest expense deduction passed through to them from all non-Iowa partnerships as shown on the federal Schedule K-1 (Form 1065), line 13, code K.

EXAMPLE 2: X is an Iowa resident and a partner in P2, an out-of-state partnership with no business in Iowa and no Iowa filing obligation. P2 has $100,000 in current-year business interest expense and is subject to the IRC Section 163(j) limitation for federal purposes. At the entity level, P2 is permitted to deduct $80,000 on its federal partnership return. The $20,000 in excess business interest expense is then allocated to P2's partners. X is allocated $5,000 in excess business interest expense from P2. Because P2 is not required to file an Iowa return, and therefore X did not receive an IA 1065 Schedule K-1 from P2, X is permitted to deduct the $5,000 allocated from P2 as current-year business interest expense on X's Iowa income tax return.

(3) Partnership basis. A partner's basis is reduced (but not below zero) by the amount of excess business interest expense the partnership passes through to the partner each year. Treas. Reg. Section 163(j)-6(h) contains detailed information about how to make these basis adjustments. For federal purposes, immediately before disposition of the partnership interest, the partner's basis is then increased by the amount of any passed-through business interest expense that has not yet been treated as paid or accrued by the partner as described in Treas. Reg. Section 163(j)-6(h)(3). No basis increase at the time of disposition is allowed for Iowa purposes for passed-through business interest expense amounts that were deducted for Iowa but not for federal purposes due to Iowa's nonconformity with IRC Section 163(j).

302.17(4) *S corporation adjustments.* For federal purposes, IRC Section 163(j) limitations are applied at the S corporation level. Unlike partnerships, disallowed business interest expense amounts are carried forward and deducted in future years at the entity level rather than being passed through to shareholders. Rule 701—502.12(422) contains more information about the IRC Section 163(j) adjustments required for corporations, including S corporations, for Iowa purposes. In addition, Treas. Reg. Section 1.163(j)-6(l) contains more information about the application of IRC Section 163(j) to S corporations for federal purposes.

This rule is intended to implement Iowa Code section 422.7(60).

701—302.18(422) Capital gain deduction for certain types of net capital gains. Information relating to the Iowa capital gain deduction available for tax years prior to January 1, 2023, can be found in prior versions of rule 701—302.38(422). Prior versions of the Iowa Administrative Code are located here: www.legis.iowa.gov/law/administrativeRules/agencies. Net capital gains from the sale of real property used in a farming business and the sale of certain livestock described in subrules 302.18(5) and 302.18(6) may be excluded from net income for qualified individual taxpayers. To exclude qualifying capital gains, a taxpayer has to meet certain holding period and material participation requirements unless otherwise indicated in this rule.

302.18(1) *Definitions.* Unless otherwise indicated in this rule or required by the context, all words and phrases used in this rule that are defined under Iowa Code section 422.7(13) shall have the same meaning as provided to them under that Iowa Code section.

"Disabled individual" means an individual who is receiving benefits as a result of retirement from employment or self-employment due to disability. "Disabled individual" includes an individual who is

determined disabled in accordance with criteria established by the Social Security Administration or other federal or state governmental agency.

302.18(2) *Material participation.* If the taxpayer has regular, continuous, and substantial involvement in the operations of a farming business that meets the criteria for material participation in an activity under IRC Section 469(h) and the federal tax regulations for material participation in 26 CFR 1.469-5 and 1.469-5T for the applicable number of years required under Iowa law for the deduction, the taxpayer has met the material participation requirement. IRC Section 469(h)(3) does not apply when determining material participation for the purposes of this rule.

a. Work done in connection with an activity is not participation in the activity if the work is not of a type that is customarily done by an owner and one of the principal purposes for the performance of the work is to avoid the disallowance of any loss or credit from the activity.

b. Work done in an activity by an individual in the individual's capacity as an investor is not material participation in the business or activity unless the investor is directly involved in the day-to-day management or operations of the activity or business. Investor-type activities include the study and review of financial statements or reports on operations of the activity, preparing or compiling summaries or analyses of finances or operations of the activity for the individual's own use, and monitoring the finances or operations of the activity in a nonmanagerial capacity.

c. A highly relevant factor in material participation in a business is how regularly the taxpayer is present at the place where the principal operations of a business are conducted. In addition, a taxpayer is likely to have material participation in a business if the taxpayer performs all functions of the business. The fact that the taxpayer utilizes employees or contracts for services to perform daily functions in a business will not prevent the taxpayer from qualifying as materially participating in the business, but the services will not be attributed to the taxpayer.

d. In determining whether a particular taxpayer has material participation in a business, participation of the taxpayer's spouse in a business must also be taken into account. Activity done by a taxpayer's spouse is considered activity done by the taxpayer. The spouse's participation in the business must be taken into account even if the spouse does not file a joint state return with the taxpayer or if the spouse has no ownership interest in the business. The activities of other family members, employees, independent contractors, vendors, laborers, or consultants are not attributed to the taxpayer to determine material participation.

e. Generally, an individual will be considered as materially participating in a tax year if the taxpayer satisfies or meets any of the following tests:

(1) The individual participates in the farming business for more than 500 hours in the taxable year.

(2) The individual's participation in the farming business constitutes substantially all of the participation of all individuals in the business (including individuals who are not owners of interests in the business) for the tax year.

EXAMPLE 1: Taxpayer A is a teacher in a small town in southeast Iowa. Taxpayer A owns 20 acres of farmland. Taxpayer A grows various crops on this land and is the only one who works on the farm. In one tax year, a drought killed most of Taxpayer A's crops so Taxpayer A spent only 80 hours during that tax year growing crops. Taxpayer A is deemed to have materially participated in the farming business during that tax year.

(3) The individual participates in the farming business for more than 100 hours in the tax year, and no other individual (including individuals who are not owners of interests in the business) participates more in the business than the taxpayer during the tax year.

(4) The individual participates in two or more businesses, excluding rental businesses, in the tax year; participates for more than 500 hours in all of the businesses and more than 100 hours in each of the businesses; and the participation is not material participation within the meaning of one of the tests in subparagraphs 302.18(2)*"e"*(1) through *"e"*(3), *"e"*(5) and *"e"*(6).

EXAMPLE 2: Taxpayer B is a full-time CPA. Taxpayer B owns a restaurant and a farm. Taxpayer B spent 400 hours working on the farm and 150 hours at the restaurant during a tax year, and other

individuals spent more time in the business activity than Taxpayer B did. Taxpayer B is treated as a material participant in each of the businesses during that tax year.

(5) The individual materially participated (determined without regard to this subparagraph) in a farming business for five of the ten years preceding the applicable tax year.

EXAMPLE 3: Taxpayer C is the co-owner of a farming business. Taxpayer C stopped farming in 2018 after 15 years of farming. Since Taxpayer C stopped farming, Taxpayer C has retained interest in the farming business. Taxpayer C is considered to be materially participating in the business in 2019, 2020, 2021, 2022, and 2023 because Taxpayer C materially participated in the farming business during five of the ten years immediately preceding 2019, 2020, 2021, 2022, and 2023.

(6) The individual participates in the business activity for more than 100 hours and, based on all the facts and circumstances, the individual participates on a regular, continuous, and substantial basis. Management activities of a taxpayer are not considered for purposes of determining if there was material participation if either of the following applies: any person other than the taxpayer is compensated for management services or any person provides more hours of management services than the taxpayer.

f. The following paragraphs provide additional information regarding material participation:

(1) Limited partners of a limited partnership. The limited partners will not be treated as materially participating in any activity of a limited partnership, except in a situation where the limited partner would be treated as materially participating under the material participation tests in subparagraph 302.18(2)*"e"*(1) or *"e"*(5) if the taxpayer were not a limited partner for the tax year.

(2) Cash farm lease. A taxpayer who rents out farmland on a cash basis is not materially participating in a farming business. The burden is on the taxpayer to show that the taxpayer materially participated in the farming business operated on the cash-rented farmland.

(3) Farmer landlord involved in crop-share arrangement. A farmer landlord is subject to self-employment tax on net income from a crop-share arrangement with a tenant. The landlord is considered to be materially participating with the tenant in the crop-share activity if the landlord satisfies one of the four following tests:

TEST 1: The landlord does any three of the following: (1) pays or is obligated to pay for at least half the direct costs of producing the crop; (2) furnishes at least half the tools, equipment, and livestock used in producing the crop; (3) consults with the tenant; and (4) inspects the production activities periodically.

TEST 2: The landlord regularly and frequently makes, or takes part in making, management decisions substantially contributing to or affecting the success of the enterprise.

TEST 3: The landlord worked 100 hours or more spread over a period of five weeks or more in activities connected with crop production.

TEST 4: The landlord has done tasks or performed duties that, considered in their total effect, show that the landlord was materially and significantly involved in the production of the farm commodities.

(4) Conservation reserve program (CRP). Activities conducted under the CRP do not fall within the definition of "farming business" under Iowa Code section 422.7. If a taxpayer's only activity is managing CRP land, the taxpayer does not meet the material participation requirement. A taxpayer may still meet the material participation requirement if the taxpayer materially participates in a farming business through a different activity.

(5) Recordkeeping requirements. Taxpayers are required to provide proof of services performed and the hours attributable to those services. Detailed records should be maintained by the taxpayer, on as close to a daily basis as possible at or near the time of the performance of the activity, to verify that the material participation test has been met. However, material participation can be established by any other reasonable means, such as approximating the number of hours based on appointment books, calendars, or narrative summaries. Records prepared long after the activity, in preparation of an audit or proceeding, are insufficient to establish participation in an activity.

302.18(3) *Lifetime election.* A retired farmer may make a single lifetime election on a form prescribed by the department to exclude all qualifying capital gains from the sale of real property used

in a farming business and the sale of certain livestock described in subrules 302.18(5) and 302.18(6). If a retired farmer makes the election described in this subrule, the retired farmer is not eligible to make the election to exclude the net income received pursuant to a farm tenancy agreement covering real property under Iowa Code section 422.7(14) and rule 701—302.19(422) or claim the beginning farmer tax credit under Iowa Code section 422.11E in the same tax year or any subsequent tax year. The election is irrevocable once made.

a. Beginning farmer tax credit. A retired farmer shall not utilize an unclaimed amount of a beginning farmer tax credit in the same tax year the farmer is making an election described in this subrule or in subrule 302.19(3) or in any subsequent tax year.

b. Surviving spouses. A surviving spouse of a deceased retired farmer may be eligible to make the election described in this subrule or the election described in subrule 302.19(3) or exclude the qualifying income pursuant to the election made by the retired farmer prior to death.

(1) A surviving spouse of a deceased retired farmer may make the election described in this subrule or the election described in subrule 302.19(3) on behalf of the deceased retired farmer that the retired farmer would have been eligible to make prior to death. A surviving spouse may only make an election on behalf of the deceased retired farmer by the due date of the tax return, including extensions, for the tax year immediately following the tax year of the retired farmer's death.

EXAMPLE 1: Farmer A, a retired farmer, owned real property used in a farming business, Plot 1. Farmer A was married to Spouse B. Farmer A sold Plot 1, which generated a capital gain. Farmer A died later that tax year. Farmer A qualified to make an election to exclude qualifying capital gains from the calculation of net income prior to death but did not make an election before death. Spouse B can make an election on behalf of Farmer A on the final tax return.

(2) If a retired farmer made the election described in this subrule or the election described in subrule 302.19(3) prior to death, the surviving spouse of the deceased retired farmer may exclude the qualifying income pursuant to the election made by the retired farmer prior to death. A surviving spouse cannot change the election the deceased retired farmer made. Any election made by the retired farmer prior to death is binding on all real property used in a farming business owned by the retired farmer at the time of death. This election is only binding on the retired farmer and the surviving spouse.

EXAMPLE 2: Farmer C, a retired farmer, owned real property used in a farming business, Plot 2. Farmer C was married to Spouse D. Farmer C met the material participation and holding period requirements. Farmer C made the election to exclude net income from a farm tenancy agreement described in subrule 302.19(3) from Plot 2. Farmer C then died. Spouse D inherited Plot 2 from Farmer C. Spouse D does not qualify to make an election. Spouse D may exclude net income from a farm tenancy agreement from Plot 2 pursuant to the election Farmer C made before death. Spouse D cannot exclude qualifying capital gains with regard to Plot 2 or claim the beginning farmer tax credit.

EXAMPLE 3: Assume the same facts as Example 2, but Spouse D does qualify to make an election independent of Farmer C. Spouse D still cannot exclude qualifying capital gains from Plot 2 or claim the beginning farmer tax credit unless Spouse D disclaims Farmer C's election and makes an election as described in subparagraph 302.18(3)*"b"*(3).

EXAMPLE 4: Farmer E, a retired farmer, owned real property used in a farming business, Plot 3, Plot 4, and Plot 5. Farmer E was married to Spouse F. Farmer E met the holding period and material participation requirements. Farmer E sold Plot 3, which generated a capital gain. Farmer E made an election to exclude the capital gain. Farmer E then died. Spouse F inherited Plot 4 and Plot 5 from Farmer E. Plot 4 and Plot 5 are bound by the election Farmer E made before death. Spouse F is eligible to exclude the capital gain from the sale of Plot 4 and Plot 5 pursuant to the election Farmer E made. Spouse F cannot exclude net income from a farm tenancy agreement from Plot 4 or Plot 5 or claim the beginning farmer tax credit.

EXAMPLE 5: Farmer G, a retired farmer, owned real property used in a farming business, Plot 6 and Plot 7. Farmer G was married to Spouse H. Farmer G met the holding period and the material participation requirements. Farmer G made the election to exclude net income from a farm tenancy

agreement described in subrule 302.19(3) from Plot 6 and Plot 7. Farmer G then died. Spouse H inherited Plot 6 and Plot 7. Spouse H is bound by the election made by Farmer G on Plot 6 and Plot 7 and may exclude the net income from a farm tenancy agreement for those plots. Spouse H gets remarried to a new spouse, Spouse J. Spouse H then dies. Spouse J inherits Plot 6 and Plot 7 from Spouse H. Spouse J is not a surviving spouse of a retired farmer and is not bound by the election Farmer G originally made on Plot 6 and Plot 7. Spouse J may make an election described in this subrule or described in subrule 302.19(3) on Plot 6 and Plot 7 if Spouse J meets the eligibility criteria.

(3) A surviving spouse of a deceased retired farmer may disclaim the election made by the retired farmer. If a surviving spouse of a deceased retired farmer makes this disclaimer, the surviving spouse is not eligible to deduct qualifying income pursuant to an election made by the retired farmer prior to death. A surviving spouse of a deceased retired farmer shall make this disclaimer on a form prescribed by the department and file the form with the surviving spouse's income tax return. A surviving spouse must make the disclaimer by the due date of the tax return, including extensions, for the tax year immediately following the tax year of the retired farmer's death. If the surviving spouse excluded income on the surviving spouse's return for the tax year of the retired farmer's death pursuant to the election the retired farmer made and wants to disclaim the election, then the surviving spouse must amend the surviving spouse's return to include that income in Iowa net income and adjust tax liability accordingly. If no disclaimer is made by the due date, including extensions, of the surviving spouse's income tax return for the tax year immediately following the tax year of the retired farmer's death, then the surviving spouse is no longer eligible to make a disclaimer and is bound by the election the retired farmer made. The disclaimer is irrevocable once made. Once a disclaimer has been made, a surviving spouse may make a single lifetime election that would also apply to the land previously bound by the deceased retired farmer's election if the surviving spouse meets the definition of a retired farmer. A surviving spouse may make a single lifetime election that would apply to land not bound by the deceased retired farmer's election if the surviving spouse meets the eligibility criteria.

EXAMPLE 6: Farmer K, a retired farmer, owned real property used in a farming business, Plot 8. Farmer K was married to Spouse L. Farmer K met the holding period and the material participation requirements. Farmer K made the election to exclude net income from a farm tenancy agreement described in subrule 302.19(3) from Plot 8. Farmer K then died. Spouse L inherited Plot 8 from Farmer K. Spouse L independently qualifies as a retired farmer to make an election described in this subrule or the election described in subrule 302.19(3). Spouse L may exclude net income from a farm tenancy agreement from Plot 8 pursuant to the election Farmer K made before death, or Spouse L may disclaim that election and make Spouse L's own election to exclude capital gains from Plot 8.

EXAMPLE 7: Assume the same facts as Example 6, except Spouse L does not independently qualify as a retired farmer to make an election described in this subrule or the election described in subrule 302.19(3). Spouse L may exclude net income from a farm tenancy agreement from Plot 8 pursuant to the election Farmer K made before death, or Spouse L may disclaim that election and not exclude income because Spouse L does not qualify to make an election as a retired farmer.

c. Joint owners. A retired farmer may exclude income pursuant to the election described in this subrule or the election described in subrule 302.19(3) to the extent of the retired farmer's ownership interest in the real property.

(1) A retired farmer who owns real property used in a farming business jointly with a spouse and makes the election described in this subrule or the election described in subrule 302.19(3) may only exclude qualifying income from that real property to the extent of the retired farmer's ownership interest held in that real property. The retired farmer's ownership interest does not include the ownership interest of the retired farmer's spouse. If each spouse qualifies as a retired farmer, each spouse may make different elections on the property they jointly own to the extent of their respective ownership interests. There is a rebuttable presumption that spouses who jointly own real property used in a farming business each have a 50 percent ownership interest in the real property. This can be rebutted with documentation proving a different ownership percentage.

EXAMPLE 8: Farmer M and Farmer N, both retired farmers, are married and own Plot 9 jointly. They each have a 50 percent ownership interest in Plot 9. They both qualify to make the election to exclude qualifying capital gains or net income from a farm tenancy agreement. They file jointly for Iowa tax purposes. Farmer M and Farmer N receive $50,000 total in net income from a farm tenancy agreement covering Plot 9. Farmer M makes the election to exclude net income from a farm tenancy agreement. Farmer N does not make an election. Farmer M is eligible to exclude $25,000, 50 percent of the net income from Plot 9, from net income. Farmer N must include $25,000, 50 percent of the net income from the farm tenancy agreement, in net income. Farmer N is still eligible to make an election to exclude qualifying capital gains or net income from a farm tenancy agreement in a subsequent tax year.

EXAMPLE 9: Assume the same facts as Example 8, except Farmer N makes the same election to exclude net income from a farm tenancy agreement. On the jointly filed return, Farmer M and Farmer N can exclude from net income $50,000, 100 percent of the net income from a farm tenancy agreement.

EXAMPLE 10: Assume the same facts as Example 8, except Farmer N does not qualify to make an election to exclude qualifying capital gains or net income from a farm tenancy agreement. Farmer M can exclude from net income $25,000, 50 percent of the net income received from a farm tenancy agreement on Plot 9. Farmer N must include in net income $25,000, 50 percent of the net income from the farm tenancy agreement on Plot 9.

(2) A retired farmer who owns real property used in a farming business jointly with someone who is not the retired farmer's spouse may only exclude qualifying income from that real property to the extent of the retired farmer's ownership interest held in the real property.

EXAMPLE 11: Farmer O, a retired farmer, owns Plot 10 jointly with Farmer P. Farmer O and Farmer P are not taxed as a partnership. Farmer O has a 60 percent ownership interest in Plot 10, while Farmer P has a 40 percent ownership interest. Farmer O qualifies to make an election to exclude qualifying capital gains or net income from a farm tenancy agreement. Farmer P does not. Farmer O and Farmer P sell Plot 10 for a capital gain of $100,000. Farmer O elects to exclude the capital gain. Farmer O may exclude from net income $60,000, 60 percent of the capital gain. Farmer P is required to include $40,000 in net income, 40 percent of the capital gain.

302.18(4) *Net capital gains from the sale of real property used in a farming business.* Net capital gains from the sale of real property used in a farming business may be excluded from the owner's Iowa net income if the owner held the real property used in a farming business for ten or more years and materially participated in a farming business for at least ten years. If the taxpayer is a retired farmer, the taxpayer must make the election described in subrule 302.18(3) to exclude qualifying capital gains. It is not required that the property be located in Iowa for the owner to qualify for the deduction.

a. Material participation means the same as "materially participated" as defined in Iowa Code section 422.7(13) and described in detail in subrule 302.18(2). If the taxpayer is a retired farmer and materially participated in a farming business for ten or more years in the aggregate, then the taxpayer will meet the material participation requirements. If the taxpayer is not a retired farmer, the taxpayer must have materially participated in a farming business for the ten years immediately preceding the sale. When determining whether a taxpayer is no longer materially participating to meet the definition of a retired farmer, the material participation test in subparagraph 302.18(2)*"e"*(5) shall not apply and the participation of the spouse of the taxpayer does not count as participation by the taxpayer.

b. If the taxpayer has held the real property used in a farming business and sells the property to a relative of the taxpayer, the net capital gain from the sale may be excluded from net income regardless of whether the taxpayer met the material participation or holding period requirements.

c. In situations in which real property was sold by a partnership, S corporation, limited liability company, estate, or trust and the capital gain from the sale of the real property flows through to the owners of the business entity for federal income tax purposes, the owners may exclude the capital gain from their net incomes if the real property was held for ten or more years and the owners had

materially participated in a farming business for ten years prior to the date of sale of the real property or ten years in the aggregate if the owner is a retired farmer.

d. Installments received in the tax year from installment sales of real property used in a farming business are eligible for the exclusion of capital gains from net income if all relevant criteria were met at the time of the installment sale.

EXAMPLE 1: A taxpayer received an installment payment in 2025 from the sale of real property used in a farming business that occurred in 2023. The installment received in 2025 would qualify for the exclusion if the taxpayer had held the real property for a minimum of ten years and had materially participated in a farming business for a minimum of ten years at the time of the sale in 2023.

e. Capital gains from the sale of real property by a C corporation do not qualify for the capital gain deduction.

f. The following noninclusive examples illustrate how this subrule applies:

EXAMPLE 2: S corporation, X, owned 1,000 acres of farmland. Taxpayer A is the sole shareholder of X and had materially participated in X for more than ten years at the time that X sold 500 acres of the farmland for a capital gain of $100,000. X owned the farmland for more than ten years at the time of the sale. The capital gain recognized by X that passed through to Taxpayer A as the shareholder of X can be excluded from Iowa net income because Taxpayer A met the material participation and holding period requirements.

EXAMPLE 3: Taxpayer B and Taxpayer C are siblings who both owned 50 percent of the stock in an S corporation, Y, that owned 1,000 acres of farmland. Taxpayer B managed all the farming operations for Y from the time Y was formed. Taxpayer C did not participate in the farming operations. Y sold 200 acres of the farmland to another sibling, Taxpayer D, for a $50,000 gain. $25,000 of the capital gain passed through to Taxpayer B, and $25,000 of the capital gain passed through to Taxpayer C. Both Taxpayer B and Taxpayer C had owned the corporation for at least ten years at the time the land was sold, but only Taxpayer B had materially participated in the corporation for at least ten years. Taxpayer B may exclude the $25,000 capital gain from the land sale because Taxpayer B met the time held and material participation requirements. Taxpayer C may exclude the $25,000 capital gain because the land was sold to a relative of Taxpayer C.

EXAMPLE 4: Taxpayer E owned and materially participated in a farming business for 15 years and raised row crops. There were 500 acres of land in the farming business, 300 acres had been held for 15 years, and 200 acres had been held for five years. Taxpayer E sold the 500 acres of land. Taxpayer E cannot exclude the capital gain from the sale of the 200 acres that had only been held for five years. Taxpayer E may exclude the capital gain from the sale of the 300 acres of land that had been held for 15 years.

EXAMPLE 5: Taxpayer F owned and materially participated in a farming business for more than ten years. In this business, Taxpayer F farmed a neighbor's land on a crop-share basis throughout the period. Taxpayer F bought 80 acres of land and farmed that land for six years until Taxpayer F sold the land for a capital gain of $20,000. Taxpayer F cannot exclude the capital gain because the farmland had been held for less than ten years, even though Taxpayer F materially participated in a farming business for more than ten years.

EXAMPLE 6: Taxpayer G and Taxpayer H were partners in a partnership for 20 years that owned 80 acres of farmland. Taxpayer G and Taxpayer H are both over 55 years old. The land was sold when Taxpayer G and Taxpayer H retired from farming. In all the years Taxpayer G and Taxpayer H were partners in the partnership, Taxpayer G materially participated in the farming business. Taxpayer H was a material participant for the first five years and the last five years of being a partner. Taxpayer G and Taxpayer H realized a capital gain of $50,000 from the land sale, which was divided equally between them. Taxpayer G was able to exclude $25,000 of the capital gain that Taxpayer G received from the sale since Taxpayer G had held the land and materially participated in a farming business for at least ten years at the time the land was sold. Taxpayer H was able to exclude $25,000 of the capital gain because, although Taxpayer H had not materially participated in a farming business for

ten consecutive years when the land was sold, Taxpayer H was a retired farmer and had materially participated in a farming business for ten years in the aggregate.

EXAMPLE 7: Taxpayer J had a farming business that Taxpayer J owned and materially participated in for 20 years. There were two tracts of farmland in the farming business. Taxpayer J sold one tract of farmland in the farming business that Taxpayer J had held for more than ten years for a $50,000 capital gain. The farmland was sold to a person who was not a relative. During the same year, Taxpayer J had $30,000 in long-term capital losses from sales of stock. In this situation, the capital gains would not be applied against the capital losses. Because the capital losses are unrelated to the farming business, Taxpayer J does not have to reduce the Iowa capital gain deduction by the capital losses from the sales of stock.

EXAMPLE 8: Taxpayer K had owned farmland, Plot A, and had materially participated in a farming business since 2010. In 2018, Taxpayer K entered into a like-kind exchange under IRC Section 1031 for farmland, Plot B. Taxpayer K continued to materially participate in a farming business. Plot B was sold in 2023, resulting in a capital gain. Under IRC Section 1223, the holding period for the capital gain starts in 2010. Taxpayer K held Plot B for less than ten years, but because Taxpayer K met the ten-year holding period requirement under Section 1223, the capital gain from the sale qualifies for the Iowa capital gain deduction.

EXAMPLE 9: Taxpayer L and Taxpayer M, a married couple, owned farmland in Iowa since 1995. Taxpayer L died in 2010 and, under Taxpayer L's will, Taxpayer M acquired a life interest in the farm. The farmland was managed by their child, Taxpayer N, after Taxpayer L's death. Taxpayer N had a remainder interest. Taxpayer M died in 2018, and Taxpayer N continued to materially participate and manage the farm operation. Taxpayer N sold the farmland in 2023 and reported a capital gain. Under IRC Section 1223, the holding period for the capital gain started in 2010, when Taxpayer L died. Because the holding period for the capital gain was ten years or more and Taxpayer N met the material participation requirement, Taxpayer N can deduct the capital gain.

302.18(5) *Net capital gains from the sale of cattle or horses used for certain purposes and held for 24 months by taxpayers who are retired farmers.* Net capital gains from the sale of cattle or horses held for 24 months or more for draft, breeding, dairy, or sporting purposes may be excluded from the taxpayer's Iowa net income if the taxpayer is a retired farmer and the taxpayer made the election described in subrule 302.18(3). The retired farmer must have materially participated in the farming business in which the cattle or horses were held for five of the eight years preceding the retired farmer's retirement or disability and must have sold all or substantially all of the retired farmer's interest in the farming business by the time the election is made. For purposes of this subrule and subrule 302.18(6), "substantially all" means 90 percent of the interest in the farming business.

a. Material participation means the same as "materially participated" as defined in Iowa Code section 422.7(13) and described in detail in subrule 302.18(2). When determining whether a taxpayer is no longer materially participating to meet the definition of a retired farmer, the material participation test in subparagraph 302.18(2)*"e"*(5) shall not apply and the participation of the spouse of the taxpayer does not count as participation by the taxpayer.

b. Whether cattle or horses sold by the taxpayer after the taxpayer has held them 24 months or more were held for draft, breeding, dairy, or sporting purposes may be determined from federal court cases on such sales and the standards and examples included in 26 CFR 1.1231-2. Proper records should be kept showing purchase and birth dates of cattle and horses. The absence of records may make it impossible for the owner to show that the owner held a particular animal for the necessary holding period. Whether cattle or horses are held for draft, breeding, dairy, or sporting purposes depends on all the facts and circumstances of each case.

c. Capital gains from sales of qualifying cattle or horses by an S corporation, partnership, or limited liability company, where the capital gains flow through to the owners of the respective business entity for federal income tax purposes, qualify for the capital gain deduction to the extent the owners receiving the capital gains are retired farmers who meet all the relevant criteria.

d. Capital gains from sales of qualifying cattle or horses by a C corporation are not eligible for the capital gain deduction.

302.18(6) *Net capital gains from the sale of breeding livestock, other than cattle or horses, held for 12 or more months by taxpayers who are retired farmers.* Net capital gains from the sale of breeding livestock, other than cattle or horses, held for 12 or more months may be excluded from the taxpayer's Iowa net income if the taxpayer is a retired farmer and the taxpayer made the election described in subrule 302.18(3). The retired farmer must have materially participated in the farming business in which the breeding livestock, other than cattle or horses, were held for five of the eight years preceding the retired farmer's retirement or disability. The retired farmer must have sold all or substantially all of the retired farmer's interest in the farming business by the time the election is made.

a. Material participation means the same as "materially participated" as defined in Iowa Code section 422.7(13) and described in detail in subrule 302.18(2). When determining whether a taxpayer is no longer materially participating to meet the definition of a retired farmer, the material participation test in subparagraph 302.18(2)*"e"*(5) shall not apply and the participation of the spouse of the taxpayer does not count as participation by the taxpayer.

b. If livestock other than cattle or horses is considered to have been held for breeding purposes under the criteria established in 26 CFR 1.1231-2, the livestock will also be deemed to have been breeding livestock for purposes of this rule. Proper records should be kept showing purchase and birth dates of breeding livestock. The absence of records may make it impossible for the owner to show that the owner held a particular animal for the necessary holding period. Whether livestock are held for breeding purposes depends on all the facts and circumstances of each case.

c. Capital gains from sales of qualifying livestock other than cattle or horses by an S corporation, partnership, or limited liability company, where the capital gains flow through to the owners of the respective business entity for federal income tax purposes, qualify for the capital gain deduction to the extent the owners receiving the capital gains are retired farmers who meet all the relevant criteria.

d. Capital gains from the sale of breeding livestock other than cattle or horses by a C corporation are not eligible for the capital gain deduction.

302.18(7) *Net capital gains from the sale of cattle or horses used for certain purposes, or breeding livestock.* Net capital gains from the sale of cattle or horses held for 24 months or more for draft, breeding, dairy, or sporting purposes may be excluded from the taxpayer's Iowa net income if the taxpayer received more than one-half of the taxpayer's gross income from farming or ranching operations during the tax year and did not take the exclusions described in subrule 302.18(5) or 302.18(6). Net capital gains from the sale of breeding livestock, other than cattle or horses, held by the taxpayer for a period of 12 months or more may be excluded from the taxpayer's Iowa net income if the taxpayer received more than one-half of the taxpayer's gross income from farming or ranching operations during the tax year and did not take the exclusions described in subrule 302.18(5) or 302.18(6).

a. Whether cattle or horses or other breeding livestock sold by the taxpayer were held for draft, breeding, dairy, or sporting purposes may be determined from federal court cases on such sales and the standards and examples included in 26 CFR 1.1231-2. Proper records should be kept showing purchase and birth dates of the livestock. The absence of records may make it impossible for the owner to show that the owner held a particular animal for the necessary holding period. Whether cattle or horses or other livestock are held for draft, breeding, dairy, or sporting purposes depends on all the facts and circumstances of each case.

b. Capital gains from sales of qualifying cattle, horses, or livestock by an S corporation, partnership, or limited liability company, where the capital gains flow through to the owners of the respective business entity for federal income tax purposes, qualify for the capital gain deduction to the extent the owners receiving the capital gains receive one-half of their income from farming or ranching operations.

c. Capital gains from sales of qualifying cattle or horses by a C corporation are not eligible for the capital gain deduction.

d. A taxpayer's gross income from farming or ranching includes amounts the individual has received in the tax year from cultivating the soil or raising or harvesting any agricultural commodities. Gross income from farming or ranching includes the income from the operation of a stock, dairy, poultry, fish, bee, fruit, or truck farm, plantation, ranch, nursery, range, orchard, or oyster bed, as well as income in the form of crop shares received from the use of the taxpayer's land. Gross income from farming or ranching also includes total gains from sales of draft, breeding, dairy, or sporting livestock. To make the calculation as to whether more than half of the taxpayer's gross income in the tax year is from farming or ranching operations, the gross income from farming or ranching is divided by the taxpayer's total gross income. If the resulting percentage is greater than 50 percent, the taxpayer's capital gains from sales of cattle, horses, or breeding livestock will be considered for the capital gain deduction. In instances where married taxpayers file a joint return, the gross income from farming or ranching of both spouses will be considered for the purpose of determining whether the taxpayers received more than half of their gross income from farming or ranching. However, in situations where married taxpayers file separate Iowa returns, each spouse must separately determine whether that spouse has more than 50 percent of gross income from farming or ranching operations.

302.18(8) *Installments from sales consummated before January 1, 2023.* Installments from sales that were consummated before January 1, 2023, that result in net capital gains qualify for the capital gain deduction if the requirements of Iowa Code section 422.7(21) and rule 701—302.38(422), as they existed prior to January 1, 2023, were met at the time the sale was consummated.

This rule is intended to implement Iowa Code section 422.7(13).

701—302.19(422) Net income from a farm tenancy agreement covering real property. An eligible individual may elect to exclude net income from a farm tenancy agreement covering real property held by the individual for ten or more years from the computation of net income if the eligible individual materially participated in a farming business for ten or more years.

302.19(1) *Definitions.* Unless otherwise indicated in this rule or required by the context, all words and phrases used in this rule that are defined under Iowa Code section 422.7(14) shall have the same meaning as provided to them under that Iowa Code section.

"Disabled individual" means an individual who is receiving benefits as a result of retirement from employment or self-employment due to disability. "Disabled individual" includes an individual who is determined disabled in accordance with criteria established by the Social Security Administration or other federal or state governmental agency.

"Held" shall be determined with reference to the holding period provisions of IRC Section 1223 and the federal regulations pursuant thereto.

302.19(2) *Material participation.* Material participation for the purposes of this rule is determined pursuant to subrule 302.18(2) and the definition of "materially participated" in Iowa Code section 422.7(14). An eligible individual meets the material participation requirements if the individual materially participated in a farming business for ten years or more in the aggregate. When determining whether an eligible individual has stopped materially participating, the material participation test in subparagraph 302.18(2)*"e"*(5) and the material participation of a spouse shall not apply.

302.19(3) *Lifetime election.* An eligible individual may make a single lifetime election on a form prescribed by the department to exclude net income pursuant to a farm tenancy agreement covering real property. If an eligible individual makes the election described in this subrule, the eligible individual is not eligible to make an election to exclude the capital gain from the sale of real property used in a farming business or certain livestock under Iowa Code section 422.7(13) and rule 701—302.18(422) or claim the beginning farmer tax credit under Iowa Code section 422.11E in the same tax year or any subsequent tax year. The election is irrevocable once made.

a. Beginning farmer tax credit. A retired farmer shall not utilize an unclaimed amount of a beginning farmer tax credit in the same tax year the retired farmer is making an election described in this subrule or in subrule 302.18(3) or in any subsequent tax year.

b. Surviving spouses. A surviving spouse of a deceased eligible individual may make the election described in this subrule or the election described in subrule 302.18(3) subject to the provisions of subrule 302.18(3). For purposes of this subrule, "retired farmer" as used in subrule 302.18(3) has the same meaning as "eligible individual."

c. Joint owners. An eligible individual may exclude income pursuant to the election described in this subrule or the election described in subrule 302.18(3) to the extent of the eligible individual's ownership interest in the real property subject to the provisions of subrule 302.18(3). For purposes of this subrule, "retired farmer" as used in subrule 302.18(3) has the same meaning as "eligible individual."

302.19(4) *Amount of exclusion.* An eligible individual that has made the election described in subrule 302.19(3) may exclude the amount of net income received from a farm tenancy agreement covering real property. An eligible individual may exclude net income from any qualifying farm tenancy agreement covering real property if the holding period requirements are met with respect to the real property in question, including agreements that are entered into after the single lifetime election is made. The amount of the exclusion cannot exceed the fair profits that would normally arise from a farm tenancy agreement between two parties operating at arm's length.

This rule is intended to implement Iowa Code section 422.7(14).

701—302.20(422) Charitable contributions related to Iowa tax credits. A taxpayer who claims the school tuition organization tax credit, the charitable conservation contribution tax credit, the endow Iowa tax credit, or the farm to food donation tax credit cannot claim a deduction for charitable contributions under IRC Section 170 for the amount of the contribution related to the tax credit for Iowa tax purposes.

This rule is intended to implement Iowa Code sections 15E.305, 190B.106, 422.7, 422.11S, and 422.11W.

ITEM 2. Rescind 701—Chapter 303 and adopt the following **new** chapter in lieu thereof:

CHAPTER 303
IOWA-SOURCE INCOME

701—303.1(422) Income of nonresidents. Except as otherwise provided in this rule, all income of nonresidents derived from sources within Iowa is subject to Iowa income tax.

303.1(1) *Included.* The following are included in Iowa net income:

a. Net income received by a nonresident taxpayer from a business, trade, profession, or occupation in Iowa.

b. Income from the sale of property, located in Iowa, and any income from the property prior to its sale, including property used in connection with the trade, profession, business or occupation of the nonresident even though the sale is consummated outside of Iowa, and provided that the property was sold before subsequent use outside of Iowa.

c. Income received from a trust or an estate, where the income is from Iowa sources regardless of the situs of the estate or trust.

d. Dividends received in lieu of, or in partial or full payment of, an amount of wages or salary due for services performed in Iowa by a nonresident.

e. Annuities, interest on bank deposits and interest-bearing obligations, and dividends to the extent they are derived from a business, trade, profession, or occupation carried on within the state of Iowa by the nonresident.

f. Interest received from the sale of property, on an installment contract even though the gain from the sale of the property is subject to Iowa taxation, is not allocable to Iowa if the property is not part of the nonresident's trade, profession, business or occupation.

303.1(2) *Nonresidents exempt from paying tax.* Iowa Code sections 422.5 and 422.13 provide the net income exemption amounts for nonresidents.

303.1(3) *Compensation for personal services of nonresidents.*

a. Personal services performed within Iowa. Compensation for personal services rendered within Iowa is included in Iowa net income. The salary or other compensation of an employee or corporate officer who performs services related to businesses located in Iowa, or has an office in Iowa, are not subject to Iowa tax if the services are performed while the taxpayer is outside of Iowa. However, the salary earned while the nonresident employee or officer is located within Iowa would be subject to Iowa tax. The Iowa taxable income of the nonresident shall include that portion of the total compensation received from the employer for personal services for the tax year that the total number of working days that the individual was employed within Iowa bears to the total number of working days within and without Iowa.

b. Personal services performed outside of Iowa. Compensation paid by an Iowa employer for services performed wholly outside of Iowa by a nonresident is not subject to Iowa individual income tax. However, all services performed within Iowa, either part-time or full-time, would be taxable to the nonresident and must be reported to this state.

c. Compensation received from the United States government. Compensation received from the United States government by a nonresident member of the armed forces is explained in rule 701—302.5(422).

d. Commissions earned. Income from commissions earned by a nonresident traveling salesperson, agent or other employee for services performed or sales made and whose compensation depends directly on the volume of business transacted by the nonresident will include that proportion of the compensation received that the volume of business transacted by the employee within Iowa bears to the total volume of business transacted by the employee within and without Iowa. Allowable deductions will be apportioned on the same basis. However, where separate accounting records are maintained by a nonresident or the employer of the business transacted in Iowa, then the amount of Iowa compensation can be reported based upon separate accounting.

e. Income of performers. Nonresident actors, singers, performers, entertainers, wrestlers, boxers, and similar performers must include the amount received for performances in Iowa in Iowa net income.

f. Income of licensed professionals. Nonresident attorneys, physicians, engineers, architects, and other similar professions, even though not regularly employed in this state, must include the amount of fees or compensation received for services performed in Iowa in Iowa net income.

g. Services performed in intervals throughout the year. If nonresidents are employed in Iowa at intervals throughout the year, as would be the case if employed in operating trains, planes, motor buses, or trucks and similar modes of transportation, between Iowa and other states and foreign countries, and who are paid on a daily, weekly or monthly basis, the gross income from sources within Iowa is that portion of the total compensation for personal services that the total number of working days employed within Iowa bears to the total number of working days both within and without Iowa. If paid on a mileage basis, the gross income from sources within Iowa is that portion of the total compensation for services that the number of miles traveled in Iowa bears to the total number of miles traveled both within and without Iowa. If paid on some other basis, the total compensation for personal services must be apportioned between Iowa and other states and foreign countries in such a manner as to allocate to Iowa that portion of the total compensation that is reasonably attributable to personal services performed in Iowa. Any alternative method of allocation is subject to review and change by the director. However, pursuant to federal law, nonresidents who earn compensation in Iowa and one or more other states for a railway company, an airline company, a merchant marine

company, or a motor carrier are only subject to the income tax laws of their state of residence, and the compensation would not be considered gross income from sources within Iowa.

303.1(4) *Income from business sources within and without Iowa.* When a nonresident's income is derived from any business, trade, profession, or occupation carried on partly within and partly without Iowa, only such income as is fairly and equitably attributable to that portion of the business, trade, profession, or occupation carried on in Iowa, or to services rendered within Iowa is subject to Iowa individual income tax.

303.1(5) *Apportionment of business income from business carried on both within and without Iowa.*

a. If a nonresident, or a partnership or trust with a nonresident member, transacts business both within and without Iowa, the net income must be so apportioned as to allocate to Iowa a portion of the income on a fair and equitable basis, in accordance with approved methods of accounting.

b. The amount of net income attributable to the manufacture or sale of tangible personal property shall be that portion that the gross sales made within Iowa bears to the total gross sales. The gross sales of tangible personal property are in Iowa if the property is delivered or shipped to a purchaser within Iowa, regardless of the F.O.B. point or other conditions of the sale.

c. Income derived from business other than the manufacture or sale of tangible personal property shall be attributed to Iowa in that portion that the Iowa gross receipts bear to the total gross receipts. Gross receipts are attributable to Iowa in the portion that the recipient of the service receives the benefit of the service in Iowa.

d. If the taxpayer believes that the gross sales or gross receipts methods subjects the taxpayer to taxation on a greater portion of net income than is reasonably attributable to the business within Iowa, the taxpayer may request the use of separate accounting or another alternative method that the taxpayer believes to be proper under the circumstances. In any event, the entire income received by the taxpayer and the basis for a special method of allocation shall be disclosed in the taxpayer's return and is subject to the department's approval.

e. Disaster and emergency-related work. 701—Chapter 276 provides information about allocation and apportionment of net income to Iowa by an out-of-state business or out-of-state employee who enters Iowa to perform disaster and emergency-related work during a disaster response period as those terms are defined in Iowa Code section 29C.24.

303.1(6) *Income from intangible personal property.* Business income of nonresidents from rentals or royalties for the use of or the privilege of using in Iowa, patents, copyrights, secret processes and formulas, goodwill, trademarks, franchises, and other like property is income from sources within Iowa.

a. Income of nonresidents from intangible personal property such as shares of stock in corporations, bonds, notes, bank deposits and other indebtedness is not taxable as income from sources within Iowa, except where such income is derived from a business, trade, profession, or occupation carried on within Iowa by the nonresident. If a nonresident buys or sells stocks, bonds, or other such property so regularly, systematically and continuously as to constitute doing business in Iowa, the profit or gain derived from such activity is taxable as income from a business carried on within Iowa.

b. Income of a nonresident beneficiary from an estate or trust, distributed or distributable to the beneficiary out of income from intangible personal property of the estate or trust, is not income from sources in Iowa and is not taxable to the nonresident beneficiary unless the property is so used by the estate or trust as to create a business, trade, profession, or occupation in Iowa. Whether the executor or administrator of an estate or the trustee of a trust is a resident of this state is immaterial, insofar as the taxation of income of beneficiaries from the estate or trust are concerned.

c. Following are examples to illustrate when intangible income may be subject to the allocation provisions of Iowa Code section 422.8:

EXAMPLE 1: An Illinois resident is a laborer at a factory in Davenport, Iowa. A $50 payroll deduction is made each week from the laborer's paycheck to the company's credit union. The Illinois

resident will earn $600 in interest income from the Iowa credit union account. The interest income would not be included in the net income allocated to Iowa since the interest income is not derived from the taxpayer's business or utilized for business purposes.

EXAMPLE 2: A Nebraska resident is a self-employed plumber who has a plumbing business in Council Bluffs, Iowa. The plumber has an interest-bearing checking account in an Iowa bank that the plumber uses to pay bills for the plumbing business. The plumber will earn $200 in interest income from the checking account. The interest income earned by this nonresident would be taxable to Iowa since it is derived from the business and is utilized in the business.

EXAMPLE 3: An Illinois resident has a farm in Illinois. The Illinois resident has an account in an Iowa bank and invests earnings from the Illinois farm in the Iowa account. The Illinois farmer will earn $1,000 in interest income from the account. The interest income is not included in the net income allocable to Iowa since the interest income is not derived from the taxpayer's trade or business.

EXAMPLE 4: An Illinois resident has Iowa farms. The Illinois resident invests the profits from the farms in a savings account in an Iowa bank. Several times a year, the taxpayer transfers part of the funds from the savings account to the taxpayer's checking account to purchase machinery to be used in the farming operations. The interest income would not be included in income allocated to Iowa since the interest income is not derived from the taxpayer's trade or business nor is the savings account utilized as a business account.

EXAMPLE 5: An Illinois resident is a physician and has a practice is in Iowa. The physician has a business checking account in an Iowa bank that is used to pay the bills relating to the physician's practice. In the same bank, the physician has a personal savings account where all the physician's receipts for a given month are deposited. On the first working day of the month, funds are transferred from the savings account to the checking account to pay the bills that have accrued during the month. The interest income from the savings account would be included in net income allocated to Iowa since it is derived from and utilized in the business.

EXAMPLE 6: An Illinois resident has a farm in Iowa, and that is the taxpayer's principal business. The nonresident has an interest-bearing checking account in an Iowa bank. This checking account is used to pay personal expenditures as well as to pay expenses incurred in operation of the farm. The taxpayer will earn $550 in interest from the checking account. The interest would be included in net income allocated to Iowa since the interest is derived from the business, generated from a business account, and utilized in the business.

303.1(7) *Distributive shares of nonresident partners.* When a partnership derives income from sources within Iowa, the nonresident members of the partnership are taxable only upon that portion of their distributive share of the partnership income that is derived from sources within this state.

303.1(8) *Interest and dividends from government securities of nonresidents.* Interest and dividends from securities and from securities of state and other political subdivisions exempt for federal income tax under the Internal Revenue Code are to be included in the Iowa net income of a nonresident to the extent that same are derived from a business, trade, profession, or occupation carried on within the state of Iowa by the nonresident.

303.1(9) *Gains or losses from sales or exchanges of real property and tangible personal property by a nonresident of Iowa.*

a. If a nonresident realizes any gains or losses from sales or exchanges of real property or tangible personal property within Iowa, such gains or losses are subject to the Iowa income tax. Gains or losses attributable to Iowa will be determined as follows:

(1) Gains or losses from sales or exchanges of real property located in Iowa are allocable to Iowa.

(2) Capital gains and losses from sales or exchanges of tangible personal property are allocable to Iowa if the property had a situs in Iowa at the time of the sale.

b. In determining whether a short-term or long-term capital gain or a capital loss is involved in a sale or exchange, and determining the amount of a gain from the sale of real or tangible property in Iowa, the provisions of the Internal Revenue Code are to be followed.

303.1(10) *Capital gains or losses from sales or exchanges of ownership interests in Iowa business entities by nonresidents of Iowa.* Nonresidents of Iowa who sell or exchange ownership interests in various Iowa business entities will be subject to Iowa income tax on capital gains and capital losses from those transactions for different entities as described in the following paragraphs.

a. Capital gains from sales or exchanges of stock in C corporations and S corporations. The sale or exchange of stock in a C corporation or an S corporation is the sale or exchange of intangible property. The capital gain received by a nonresident of Iowa from the sale or exchange of capital stock of a C corporation or an S corporation is taxable to the state of the personal domicile or residence of the owner of the capital stock unless the stock attains an independent business situs apart from the personal domicile of the individual who sold the capital stock. The stock may acquire an independent business situs in Iowa if the stock had been used as an integral part of some business activity occurring in Iowa in the year in which the sale or exchange of the stock had taken place. Whether the stock has attained an independent business status is determined on a factual basis.

EXAMPLE: A nonresident owns capital stock that was used as collateral to secure a loan to remodel a retail store in Iowa. Regardless of the ownership of the store, the stock would be considered as being used as an integral part of some business activity in Iowa. The amount of gain from the sale or exchange of stock is computed on the basis of the Iowa allocation and apportionment rules applicable to the separate business the stock has become an integral part of for the year in which the sale or exchange occurred. For example, if the business were subject to Iowa income tax on 40 percent of its income in the year of the sale or exchange, then 40 percent of the capital gain would be attributable or taxable by Iowa.

The fact that the gain from the sale or exchange of stock is taxable or partially taxable to Iowa does not mean that the dividends received by the nonresident in the year of sale are taxable to Iowa. Dividends from stock used in an Iowa specific business activity would not be taxable to Iowa, except under special circumstances. An illustration of these special circumstances would be when the dividends are from capital stock from a business where the purchase and sale of stock constitute a regular business in Iowa. In this situation, the dividends would be taxable to Iowa. Subrule 303.1(6) contains more information.

b. Capital gains from sales or exchanges of interests in partnerships. When a nonresident of Iowa sells or exchanges the individual's interest in a partnership, the nonresident is actually selling an intangible since the partnership can continue without the nonresident partner and the assets used by the partnership are legally owned by the partnership and an individual retains only an equitable interest in the assets of the partnership by virtue of the partner's ownership interest in the partnership. However, because of the unique attributes of partnerships, the owner's interest in a partnership is considered to be localized or sourced at the situs of the partnership's activities as a matter of law. Therefore, if a partnership conducts all of its business in Iowa, 100 percent of the gain on the sale or exchange of a partnership interest would be attributable to Iowa. On the other hand, if the partnership conducts 100 percent of its business outside of Iowa, none of the gain would be attributable to Iowa for purposes of the Iowa income tax. In the situation where a partnership conducts business both in and out of Iowa, the capital gain from the sale or exchange of an interest in the partnership would be allocated or apportioned in and out of Iowa based upon the partnership's activities in and out of Iowa in the year of the sale or exchange.

Note that if a partnership is a publicly traded partnership and is taxed as a corporation for federal income tax purposes, any capital gains realized on the sale or exchange of a nonresident partner's interest in the partnership will receive the same tax treatment as the capital gain from the sale or exchange of an interest in a C corporation or an S corporation as specified in paragraph 303.1(10)*"a."*

c. Capital gains from sales or exchanges of sole proprietorships. When a nonresident sells or exchanges the individual's interest in a sole proprietorship, the nonresident is actually selling or exchanging tangible and intangible personal property used in this business because the sole proprietor is the legal and equitable owner of all such assets. Therefore, the general source or situs rules governing the gain from the sale or exchange of tangible property and intangible property by a

nonresident individual control. Thus, if the sole proprietorship is located in Iowa, the gain from the sale or exchange of the sole proprietorship by a nonresident would be taxable to Iowa.

d. Capital gains from sales or exchanges of interests in limited liability companies. Limited liability companies are hybrid business entities containing elements of both a partnership and a corporation. If a limited liability company properly elected to file or would have been required to file a federal partnership tax return, a capital gain from the sale or exchange of an ownership interest in the limited liability company by a nonresident member of the company would be taxable to Iowa to the same extent as if the individual were selling a similar interest in a partnership as described in paragraph 303.1(10)*"b."* However, if the limited liability company properly elected or would have been required to file a federal corporation tax return, a nonresident member who sells or exchanges an ownership interest in the limited liability company would be treated the same as if the nonresident were selling a similar interest in a C corporation or an S corporation as described in paragraph 303.1(10)*"a."*

e. Taxation of corporate liquidations. As a matter of Iowa law, the proceeds from corporate liquidating distributions are not considered to be the proceeds from the sale or exchange of corporate stock. Rather, such proceeds represent the transfer back to the shareholder of that shareholder's pro rata share of the actual assets of the corporation in which each shareholder held only an equitable ownership interest prior to the dissolution. The amount of such gain is calculated by subtracting the distribution realized from the shareholder's basis in the stock. Thus, any gain realized by the shareholder upon such distribution is considered a capital gain from a sale or exchange of the assets by the shareholder for purposes of sourcing the shareholder's liquidating distribution gain. Consequently, the gain, whether it is from a distribution of cash or other property, is controlled by the general source or situs rules in subrule 303.1(9) governing the taxation of the sale or exchange of tangible personal property by a nonresident and subrule 303.1(11) governing the sale or exchange of intangible personal property by a nonresident.

f. Capital losses realized by a nonresident of Iowa from the sale or exchange of an ownership interest in an Iowa business entity. In a situation where a nonresident of Iowa sells the ownership interest in an Iowa business entity and has a capital loss from the transaction, the nonresident can claim the loss on the Iowa income tax return under the same circumstances that a capital gain would have been reported as described in paragraphs 303.1(10)*"a"* through *"e."*

303.1(11) *Capital gains and losses from sales or exchanges of intangible personal property other than ownership interests in business entities.* Capital gains and losses realized by a nonresident of Iowa from the sale or exchange of intangible personal property (other than interests in business entities) are taxable to Iowa if the intangible property was an integral part of some business activity occurring regularly in Iowa prior to the sale or exchange. In the case of an intangible asset that was an integral part of a business activity of a business entity occurring regularly within and without Iowa, a capital gain or loss from the sale or exchange of the intangible asset by a nonresident of Iowa would be reported to Iowa in the ratio of the Iowa business activity to the total business activity for the year of the sale.

This rule is intended to implement Iowa Code sections 422.5, 422.7, and 422.8.

701—303.2(422) Income of part-year residents. A taxpayer who was a resident of Iowa for only a portion of the taxable year is subject to the following rules of taxation:

303.2(1) For that portion of the taxable year for which the taxpayer was a nonresident, the taxpayer is subject to Iowa income tax only on the income derived from sources within Iowa.

303.2(2) For that portion of the taxable year for which the taxpayer was an Iowa resident, the taxpayer is subject to Iowa income tax on all income earned or received whether from sources within or without Iowa.

This rule is intended to implement Iowa Code sections 422.5, 422.7, and 422.8.

701—303.3(99E) Lottery prizes. Individuals who win Iowa lottery prizes are subject to Iowa income tax on the aggregate amount of prizes received in the tax year, even if the individuals were not residents of Iowa at the time they received the prizes.

This rule is intended to implement Iowa Code section 99G.31.

701—303.4(422) Contract sales. Interest derived as income from a land contract is intangible personal property and is assignable to the recipient's domicile. Gains received from the sale or assignment of land contracts are considered to be gains from real property in this state and are assignable to this state. Rule 701—303.16(422) provides more information for nonresidents.

This rule is intended to implement Iowa Code sections 422.7 and 422.8.

701—303.5(422) Exemption for distributions from pensions, annuities, individual retirement accounts, or deferred compensation plans received by nonresidents. A distribution from a pension plan, annuity, individual retirement account, or deferred compensation plan that is received by a nonresident of Iowa is exempt from Iowa income tax. Distributions of nonqualified retirement benefits that are paid by a partnership to its retired partners and that are received by a nonresident of Iowa are exempt from Iowa income tax to the extent the distribution is directly related to the documented retirement of the partner.

303.5(1) *Distributions received by beneficiaries.* Any distribution from the pension, annuity, individual retirement account, or deferred compensation arrangement will not be taxable to the beneficiary receiving the distributions if the beneficiary is a nonresident.

303.5(2) *Definitions.*

"Beneficiary" means an individual who receives a distribution from a pension or annuity plan, individual retirement arrangement, or deferred compensation plan as a result of either the death or divorce of the pensioner, annuitant, participant of a deferred compensation arrangement, or owner of an individual retirement account.

"Documented retirement" means any evidence that the individual can provide to the department that would establish that the individual or the individual's beneficiary is receiving distributions from the pension, annuity, individual retirement account, or deferred compensation arrangement due to the retirement of the individual.

Examples of documents that would establish an individual's retirement may include the following: copies of birth certificates or driver's licenses to establish an individual's age, copies of excerpts from an employer's personnel manual or letter from employer to establish retirement or early retirement policies, and a copy of a statement from a physician to establish an individual's disability that could have contributed to a person's retirement.

303.5(3) *Examples.*

a. A taxpayer worked for the same Iowa employer for 32 years and then retired and moved to Arkansas. The taxpayer started receiving distributions from the pension plan from the former employer after the move to Arkansas. These distributions would not be subject to Iowa income tax because the taxpayer is a nonresident.

b. Taxpayer A was the child of Taxpayer B who died after 25 years of employment with a company in Iowa. Taxpayer A was the sole beneficiary of Taxpayer B and started receiving distributions from Taxpayer B's pension. Taxpayer A was a resident of California while receiving distributions from Taxpayer B's pension. Taxpayer A is not subject to Iowa income tax on the distributions due to being a nonresident of Iowa at the time the distributions were received.

This rule is intended to implement Iowa Code section 422.8.

701—303.6(422) Taxation of compensation of nonresident members of professional athletic teams. The Iowa source income of a nonresident individual who is a member of a professional athletic team includes the portion of the individual's total compensation for services provided for the athletic team that is in the ratio that the number of duty days spent in Iowa rendering services for the team

during the tax year bears to the total number of duty days spent both within and without Iowa in the tax year.

303.6(1) *Definitions.*

"Duty days," except as provided in numbered paragraphs "4" and "5" of this definition, means all days during the taxable year from the beginning of the professional athletic team's official preseason training period through the last game in which the team competes or is scheduled to compete. Duty days are included in the allocation described in this rule for the tax year in which they occur, including where a team's official preseason training period through the last game in which the team competes, or is scheduled to compete, occurs during more than one tax year.

1. "Duty days" includes days on which a member of a professional athletic team renders a service for a team on a date that does not fall within the previously mentioned period (e.g., participation in instructional leagues, the "Pro Bowl" or promotional caravans). Rendering a service includes conducting training and rehabilitation activities but only if conducted at the facilities of the team.

2. "Duty days" also includes game days, practice days, days spent at team meetings, promotional caravans and preseason training camps, and days served with the team through all postseason games in which the team competes or is scheduled to compete.

3. Duty days for any person who joins a team during the period from the beginning of the professional athletic team's official preseason training period through the last game in which the team competes, or is scheduled to compete, begins on the day the person joins the team. Conversely, duty days for any person who leaves a team during such period ends on the day the person leaves the team. When a person switches teams during a taxable year, separate duty day calculations are to be made for the period the person was with each team.

4. Days for which a member of a professional athletic team is not compensated and is not rendering services for the team in any manner, including days when the member of a professional athletic team has been suspended without pay and prohibited from performing any services for the team, are not to be treated as duty days.

5. Days for which a member of a professional athletic team is on the disabled list and does not conduct rehabilitation activities at facilities of the team and is not otherwise rendering services for the team in Iowa are not to be considered duty days spent in Iowa. However, all days on the disability list are considered to be included in total duty days spent both within and without Iowa.

6. Total duty days for members of a professional athletic team that are not professional athletes are the number of days in the year that the members are employed by the professional athletic team. Thus, in the case of a coach of a professional athletic team who was coach for the entire year, the coach's total duty days would be 365 for the year.

7. Travel days in Iowa by a team member that do not involve a game, practice, team meeting, all-star game, or other personal service for the team are not considered to be duty days in Iowa. However, to the extent these days fall within the period from the team's preseason training period through the team's final game, these Iowa travel days will be considered in the total duty days spent within and outside Iowa for team members who are professional athletes.

8. Duty days in Iowa do not include days a team member performs personal services for the professional athletic team in Iowa on those days that the team member is a bona fide resident of a state with which Iowa has a reciprocal tax agreement. Rule 701—300.7(422) contains more information on reciprocal tax agreements.

"Member of a professional athletic team" includes those employees who are active players, players on the disabled list, and any other persons required to travel and who travel with and perform services on behalf of a professional athletic team on a regular basis. This includes but is not limited to coaches, managers, and trainers.

"Professional athletic team" includes but is not limited to any professional baseball, basketball, football, soccer, or hockey team.

"Total compensation for services rendered as a member of a professional athletic team" means the total compensation received during the taxable year for services rendered. "Total compensation" includes but is not limited to salaries, wages, bonuses (as described in numbered paragraph "1" of this definition), and any other type of compensation paid during the taxable year to a member of a professional athletic team for services performed in that year. Such compensation does not include strike benefits, severance pay, termination pay, contract or option year buy-out payments, expansion or relocation payments, and any other payments not related to services rendered for the team.

For purposes of this definition, "bonuses" included in "total compensation for services rendered as a member of a professional athletic team" subject to the allocation described in this rule are:

1. Bonuses earned as a result of play (i.e., performance bonuses) during the season, including bonuses paid for championship, playoff, or "bowl" games played by a team, or for the member's selection to all-star, league, or other honorary positions; and

2. Bonuses paid for signing a contract unless all of the following conditions are met:

- The payment of the signing bonus is not conditional upon the signee playing any games for the team, performing any subsequent services for the team, or making the team;
- The signing bonus is payable separately from the salary and any other compensation; and
- The signing bonus is nonrefundable.

303.6(2) *Examples of taxation of nonresident members of professional athletic teams.*

a. Player A, a member of a professional athletic team, is a nonresident of Iowa. Player A's contract for the team requires A to report to such team's training camp and to participate in all exhibition, regular season, and playoff games. Player A has a contract that covers seasons that occur during year one/year two and during year two/year three. Player A's contract provides that A is to receive $500,000 for the year one/year two season and $600,000 for the year two/year three season. Assuming player A receives $550,000 from the contract during taxable year two ($250,000 for one-half the year one/year two season and $300,000 for one-half the year two/year three season), the portion of compensation received by player A for taxable year two, attributable to Iowa, is determined by multiplying the compensation player A receives during the taxable year ($550,000) by a fraction, the numerator of which is the total number of duty days player A spends rendering services for the team in Iowa during taxable year two (attributable to both the year one/year two season and the year two/year three season) and the denominator of which is the total number of player A's duty days spent both within and without Iowa for the entire taxable year.

b. Player B, a member of a professional athletic team, is a nonresident of Iowa. During the season, B is injured and is unable to render services for B's team. While B is undergoing medical treatment at a clinic, which is not a facility of the team but is located in Iowa, B's team travels to Iowa for a game. The number of days B's team spends in Iowa for practice, games, and meetings while B is present at the clinic are not to be considered duty days spent in Iowa for player B for that taxable year for purposes of this rule, but these days are considered to be included within total duty days spent both within and without Iowa.

c. Player C, a member of a professional athletic team, is a nonresident of Iowa. During the season, C is injured and is unable to render services for C's team. C performs rehabilitation exercises at the facilities of C's team in Iowa as well as at personal facilities in Iowa. The days C performs rehabilitation exercise in the facilities of C's team are considered duty days spent in Iowa for player C for that taxable year for purposes of this rule. However, days player C spends at personal facilities in Iowa are not to be considered duty days spent in Iowa for player C for that taxable year for purposes of this rule, but the days are considered to be included within total duty days spent both within and without Iowa.

d. Player D, a member of a professional athletic team, is a nonresident of Iowa. During the season, D travels to Iowa to participate in the annual all-star game as a representative of D's team. The number of days D spends in Iowa for practice, the game, and meetings are considered to be duty days spent in Iowa for player D for that taxable year for purposes of this rule, as well as included within total duty days spent both within and without Iowa.

e. Assume the same facts as given in paragraph 303.6(2)*"d,"* except that player D is not participating in the all-star game and is not rendering services for D's team in any manner. Player D is instead traveling to and attending this game solely as a spectator. The number of days player D spends in Iowa for the game is not to be considered to be duty days spent in Iowa for purposes of this rule. However, the days are considered to be included within total duty days spent both within and without Iowa.

303.6(3) *Use of an alternative method to compute taxable portion of a nonresident's compensation as a member of a professional athletic team.* If a nonresident member of a professional athletic team believes that the method provided in this rule for allocation of the member's compensation to Iowa is not equitable, the nonresident member may request to use an alternative method for the allocation of the compensation to Iowa. This request shall be made in substantially the same manner as described in rule 701—503.9(422).

This rule is intended to implement Iowa Code sections 422.3, 422.7, and 422.8.

RA 26-366

REVENUE DEPARTMENT[701]

Regulatory Analysis

Notice of Intended Action to be published: 701—Chapters 304 and 800
"Adjustments to Computed Tax and Tax Credits; Tax Credits"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 421.14 and 422.68

State or federal law(s) implemented by the rulemaking: Iowa Code chapters 422D and 476C and sections 15.119, 15.293A, 15.354, 15.355, 15.490 through 15.501, 15.502 through 15.511, 15.524, 15E.26, 15E.27, 15E.43, 15E.52, 15E.66, 15E.305, 190B, 404A, 422.5, 422.8, 422.10, 422.10B, 411.10C, 422.11, 422.11D through 422.11F, 422.11H, 422.11J, 422.11O, 422.11P, 422.11R, 422.11S, 422.11V, 422.11W, 422.11Y, 422.12 through 422.12C, 422.12P, 422.12Q, 422.15, 422.33, 422.60, 422.73, 422.110, 422.111, 257.21, and 257.29

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 18, 2026 9 to 10 a.m.	Via videoconference call: meet.google.com/sbm-ihix-ere

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis, which must be received by the Department of Revenue no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Tiana Slaney
Department of Revenue
Hoover State Office Building
P.O. Box 10457
Des Moines, Iowa 50306-3457
Phone: 515.336.9007
Email: tiana.slaney@iowa.gov

Purpose and Summary

The purpose of this proposed rulemaking is to rescind Chapter 304 and to repromulgate Chapter 800. These chapters contain rules focused on tax credits available for taxpayers to be taken against Iowa income taxes. After review, the Department determined the rules aid the public's understanding of this topic and provide guidance and direction to the public of applying for and claiming tax credits.

Additionally, the content of rules 701—304.1(257,422) and 701—304.2(422D) will be transferred to 701—Chapter 301 in a Regulatory Analysis published herein (**RA 26-364**, IAB 10/28/26), where they are better suited. The Department proposes revisions to the text of the rules for clarification, for organization, and to remove portions of the rules that the Department determined to be unnecessary, obsolete, or duplicative of statutory language.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

There are no costs of the proposed rulemaking beyond what is imposed by the underlying statute; therefore, no class of persons have been identified to bear the costs.

- **Classes of persons that will benefit from the proposed rulemaking:**

Taxpayers who have Iowa income tax liabilities and other members of the public will benefit from the proposed rulemaking. The rules will provide clarity and guidance on tax credits that may be available to taxpayers, as well as providing instructions on how to properly claim and apply those credits.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

There is no economic impact associated with the proposed rulemaking beyond what is already contained in statute.

- **Qualitative description of impact:**

The proposed rulemaking will reduce uncertainty about when or whether the underlying statutes and any administrative rules are applicable. Without the proposed rulemaking, confusion could occur leading to potential errors.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

There are no costs to the agency to implement the proposed rulemaking beyond those that would otherwise be required to administer the underlying statutes.

- **Anticipated effect on State revenues:**

There is no anticipated effect on State revenues. However, the proposed rulemaking provides guidance on the imposition and administration of Iowa income tax credits, making it more likely that the correct amount of tax will be collected and taxpayers will better understand the tax credits available to them.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

The cost of inaction would be maintaining multiple chapters that are repetitive of each other and duplicative of the Iowa Code in order to convey the same information as is contained in proposed Chapter 800. The benefit of the proposed rulemaking is reducing confusion, removing obsolete rules, and aiding in the public's understanding of the topic.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

The proposed rulemaking is neither costly nor intrusive. The Department considered the option of not having rules explaining the credits available against income tax but determined that the rules provide useful guidance to the public and aid in compliance.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

The Department considered not providing the rules in this chapter and leaving the tax credit rules in the chapters that previously contained them. However, the Department determined the public would be best served by the rules within the proposed chapter and from a reduced duplication of rules.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

The absence of rules on income tax credits would lead to confusion in the qualification, application, and claiming of tax credits. Leaving the rules in the chapters that previously contained them is a less clear and concise way to provide this guidance, in addition to being repetitive.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

The proposed rulemaking does not have a substantial impact on small business because it does not make distinctions based upon size. The rules do not impose requirements beyond what is imposed by the underlying statutes.

Text of Proposed Rulemaking

ITEM 1. Rescind and reserve **701—Chapter 304**.

ITEM 2. Rescind 701—Chapter 800 and adopt the following **new** chapter in lieu thereof:

TITLE IX
TAX CREDITS

CHAPTER 800
TAX CREDITS

701—800.1(422,425) Purpose. This chapter contains rules applicable to certain tax credits that may be claimed against Iowa tax. The credits addressed in this chapter are those that may be claimed against individual income tax, corporation income tax, franchise tax, moneys and credits tax, and insurance premium tax.

800.1(1) *Property tax credits.* 701—Chapters 104 and 110 contain rules related to credits that may be claimed against property tax.

800.1(2) *Withholding tax credits.* 701—Chapter 307 contains rules related to credits that may be claimed against withholding tax.

800.1(3) *Composite return tax credits.* 701—Chapter 405 contains rules on composite tax credits for composite return tax paid by a pass-through entity.

This rule is intended to implement Iowa Code chapters 422 and 425.

701—800.2(422) Deduction of credits. If a taxpayer is eligible to claim more than one tax credit against the same computed tax, the credits are to be claimed in the order provided below.

800.2(1) *Order of credits.* The credits against the computed tax in Iowa Code sections 422.5, 422.8, 422.10 through 422.12C, 422.12P, 422.110, 422.33, and 422.60 shall be claimed in the following sequence, when applicable.

a. Personal exemption credit.

b. Tuition and textbook credit.

c. Volunteer fire fighter, volunteer emergency medical services personnel and reserve peace officer tax credit.

d. Nonresident and part-year resident credit.
e. Out-of-state tax credit.
f. Franchise tax credit.
g. S corporation apportionment credit.
h. Qualifying business investment tax credit (also known as angel investor tax credit, when nonrefundable for corporation and franchise).
i. Historic preservation tax credit (when the taxpayer has elected that the credit be nonrefundable under Iowa Code section 404A.2(4)).
j. School tuition organization tax credit.
k. Innovation fund investment tax credit.
l. Endow Iowa tax credit.
m. Redevelopment tax credit.
n. Farm to food donation tax credit.
o. Workforce housing tax credit.
p. Hoover presidential library tax credit.
q. Employer child care tax credit.
r. MEGA investment tax credit (when nonrefundable).
s. Enterprise Zone investment tax credit.
t. High quality jobs investment tax credit.
u. Renewable energy tax credit.
v. New jobs tax credit.
w. Beginning farmer tax credit.
x. Agricultural assets transfer tax credit.
y. Custom farming contract tax credit.
z. Geothermal heat pump tax credit/geothermal tax credit.
aa. Solar energy system tax credit.
ab. Charitable conservation contribution tax credit.
ac. Research activities tax credit.
ad. Historic preservation tax credit (when the taxpayer has elected that the credit be refundable under Iowa Code section 404A.2(4)).
ae. Child and dependent care tax credit or early childhood development tax credit.
af. Fuel tax credit.
ag. Claim of right credit (if elected in accordance with rule 701—300.12(422)).
ah. Adoption tax credit.
ai. E-85 gasoline promotion tax credit.
aj. Biodiesel blended fuel tax credit.
ak. E-15 plus gasoline promotion tax credit.
al. Earned income tax credit.
am. Renewable chemical production tax credit.
an. MEGA investment tax credit (when refundable).
ao. Public safety officer moving expense tax credit.
ap. BIG investment tax credit.
aq. Seed investor tax credit.
ar. Research and development tax credit.
as. Sustainable aviation fuel production tax credit.
at. EDGE tax credit.
au. Estimated payments, payment with vouchers, composite tax credits, PTET credits, and withholding tax.

800.2(2) *Order of credits carried forward from a previous tax year.*

a. A credit carried forward from a previous tax year shall be applied against computed tax before a credit earned under the same credit program in the current tax year.

b. A credit carried forward from a previous tax year cannot be applied against computed tax before a different credit that appears before the credit carried forward in the sequence provided above is applied against computed tax. For example, a school tuition organization tax credit awarded in the current tax year must be applied against computed tax before a renewable energy tax credit carried forward from a previous tax year.

This rule is intended to implement Iowa Code sections 15.293A, 15.355, 15.493, 15.508, 15.524, 15E.27, 15E.43, 15E.52, 15E.66, 15E.305, 190B.10, 404A, 422.5, 422.8, 422.10, 422.10B, 411.10C, 422.11, 422.11D through 422.11F, 422.11H, 422.11J, 422.11O, 422.11P, 422.11R, 422.11S, 422.11V, 422.11W, 422.11Y, 422.12 through 422.12C, 422.12P, 422.12Q, 422.15, 422.33, 422.60, 422.73, 422.110, and 422.111 and chapter 476C.

701—800.3(422) Exemption credits. Exemption credits are available as provided in this rule. The credits may be claimed against individual income tax.

800.3(1) A taxpayer whose federal filing status is single is allowed a personal exemption credit of $40.

800.3(2) A taxpayer who is married and living with the taxpayer's spouse at the close of the taxable year, or at the time of the death of the spouse during the taxable year, is allowed an exemption credit of $80 if a joint return is filed. Where such spouse files a separate return, each spouse is entitled to deduct from the computed tax a personal exemption of $40. The personal exemption cannot be divided between the spouses in any other proportion.

800.3(3) A taxpayer is allowed an exemption credit of $40 for each dependent. "Dependent" has the same meaning as provided by the Internal Revenue Code (IRC), and the dependents claimed for Iowa income tax purposes are the same as the taxpayer is entitled to claim for federal income tax purposes. If each spouse furnished 50 percent of the support, the spouses must elect which spouse is to be entitled to claim the dependent. The dividing of dependent credits applies only to the number of dependents and not to the credit amount for a particular dependent.

800.3(4) A head of household as defined in Iowa Code section 422.4 is allowed a personal exemption credit of $80.

800.3(5) A taxpayer who is 65 years of age on or before the first day following the end of the tax year is allowed an additional personal exemption credit of $20 in addition to any other credits allowed by this rule.

800.3(6) A taxpayer who is blind, as described in Iowa Code section 422.12(2)*"a,"* is allowed a personal exemption credit of $20 in addition to any other credits allowed by this rule.

800.3(7) A nonresident taxpayer or a part-year resident taxpayer is allowed to deduct personal exemption credits as if the nonresident taxpayer or part-year taxpayer were a resident for the entire year.

This rule is intended to implement Iowa Code section 422.12.

701—800.4(422) Nonresident and part-year resident credits. An individual who is a nonresident of Iowa for the entire tax year, or an individual who is an Iowa resident for a portion of the tax year, is allowed a credit against the individual's Iowa income tax liability for the Iowa income tax on the portion of the individual's income that was earned outside Iowa while the person was a nonresident of Iowa. This credit is computed on the Iowa Nonresident and Part-Year Resident Credit Schedule.

800.4(1) *Credit calculation for nonresidents of Iowa.*

a. Prior to the calculation of the nonresident credit, a nonresident of Iowa shall compute taxable income in the same manner as a full-year Iowa resident. Thus, a nonresident would have the same initial Iowa income tax liability as a full-year Iowa resident taxpayer with the same taxable income before the nonresident credit is computed.

b. The nonresident credit is computed by dividing the taxpayer's Iowa-source net income by the taxpayer's total net income. 701—Chapter 303 contains rules on determining a nonresident's Iowa-source net income and total net income. This Iowa income percentage is rounded to the nearest

ten-thousandth of a percent (e.g., 12.3456 percent). The Iowa income percentage is then subtracted from 100 percent to arrive at the nonresident credit percentage, which represents the percentage of the individual's total income that was earned outside Iowa. The nonresident credit percentage is multiplied by the net Iowa tax, after reduction for the tax credits provided in Iowa Code section 422.12, to compute the nonresident credit.

EXAMPLE 1: A single resident of Nebraska had Iowa-source net income of $15,000 from wages earned from employment in Iowa. The rest of this person's income was attributable to sources outside Iowa. This nonresident of Iowa had a total net income of $40,000 and a taxable income of $30,000 due to allowable deductions. The Iowa income percentage is computed by dividing the Iowa-source net income of $15,000 by the taxpayer's total net income of $40,000, which results in a percentage of 37.5000. This percentage is subtracted from 100 percent, which leaves a nonresident credit percentage of 62.5000.

The Iowa tax before reduction for the tax credits under Iowa Code section 422.12 is $1,140. The individual is allowed an exemption credit under Iowa Code section 422.12 of $40, which leaves a tax amount of $1,100 ($1,140 − $40). When $1,100 is multiplied by the nonresident credit percentage of 62.5000, a nonresident credit of $688 is computed.

EXAMPLE 2: A California resident who was married had $20,000 of Iowa-source net income. This person had an additional $80,000 in net income that was attributable to sources outside Iowa, but the person's spouse had no income. The taxpayers had a total net income of $100,000 and a taxable income of $70,000 due to allowable deductions. The taxpayers had an Iowa-source net income of $20,000 and a total net income of $100,000. Therefore, the Iowa income percentage was 20.0000. Subtracting the Iowa income percentage of 20 percent from 100 percent leaves a nonresident credit percentage of 80.0000.

The taxpayers had an Iowa income tax liability of $2,580 after application of the tax credits in Iowa Code section 422.12. When the Iowa income tax liability of $2,580 is multiplied by 80 percent, this results in a nonresident credit of $2,064.

800.4(2) *Credit calculation for part-year residents of Iowa.*

a. Prior to the calculation of the part-year resident credit, an individual who is a resident of Iowa for part of the tax year shall compute taxable income in the same manner as a full-year Iowa resident. Therefore, a part-year resident would have the same initial Iowa income tax liability as a full-year Iowa resident with the same taxable income before computation of the part-year resident credit.

b. The part-year resident credit for a part-year resident is computed by adding all the individual's net income received while the taxpayer was a resident of Iowa and all the Iowa-source net income received during the period of the tax year when the individual was a nonresident of Iowa, and dividing that sum by the taxpayer's total net income. 701—Chapter 303 contains rules on determining a part-year resident's Iowa-source net income and total net income. This Iowa income percentage is rounded to the nearest ten-thousandth of a percent (e.g., 12.3456 percent). The Iowa income percentage is then subtracted from 100 percent to arrive at the part-year resident credit percentage, which represents the percentage of the individual's total income that was earned outside of Iowa while a nonresident. The part-year resident credit percentage is multiplied by the net Iowa tax, after reduction for the tax credits provided in Iowa Code section 422.12, to compute the part-year resident credit.

EXAMPLE 3: A single individual was a resident of Nebraska for the first half of the calendar year and moved to Iowa on July 1 of the same year. This individual earned $20,000 from wages, $200 from interest, and $4,000 from a ranch in Nebraska from January 1 through June 30. In the second half of the year, this person had wages of $30,000, interest income of $300, and $4,000 from the Nebraska ranch. This part-year resident had $14,000 of allowable deductions.

The part-year resident's total net income was $58,500 and Iowa-source net income was $34,300, which includes the Iowa wages, the Nebraska ranch income of $4,000 earned during the individual's period of Iowa residence, and the interest income of $300 earned during that time of the tax year. The Iowa taxable income for the part-year resident was $44,500 due to allowable deductions of $14,000

($58,500 − $14,000). The individual's Iowa income percentage was 58.6325, which was determined by dividing the Iowa-source income of $34,300 by the total income of $58,500. Subtracting the Iowa income percentage of 58.6325 from 100 percent results in a part-year resident credit percentage of 41.3675. The Iowa tax on total income was $1,651 after subtraction of the credits under Iowa Code section 422.12.

When $1,651 is multiplied by the part-year resident percentage of 41.3675, a part-year resident credit of $683 is computed for this part-year resident.

EXAMPLE 4: A single individual moved from Minnesota to Iowa on July 1 of the calendar year. This person earned $5,000 in income from an Iowa farm in the first half of the tax year and another $10,000 from this farm in the second half of the tax year. This person had $10,000 in wages from employment in Minnesota in the first half of the year and another $15,000 in wages from employment in Iowa in the second half of the tax year. This person had $2,000 in interest from a bank in the first half of the year and $2,000 in interest from a bank in the second half of the tax year.

The part-year resident's total net income was $44,000, and the Iowa-source net income was $32,000, which consisted of $15,000 in wages, $2,000 in interest income, and $15,000 in income from the Iowa farm. Since the farm was in Iowa, all farm income, including the income received while the individual was not a resident of Iowa, was taxable to Iowa. The individual's Iowa taxable income was $34,250, which was computed after subtracting $9,750 in allowable deductions ($44,000 − $9,750). The taxpayer's Iowa income percentage was 72.7273, which was computed by dividing the Iowa-source net income of $32,000 by the total net income of $44,000. The part-year resident credit percentage was 27.2727, which was arrived at by subtracting the Iowa income percentage of 72.7273 from 100 percent. The taxpayer's Iowa income tax liability was $1,262 after subtraction of credits under Iowa Code section 422.12.

The taxpayer's part-year resident credit is $344 ($1,262 × 0.272727).

This rule is intended to implement Iowa Code section 422.5.

701—800.5(422) Out-of-state tax credit.

800.5(1) *Definitions.* For purposes of this rule:

"Foreign country" means any country, other than the United States, and any political subdivision of that country.

"Income tax" means any direct tax imposed upon a taxpayer and measured by the taxpayer's income for a specified period of time. The out-of-state jurisdiction's characterization of the tax is not controlling in the department's determination of whether a tax is an income tax. Fees, penalty, and interest paid in connection with an income tax do not qualify. For purposes of this rule, "income tax" does not include a minimum tax imposed on preference items.

"Pass-through entity" means an entity taxed as a partnership for federal tax purposes, an S corporation, an estate, or a trust other than grantor trusts.

"Regulated investment company" means any domestic corporation that meets the requirements of IRC Section 851 and that has made a valid election under IRC Section 853 to have its shareholders' pro rata share of entity-level income tax paid by the electing corporation be deemed to have been paid by its shareholders. "Regulated investment company" includes but is not limited to a mutual fund.

"State" means any state of the United States, the District of Columbia, the Commonwealth of Puerto Rico, any territory or possession of the United States, and any political subdivision thereof.

"Tiered owner" means an owner or beneficiary of a pass-through entity that is itself a pass-through entity.

800.5(2) *General application.*

a. Residents. Iowa residents, including part-year residents, are allowed an out-of-state tax credit against the resident's Iowa income tax liability for income taxes owed and paid by the resident to another state or foreign country on income for which all of the following are true:

(1) The income was derived from sources within the other state or foreign country as determined under Iowa income sourcing statutes and rules.

(2) The income is subject to Iowa income tax. Income tax imposed by another state or foreign country on income that is not subject to Iowa income tax does not qualify for the credit.

(3) The income was earned while the taxpayer was an Iowa resident and is included on the resident's Iowa income tax return. The credit is allowable only if the taxpayer files an Iowa income tax return as a resident or part-year resident.

b. Nonresidents. Nonresidents of Iowa cannot claim the out-of-state tax credit.

800.5(3) *Pass-through entities.*

a. Direct owners.

(1) If the Iowa resident is a direct partner, shareholder, or beneficiary of a pass-through entity that owed and paid entity-level income tax, or income tax on a composite return basis, to another state or foreign country on income derived from sources in that state or foreign country, the resident is allowed to treat the resident's pro rata share of that income tax as paid by the resident for purposes of the out-of-state tax credit, provided the resident's pro rata share of that income flows through to the resident and meets the requirements of paragraph 800.5(2)*"a."*

(2) The entity-level income tax or composite income tax paid to the other state or foreign country is the net state or foreign income tax actually owed and paid for the tax year on income taxed by that state or foreign country, as properly computed on the pass-through entity's income tax return or composite return (not a withholding return) in the other state or foreign country after reduction for all nonrefundable credits provided to the pass-through entity. Paragraph 800.5(6)*"b"* provides an additional limitation if the Iowa resident receives a refundable credit in the other state or foreign country for the Iowa resident's share of the income tax owed and paid by the pass-through entity. The resident's pro rata share of entity-level income tax or composite income tax paid by the pass-through entity shall be in the same proportion as the resident's pro rata share of income derived from sources in that state or foreign country, as properly reported on the entity's return in the other state or foreign country.

(3) To qualify, the pass-through entity must provide to the resident a statement identifying the jurisdiction and the resident's pro rata share of the income, income tax liability, and income tax paid in that jurisdiction.

EXAMPLE 1: Partnership W earns $2,000 of income in state A, which imposes an entity-level income tax directly on the partnership. Partnership W pays $100 of income tax to state A. Partnership W is owned 50 percent by Partnership X and 50 percent by individual Y, a resident of Iowa. Individual Y receives a statement from Partnership W showing that Partnership W earned $2,000 of income and paid $100 of entity-level income tax to state A and that individual Y's pro rata share of that income and entity-level income tax is $1,000 and $50, respectively. If that $1,000 of income from Partnership W is subject to Iowa income tax and included on individual Y's Iowa income tax return as earned while an Iowa resident, individual Y will be entitled to treat the $50 of income tax paid by Partnership W to state A as paid by individual Y in the computation of Y's out-of-state tax credit.

b. Indirect owners.

(1) If the Iowa resident is an indirect partner, shareholder, or beneficiary of a pass-through entity that paid entity-level income tax, or income tax on a composite return basis, to another state or foreign country on income derived from sources in that state or foreign country, the resident is allowed to treat the resident's pro rata share of that income tax as paid by the resident for purposes of the out-of-state tax credit if both of the following requirements are satisfied:

1. The tiered owner reduces the amount of the paying pass-through entity's income tax that the tiered owner reports to its partners, shareholders, or beneficiaries by the amount of any credit available from that other state or foreign country to the tiered owner for the tax liability of the paying pass-through entity.

2. The resident's pro rata share of that income flows through one or more tiered owners to the resident and meets the requirements of paragraph 800.5(2)*"a."*

(2) The entity-level income tax or composite income tax paid to the other state or foreign country is the net state or foreign income tax actually owed and paid for the tax year on income taxed by

that state or foreign country, as properly computed on the pass-through entity's income tax return or composite tax return (not a withholding return) in the other state or foreign country, after reduction for all nonrefundable credits provided to the pass-through entity, and after further reduction by a tiered owner for any credits provided by that other state or foreign country to the tiered owner for the tax liability of the paying pass-through entity. Paragraph 800.5(6)*"b"* provides an additional limitation if the Iowa resident receives a refundable credit in the other state or foreign country for the Iowa resident's share of the income tax owed and paid by a pass-through entity. The resident's pro rata share of entity-level income tax or composite income tax paid by the pass-through entity shall be in the same proportion as the resident's pro rata share of income derived from sources in that state or foreign country, as properly reported on the entity's return in the other state or foreign country, after flowing through one or more tiered pass-through entities to the resident.

(3) To qualify, the paying pass-through entity must provide to the tiered owner a statement identifying the jurisdiction and the tiered owner's pro rata share of the income, income tax liability, and income tax paid in that jurisdiction. The tiered owner, in turn, must provide the indirect partner, shareholder, or beneficiary with a statement that includes all of the following information:

1. The jurisdiction to which income tax was paid; the paying pass-through entity and any other tiered owner through which the income flowed; and the indirect partner's, shareholder's, or beneficiary's pro rata share of the paying pass-through entity's income.

2. The indirect partner's, shareholder's, or beneficiary's pro rata share of the paying pass-through entity's income tax liability and income tax paid to the other jurisdiction after reduction for any credit available to the tiered owner for the tax liability of the paying pass-through entity. If no such credit was provided to the tiered owner, the statement must include a declaration from the tiered owner to that effect.

EXAMPLE 2: Assume the same facts as Example 1. Partnership X (a tiered owner) receives a statement from Partnership W showing that Partnership W earned $2,000 of income in state A and paid $100 of entity-level income tax to state A and that Partnership X's pro rata share of that income and entity-level income tax is $1,000 and $50, respectively. Partnership X is not eligible for a credit in state A for its share of the entity-level income tax paid by Partnership W. Partnership X is owned 50 percent by individual Z, a resident of Iowa. Individual Z then receives a statement from Partnership X indicating that Partnership X was not eligible for a credit for the tax paid by Partnership W, that Z's pro rata share of Partnership W's income taxed by state A is $500, and that individual Z's pro rata share of Partnership W's income tax imposed by and paid to state A is $25. If that $500 of income from Partnership W flows through Partnership X to individual Z, is subject to Iowa income tax, and is included on Z's Iowa income tax return as earned while an Iowa resident, Z will be entitled to treat the $25 of income tax paid by Partnership W to state A as paid by individual Z in the computation of Z's out-of-state tax credit.

EXAMPLE 3: Assume the same facts as Example 2, except that Partnership X (a tiered owner) is eligible for a $50 credit in state A for its share of the entity-level income tax paid by Partnership W to state A. Partnership X must reduce its share of Partnership W's entity-level income tax ($50) that it can report to its partners by the amount of the credit provided by state A for that tax ($50). Therefore, Partnership X cannot pass Partnership W's entity-level income tax through to individual Z, and Z cannot treat a pro rata share of Partnership W's entity-level income tax as paid by Z. However, if Partnership X is itself subject to and pays an entity-level income tax in state A, it may be allowed to pass through and individual Z may be allowed to treat as paid by Z a pro rata share of the entity-level income tax paid by Partnership X in state A in the same manner as described in paragraph 800.5(3)*"a."*

800.5(4) *Rule for regulated investment companies.* If the Iowa resident is a shareholder of a regulated investment company making an election under IRC Section 853, the resident is allowed an out-of-state tax credit for the pro rata share of entity-level income tax paid to a foreign country or possession of the United States by the regulated investment company and treated as paid by the resident shareholder under IRC Section 853 if the income taxed by the foreign country or possession

of the United States is also subject to tax in Iowa and is included on the resident shareholder's Iowa income tax return as earned while an Iowa resident. To qualify, the regulated investment company must provide to the resident shareholder a statement identifying the jurisdiction and the resident shareholder's pro rata share of the income, income tax liability, and income tax paid in that jurisdiction.

EXAMPLE 4: Individual D is a resident of Iowa and a shareholder of a mutual fund that paid income tax to foreign jurisdictions and that made an election under IRC Section 853. On the annual year-end tax statement, the mutual fund reported $2,000 of income to individual D and $10 of foreign tax paid with respect to D's income. If that $2,000 of income from the mutual fund is subject to Iowa income tax and included on individual D's Iowa income tax return as earned while an Iowa resident, D will be entitled to treat the $10 of income tax paid by the mutual fund to the foreign jurisdictions as paid by D in the computation of D's out-of-state tax credit.

800.5(5) *Computing the out-of-state tax credit—preliminary calculation.*

a. Required form. The tax credit must be computed on the Iowa Out-of-State Tax Credit Schedule. Married taxpayers filing separate Iowa returns must complete a separate schedule for each spouse.

b. Computed separately by jurisdiction. The tax credit must be computed separately for each out-of-state jurisdiction. A separate tax credit schedule is required for each out-of-state jurisdiction. However, separate computations and separate schedules are not required for foreign income taxes paid by a regulated investment company.

c. Computed separately by income tax type. The tax credit must be computed separately for regular income tax and special lump-sum distribution tax. If the taxpayer was assessed a special tax on a lump-sum distribution by another state or foreign country, the credit should be computed separately under these rules using only the lump-sum distribution and lump-sum distribution tax imposed in Iowa and imposed in the other state or foreign country. A lump-sum distribution taxed by another state or foreign country shall not be included as part of gross income. A minimum tax or income tax imposed on preference items derived from sources in another state or foreign country are not eligible for the out-of-state tax credit under this rule.

d. Full-year Iowa residents. For a taxpayer who is an Iowa resident for the entire tax year, the income tax paid to the other state or foreign country is the sum of the following amounts:

(1) Income tax treated as paid by the resident under subrules 800.5(3) and 800.5(4). The income tax shall be treated as paid by the resident for the tax year that the out-of-state pass-through income is considered taxable Iowa income to the resident.

(2) The net state or foreign income tax actually owed and paid by the resident for the tax year on income qualifying under paragraph 800.5(2)*"a,"* as properly computed on the resident's income tax return in the other state or foreign country, less all nonrefundable credits provided to the resident, and less any refundable credits provided to the resident for entity-level income taxes or composite income taxes paid by a pass-through entity. Example 5 below demonstrates this.

e. Part-year Iowa residents. A taxpayer who is a part-year resident of Iowa may only claim the out-of-state tax credit against the taxpayer's Iowa income tax liability for income tax paid to another state or foreign country on income qualifying under paragraph 800.5(2)*"a"* that is earned during the period of the tax year that the taxpayer was an Iowa resident. The income tax paid to the other state or foreign country is the sum of the following amounts:

(1) Income tax treated as paid by the resident under subrules 800.5(3) and 800.5(4) on income earned during the period of the tax year that the taxpayer was an Iowa resident. The income tax shall be treated as paid by the resident for the tax year that the out-of-state pass-through income is considered taxable Iowa income.

(2) The net state or foreign income tax actually owed and paid by the taxpayer for the tax year on income qualifying under paragraph 800.5(2)*"a"* that was earned during the period of the tax year that the taxpayer was an Iowa resident, as properly computed on the resident's income tax return in the other state or foreign country, less all nonrefundable credits provided to the resident, and less any

refundable credits provided to the resident for entity-level income taxes or composite income taxes paid by a pass-through entity. Example 6 below demonstrates this.

800.5(6) *Computing the out-of-state tax credit—additional limitations and considerations.*

a. Maximum credit. The out-of-state tax credit cannot exceed the amount provided in Iowa Code section 422.8(1). If gross income is subject to tax in a jurisdiction at more than one level (i.e., at the pass-through entity level and at the individual level), it shall only be counted once for purposes of computing the maximum credit.

(1) Full-year Iowa residents. Gross income qualifying under paragraph 800.5(2)*"a"* and taxed by the other state or foreign country shall be divided by the total gross income of the Iowa resident taxpayer. This quotient, multiplied by the net Iowa tax as determined on the total gross income of the taxpayer as if entirely earned in Iowa, shall be the maximum tax credit. This quotient shall be computed as a percentage rounded to the nearest ten-thousandth of a percent (e.g., 12.3456 percent). For purposes of this subparagraph, "net Iowa tax" means the Iowa regular income tax after reduction for the nonrefundable credits provided in Iowa Code section 422.12.

EXAMPLE 5: Taxpayer A was an Iowa resident for the entire tax year but commuted across the border and worked in state Z. Taxpayer A had wages of $30,000 in state Z. Taxpayer A filed an income tax return in state Z reporting the $30,000 of wages and had state Z income tax liability of $500, which is Taxpayer A's preliminary out-of-state credit under subrule 800.5(5). Taxpayer A also had income of $10,000 from rental of an Iowa farm and another $10,000 in interest income from a personal savings account. Taxpayer A's total gross income for the tax year was $50,000. Thus, 60 percent ($30,000 ÷ $50,000) of Taxpayer A's income was earned in state Z. Taxpayer A's net Iowa tax on total gross income was $817, which results in a maximum out-of-state credit of $490 ($817 × .60). Therefore, the out-of-state tax credit allowed is $490 because the maximum credit of $490 was less than the preliminary credit of $500.

(2) Part-year Iowa residents. Gross income qualifying under paragraph 800.5(2)*"a"* that was earned during the period of the tax year that the taxpayer was an Iowa resident and taxed by the other state or foreign country shall be divided by the total gross income of the Iowa taxpayer earned while an Iowa resident or otherwise sourced to Iowa. This quotient, multiplied by the net Iowa tax as determined on the total gross income of the taxpayer as if entirely earned in Iowa, shall be the maximum tax credit. This quotient shall be computed as a percentage rounded to the nearest ten-thousandth of a percent (e.g., 12.3456 percent). For purposes of this subparagraph, "net Iowa tax" means the Iowa regular income tax after reduction for the nonrefundable credits provided in Iowa Code section 422.12 and after reduction for the nonresident and part-year resident credit in rule 701—800.4(422).

EXAMPLE 6: Taxpayer B was a part-year Iowa resident for the tax year. Taxpayer B resided in state Z for the first six months of the year and moved to Iowa on July 1 but continued to commute across the border and work in state Z. Taxpayer B was employed in state Z for the entire year and had wages of $30,000 in state Z. Taxpayer B filed an income tax return in state Z reporting the $30,000 of wages and had state Z income tax liability of $1,000. The amount of gross income taxed by state Z while taxpayer B was an Iowa resident was $15,000 (50 percent of the $30,000 of state Z wages). Since 50 percent of the income earned in state Z was earned while taxpayer B was a resident of Iowa, the preliminary out-of-state credit under subrule 800.5(5) is $500 ($1,000 × .50). Taxpayer B also had $10,000 in farm rental income from farmland located in Iowa. Taxpayer B's gross income earned while an Iowa resident and otherwise sourced to Iowa was $25,000 ($15,000 of wages + $10,000 farm rental income). Thus, 60 percent of the gross income was earned in state Z while an Iowa resident ($15,000 ÷ $25,000). Taxpayer B's net Iowa tax on total gross income was $1,094, which results in a maximum out-of-state credit of $656 ($1,094 × .60). Therefore, the out-of-state tax credit allowed is $500 because the preliminary credit of $500 was less than the maximum credit of $656.

b. Refund attributable to credit for entity-level income tax or composite income tax paid by a pass-through entity. If the resident claims a refundable tax credit in another state or foreign country for entity-level income tax or composite income tax paid by a pass-through entity, that refundable

credit reduces the resident's income tax liability in that state or foreign country as described in subparagraphs 800.5(5)*"d"*(2) and *"e"*(2). However, any refund attributable to that refundable credit also reduces the amount of income tax treated as paid by the resident under subrules 800.5(3) and 800.5(4). In computing this credit reduction, the refundable credit for entity-level income tax or composite income tax paid by a pass-through entity shall be applied on the other state's or foreign country's income tax return after all nonrefundable credits but before any other refundable credit. The credit reduction is required whether the resident receives the refund or applies the amount to a different tax liability or tax period.

EXAMPLE 7: Individual B, a resident of Iowa and a 50 percent owner of Partnership P doing business in state Z, receives a statement from Partnership P in accordance with subparagraph 800.5(3)*"a"*(3) showing that P earned income in and paid entity-level income tax to state Z and individual B's pro rata share of that income and that entity-level income tax is $5,000 and $250, respectively. However, individual B also receives a $250 refundable credit from state Z for individual B's share of the entity-level income tax paid by Partnership P. Individual B files an individual income tax return in state Z to report individual B's pro rata share of income from Partnership P and calculates a tentative income tax of $200 before application of the refundable credit. Individual B applies the refundable tax credit against that tentative income tax and calculates an income tax liability of $0 and a refund of $50 from state Z. Therefore, individual B must reduce the $250 of entity-level income tax treated as paid by B under subrule 800.5(3) to $200 ($250 − $50). Individual B files an Iowa income tax return that includes the $5,000 of income from Partnership P earned in state Z and calculates a preliminary out-of-state tax credit under subrule 800.5(5) of $200.

c. Taxpayers claiming the S corporation apportionment tax credit. A taxpayer who is a shareholder of an S corporation and who has income that was apportioned outside of Iowa through a claim to the S corporation apportionment tax credit is not permitted to claim the out-of-state tax credit on the same S corporation income. Income tax paid by the resident or a pass-through entity with respect to the S corporation income shall not be included in the resident's preliminary credit calculation in paragraph 800.5(5)*"d"* or *"e."* Gross income from the S corporation shall not be included in the resident's maximum credit calculation in paragraph 800.5(6)*"a."*

d. Married taxpayers using a different filing status in the other state or foreign country. If married taxpayers use a separate filing status in the other state or foreign country, but file jointly for Iowa tax purposes, the taxpayers must combine both spouses' income and income tax paid in the other state or foreign country for purposes of computing the out-of-state tax credit. If married taxpayers file jointly in the other state or foreign country, but file separate Iowa returns, the taxpayers must prorate the income tax paid in the other state or foreign country according to each spouse's respective gross income earned in that state or foreign country.

e. Tax on income that does not flow through to resident. Entity-level income tax or composite income tax paid by a pass-through entity on income that does not flow through to the Iowa resident and meet the requirements of paragraph 800.5(2)*"a"* does not qualify for the out-of-state tax credit. For example, a LIFO recapture tax installment paid by an S corporation in another state would not qualify because that tax is measured by the income of the entity in the last tax year it was a C corporation, when such income did not flow through to the shareholders. Also, income tax paid by a trust in another state on income not distributed to the beneficiaries would not qualify because that income did not flow through to the beneficiaries.

f. Recalculating credit following adjustments in the other jurisdiction. If the taxpayer or the taxpayer's pass-through entity amends the amount of income or income tax liability reported and paid to the other state or foreign country, through an amended return, audit, or otherwise, the taxpayer must file an amended Iowa return and recalculate the allowable out-of-state tax credit. Any refund claim is subject to the time period provided in Iowa Code section 422.73.

g. Nonrefundable and nontransferable. The out-of-state tax credit cannot exceed the resident's tax liability; thus, no amount may be carried forward to any future tax year. The credit cannot be transferred to any other person.

800.5(7) *Claiming the out-of-state tax credit—supporting documentation.* To claim the out-of-state tax credit, the taxpayer claiming the credit must submit the following to the department with the return or upon request as indicated below.

a. Out-of-state tax return. A copy of the income tax return filed with the other state or foreign country must be submitted. The department may further request a copy of the return that has been certified by the tax authority of that state or foreign country and showing thereon that the income tax assessed has been paid to them.

b. Iowa income tax return. A taxpayer must file an Iowa income tax return for the tax year for which the credit is claimed. A taxpayer must file an Iowa income tax return to claim the out-of-state tax credit even if the taxpayer would not otherwise have an obligation to file an Iowa income tax return for the year for which the credit is claimed.

c. Iowa out-of-state tax credit schedule. An Iowa Out-of-State Tax Credit Schedule must be submitted for the tax year for which the credit is claimed.

d. Pass-through entity statements. For entity-level income tax or composite income tax paid by a pass-through entity, a statement from the pass-through entity that meets the requirements of subrule 800.5(3) must be submitted. The pass-through entity's actual income tax returns must be submitted to the department upon request. A taxpayer who is claiming an out-of-state tax credit for entity-level income tax paid by a regulated investment company must submit a statement from the regulated investment company that meets the requirements of subrule 800.5(4).

e. Additional foreign income tax documentation. A taxpayer who is claiming the out-of-state tax credit for income taxes paid to a foreign country must provide the department with a copy of federal Foreign Tax Credit form if that form was required to be submitted with the taxpayer's federal income tax return. This submission requirement does not mean that all amounts on the federal form qualify for the Iowa out-of-state tax credit. Additionally, if the income tax was paid in foreign currency, the taxpayer shall include a detailed explanation of how the taxpayer figured the conversion rate using the rate of exchange in effect on the day the taxpayer paid the foreign income tax.

f. Proof of payment. Upon request, the taxpayer must provide the department with a photocopy, or other similar reproduction, of either:

(1) The receipt issued by the other state or foreign country for payment of the tax, or

(2) The canceled check (both sides) with which the tax was paid to the other state or foreign country together with a statement of the amount and kind (e.g., wage or salary income, rental income, business income) of total income on which such tax was paid.

This rule is intended to implement Iowa Code section 422.8.

701—800.6(422) Franchise tax credit. A tax credit is available for Iowa franchise tax paid by a financial institution on behalf of eligible taxpayers. The credit may be claimed against individual and corporation income tax.

800.6(1) *Individual income taxpayers.*

a. Eligible taxpayers. Taxpayers who meet the qualifications provided in Iowa Code section 422.11 may claim a franchise tax credit.

b. Tax credit calculation. The tax credit is equal to the qualifying taxpayer's pro rata share of the Iowa franchise tax paid by the financial institution. The amount of credit is computed according to the method provided in Iowa Code section 422.11.

800.6(2) *Corporation income taxpayers.*

a. Eligible taxpayers. Taxpayers who meet the qualifications provided in Iowa Code section 422.33(8) may claim a franchise tax credit.

b. Tax credit calculation. The tax credit is equal to the qualifying taxpayer's pro rata share of the Iowa franchise tax paid by the financial institution. The amount of credit is computed according to the method provided in Iowa Code section 422.33(8).

800.6(3) *Credit calculation for combined return filers.*

a. Where the financial institution has elected to file a combined return with one or more investment subsidiaries pursuant to rule 701—602.13(422), the franchise tax paid by the financial institution for purposes of calculating this credit is a portion of the tax paid by the combined group equal to the portion of the combined group's total taxable income attributable to the financial institution.

b. This credit is not available to shareholders or members of investment subsidiaries included on a combined return under rule 701—602.13(422) for that portion of the tax shown due on the return attributable to the investment subsidiary.

800.6(4) *Combined filer credit calculation formula.* The following formula determines the portion of a combined group's tax that may be used to calculate a shareholder's or member's franchise tax credit.

PTI = parent financial institution separate taxable income (if zero or less, no credit is available)

CTI = combined group taxable income

GT = combined group total tax (if zero or less, no credit is available)

PTI/CTI* × GT = tax eligible for the credit

*If PTI/CTI is 1 or greater, 100 percent of the tax is attributable to the parent financial institution.

EXAMPLE: Parent financial institution B, an S corporation, and its investment subsidiary C elect to file a combined Iowa franchise return. B's separate taxable income is $750,000, and the group's combined taxable income is $1,000,000. The combined group's Iowa franchise tax liability is $35,000 (at a rate of 3.5 percent). B contributed 75 percent (0.75) of the group's combined taxable income. The tax available to B's shareholders for purposes of calculating the Iowa franchise tax is $26,250 ($35,000 × 0.75).

This rule is intended to implement Iowa Code sections 422.11 and 422.33.

701—800.7(422) Tuition and textbook credit for expenses incurred for dependents attending grades kindergarten through 12 in Iowa.

800.7(1) *In general—eligibility.* There is a tax credit available to taxpayers who pay tuition and textbook expenses of dependents who attend grades kindergarten through 12 in Iowa. The tax credit may be claimed against individual income tax.

800.7(2) *Definitions.* The following definitions have the same meaning as provided in Iowa Code section 422.12. In addition, the following definitions apply to this rule:

"Extracurricular activities" means activities connected to the dependent's attendance at elementary or secondary schools that are not strictly educational.

"Textbooks" includes fees or charges for required supplies or materials for classes in art, home economics, shop, or similar courses and includes amounts paid for books or other instructional materials used in teaching a dependent subjects in the home or outside of an elementary or secondary school if that dependent is receiving private instruction.

"Tuition" includes charges by a qualified school for summer school classes or for instruction of a child who is physically unable to attend classes at the site of the elementary or secondary school but does not include amounts paid to an individual or other entity for instruction that is supplementary to elementary or secondary school instruction or private instruction. Additionally, amounts paid to an elementary or secondary school or to a person providing private instruction for meals, lodging, or clothing for a dependent as well as expenses for internet services upgrades to facilitate remote learning do not qualify for the tax credit for tuition.

800.7(3) *Tax credit calculation.*

a. Eligible expenses. For purposes of the tuition and textbook tax credit, the following are representative, though not exhaustive, examples of items that may be included in the calculation of the credit:

(1) Dues, fees, and admission costs:

1. Annual school fees.
2. Fees for participation in sports activities.

3. Fees for field trips.
4. Cost of activity tickets or admission tickets to sporting, music, and dramatic events.
5. Driver's education fees.
6. Fees for homecoming, winter formal, prom, or similar events.
7. Cost of tickets or other admission fees to attend banquets for academic or athletic awards.
8. Dues paid for boosters clubs, if the dues are for the dependent and not a parent or other adult, as well as dues for other school clubs or organizations including clubs for chess, photography, debate, or similar organizations.
9. Fees paid for required general materials for shop class, agriculture class, home economics class, or auto repair class and general fees for equivalent classes.
10. Fees for a dependent's bus trips to attend school or private instruction if paid to the school or the provider of private instruction.

(2) Athletics, music, drama, other extracurricular activities:

1. Rental fees for instruments for bands or orchestras but not rental fees in rent-to-own contracts.
2. Rental of costumes for dramatic events or purchase of such costumes if the costumes are not suitable for street wear.
3. Rental of a formal gown or tuxedo for a dance or similar event.
4. Purchase of athletic shoes with cleats, spikes, or other features that are not suitable for street wear.
5. Cost of band or athletic uniforms.
6. Cost of items for maintenance of instruments used in bands or orchestras such as grease, reeds, picks, strings, and other similar items.
7. Costs for music that will be used in music programs, including vocal music programs.
8. Costs of instrument lessons.

b. Ineligible expenses. For purposes of the tuition and textbook tax credit, the following is a non-exhaustive list of expenditures related to a dependent's participation in or attendance at extracurricular activities offered by a school or offered in the course of private instruction that cannot be included in the calculation of the credit:

(1) Voluntary, personal costs:

1. Amounts paid for special testing, such as SAT or PSAT, and for Iowa talent search tests.
2. Fees paid to K-12 schools or to a private instructor for courses for college credit.
3. Amounts paid for T-shirts, sweatshirts, and similar clothing that is appropriate for street wear.
4. Amounts paid for special programs at universities and colleges.
5. Amounts paid for a yearbook, annual, or class ring.
6. Purchase of a formal gown or a tuxedo for a dance or similar event.
7. Amounts paid for sports-related social events.

(2) Educational or extracurricular costs:

1. Purchase of a musical instrument used in a band or orchestra.
2. Purchase of athletic shoes that are readily adaptable to street wear.
3. Payments for senior trips, band trips, and other overnight activity trips that encompass payment for meals and lodging.
4. Fees for special materials for shop, agriculture, auto repair, home economics, or similar classes used for personal projects of the dependents. This would include materials to make furniture for personal use, automobile parts for family automobiles, and other materials for projects for personal or family benefit.

c. Tax credit limit. Taxpayers may receive a tax credit of 25 percent of up to $2,000 (maximum of $500) of qualifying expenses for each dependent who receives private instruction or attends an elementary or secondary school located in Iowa.

800.7(4) *Claiming the tax credit.*

a. Who may claim. The credit can only be claimed by the taxpayer who claims the dependent credit on the Iowa individual income tax return as described in subrule 800.3(3).

b. Parents filing separately. In cases where parents of a dependent file separate returns, only the taxpayer who claims the dependent credit on the Iowa individual income tax return can claim the tuition and textbook credit for tuition and textbook expenses for that dependent.

EXAMPLE 1: A couple has two dependent children and claimed a tuition and textbook credit of $500 for both children on their Iowa return. The couple filed separate returns. One taxpayer claimed both of the dependent credits on the Iowa return. The $500 tuition and textbook credit will be claimed by the taxpayer who claimed the dependent credits on the Iowa return.

c. Multiple dependents. In cases where parents have multiple dependents, the credit is allocated between the parents with the same ratio that the dependent credits were claimed by the taxpayers.

EXAMPLE 2: A couple has three dependent children and claimed a tuition and textbook credit of $600 related to all three children on their Iowa return. The taxpayers filed separately. One taxpayer claimed one dependent credit, and the other taxpayer claimed two dependent credits on the Iowa return. The taxpayer who claimed one dependent credit will claim $200 of the tuition and textbook credit, while the taxpayer who claimed two dependent credits will claim $400 of the tuition and textbook credit.

d. Filing a claim with the department. The tax credit will be claimed on the Form IA 1040.

e. When to claim the credit. The tax credit should be claimed in the tax year the eligible expenses are paid.

f. Tax credit in excess of tax liability. Any credit in excess of the taxpayer's liability is not refundable and cannot be carried back or forward to any other tax year.

g. Transferability. The tax credit cannot be transferred to any other person.

This rule is intended to implement Iowa Code section 422.12.

701—800.8(422) Volunteer fire fighter, volunteer emergency medical services personnel member, and reserve peace officer tax credit.

800.8(1) *In general–eligibility.* A tax credit is available for volunteer fire fighters, volunteer emergency medical services (EMS) personnel members, and reserve peace officers. The tax credit may be claimed against individual income tax.

800.8(2) *Definitions.* The following definitions have the same meaning as provided in Iowa Code section 422.12. In addition, the following definitions apply to this rule:

"Emergency medical services personnel member" or *"EMS personnel member"* means an individual who is a paid employee of an emergency medical services program and who is also a volunteer emergency medical services personnel member in a city, county, or area governed by an agreement pursuant to Iowa Code chapter 28E.

"Volunteer fire fighter" includes an individual who is a paid employee of a fire department and who is also a volunteer fire fighter in a city, county, or area governed by an agreement pursuant to Iowa Code chapter 28E.

800.8(3) *Tax credit calculation.* The credit is equal to $250 if the volunteer fire fighter, volunteer EMS personnel member, or reserve peace officer was a volunteer for the entire tax year.

a. Part-year credit eligibility. If the individual was not a volunteer fire fighter, volunteer EMS personnel member, or reserve peace officer for the entire tax year, the credit is prorated based on the number of months the individual was a volunteer. If the person was a volunteer for any part of a month, that individual will be considered a volunteer for the entire month. The amount of credit will be rounded to the nearest dollar.

EXAMPLE 1: An individual became a volunteer fire fighter on April 15 and remained a volunteer for the rest of the year. The individual is considered a volunteer for nine months of the year. The tax credit is equal to $188 ($250 multiplied by 9/12 equals $187.50; rounding to the nearest dollar results in a $188 credit).

b. Multiple volunteer positions. If an individual holds more than one volunteer position as a volunteer fire fighter, volunteer EMS personnel member, or reserve peace officer during the same month, a credit can be claimed for only one volunteer position for that month.

EXAMPLE 2: An individual was both a volunteer fire fighter and volunteer EMS personnel member for the entire year, the tax credit will equal $250.

800.8(4) *Claiming the tax credit.*

a. Verification of eligibility. An individual claiming this credit is required to have a written statement from the fire chief, chief of police, sheriff, public safety commissioner, or other appropriate supervisor verifying that the individual was a volunteer fire fighter, volunteer EMS personnel member, or reserve peace officer for the months for which the tax credit is claimed. The written statement does not have to be attached to a tax return claiming the credit but should be kept so that it may be provided in the event the department requests the statement for verification purposes.

b. Filing a claim with the department. The tax credit will be claimed on the Form IA 1040.

c. When to claim the credit. The credit should be claimed in the tax year the volunteer fire fighter, volunteer EMS personnel, or reserve peace officer duties are performed.

d. Tax credit in excess of tax liability. Any tax credit in excess of the taxpayer's tax liability for the tax year is not refundable and cannot be carried back or forward to any other tax year.

e. Transferability. This credit cannot be transferred to any other person.

This rule is intended to implement Iowa Code section 422.12.

701—800.9(404A,422) Historic preservation tax credit.

800.9(1) *In general—eligibility.* A tax credit is available to taxpayers for a percentage of the qualified rehabilitation expenditures on a qualified rehabilitation project as described in Iowa Code chapter 404A. The tax credit may be claimed against individual income, corporation income, franchise, and insurance premium taxes. The economic development authority's rules related to the historic preservation tax credit may be found in 261—Chapter 49.

800.9(2) *Tax credit calculation.* The amount of the historic preservation tax credit is a maximum of 25 percent of the qualified rehabilitation expenditures verified by the authority following project completion, up to the amount specified in the agreement between the taxpayer and the authority. "Qualified rehabilitation expenditures" mean the same as defined in Iowa Code section 404A.1.

800.9(3) *Credit award mechanism.* The historic preservation tax credit is administered by the authority.

a. Application and agreement. In order to receive the tax credit, the taxpayer must apply to and enter into an agreement with the authority. The authority will review applications and verify the taxpayer's eligibility for the tax credit.

b. Information required. The taxpayer must receive a tax credit certificate from the authority, including all information required by Iowa Code section 404A.2 and the address or location of the rehabilitation project, the date the project was completed, a place for the name and tax identification number of a transferee, and the amount of the tax credit being transferred.

800.9(4) *Claiming the credit.*

a. When to claim the credit. The credit must be claimed in the tax year in which the rehabilitation project is completed.

b. Filing a claim with the department. To claim the credit, the tax credit certificate must be included with the taxpayer's income tax return for the period in which the credit is claimed.

c. Allocation to individual owners or beneficiaries. A partnership, limited liability company or S corporation may designate the amount of the tax credit to be allocated to each partner, member or shareholder. The credit does not have to be allocated based on the pro rata share of earnings of the partnership, limited liability company or S corporation. For an individual claiming a tax credit of an estate or trust, the amount claimed by the individual shall be based upon the pro rata share of the individual's earnings from the estate or trust.

d. Tax credit in excess of liability. Any credit in excess of the tax liability is refundable. To receive a refundable credit, the taxpayer must elect to receive the credit as refundable during the application process administered by the economic development authority, pursuant to the authority's rules. In lieu of claiming a refund, the taxpayer may elect to have the excess credited to the taxpayer's estimated tax for the following year, for up to five years, in the same manner and under the same conditions as an overpayment of tax. The overpayment cannot be carried back to any prior year. If the taxpayer is a transferee, the taxpayer may elect to receive the credit as refundable when the taxpayer applies to the department for transfer of the tax credit as described in subrule 800.9(5).

e. Carryforward limitation. A tax credit in excess of the taxpayer's liability may be carried forward no more than five years from the tax year in which the project is completed, or until it is depleted, whichever is earlier. Any credit amount that is not utilized within the five-year carryforward period is forfeited.

800.9(5) *Transfer of the credit.* The historic preservation tax credit certificates may be transferred to any person or entity. The transferee may use the amount of the tax credit transferred against any of the tax types listed in subrule 800.9(1) and for any tax year that the original transferor could have claimed the tax credit. A tax credit certificate of less than $1,000 is not transferable.

a. Transfer process—information required. Within 90 days of transfer of the tax credit certificate, the transferee must submit the transferred tax credit certificate to the department in a manner prescribed by the department. The certificate should be submitted along with a statement that contains the transferee's name, address and tax identification number; the amount of the tax credit being transferred; and the amount of all consideration provided in exchange for the tax credit and the names of recipients of any consideration provided in exchange for the tax credit. Transferees must elect to receive either a refundable or nonrefundable tax credit. Once made, the transferee cannot subsequently change the election.

b. Consideration. If a payment of money was any part of the consideration provided in exchange for the tax credit, the transferee shall list the amount of the payment of money in its statement to the department. If any part of the consideration provided in exchange for the tax credit included nonmonetary consideration, including but not limited to any promise, representation, performance, discharge of debt or nonmonetary rights or property, the tax credit transferee shall describe the nature of the nonmonetary consideration and disclose any value the transferor and transferee assigned to the nonmonetary consideration. The tax credit transferee must indicate on its statement to the department if no consideration was provided in exchange for the tax credit.

c. Issuance of replacement certificate by the department. Within 30 days of receiving the transferred tax credit certificate and the statement from the transferee, the department will issue the replacement tax credit certificate to the transferee containing the information required by Iowa Code chapter 404A. The transferee cannot claim a tax credit until a replacement certificate identifying the transferee as the proper holder has been issued.

d. Unlimited number of transferees and subsequent transfers. There is no limitation on the number of transferees to whom the credit may be transferred. There is no limitation on the number of times that the credit may be retransferred by a transferee. The transferor may divide the credit into multiple credits of alternate denominations so long as the resulting credits are for amounts of no less than $1,000.

e. Carryforward limitations on transferees. The transferee may use the amount of the transferred tax credit for any tax year that the original transferor could have claimed the tax credit, subject to the carryforward limitations in paragraph 800.9(4)*"e."*

This rule is intended to implement Iowa Code chapter 404A and section 422.11D.

701—800.10(422) School tuition organization tax credit.

800.10(1) *In general—eligibility.* A tax credit is available for voluntary cash or noncash contributions made by a taxpayer to a school tuition organization. The tax credit may be claimed against individual and corporation income tax.

800.10(2) *Definitions.* The terms used in this rule have the same meaning as provided in Iowa Code section 422.11S unless otherwise specified. In addition, the following definitions apply to this rule.

"Contribution" means a voluntary cash or noncash contribution to a school tuition organization that is not used for the direct benefit of any dependent of the taxpayer or any other student designated by the taxpayer.

"Qualified school" means the same as defined in Iowa Code section 422.11S and also includes prekindergarten programs for students who are five years of age by September 15 of the appropriate year.

800.10(3) *Tax credit calculation.* The tax credit is equal to 75 percent of the amount of voluntary cash or noncash contributions made by a taxpayer to a school tuition organization. Federal revenue regulations, rulings, court cases and other provisions relating to the determination of the value of a noncash contribution are applicable to the determination of the amount of a school tuition organization tax credit.

a. Restriction on itemized deduction. The taxpayer shall not claim an itemized deduction for charitable contributions for Iowa income tax purposes for the amount of the contribution made to the school tuition organization.

b. Married taxpayers filing separately. Married taxpayers who file separate returns must allocate the school tuition organization tax credit to each spouse in the proportion that each spouse's respective net income bears to the total combined net income.

c. Nonresidents and part-year residents. Nonresidents or part-year residents of Iowa, including those who are claiming a tax credit issued to a partnership, limited liability company, S corporation, estate, or trust of which they are a member, should determine the allowable school tuition organization tax credit by multiplying their allocated credit amount by the ratio of their Iowa-source net income to their total source net income. In addition, if nonresidents or part-year residents of Iowa are married and elect to file separate returns, the school tuition organization tax credit must be allocated between the spouses in the ratio of each spouse's Iowa-source net income to the combined Iowa-source net income.

800.10(4) *Credit award mechanism.* The credit is administered by the department.

a. School tuition organization registration. In order for contributions to a school tuition organization to qualify for the credit, the school tuition organization must initially register with the department. Once the school tuition organization is registered with the department, it is not required to subsequently register unless there is a change in the qualified schools that the organization serves. The school tuition organization must notify the department in writing of any changes in the qualified schools it serves. The following information must be provided with this initial registration:

(1) Verification from the Internal Revenue Service that Section 501(c)(3) status was granted and that the school tuition organization is exempt from federal income tax.

(2) A list of all qualified schools that the school tuition organization serves.

(3) The names and addresses of all the members of the board of directors of the school tuition organization.

b. Participation forms. Each qualified school that is served by a school tuition organization must annually submit a participation form to the department by November 1. The following information must be provided with this participation form:

(1) The certified enrollment of the qualified school as of October 1 or the first Monday in October if October 1 falls on a Saturday or Sunday.

(2) The name of the school tuition organization that represents the qualified school.

c. Certificate issuance.

(1) By December 1 of each year, the department will authorize school tuition organizations to issue tax credit certificates for the following calendar year. The total amount of tax credit certificates that may be authorized is $20 million.

(2) The amount of authorized tax credit certificates for each school tuition organization is determined by dividing the total amount of tax credit available by the total certified enrollment of all qualified participating schools. This result, which is the per-student tax credit, is then multiplied by the certified enrollment of each school tuition organization to determine the tax credit authorized to each school tuition organization.

EXAMPLE: If the certified enrollment of all qualified schools in Iowa, as provided to the department by November 1 of the current year, was 40,000, the per-student tax credit would be $500 ($20 million ÷ 40,000). If a school tuition organization represents four qualified schools with a certified enrollment of 1,400 students, the school tuition organization would be authorized to issue $700,000 ($500 × 1,400) of tax credit certificates for the following calendar year. The department would notify this school tuition organization by December 1 of the current year of the authorization to issue $700,000 of tax credit certificates for the following calendar year. This authorization would allow the school tuition organization to solicit contributions totaling $933,333 ($700,000 ÷ .75) during the following calendar year, which would be eligible for the tax credit.

d. Information required. The school tuition organization shall issue tax credit certificates to each taxpayer who made a cash or noncash contribution to the school tuition organization. The tax credit certificate, designed by the department, shall contain the name, address and tax identification number of the taxpayer; the amount and date that the contribution was made; the amount of the credit; the tax year that the credit may be applied; the school tuition organization to which the contribution was made; and the tax credit certificate number.

e. Reporting requirements. Each school tuition organization that issues tax credit certificates must report to the department by January 12 of each calendar year the following information:

(1) The names and addresses of all the members of the board of directors of the school tuition organization, along with the name of the chairperson of the board.

(2) The total number and dollar value of contributions received by the school tuition organization for the previous calendar year.

(3) The total number and dollar value of tax credit certificates issued by the school tuition organization for the previous calendar year.

(4) A list of each taxpayer who received a tax credit certificate for the previous calendar year, including the amount of the contribution and the amount of tax credit issued to each taxpayer for the previous calendar year. This list should also include the tax identification number of the taxpayer and the tax credit certificate number for each certificate.

(5) The total number of children utilizing tuition grants for the school year in progress as of January 12, along with the total dollar value of the tuition grants.

(6) The name and address of each qualified school represented by the school tuition organization at which tuition grants are being utilized for the school year in progress.

(7) The number of tuition grant students and the total dollar value of tuition grants being utilized for the school year in progress at each qualified school served by the school tuition organization.

800.10(5) *Claiming the tax credit.*

a. When to claim the credit. The tax credit shall be claimed for the tax year during which the contribution is made.

b. Filing a claim with the department. The taxpayer must include the tax credit certificate with the taxpayer's individual or corporation income tax return.

c. Allocation to individual owners or beneficiaries. A tax credit certificate may be issued to a partnership, limited liability company, S corporation, estate, or trust. The amount of credit claimed by an individual shall be based on the pro rata share of the individual's earnings of the partnership, limited liability company, S corporation, estate, or trust.

d. Tax credit in excess of liability. The school tuition organization tax credit is nonrefundable. Any credit in excess of the tax liability for the tax year may be credited to the tax liability for the following five years or until used, whichever is the earlier. The credit cannot be carried back to a prior tax year.

e. Transferability. The tax credit cannot be transferred to any other person.

This rule is intended to implement Iowa Code section 422.11S.

701—800.11(15E,422) Innovation fund tax credit.

800.11(1) *In general—eligibility.* A tax credit is available for taxpayers who make equity investments in a qualifying innovation fund. The tax credit may be claimed against individual income, corporation income, franchise, insurance premium, and moneys and credits taxes. The economic development authority's rules related to the innovation fund tax credit may be found in 261—Chapter 116.

800.11(2) *Tax credit calculation.* The credit is equal to 25 percent of the taxpayer's equity investment in the form of cash in an innovation fund.

800.11(3) *Credit award mechanism.* The innovation fund tax credit is administered by the authority. The authority will issue a tax credit certificate to taxpayers who make an equity investment in a qualifying innovation fund.

800.11(4) *Claiming the tax credit.*

a. Filing a claim with the department. To claim the credit, the tax credit certificate must be included with the taxpayer's return.

b. When to claim the credit. The credit must be claimed for the tax year in which the investment is made. An investment is deemed to have been made on the same date as the date of acquisition of the equity interest as determined by the Internal Revenue Code.

c. Allocation to individual owners or beneficiaries. For equity investments made in an innovation fund, an individual may claim the credit if the investment was made by a partnership, S corporation, limited liability company, estate, or trust electing to have the income directly taxed to the individual. The amount claimed by an individual must be based on the individual's pro rata share of the individual's earnings of the partnership, S corporation, limited liability company, estate, or trust.

d. Tax credit in excess of liability. The innovation fund tax credit is nonrefundable. Any credit in excess of the tax liability for the tax year may be credited to the tax liability for the following five years or until depleted, whichever is the earlier. The tax credit cannot be carried back to a prior tax year.

800.11(5) *Transfer of the credit.* The innovation fund tax credit certificate may be transferred once to any person or entity.

a. Transfer process—information required. Within 90 days of transfer of the tax credit certificate, the transferee must submit the transferred tax credit certificate to the department in a manner prescribed by the department. The certificate should be submitted along with a statement that contains the transferee's name, address and tax identification number and the amount of the tax credit being transferred. If the transferee is a partnership, limited liability company, S corporation, estate, or trust claiming the credit for individual or corporation income tax, the transferee shall provide a list of the partners, members, shareholders or beneficiaries and their tax identification numbers and addresses.

b. Consideration for transferred credit. Any consideration received for the transfer of the tax credit certificate shall not be included in Iowa taxable income for individual income, corporation income or franchise tax purposes. Any consideration paid for the transfer of the tax credit certificate shall not be deducted from Iowa taxable income for individual income, corporation income or franchise tax purposes.

c. Replacement certificate. Within 30 days of receiving the transferred tax credit certificate and the statement from the transferee, the department will issue a replacement tax credit certificate to the transferee. The replacement tax credit certificate must contain the same information as that on the original tax credit certificate and must have the same effective taxable year and the same expiration date as the original tax credit certificate. The replacement tax credit certificate may reflect a different tax type than the original tax credit certificate.

d. Claiming the transferred credit. The transferee may use the transferred tax credit for any tax year for which the original transferor could have claimed the tax credit.

This rule is intended to implement Iowa Code sections 15E.52, 15E.66, 422.11F and 15E.43.

701—800.12(15E,422) Endow Iowa tax credit.

800.12(1) *In general—eligibility.* A tax credit is available for taxpayers who make an endowment gift to an endow Iowa qualified community foundation. The tax credit may be claimed against individual income, corporation income, franchise, and insurance premium, and moneys and credits taxes. The economic development authority's rules related to the endow Iowa tax credit may be found under 261—Chapter 47.

800.12(2) *Tax credit calculation.* The credit is equal to 25 percent of a taxpayer's endowment gift to an endow Iowa qualified community foundation approved by the authority.

800.12(3) *Credit award mechanism.* The endow Iowa tax credit is administered by the authority. The authority will authorize tax credits to taxpayers who make a qualified endowment gift.

800.12(4) *Claiming the tax credit.*

a. Filing a claim with the department. To claim the credit, the tax credit certificate must be included with the taxpayer's income tax return for the period for which the credit is claimed.

b. Restrictions on claiming a deduction. A taxpayer cannot claim a deduction for charitable contributions under IRC Section 170 for the amount of the contribution for which the tax credit is claimed for Iowa tax purposes.

c. Allocation to individual owners or beneficiaries. If a taxpayer is a partnership, limited liability company, S corporation, estate, or trust electing to have the income taxed directly to the individual, an individual may claim the credit. The amount claimed by an individual must be based on the individual's pro rata share of the individual's earnings of the partnership, limited liability company, S corporation, estate, or trust.

d. Tax credit in excess of liability. The endow Iowa tax credit is nonrefundable. Any credit in excess of the tax liability for the tax year may be credited to the tax liability for the following five years or until used, whichever is the earlier.

e. Transferability. The endow Iowa tax credit cannot be transferred to any other taxpayer.

This rule is intended to implement Iowa Code sections 15E.305 and 422.11H.

701—800.13(15,422) Redevelopment tax credit.

800.13(1) *In general—eligibility.* A tax credit is available for a taxpayer whose project has been approved by the authority. The tax credit may be claimed against corporation income, individual income, franchise, insurance premium, and moneys and credits taxes.

800.13(2) *Tax credit calculation.* The credit is based on the taxpayer's qualifying investment in a brownfield or grayfield site as defined in Iowa Code section 15.291.

a. Maximum credit total. The maximum amount of tax credits issued by the authority is determined by the economic development authority board, not exceeding the amount established pursuant to Iowa Code section 15.119.

b. Maximum credit per project. The maximum amount of a tax credit for a qualifying investment in any one qualifying redevelopment project shall not exceed 10 percent of the maximum amount of tax credits available in any one fiscal year pursuant to paragraph 800.13(2)*"a."*

c. Basis reduction of the redevelopment property. The increase in the basis of the redevelopment property that would otherwise result from the qualified redevelopment costs shall be reduced by the amount of the redevelopment tax credit. For example, if a qualifying investment in a grayfield site totaled $100,000 for which a $12,000 redevelopment tax credit was issued, the increase in the basis of the property would total $88,000 for Iowa tax purposes ($100,000 less $12,000).

800.13(3) *Credit award mechanism.* The redevelopment tax credit is administered by the authority. Upon completion of the project, the authority will issue a tax credit certificate to the taxpayer. The certificate will include all information required by Iowa Code section 15.293A, the tax

type for which the credit will be claimed, the tax year for which the credit may be claimed, and the tax credit certificate number.

800.13(4) *Claiming the tax credit.*

a. When to claim the credit. The taxpayer must include the tax credit certificate with the tax return for the tax period set forth on the certificate.

b. Allocation to individual owners or beneficiaries. If a taxpayer claiming the tax credit is a partnership, limited liability company, S corporation, estate, or trust electing to have the income taxed directly to the individual, an individual may claim the credit. The amount claimed by an individual must be based on the individual's pro rata share of the individual's earnings of the partnership, limited liability company, S corporation, estate, or trust.

c. Tax credit in excess of liability. A tax credit in excess of the taxpayer's liability for the tax year is refundable if all of the conditions of Iowa Code section 15.293A(1)*"c"*(2) are met. Otherwise, a tax credit in excess of the taxpayer's liability for the tax year is nonrefundable.

(1) Refundable credits. If a taxpayer claims a refundable redevelopment tax credit, in lieu of claiming a refund, the taxpayer may elect to have the excess credited to the taxpayer's estimated tax liability for the following year in the same manner and under the same conditions as an overpayment of tax.

(2) Nonrefundable credits. If a taxpayer claims a nonrefundable tax credit, any credit in excess of the tax liability for the tax year may be credited to the tax liability for the following five years or until used, whichever is earlier. The credit cannot be carried back to a prior tax year.

800.13(5) *Transfer of the credit.* The redevelopment tax credit can be transferred to any person or entity if the tax credit is nonrefundable. Refundable redevelopment tax credits are not transferable.

a. Submission of transferred tax credit certificate to the department—information required. Within 90 days of transfer of the tax credit certificate, the transferee must submit the transferred tax credit certificate to the department in a manner prescribed by the department. The certificate should be submitted along with a statement that contains the information required by Iowa Code section 15.293A(2)*"d"* and the amount of the tax credit being transferred.

b. Consideration for transferred credit. The transferee must include in its statement to the department the amount of all consideration provided in exchange for the tax credit and the names of recipients of any consideration provided in exchange for the tax credit or must indicate that no consideration was provided in exchange for the tax credit. If a payment of money was any part of the consideration provided in exchange for the tax credit, the amount of the payment of money must be included in the statement. If any part of the consideration provided in exchange for the tax credit included nonmonetary consideration, including but not limited to any promise, representation, performance, discharge of debt or nonmonetary rights or property, the statement must describe the nature of nonmonetary consideration and disclose any value the transferor and transferee assigned to the nonmonetary consideration.

c. Issuance of replacement certificate by the department. Within 30 days of receiving the transferred tax credit certificate and the statement from the transferee, the department will issue a replacement tax credit certificate to the transferee.

d. Claiming the transferred tax credit. The replacement tax credit certificate must contain the same information as that on the original tax credit certificate and have the same effective taxable year as the original tax credit certificate but may reflect a different tax type than the original tax credit certificate. The transferee may use the amount of the tax credit for any tax year for which the original transferor could have claimed the tax credit. Any consideration received for the transfer of the tax credit certificate shall not be included in Iowa taxable income for individual income tax, corporation income tax, or franchise tax purposes. Any consideration paid for the transfer of the tax credit certificate shall not be deducted from Iowa taxable income for individual income tax, corporation income tax, or franchise tax purposes.

This rule is intended to implement Iowa Code sections 15.293A, 422.11V, and 15.119.

701—800.14(422) From farm to food donation tax credit.

800.14(1) *In general—eligibility.* A tax credit is available to a taxpayer that donates a food commodity that the taxpayer produces. The tax credit may be claimed against individual and corporation income tax.

800.14(2) *Tax credit calculation.* The credit is equal to 15 percent of the value of the commodities donated during the tax year for which the credit is claimed or $5,000, whichever is less. The value of the commodities is determined in the same manner as a charitable contribution of food for federal tax purposes under IRC Section 170(e)(3)(C).

800.14(3) *Claiming the tax credit.*

a. Who may claim the credit. To qualify for the tax credit, the taxpayer must:

(1) Produce the donated food commodity;

(2) Transfer title of the donated food commodity to an Iowa food bank or Iowa emergency feeding organization recognized by the department; and

(3) Not receive remuneration for the transfer. The donated food commodity cannot be damaged or out-of-condition and declared to be unfit for human consumption by a federal, state, or local health official. A food commodity that meets the requirements for donated foods pursuant to the federal Emergency Food Assistance Program satisfies this requirement.

b. Department registration. A food bank or emergency feeding organization must either be a recognized affiliate partner food bank with the Iowa Food Bank Association or register with the department in the form and manner prescribed by the department. The department provides a list of recognized organizations on the department's website.

c. Donation receipts. Food banks and emergency feeding organizations that receive eligible donations shall issue receipts in a format prescribed by the department for all donations received and annually submit to the department a receipt log of all the receipts issued during the calendar year in the form and manner provided by the department. Receipt logs showing the donations for the previous calendar year must be furnished by January 15 of each year. If a receipt for a taxpayer's claim is not provided by the organization, the taxpayer's claim will be denied.

d. Filing a claim with the department. The tax credit will be claimed on the Form IA 178 submitted with the taxpayer's individual or corporation income tax return.

e. When to claim the credit. The credit should be claimed in the tax year the food commodity donations are made.

f. Allocation to individual owners or beneficiaries. If the producer is a partnership, limited liability company, S corporation, estate, or trust electing to have the income taxed directly to the individual, an individual may claim the credit. The amount claimed by an individual must be based on the individual's pro rata share of the individual's earnings of the partnership, limited liability company, S corporation, estate, or trust.

g. Tax credit in excess of liability. The farm to food donation credit is nonrefundable. Any credit in excess of the tax liability for the tax year may be credited to the tax liability for the following five years or until used, whichever is earlier. The credit cannot be carried back to a prior tax year.

h. Transferability. The farm to food donation credit cannot be transferred to any other taxpayer.

This rule is intended to implement Iowa Code chapter 190B, subchapter I, and section 422.11R.

701—800.15(15) Workforce housing tax incentives program.

800.15(1) *In general—eligibility.* A tax credit is available for businesses that qualify under the workforce housing tax incentives program. The tax credit may be claimed against individual income, corporation income, franchise, insurance premium, and moneys and credits taxes. The economic development authority's rules related to the workforce housing tax incentives program may be found in 261—Chapter 48.

800.15(2) *Definitions.* The terms used in this rule mean the same as defined in rule 261—48.1(15).

800.15(3) *Tax credit calculation.* A housing business may claim a tax credit in an amount not to exceed 10 percent of the qualifying new investment in a housing project not located in a small city or 20 percent of the qualifying new investment in a housing project located in a small city.

800.15(4) *Credit award mechanism.* The workforce housing tax incentive program is administered by the authority.

a. Application and agreement. In order to receive the tax credit, the eligible business must apply to and enter into an agreement with the authority.

b. Information required. The taxpayer must receive a tax credit certificate, including all information required by Iowa Code section 15.355, from the authority to claim the workforce housing tax credit.

c. Repayment of benefits. If the housing business fails to maintain the requirements of Iowa Code section 15.353, the taxpayer may be required to repay all or a portion of the tax incentives the taxpayer received. If the business is a partnership, limited liability company, S corporation, estate, or trust where the income of the taxpayer is taxed to the individual owner(s) of the business, the department may proceed to collect the tax incentives against the partners, members, shareholders or beneficiaries to whom the tax incentives were passed through.

d. Property basis adjustment. The increase in the basis of the property that would otherwise result from the qualifying new investment shall be reduced by the amount of the investment tax credit. For example, if a new housing project had qualifying new investment of $1 million that resulted in a $100,000 investment tax credit for Iowa tax purposes, the basis of the property for Iowa income tax purposes would be $900,000.

800.15(5) *Claiming the tax credit.*

a. When to claim the credit. The credit must be claimed in the tax year set forth on the certificate.

b. Filing a claim with the department. To claim the credit, the tax credit certificate must be included with the income tax return for the period in which the credit is claimed.

c. Allocation to individual owners or beneficiaries. An individual may claim a tax credit if the housing business is a partnership, limited liability company, S corporation, estate, or trust electing to have income taxed directly to the individual. The amount claimed by the individual shall be based upon the pro rata share of the individual's earnings from the partnership, limited liability company, S corporation, estate, or trust.

d. Tax credit in excess of tax liability. Any tax credit in excess of the taxpayer's liability for the tax year is not refundable. However, the taxpayer may elect to have the excess credited to the taxpayer's estimated tax for the following year, for up to five years, in the same manner and under the same conditions as an overpayment of tax. The overpayment cannot be carried back to any prior year.

e. Carryforward limitation. A credit in excess of the taxpayer's liability may be carried forward no more than five years from the year that the housing became available for occupancy.

800.15(6) *Transfer of the credit.* Tax credit certificates issued under an agreement entered into pursuant to subrule 800.16(4) may be transferred to any person. However, tax credit certificate amounts of less than the minimum amount established in rule by the authority cannot be transferred.

a. Submission of transferred tax credit certificate to the department—information required. Within 90 days of transfer, the transferee shall submit the transferred tax credit certificate to the department in a manner prescribed by the department. The certificate should be submitted along with a statement containing information required by Iowa Code section 15.355.

b. Issuance of replacement certificate by the department. Within 30 days of receiving the transferred tax credit certificate and the transferee's statement, the department shall issue one or more replacement tax credit certificates to the transferee with the information required by Iowa Code section 15.355.

c. Claiming the transferred tax credit. A tax credit shall not be claimed by a transferee until a replacement tax credit certificate identifying the transferee as the proper holder has been issued. The transferee may use the amount of the tax credit transferred for any tax year the original transferor

could have claimed the tax credit. Any consideration received for the transfer of the tax credit shall not be included in Iowa taxable income for individual income, corporation income or franchise tax purposes.

d. Unlimited number of transferees and subsequent transfers. There is no limitation on the number of transferees to whom the credit may be transferred or the number of times that the credit may be retransferred by a transferee. The transferor may divide the credit into multiple credits of alternate denominations so long as the resulting credits are for amounts of no less than the minimum amount established in rule by the authority.

e. Carryforward limitations on transferees. The transferee may use the amount of the transferred tax credit for any tax year that the original transferor could have claimed the tax credit subject to the carryforward limitations in this rule.

This rule is intended to implement Iowa Code sections 15.354 and 15.355.

701—800.16(422,476C) Renewable energy tax credit.

800.16(1) *In general—eligibility.* A tax credit is available for approved purchasers or producers of renewable energy. The tax credit may be claimed against individual income, corporation income, franchise, insurance premium, use, and replacement taxes. The Iowa utilities commission's (commission's) rules related to the renewable energy tax credit may be found in 199—Chapter 15.

800.16(2) *Tax credit calculation.* The renewable energy tax credit equals 1½ cents per kilowatt-hour of electricity, $1.44 per 1000 standard cubic feet of hydrogen fuel, $4.50 per 1 million British thermal units of methane gas or other biogas used to generate electricity, or $4.50 per 1 million British thermal units of heat for a commercial purpose generated by and purchased from an eligible renewable energy facility or used for on-site consumption by the producer during the tax year. The amount of the tax credit is subject to the limitations in Iowa Code section 476C.2.

800.16(3) *Credit award mechanism.*

a. Eligible facility approval. An energy facility must be approved as an eligible renewable energy facility by the commission in order to qualify for the renewable energy tax credit. The commission's requirements on eligibility may be found in rule 199—15.12(476C).

b. Tax credit application. A producer or purchaser of a renewable energy facility must apply to the commission for the renewable energy tax credit. The application for the tax credit must be filed no later than 30 days after the close of the tax year for which the credit is applied. The information to be included in the application is set forth in rule 199—15.13(476C).

c. Certificate issuance. Once approved, the department will issue a tax credit certificate. The certificate will include the information required by Iowa Code section 476C.4. A person that has received a wind energy production tax credit pursuant to Iowa Code chapter 476B cannot be issued a renewable energy tax credit certificate.

d. Small wind innovation zones. An owner of a small wind energy system operating within a small wind innovation zone that has been approved by the commission is eligible for the renewable energy tax credit. The commission's requirements for certification of eligibility for owners of small wind energy systems operating within a small wind innovation zone may be found in rule 199—15.14(476C).

800.16(4) *Claiming the tax credit.*

a. Filing a claim with the department. The credit must be claimed in the tax year provided on the tax credit certificate and the certificate included with the taxpayer's return.

b. Related persons. The credit is not allowed for any kilowatt-hours, standard cubic feet or British thermal units that are purchased from an eligible facility by a related person. Persons shall be treated as related to each other if either person owns an 80 percent or more equity interest in the other person.

c. Ten-year award limitation. The credit is allowed for a ten-year period beginning on the date the purchaser first purchases renewable energy from a qualified facility or on the date the qualified facility first began producing renewable energy for on-site consumption. For example, if a renewable

energy facility first began producing energy for on-site consumption on April 1, 2016, the credit can be claimed for kilowatt-hours, standard cubic feet or British thermal units generated and used for on-site consumption by the producer between April 1, 2016, and March 31, 2026. Tax credit certificates cannot be issued for renewable energy purchased or produced for on-site consumption after December 31, 2027.

d. Allocation to individual owners of the entity or beneficiaries of an estate or trust.

(1) If the taxpayer is a partnership, limited liability company, S corporation, estate, or trust requesting a credit for individual or corporation income tax, the tax credit certificate will be issued to the partners, members, shareholders or beneficiaries based on the partner's, member's, shareholder's or beneficiary's pro rata share of earnings of the partnership, limited liability company, S corporation, estate, or trust, except when the taxpayer is eligible to receive renewable electricity production tax credits authorized under IRC Section 45.

(2) In cases where the taxpayer is eligible to receive renewable electricity production tax credits under IRC Section 45, the partnership, limited liability company or S corporation may designate the amount of the tax credit to be allocated to each partner, member or shareholder. In addition, if a taxpayer is a partnership, limited liability company, S corporation, estate, or trust that is eligible to receive renewable electricity production tax credits under IRC Section 45, the taxpayer may distribute the tax credit to an equity holder or beneficiary as a liquidating distribution, or portion thereof, of an equity holder's interest in the partnership, limited liability company or S corporation or of the beneficiary's interest in the estate, or trust.

e. Tax credit in excess of tax liability. Any tax credit in excess of the taxpayer's liability for the tax year is not refundable. Any credit in excess of the tax liability for the tax year may be credited to the tax liability for the following seven years or until used, whichever is earlier. The credit cannot be carried back to a prior tax year.

800.16(5) *Transfer of the credit.* The renewable energy production tax credit may be transferred one time to any person or entity. A decision between a producer and purchaser of renewable energy regarding who may claim the tax credit is not considered a transfer. The transferee may use the amount of the credit transferred against any of the tax types listed in subrule 800.16(1) and for any tax year that the original transferor could have claimed the credit.

a. Transfer process—information required. Within 30 days of transfer of the tax credit certificate, the transferee must submit the transferred tax credit certificate to the department in a manner prescribed by the department. The certificate should be submitted along with a statement that contains the information required by Iowa Code section 476C.4. If the transferee is a partnership, limited liability company, S corporation, estate, or trust claiming the credit for individual or corporation income tax, the transferee shall provide a list of the partners, members, shareholders or beneficiaries and information on how the renewable energy tax credit should be divided among the partners, members, shareholders or beneficiaries. The transferee shall also provide the tax identification numbers and addresses of the partners, members, shareholders or beneficiaries.

b. Consideration for transferred credit. Any consideration received for the transfer of the tax credit certificate shall not be included in Iowa taxable income for individual income, corporation income or franchise tax purposes. Any consideration paid for the transfer of the tax credit certificate shall not be deducted from Iowa taxable income for individual income, corporation income or franchise tax purposes.

c. Issuance of replacement certificate by the department. Within 30 days of receiving the transferred tax credit certificate and the statement from the transferee, the department will issue a replacement tax credit certificate to the transferee. The replacement tax credit certificate will contain the information required by Iowa Code section 476C.4. The replacement tax credit certificate may reflect a different tax type than the original tax credit certificate.

d. Claiming the transferred credit. The transferee may use the transferred tax credit for any tax year for which the original transferor could have claimed the tax credit.

This rule is intended to implement Iowa Code section 422.11J and chapter 476C.

701—800.17(16,422) Beginning farmer tax credit program.

800.17(1) *In general—eligibility.* A tax credit is available for an owner of agricultural assets who enters into a lease or rental agreement with a beginning farmer. The tax credit may be claimed against individual and corporation income tax. The Iowa finance authority's rules related to the beginning farmer tax credit program may be found in 265—Chapter 44.

800.17(2) *Tax credit calculation.*

a. Cash rental agreements. The tax credit is equal to five percent of the rental income received by the owner for cash rental agreements.

b. Commodity share agreements. The tax credit is equal to 15 percent of the rental income received by the owner for commodity share agreements.

800.17(3) *Credit award mechanism.* The beginning farmer tax credit program is administered by the Iowa finance authority.

a. Application. To receive a beginning farmer tax credit, the owner of agricultural assets must submit an application to the Iowa finance authority pursuant to the requirements in 265—Chapter 44.

b. Lease or rental agreement requirements. To qualify for the tax credit, an owner of agricultural assets must enter into a lease or rental agreement with a beginning farmer for a term of at least two years but not more than five years. Both the owner of agricultural assets and the beginning farmer must meet certain qualifications set forth by the Iowa finance authority, and the beginning farmer must be eligible to receive financial assistance under Iowa Code section 16.75.

c. Certificate issuance. The Iowa finance authority will issue a tax credit certificate to the owner of agricultural assets that will include the name, address and tax identification number of the owner, the amount of the credit, and the tax period for which the credit may be applied.

800.17(4) *Claiming the tax credit.*

a. Filing a claim with the department. To claim the credit, the owner must include the tax credit certificate with the tax return for the tax period set forth on the certificate.

b. Allocation to individual owners or beneficiaries. If an owner of agricultural assets is a partnership, limited liability company, S corporation, estate, or trust electing to have the income taxed directly to the individual, an individual may claim the credit. The amount claimed by an individual must be based on the individual's pro rata share of the individual's earnings of the partnership, limited liability company, S corporation, estate, or trust.

c. Tax credit in excess of liability. Any credit in excess of the tax liability for the tax year is not refundable. However, the excess may be credited to the tax liability for the following ten years or until used, whichever is the earlier. The tax credit shall not be carried back to a tax year prior to the year in which the owner redeems the credit.

d. Transferability. The credit is not transferable to any other person other than the taxpayer's estate or trust upon the death of the taxpayer.

e. Termination of lease or rental agreement. The lease or rental agreement may be terminated by either the owner or the beginning farmer. If the Iowa finance authority determines that the owner is not at fault for the termination, the authority will not issue a tax credit certificate for subsequent years but any prior tax credit certificates issued will be allowed. If the Iowa finance authority determines that the owner is at fault for the termination, any prior tax credit certificates will be disallowed. The amount of tax credits previously allowed will be recaptured, and the owner will be required to repay the entire amount of tax credits previously claimed on Iowa returns.

This rule is intended to implement Iowa Code section 422.11E.

701—800.18(422) Charitable conservation contribution tax credit.

800.18(1) *In general—eligibility.* A charitable conservation contribution tax credit is available for taxpayers who convey real property located in Iowa as an unconditional charitable donation in perpetuity to a qualified organization exclusively for conservation purposes. The tax credit may be claimed against individual and corporation income tax.

800.18(2) *Definitions.* The terms used in this rule mean the same as defined in Iowa Code section 422.11W.

800.18(3) *Tax credit calculation.* The credit equals 50 percent of the fair market value of the qualified real property interest, up to $100,000. Federal revenue regulations, rulings, court cases and other provisions relating to the determination of the value of a qualified real property interest are applicable in determining the amount of the charitable conservation contribution tax credit.

800.18(4) *Claiming the tax credit.*

a. Filing a claim with the department. The tax credit is claimed on Form IA 148, Tax Credits Schedule. The taxpayer must include a copy of federal Form 8283, Noncash Charitable Contributions, which reflects the calculation of the fair market value of the real property interest, with the Iowa return for the year in which the contribution is made. If a qualified appraisal of the property or other relevant information is required to be included with federal Form 8283 for federal tax purposes, the appraisal and other relevant information must also be included with the Iowa return.

b. Restrictions on deduction. If the amount of the contribution for which the tax credit is claimed was also claimed as a deduction for charitable contributions, the full amount of the contribution deducted must be added back to Iowa taxable income as an Iowa tax credit adjustment.

EXAMPLE 1: A taxpayer conveys a real property interest with a fair market value of $150,000 to a qualified organization. The tax credit is equal to $75,000, or 50 percent of the $150,000 fair market value of the real property. If the taxpayer claims the $150,000 as a federal itemized deduction for charitable contributions, the taxpayer must report the amount of the charitable contributions as an Iowa tax credit adjustment on the Iowa individual income tax return for that year.

EXAMPLE 2: A taxpayer conveys a real property interest with a fair market value of $500,000 to a qualified organization. The tax credit is limited to $100,000, which equates to $200,000 of the contribution being eligible for the tax credit. If the taxpayer claims the $500,000 as a federal itemized deduction for charitable contributions, the taxpayer must report $200,000 of the charitable contributions as an Iowa tax credit adjustment on the Iowa individual income tax return for that year.

c. Allocation to individual owners or beneficiaries. If the taxpayer claiming the credit is a partnership, limited liability company, S corporation, estate, or trust electing to have the income taxed directly to the individual, an individual may claim the credit. The amount claimed by an individual must be based on the individual's pro rata share of the individual's earnings of the partnership, limited liability company, S corporation, estate, or trust.

d. Tax credit in excess of liability. The charitable conservation contribution tax credit is nonrefundable. Any credit in excess of the tax liability for the tax year may be credited to the tax liability for the following 20 years or until used, whichever is the earlier. The credit cannot be carried back to a prior tax year.

e. Transferability. The charitable conservation contribution tax credit cannot be transferred to any other taxpayer.

This rule is intended to implement Iowa Code section 422.11W.

701—800.19(422) Child and dependent care credit.

800.19(1) *In general—eligibility.* A tax credit is available for individuals who qualify for the federal child and dependent care credit. The tax credit may be claimed against individual income tax. If a taxpayer claims the child and dependent care credit, the taxpayer cannot claim the early childhood development credit described in rule 701—800.20(422).

800.19(2) *Tax credit calculation.* The Iowa child and dependent care credit is computed as a percentage of the child and dependent care credit that is allowed for federal income tax purposes under IRC Section 21. The Iowa credit is computed without regard to whether the federal credit was limited to the taxpayer's federal tax liability. In addition, the Iowa credit will be allowed even if the taxpayer's federal adjusted gross income is below $0. The following schedule shows the percentages of federal child and dependent care credits allowed for Iowa tax purposes on the basis of the net incomes of the taxpayers.

Net income	Percentage of federal credit allowed
Less than $10,000	75%
$10,000 or more but less than $20,000	65%
$20,000 or more but less than $25,000	55%
$25,000 or more but less than $35,000	50%
$35,000 or more but less than $40,000	40%
$40,000 or more but less than $45,000	30%
$45,000 or more but less than $90,000	30%
$90,000 or more	No Credit

800.19(3) *Claiming the tax credit.*

a. Computation of the Iowa child and dependent care credit for nonresidents and part-year residents. Nonresidents and part-year residents who have income from Iowa sources in the tax year may claim child and dependent care credits on their Iowa returns. The percentage of the federal credit allowed is determined based on the nonresident's or part-year resident's all-source net income. If the nonresident's or part-year resident's all-source net income is $90,000 or higher, the taxpayer will not qualify for the Iowa child and dependent care credit regardless of the amount of the taxpayer's Iowa-source income. To compute the amount of child and dependent care credit that can be claimed on the Iowa return by a nonresident or part-year resident, the following formula applies:

EXAMPLE: A married couple lives in Nebraska. One of the spouses worked in Iowa and had an Iowa-source net income of $15,000. That spouse had an all-source net income of $20,000. The second spouse had an Iowa-source net income of $10,000 and an all-source net income of $15,000. The couple had a combined Iowa-source net income of $25,000 and a combined all-source net income of $35,000. The taxpayers had a federal child and dependent care credit of $800, which related to expenses incurred for the care of their two young children. The taxpayers' Iowa child and dependent care credit is calculated below:

Federal child and dependent care credit		Percentage of federal child and dependent credit allowed on Iowa return			Iowa-source net income / All-source net income		
$800	×	40%	=	$320	×	$\frac{\$25,000}{\$35,000}$	= $229

b. Tax credit in excess of liability. The child and dependent care tax credit is refundable. In lieu of claiming a refund, the taxpayer may elect to have the excess credited to the taxpayer's estimated tax liability for the following year in the same manner and under the same conditions as an overpayment of tax.

c. Transferability. The tax credit cannot be transferred to any other person.

This rule is intended to implement Iowa Code section 422.12C.

701—800.20(422) Early childhood development tax credit.

800.20(1) *In general—eligibility.* A tax credit is available for taxpayers whose net income is less than $90,000 for expenses paid to others for early childhood development for dependents three through five years of age. The tax credit may be claimed against individual income tax. If a taxpayer claims the early childhood development tax credit, the taxpayer cannot claim the child and dependent care credit described in rule 701—800.19(422).

800.20(2) *Tax credit calculation.* The credit is equal to 25 percent of the first $1,000 of expenses paid to others for early childhood development for each dependent three through five years of age.

a. Expenses eligible for the credit. Iowa Code section 422.12C provides definitions and examples of expenses eligible for the credit as well as expenses that are not eligible for the credit. The following expenses qualify for the early childhood development tax credit to the extent they are paid during the time period that a dependent is three through five years of age:

(1) Expenses for services provided by a preschool as defined in Iowa Code section 237A.1.

(2) Books that improve child development, including textbooks, music books, art books, teacher editions, and reading books.

(3) Expenses paid for instructional materials required to be used in a child development or educational lesson activity. These materials include but are not limited to paper, notebooks, pencils, and art supplies. In addition, software and toys that are directly and primarily used for educational or learning purposes are considered instructional materials.

(4) Expenses paid for lesson plans and curricula.

(5) Expenses paid for child development and educational activities outside the home. These activities include but are not limited to drama, art, music, and museum activities, including the entrance fees for such activities.

b. Expenses not eligible for the credit. Expenses relating to food, lodging, membership fees, or other nonacademic expenses relating to child development and educational activities outside the home.

800.20(3) *Claiming the credit.*

a. Married taxpayers filing separately. For married taxpayers who elect to file separate returns for Iowa tax purposes, the combined net income of the taxpayers must be less than $90,000 to be eligible for the credit. If the combined net income is less than $90,000, the early childhood development tax credit shall be prorated to each spouse in the proportion that each spouse's respective net income bears to the total combined net income.

b. Computation of the early childhood development tax credit for nonresidents and part-year residents. Nonresidents and part-year residents who have income from Iowa sources in the tax year may claim the early childhood development tax credit on their Iowa returns. If the taxpayer's all-source net income is $90,000 or higher, the taxpayer will not qualify for the credit. Nonresidents or part-year residents of Iowa must determine the early childhood development tax credit in the ratio of their Iowa-source net income to their all-source net income. In addition, if nonresidents or part-year residents of Iowa are married and elect to file separate returns, the early childhood development tax credit must be allocated between the spouses in the ratio of each spouse's Iowa-source net income to their combined Iowa-source net income.

c. Tax credit in excess of liability. The early childhood development tax credit is refundable. In lieu of claiming a refund, the taxpayer may elect to have the excess credited to the taxpayer's estimated tax liability for the following year in the same manner and under the same conditions as an overpayment of tax.

d. Transferability. The tax credit cannot be transferred to any other person.

This rule is intended to implement Iowa Code section 422.12C.

701—800.21(422) Fuel tax credit.

800.21(1) *In general—eligibility.* A tax credit is available to taxpayers who hold a motor fuel tax refund permit. Eligible taxpayers may elect to receive a tax credit in lieu of the motor fuel tax refund provided by Iowa Code chapter 452A. The tax credit may be claimed against individual and corporation income tax.

800.21(2) *Tax credit calculation.* The fuel income tax credit is the amount of Iowa motor fuel tax paid on qualifying fuel purchases as determined by Iowa Code chapter 452A and section 422.110 less any state sales tax as provided by 701—subrule 218.11(2).

800.21(3) *Claiming the tax credit.*

a. Eligibility. This credit may be claimed by any person or corporation who meets the requirements provided in Iowa Code section 422.110. A taxpayer who holds a motor fuel tax refund

permit under Iowa Code section 452A.18 must cancel the permit within 30 days after the first day of the tax year in which this election is made. If the refund permit is not canceled within this period, the permit becomes invalid at the time the election to receive an income tax credit is made.

b. When to claim the credit. The credit must be claimed on the tax return covering the tax year in which the motor fuel tax was paid.

c. Election in successive years. The election to receive a tax credit in lieu of the motor fuel tax refund will continue for subsequent tax years unless a new motor fuel tax refund permit is obtained.

d. Allocation to individual owners. The fuel tax credits for fuel taxes paid by partnerships, limited liability companies, and S corporations are not claimed on returns filed for the partnerships, limited liability companies, and S corporations. Instead, the pro rata shares of the fuel tax credits are allocated to the partners, members, and shareholders in the same ratio as incomes are allocated to the partners, members, and shareholders.

e. Tax credit in excess of liability. The fuel tax credit is refundable. In lieu of claiming a refund, the taxpayer may elect to have the excess credited to the taxpayer's estimated tax liability for the following year in the same manner and under the same conditions as an overpayment of tax.

f. Transferability. The fuel tax credit cannot be transferred to any other person.

This rule is intended to implement Iowa Code sections 422.110 and 422.111.

701—800.22(422) Adoption tax credit.

800.22(1) *In general—eligibility.* An adoption tax credit is available for qualified adoption expenses related to the adoption of a child. The tax credit may be claimed against individual income tax.

800.22(2) *Tax credit calculation.* The credit is equal to the amount of qualified adoption expenses paid or incurred by a taxpayer related to the adoption of a child, not to exceed $5,000 per adoption.

a. Eligible expenses. "Qualified adoption expenses" means unreimbursed expenses paid or incurred in connection with the adoption of a child. Qualified adoption expenses include all fees and costs related to the adoption of a child, including but not limited to:

(1) Medical and hospital expenses of the biological mother that are incident to the child's birth;

(2) Welfare agency fees and other reasonable and necessary adoption fees;

(3) Court costs, attorney fees, and other legal fees;

(4) Travel expenses, including amounts spent for meals and lodging while away from home; and

(5) All other fees and costs related to the adoption of a child.

b. Limitations.

(1) Expenses that are eligible for the federal adoption credit as provided in IRC Section 23(d)(1) will be considered qualified adoption expenses.

(2) Expenses paid or incurred in violation of state or federal law are not qualified adoption expenses.

(3) Expenses that have been reimbursed are not qualified adoption expenses. An expense is considered reimbursed to the extent of any amount the taxpayer receives, directly or indirectly, from another person or entity to cover adoption costs paid or incurred.

(4) The amount of tax credit claimed cannot be used as an itemized deduction for adoption expenses.

800.22(3) *Claiming the credit.*

a. Filing a claim with the department. The tax credit will be computed and claimed on Form IA 177. The taxpayer shall submit the form with the completed Iowa tax return for the year in which the tax credit is claimed. The taxpayer must also report the tax credit on the tax credit schedule.

b. When to claim.

(1) For qualified adoption expenses paid or incurred by the taxpayer prior to or in the tax year the adoption becomes final, the credit shall be claimed in the tax year the adoption is finalized.

(2) For any qualified adoption expenses paid or incurred after the tax year in which the adoption becomes final, the credit shall be claimed in the tax year in which the expenses are paid or incurred.

EXAMPLE 1: A couple adopts a child who is permanently placed in Iowa. The adoption process becomes final in 2025. The couple incur and pay $3,000 of qualified adoption expenses in 2024 and $4,000 of qualified adoption expenses in 2026. The couple qualifies for the maximum credit amount of $5,000. They jointly file their Iowa individual income tax return in 2025. They can claim an Iowa adoption tax credit of $3,000 in 2025 because the costs were incurred and paid prior to the year the adoption became final, 2025. The couple is eligible to claim an Iowa adoption tax credit of $2,000 when they file their 2026 tax return, because that is the year the remaining $4,000 of qualified adoption expenses were incurred and paid after the adoption became final, but cannot exceed a total of $5,000 per adoption.

c. Claiming the credit by two adoptive parents. The adoption tax credit may only be claimed by the person who adopted the child. When a married couple adopts a child together and the couple files jointly, the credit may only be claimed once between the couple. When any other two persons adopt a child together, including married persons filing separately or unmarried persons filing on separate returns, the credit must be divided between the adoptive parents. Two adoptive parents, other than persons who are married filing jointly, may agree to divide the credit in any way. The total adoption tax credit claimed for all years by both parents combined cannot exceed the maximum credit amount of $5,000 per adoption.

EXAMPLE 2: Two unmarried individuals adopt a child together who is permanently placed in Iowa. The taxpayers incur and pay unreimbursed qualified adoption expenses of $3,000. The taxpayers may claim an Iowa adoption tax credit of $3,000, which must be divided between them. They agree that one of them will claim $2,000 of the credit and the other will claim $1,000 of the credit.

d. Adoption of a special needs child. The amount of the federal adoption tax credit claimed for the adoption of a special needs child does not affect the amount of the credit under this rule.

e. Tax credit in excess of tax liability. The adoption tax credit is refundable. In lieu of claiming the refund, the taxpayer may elect to have the excess credited to the taxpayer's estimated tax liability for the following year in the same manner and under the same conditions as an overpayment of tax.

f. Transferability. The tax credit cannot be transferred to any other person.

This rule is intended to implement Iowa Code section 422.12A.

701—800.23(422) E-85 gasoline promotion tax credit.

800.23(1) *In general—eligibility.* A tax credit is available for retail dealers of gasoline based on their sales of E-85 gasoline. The tax credit may be claimed against individual income and corporation income tax.

800.23(2) *Definitions.* The terms used in this rule have the same meaning as provided in Iowa Code section 422.11O. For purposes of this rule, tank wagon sales are considered retail sales.

800.23(3) *Tax credit calculation.* The credit is calculated on Form IA 135. The credit is calculated by multiplying the total number of E-85 gallons sold by the retail dealer during the tax year by 16 cents.

800.23(4) *Claiming the tax credit.*

a. Filing a claim with the department. The credit will be claimed on the taxpayer's individual or corporation income tax return. Because the tax credit is repealed on January 1, 2028, a taxpayer whose tax year ends prior to December 31, 2027, may continue to claim the tax credit in the following tax year for any E-85 gallons sold through December 31, 2027.

b. Fiscal year filers. If a retail dealer has not claimed a tax credit in the retail dealer's previous tax year, the retail dealer may claim the tax credit in the retail dealer's current tax year for that period beginning on January 1 of the retail dealer's previous tax year to the last day of the retail dealer's previous tax year.

EXAMPLE: A taxpayer who is a retail dealer of gasoline has a fiscal year ending April 30, 2024. The taxpayer sold 800 gallons of E-85 gasoline for the period from January 1, 2024, through April

30, 2024. The taxpayer is entitled to claim an E-85 gasoline promotion tax credit of $128 (800 gallons multiplied by 16 cents) on the taxpayer's Iowa income tax return for the period ending April 30, 2024. In lieu of claiming the credit on the return for the period ending April 30, 2024, the taxpayer can claim the E-85 gasoline promotion tax credit on the tax return for the period ending April 30, 2025, including all E-85 gallons sold for the period from January 1, 2024, through April 30, 2025.

c. Allocation to individual owners or beneficiaries. If a taxpayer claiming the E-85 gasoline promotion tax credit is a partnership, limited liability company, S corporation, estate, or trust electing to have the income taxed directly to the individual, an individual may claim the credit. The amount claimed by an individual must be based on the individual's pro rata share of the individual's earnings of the partnership, limited liability company, S corporation, estate, or trust.

d. Tax credit in excess of tax liability. Any credit in excess of the taxpayer's tax liability is refundable. In lieu of claiming the refund, the taxpayer may elect to have the overpayment credited to the tax liability for the following tax year in the same manner and under the same conditions as an overpayment of tax.

e. Transferability. The credit cannot be transferred to any other person.

This rule is intended to implement Iowa Code section 422.11O.

701—800.24(422) Biodiesel blended fuel tax credit.

800.24(1) *In general—eligibility.* A tax credit is available for retail dealers of biodiesel blended fuel based on their sales of biodiesel blended fuel. The tax credit may be claimed against individual income and corporation income tax. For purposes of this rule, tank wagon sales are considered retail sales. A taxpayer whose tax year ends prior to December 31, 2027, may continue to claim the tax credit in the following tax year for any eligible gallons sold through December 31, 2027.

800.24(2) *Definitions.* The terms used in this rule have the same meaning as provided in Iowa Code section 422.11P.

800.24(3) *Tax credit calculation.* The tax credit is calculated as provided in Iowa Code section 422.11P(4).

800.24(4) *Blending errors.* Where a blending error occurs and an insufficient amount of biodiesel has inadvertently been blended with petroleum-based diesel fuel so that the mixture fails to contain 11 percent by volume of biodiesel, a 1 percent tolerance applies in determining the credit amount for the blended product as described in this subrule. This subrule only applies if a retail dealer intends to sell and dispense biodiesel blended fuel that has a minimum percentage of 11 percent by volume of biodiesel. If a retail dealer does not intend to sell and dispense biodiesel blended fuel that has a minimum percentage of 11 percent by volume of biodiesel and the product sold and dispensed contains less than 11 percent biodiesel by volume, no error has occurred and the product does not qualify for the credit amount available for biodiesel blended fuel that has a minimum percentage of 11 percent by volume of biodiesel.

a. 10 percent or greater. If the amount of the biodiesel erroneously blended with petroleum-based diesel is at least 10 percent of the total blended product by volume, the entire blended product qualifies for the credit amount available for biodiesel blended fuel that has a minimum percentage of 11 percent by volume of biodiesel.

b. Between 5 and 10 percent. If the amount of biodiesel blended with petroleum-based diesel is at least 5 percent but less than 10 percent of the total blended product by volume, the entire blended product qualifies for the credit amount available for biodiesel blended fuel that has a minimum percentage of 5 percent by volume of biodiesel but less than 11 percent by volume of biodiesel.

800.24(5) *Claiming the tax credit.*

a. Filing a claim with the department. The credit will be claimed on the taxpayer's individual or corporation income tax return.

b. Fiscal year filers. If a retail dealer has not claimed a tax credit in the retail dealer's previous tax year, the retail dealer may claim the tax credit in the retail dealer's current tax year for that period

beginning on January 1 of the retail dealer's previous tax year to the last day of the retail dealer's previous tax year.

EXAMPLE: A taxpayer who operates one retail motor fuel site has a fiscal year ending February 28, 2028. The taxpayer sold 100,000 gallons of diesel fuel for the period from March 1, 2027, through February 28, 2028, of which 60,000 gallons was biodiesel blended fuel containing a minimum percentage of 11 percent by volume of biodiesel. For the period from March 1, 2027, through December 31, 2027, the taxpayer sold 85,000 gallons of diesel fuel, of which 50,000 gallons was biodiesel fuel. The taxpayer is entitled to claim the biodiesel blended fuel tax credit of $2,500 (50,000 gallons multiplied by 5 cents) on the taxpayer's Iowa income tax return for the period ending February 28, 2028, since the credit is computed only on gallons sold through December 31, 2027.

c. Allocation to individual owners or beneficiaries. If a taxpayer claiming the biodiesel blended fuel tax credit is a partnership, limited liability company, S corporation, estate, or trust electing to have the income taxed directly to the individual, an individual may claim the credit. The amount claimed by an individual must be based on the individual's pro rata share of the individual's earnings of the partnership, limited liability company, S corporation, estate, or trust.

d. Tax credit in excess of tax liability. Any credit in excess of the taxpayer's tax liability is refundable. In lieu of claiming the refund, the taxpayer may elect to have the overpayment credited to the tax liability for the following tax year in the same manner and under the same conditions as an overpayment of tax.

e. Transferability. The credit cannot be transferred to any other person.

This rule is intended to implement Iowa Code section 422.11P.

701—800.25(422) E-15 plus gasoline promotion tax credit.

800.25(1) *In general—eligibility.* A tax credit is available for retail dealers of gasoline based on their sales of E-15 gasoline. The tax credit may be claimed against individual income and corporation income tax. For purposes of this rule, tank wagon sales are considered retail sales. Because the tax credit is repealed on January 1, 2028, a taxpayer whose tax year ends prior to December 31, 2027, may continue to claim the tax credit in the following tax year for any E-15 plus gallons sold through December 31, 2027.

800.25(2) *Definitions.* The terms used in this rule have the same meaning as provided in Iowa Code section 422.11Y. In addition:

"E-15 plus gasoline" means ethanol blended gasoline formulated with a minimum percentage of at least 15 percent but less than 68 percent of volume of ethanol if the formulation meets the standards provided in Iowa Code section 214A.2.

800.25(3) *Tax credit calculation.* The tax credit is calculated by multiplying the total number of E-15 plus gallons sold by the retail dealer during the tax year by 9 cents.

800.25(4) *Claiming the tax credit.*

a. Filing a claim with the department. The credit will be claimed on the taxpayer's individual or corporation income tax return.

b. Fiscal year filers. If a retail dealer has not claimed a tax credit in the retail dealer's previous tax year, the retail dealer may claim the tax credit in the retail dealer's current tax year for that period beginning on January 1 of the retail dealer's previous tax year to the last day of the retail dealer's previous tax year.

EXAMPLE: A taxpayer who is a retail dealer of gasoline has a fiscal year ending April 30, 2024. The taxpayer sold 800 gallons of E-15 gasoline for the period from January 1, 2024, through April 30, 2024. The taxpayer is entitled to claim an E-15 gasoline promotion tax credit of $72 (800 gallons multiplied by 9 cents) on the taxpayer's Iowa income tax return for the period ending April 30, 2024. In lieu of claiming the credit on the return for the period ending April 30, 2024, the taxpayer can claim the E-15 gasoline promotion tax credit on the tax return for the period ending April 30, 2025, including all E-15 gallons sold for the period from January 1, 2024, through April 30, 2025.

c. Allocation to individual owners or beneficiaries. If a taxpayer claiming the E-15 plus gasoline promotion tax credit is a partnership, limited liability company, S corporation, estate, or trust electing to have the income taxed directly to the individual, an individual may claim the credit. The amount claimed by an individual must be based on the individual's pro rata share of the individual's earnings of the partnership, limited liability company, S corporation, estate, or trust.

d. Tax credit in excess of tax liability. Any credit in excess of the taxpayer's tax liability is refundable. In lieu of claiming the refund, the taxpayer may elect to have the overpayment credited to the tax liability for the following tax year in the same manner and under the same conditions as an overpayment of tax.

e. Transferability. The credit cannot be transferred to any other person.

This rule is intended to implement Iowa Code section 422.11Y.

701—800.26(422) Earned income credit.

800.26(1) *In general—eligibility.* A tax credit is available for individuals who qualify for the federal earned income tax credit. The tax credit may be claimed against individual income tax.

800.26(2) *Tax credit calculation.* An individual is allowed an Iowa earned income tax credit equal to 15 percent of the federal earned income credit to which the taxpayer is entitled on the taxpayer's federal income tax return as authorized in IRC Section 32.

800.26(3) *Claiming the tax credit.*

a. Nonresidents and part-year residents. The Iowa earned income tax credit for nonresidents or part-year residents of Iowa is determined in the ratio of Iowa-source net income to total source net income.

EXAMPLE: A married couple lives in Nebraska. One spouse worked in Iowa and had an Iowa net income of $12,000. That spouse had total net income from all sources of $15,000. The other spouse had no Iowa-source net income and had total net income from all sources of $10,000. The taxpayers had a federal earned income credit of $2,800, which, when multiplied by 15 percent equals $420. The ratio of Iowa-source net income to total source net income is 48 percent ($12,000 ÷ $25,000). The Iowa earned income tax credit therefore equals $202 ($420 × .48).

b. Tax credit in excess of tax liability. The Iowa earned income credit is refundable. In lieu of claiming a refund, the taxpayer may elect to have the excess credited to the taxpayer's estimated tax liability for the following year in the same conditions as an overpayment of tax.

c. Transferability. The tax credit cannot be transferred to any other person.

This rule is intended to implement Iowa Code section 422.12B.

701—800.27(15,422) Renewable chemical production tax credit program.

800.27(1) *In general—eligibility.* A tax credit is available to eligible businesses that receive a renewable chemical production tax credit certificate. The tax credit may be claimed against individual and corporation income tax. The economic development authority's rules related to the renewable chemical production tax credit program may be found in 261—Chapter 81.

800.27(2) *Tax credit calculation.* The credit is equal to the product of 5 cents multiplied by the number of pounds of renewable chemicals produced in Iowa from biomass feedstock by the eligible business during a given production year, subject to the limitations described in Iowa Code sections 15.315 through 15.322, 261—Chapter 81, and this rule.

800.27(3) *Credit award mechanism.* The renewable chemical production tax credit program is administered by the economic development authority.

a. Application and agreement. In order to receive the tax credit, the eligible business must apply to and enter into an agreement with the authority.

b. Certificate issuance. Upon establishing that all requirements of the program and the agreement have been fulfilled and verifying the taxpayer's eligibility for the tax credit, the authority calculates the credit. The authority then issues the related tax credit certificate including all

information required by Iowa Code section 15.319 to the eligible business stating the amount of the renewable chemical production tax credit that the eligible business may claim.

c. Rescission and recapture. The tax credit certificate, unless rescinded by the authority, shall be accepted by the department, subject to any conditions or restrictions placed upon the face of the tax credit certificate by the authority and subject to the limitations of the program. Should the authority reduce, terminate, or rescind any tax credits issued under the program, the eligible business may be subject to the repayment or recapture of any credits already claimed. The repayment of tax credits or recapture by the department shall be accomplished in the manner provided in Iowa Code section 15.330(2).

800.27(4) *Claiming the tax credit.*

a. When to claim the credit. The credit must be claimed in the tax year during which the eligible business was issued the tax credit certificate or certificates.

b. Filing a claim with the department. To claim the credit, a taxpayer must include one or more tax credit certificates with the taxpayer's return.

c. Amended returns. If the taxpayer claiming the credit has already filed a return for the tax year for which the credit certificate was issued, the taxpayer may claim the credit on an amended return. The taxpayer must file the amended return within the statute of limitations applicable to such amended return.

d. Allocation to the individual owners of the entity or beneficiaries of an estate or trust. An individual may claim the credit of a partnership, limited liability company, S corporation, cooperative organized under Iowa Code chapter 501 and filing as a partnership for tax purposes, estate, or trust electing to have income taxed directly to the individual. The amount claimed by the individual shall be based on the pro rata share of the individual's earnings from the partnership, limited liability company, S corporation, cooperative, estate, or trust.

e. Claiming the credit of a pass-through entity. To claim the credit of an eligible business that is a pass-through entity, an individual taxpayer must claim the credit on the tax return for the tax year during which the eligible business received the tax credit certificate.

EXAMPLE: A partnership has a fiscal year of September 2024 through August 2025. The partnership receives a renewable chemical production tax credit certificate under this program in July 2025, which is during the partnership's 2024 tax year. A partner in the partnership files individual returns on a calendar year basis, which means that the credit was issued in the partner's 2025 tax year and should be claimed in the partner's 2025 tax year.

f. Tax credit in excess of tax liability. Any credit in excess of the tax liability is refundable. In lieu of claiming a refund, the taxpayer may elect to have the overpayment shown on the taxpayer's final, completed return credited to the tax liability for the following tax year. The overpayment cannot be carried back to any prior year.

g. Transferability. Tax credit certificates cannot be transferred to any other person.

This rule is intended to implement Iowa Code section 422.10B.

701—800.28(15E,422) Major economic growth attraction program tax credit.

800.28(1) *In general—eligibility.* An investment tax credit is available for eligible businesses who make a qualifying investment in certain proposed projects. The investment tax credit may be claimed against individual income, corporation income, franchise, and moneys and credits taxes. The economic development authority's rules related to the major economic growth attraction program tax credit may be found in 261—Chapter 67.

800.28(2) *Definitions.* The terms used in this rule mean the same as defined in 261—Chapter 67.

800.28(3) *Tax credit calculation.* The credit is equal to up to 5 percent of the eligible business's qualifying investment.

800.28(4) *Credit award mechanism.* The major economic growth attraction program investment tax credit is administered by the authority.

a. Application and agreement. A business must apply for the program pursuant to the provisions of Iowa Code section 15.493. Businesses that are approved for participation in the program must enter into an agreement with the authority, that meets the provisions of Iowa Code section 15.494.

b. Certificate issuance. The authority will issue a tax credit certificate to eligible businesses who make a qualifying investment, once the conditions in Iowa Code section 15.496(1) have been met.

c. Retroactive liability. If within five years of the date of the issuance of an investment tax credit the eligible business sells, disposes of, razes, or otherwise renders unusable all or a part of the land, buildings, or other structures for which the tax credit was claimed, the tax liability of the eligible business will increase according to the provisions of Iowa Code section 15.496(2).

800.28(5) *Claiming the tax credit.*

a. Filing a claim with the department. To claim the credit, the tax credit certificate must be included with the taxpayer's return.

b. Credit availability. Once a certificate is issued, it may be claimed in equal parts over five years. No more than one-fifth of the total credit award can be claimed in any one tax year.

c. Allocation to individual owners or beneficiaries. An individual may claim the investment tax credit if the investment was made by a partnership, S corporation, limited liability company, estate, or trust electing to have the income directly taxed to the individual. The amount claimed by an individual must be based on the individual's pro rata share of the individual's earnings of the partnership, S corporation, limited liability company, estate, or trust.

d. Tax credit in excess of liability. The investment tax credit may be refundable or nonrefundable. The eligible business may elect whether to receive a refundable or nonrefundable credit, and must do so prior to the authority's issuance of the tax credit certificate. The credit cannot be carried back to a tax year prior to the year in which the tax credit is first claimed.

(1) Refundable credit. If the eligible business claims a refundable investment tax credit, in lieu of claiming a refund, the taxpayer may elect to have the excess credited to the taxpayer's estimated tax liability for the following year in the same manner and under the same conditions as an overpayment of tax.

(2) Nonrefundable credit. If the eligible business claims a nonrefundable credit, any credit in excess of the tax liability for the tax year may be credited to the tax liability for the following five years or until used, whichever is earlier.

e. Transferability. The credit cannot be transferred to any other person.

800.28(6) *Withholding tax credit.* A credit is also available to eligible businesses to reduce the withholding tax remittance due to the department pursuant to Iowa Code section 422.16. The provisions of Iowa Code section 15.497 control the qualification and calculation of the withholding tax credit.

This rule is intended to implement Iowa Code sections 15.490 through 15.501, 422.11F, 422.33, and 422.60.

701—800.29(422) Public safety officer moving expense tax credit.

800.29(1) *In general—eligibility.* A public safety officer moving expense tax credit is available for certain unreimbursed moving expenses incurred by individuals who establish residency in Iowa upon taking full-time employment as a public safety officer in Iowa as provided in Iowa Code section 422.12P and this rule. The tax credit may be claimed by individuals against the individual income tax.

800.29(2) *Qualifying public safety officer.* The following meet the definition of a public safety officer:

a. Peace officers as described in Iowa Code section 801.4, including:

(1) Sheriff or sheriff's deputy.

(2) City police officer.

(3) Peace officer member of the department of public safety.

(4) Parole officer.

(5) Probation officer.

(6) Sworn special security officer employed by an institution of the board of regents.

(7) Conservation officer.

(8) Employee of the department of transportation who is designated as a peace officer.

(9) Employee of an aviation authority who is designated as a peace officer.

b. Corrections officers as described in Iowa Code section 97B.49B(1)*"e"*(3).

800.29(3) *Tax credit calculation.*

a. Eligible expenses. An expense will qualify as a moving expense if it meets all of the following requirements:

(1) The expense meets the definition of a moving expense under IRC Section 217(b) and Treasury Regulation 1.217-2(b)(2)-(4) or if it is a reasonable expense for meals incurred during travel from the taxpayer's old home to the taxpayer's new home.

(2) The expense is paid or incurred by the taxpayer and is attributable to the taxpayer or a member of the taxpayer's household.

(3) The expense is unreimbursed. An expense will be considered reimbursed to the extent of any amount the taxpayer is eligible to receive, directly or indirectly, from the taxpayer's employer or another person as payment for the expense of moving.

(4) The expense is not deducted on the taxpayer's federal income tax return.

b. Taxpayer eligibility. A taxpayer must meet all of the following requirements to be considered a new resident and eligible for the tax credit:

(1) The taxpayer establishes residency in Iowa after July 1, 2024, and has not been a resident of Iowa in the previous 12-month period prior to establishing residency in Iowa.

(2) The taxpayer becomes employed full-time in a qualifying public safety officer position in Iowa.

(3) The taxpayer becomes a resident of Iowa as a direct result of accepting employment in Iowa as a qualifying public safety officer.

(4) The taxpayer remains employed full time in a qualifying public safety officer position when claiming the tax credit.

(5) The taxpayer remains a resident of Iowa when claiming the tax credit.

c. Maximum tax credit. The maximum allowable tax credit shall not exceed $2,000 per move.

800.29(4) *Claiming the tax credit.*

a. Filing a claim with the department. The tax credit will be calculated and claimed on the Form IA 176. The taxpayer shall submit the form with the taxpayer's Iowa tax return for the tax year in which the tax credit is claimed.

b. When to claim the credit.

(1) For eligible expenses paid or incurred by the taxpayer before beginning full-time qualifying employment or in the same year such employment begins, the credit shall be claimed in the tax year the full-time qualifying employment begins.

EXAMPLE 1: A taxpayer who is a resident of Illinois accepts a position as a parole officer in Iowa. The taxpayer moves to Iowa, establishes Iowa residency, and incurs moving expenses late in tax year 2025 but does not begin working as a parole officer until tax year 2026. Because the taxpayer incurred the costs of moving in the year before beginning full-time employment as a public safety officer, the taxpayer will claim the tax credit in tax year 2026, the year the taxpayer began full-time employment.

(2) For eligible expenses paid or incurred by the taxpayer after the tax year full-time qualifying employment begins, the credit shall be claimed in the tax year such expenses are incurred.

EXAMPLE 2: A taxpayer who is a resident of Nebraska accepts a position as a sheriff's deputy in Iowa. The taxpayer begins working full time as a sheriff's deputy in November of tax year 2025. Due to proximity to the taxpayer's new employment, the taxpayer does not move to Iowa, establish Iowa residency, or incur moving expenses until early the next tax year, in February of tax year 2026. Because the taxpayer did not incur moving expenses until the tax year after beginning full-time employment as a public safety officer, the taxpayer may claim the tax credit in tax year 2026.

c. Tax credit in excess of tax liability. Any credit in excess of the taxpayer's tax liability is refundable. In lieu of claiming the refund, the taxpayer may elect to have the excess credited to the taxpayer's estimated tax for the following year in the same manner and under the same conditions as an overpayment of tax.

d. Transferability. The credit cannot be transferred to any other person.

This rule is intended to implement Iowa Code section 422.12P.

701—800.30(15E,42211F) Business incentives for growth program tax credit.

800.30(1) *In general—eligibility.* An investment tax credit is available for eligible businesses who make a qualifying investment in certain proposed projects. The tax credit may be claimed against individual income, corporation income, franchise, and moneys and credits taxes. The economic development authority's rules related to the business incentives for growth program tax credit may be found in 261—Chapter 69.

800.30(2) *Definitions.* The terms used in this rule mean the same as defined in 261—Chapter 69.

800.30(3) *Tax credit calculation.* The credit is equal to up to 5 percent of the eligible business's qualifying investment or up to 7.5 percent of the eligible business's qualifying investment if the project is in a rural area as defined by Iowa Code section 15.505.

800.30(4) *Credit award mechanism.* The business incentives for growth program investment tax credit is administered by the authority.

a. Application and agreement. A business must apply for the program pursuant to the provisions of Iowa Code section 15.505. Businesses that are approved for participation in the program must enter into an agreement with the authority that meets the provisions of Iowa Code section 15.506.

b. Certificate issuance. The authority will issue a tax credit certificate to eligible businesses that make a qualifying investment once the conditions in Iowa Code section 15.508(1) have been met.

c. Retroactive liability. If within five years of the date of the issuance of an investment tax credit the eligible business sells, disposes of, razes, or otherwise renders unusable all or a part of the land, buildings, or other structures for which the tax credit was claimed, the tax liability of the eligible business will increase according to the provisions of Iowa Code section 15.508(2).

800.30(5) *Claiming the tax credit.*

a. Filing a claim with the department. To claim the credit, the tax credit certificate must be included with the taxpayer's return.

b. Credit availability. Once a certificate is issued, it may be claimed in equal parts over five years. No more than one-fifth of the total credit award can be claimed in any one tax year.

c. Allocation to individual owners or beneficiaries. An individual may claim the investment tax credit if the investment was made by a partnership, S corporation, limited liability company, estate, or trust electing to have the income directly taxed to the individual. The amount claimed by an individual must be based on the individual's pro rata share of the individual's earnings of the partnership, S corporation, limited liability company, estate, or trust.

d. Tax credit in excess of liability. The investment tax credit is refundable. In lieu of claiming a refund, the taxpayer may elect to have the excess credited to the taxpayer's estimated tax liability for the following year in the same manner and under the same conditions as an overpayment of tax. The credit cannot be carried back to a tax year prior to the year in which the tax credit is first claimed.

e. Transferability. The credit cannot be transferred to any other person.

This rule is intended to implement Iowa Code sections 15.502 through 15.511, 422.11F, 422.33, and 422.60.

701—800.31(15E,422) Seed investor tax credit.

800.31(1) *In general—eligibility.* A tax credit is available for taxpayers who make an equity investment in qualifying businesses. The tax credit may be claimed against individual income, corporation income, franchise, insurance premium, and moneys and credits taxes. The

economic development authority's rules related to the seed investor tax credit may be found in 261—Chapter 114.

800.31(2) *Tax credit calculation.* The credit is equal to 20 percent of an equity investment made into a qualifying business located in an urban area and 35 percent of an equity investment made into a qualifying business in a rural area as defined in Iowa Code section 15E.26.

800.31(3) *Credit award mechanism.* The seed investor tax credit is administered by the authority. The authority will issue a tax credit certificate to taxpayers who make an equity investment in a qualifying business.

800.31(4) *Claiming the tax credit.*

a. Filing a claim with the department. To claim the credit, the tax credit certificate must be included with the taxpayer's return.

b. Allocation to individual owners or beneficiaries. For equity investments made in a qualifying business, an individual may claim the credit if the investment was made by a partnership, S corporation, limited liability company, estate, or trust electing to have the income directly taxed to the individual. The amount claimed by an individual must be based on the individual's pro rata share of the individual's earnings of the partnership, S corporation, limited liability company, estate, or trust.

c. Tax credit in excess of liability. Any credit in excess of the tax liability is refundable. In lieu of claiming a refund, the taxpayer may elect to have the overpayment shown on the taxpayer's final, completed return credited to the tax liability for the following tax year. The overpayment cannot be carried back to any prior year.

d. Transferability. The credit cannot be transferred to any other person.

This rule is intended to implement Iowa Code sections 15E.26 and 15E.27.

701—800.32(15,422) Research and development tax credit program.

800.32(1) *In general–eligibility.* A tax credit is available for qualified businesses engaged in certain fields that are approved by the economic development authority. The tax credit may be claimed against individual and corporation income taxes. The authority's rules related to the research and development tax credit may be found in 261—Chapter 82.

800.32(2) *Definitions.* The terms used in this rule mean the same as defined in 261—Chapter 82.

800.32(3) *Tax credit calculation.* The credit is equal to up to 3.5 percent of the qualified business's eligible expenditures.

800.32(4) *Credit award mechanism.* The research and development tax credit program is administered by the authority.

a. Application and agreement. A business must apply for the program pursuant to the provisions of Iowa Code section 15.523. Businesses that are approved for participation in the program must enter into an agreement with the authority that meets the provisions of Iowa Code section 15.523.

b. Certificate issuance. The authority will issue a tax credit certificate to eligible businesses that make a qualifying investment once the conditions in Iowa Code section 15.523 have been met. The certificate must contain the information provided by Iowa Code section 15.524.

c. Retroactive liability. If the qualified business fails to comply with program requirements as determined by the authority, the business may have its certification revoked pursuant to Iowa Code section 15.523.

800.32(5) *Claiming the tax credit.*

a. Filing a claim with the department. To claim the credit, the tax credit certificate must be included with the taxpayer's return.

b. Allocation to individual owners or beneficiaries. An individual may claim the tax credit of a qualified business if the business is a partnership, S corporation, limited liability company, estate, or trust electing to have the income directly taxed to the individual. The amount claimed by an individual must be based on the individual's pro rata share of the individual's earnings of the partnership, S corporation, limited liability company, estate, or trust.

c. Tax credit in excess of liability. The research and development tax credit is refundable. In lieu of claiming a refund, the taxpayer may elect to have the excess credited to the taxpayer's estimated tax liability for the following year in the same manner and under the same conditions as an overpayment of tax. The credit cannot be carried back to a tax year prior to the year in which the tax credit is first claimed.

d. Transferability. The credit cannot be transferred to any other person.

This rule is intended to implement Iowa Code sections 15.524 and 422.12Q.

701—800.33(15,422) Sustainable aviation fuel production tax credit program.

800.33(1) *In general—eligibility.* A tax credit is available to eligible businesses that receive a sustainable aviation fuel production tax credit certificate. The tax credit may be claimed against individual and corporation income tax. The economic development authority's rules related to the sustainable aviation fuel production tax credit program may be found in 261—Chapter 80.

800.33(2) *Tax credit calculation.* The credit is equal to the product of 25 cents multiplied by the number of gallons of sustainable aviation fuel produced in Iowa from feedstock by the eligible business during a given production year, subject to the limitations described in Iowa Code sections 15.530 through 15.535, 261—Chapter 80, and this rule.

800.33(3) *Credit award mechanism.* The sustainable aviation fuel production tax credit program is administered by the authority.

a. Application and agreement. In order to receive the tax credit, the eligible business must apply to and enter into an agreement with the authority.

b. Certificate issuance. Upon establishing that all requirements of the program and the agreement have been fulfilled and verifying the taxpayer's eligibility for the tax credit, the authority calculates the credit. The authority then issues the related tax credit certificate including all information required by Iowa Code section 15.533 to the eligible business and stating the amount of the credit that the eligible business may claim.

c. Rescission and recapture. Should the authority reduce, terminate, or rescind any tax credits issued under the program, the eligible business may be subject to the repayment or recapture of any credits already claimed. The repayment of tax credits or recapture by the department shall be accomplished in the manner provided in Iowa Code section 15.532.

800.33(4) *Claiming the tax credit.*

a. When to claim the credit. The credit must be claimed in the tax year during which the eligible business was issued the tax credit certificate or certificates.

b. Filing a claim with the department. To claim the credit, a taxpayer must include one or more tax credit certificates with the taxpayer's return.

c. Amended returns. If the taxpayer claiming the credit has already filed a return for the tax year for which the credit certificate was issued, the taxpayer may claim the credit on an amended return. The taxpayer must file the amended return within the statute of limitations period provided in Iowa Code section 422.73.

d. Allocation to the individual owners of the entity or beneficiaries of an estate or trust. An individual may claim the credit of a partnership, limited liability company, S corporation, cooperative organized under Iowa Code chapter 501 and filing as a partnership for tax purposes, estate, or trust electing to have income taxed directly to the individual. The amount claimed by the individual shall be based on the pro rata share of the individual's earnings from the partnership, limited liability company, S corporation, cooperative, estate, or trust.

e. Claiming the credit of a pass-through entity. To claim the credit received from a pass-through entity, an individual taxpayer must claim the credit on the tax return for the tax year during which the eligible business received the tax credit certificate.

EXAMPLE: A partnership has a fiscal year of September 2026 through August 2027. The partnership receives a sustainable aviation fuel production tax credit certificate under this program in July 2027, which is during the partnership's 2026 tax year. A partner in the partnership files individual

returns on a calendar year basis, which means that the credit was issued in the partner's 2027 tax year and should be claimed in the partner's 2027 tax year.

f. Tax credit in excess of tax liability. Any credit in excess of the tax liability is refundable. In lieu of claiming a refund, the taxpayer may elect to have the overpayment shown on the taxpayer's final, completed return credited to the tax liability for the following tax year. The overpayment cannot be carried back to any prior year.

g. Transferability. Tax credit certificates cannot be transferred to any other person.

This rule is intended to implement Iowa Code section 422.10C.

RA 26-367

REVENUE DEPARTMENT[701]

Regulatory Analysis

Notice of Intended Action to be published: 701—Chapter 307
"Withholding"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 422.16
State or federal law(s) implemented by the rulemaking: Iowa Code section 422.16

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 18, 2026 9 to 10 a.m.	Via videoconference call: meet.google.com/sbm-ihix-ere

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis, which must be received by the Department of Revenue no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Kurt J. Konek
Department of Revenue
Hoover State Office Building
P.O. Box 10457
Des Moines, Iowa 50306
Phone: 515.587.0440
Email: kurt.konek@iowa.gov

Purpose and Summary

The purpose of the proposed rulemaking is to rescind Chapter 307 and adopt a new Chapter 307 in its place. This chapter contains rules focused on the administration and collection of income tax via the withholding of earnings under Iowa Code section 422.16. After review, the Department determined the chapter aids the public's understanding of this topic and provides guidance and direction to the public of the administration and application of the law. The Department proposes revisions to the text of the chapter for clarification and organization and to remove portions of the chapter that the Department determined are unnecessary, obsolete, or duplicative of statutory language.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

There are no costs of the proposed rulemaking beyond what is imposed by the underlying statute; therefore, no classes of persons have been identified to bear the costs.

- **Classes of persons that will benefit from the proposed rulemaking:**

The public will benefit from the proposed rulemaking because the rulemaking will reduce confusion and provide guidance aiding the public's understanding on the imposition and administration of individual income tax and the withholding thereof.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

There is no economic impact associated with the proposed rulemaking beyond what is already contained in statute.

- **Qualitative description of impact:**

The proposed rulemaking will reduce uncertainty about when or whether the underlying statutes and any administrative rules are applicable. Without the proposed rulemaking, confusion could occur, which could lead to potential errors.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

There are no costs to the agency to implement the proposed rulemaking beyond those that would otherwise be required to administer the underlying statutes.

- **Anticipated effect on State revenues:**

There is no anticipated effect on State revenues. However, the proposed rulemaking provides guidance on the imposition and administration of fiduciary income tax, making it more likely that the correct amount of tax will be collected and remitted.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

The cost of inaction would be the failure to keep this chapter updated through the continued existence of unnecessary, obsolete, or duplicative statutory language. The benefit of the proposed rulemaking is reducing confusion and aiding the public's understanding on this topic.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

The proposed rulemaking is neither costly nor intrusive. The Department considered the option of not having rules explaining the imposition and administration of the laws related to withholding but determined that the rules provide useful guidance to the public.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

The Department considered not providing the rules in this chapter, but it ultimately determined the public would be served best by the guidance within the proposed chapter.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

The absence of rules on the imposition and administration of the laws related to withholding would lead to confusion in the remittance of withholding for those affected, as would leaving the rules in this chapter as they currently are. This would likely lead to the overcollection or collection of the wrong amount of tax.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.

- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

The proposed rulemaking does not have a substantial impact on small business because it does not make any distinctions based upon size. The rules do not impose any requirements beyond what is imposed by the underlying statutes.

Text of Proposed Rulemaking

ITEM 1. Rescind 701—Chapter 307 and adopt the following **new** chapter in lieu thereof:

CHAPTER 307
WITHHOLDING

701—307.1(422) Definitions.

"Income statement" means a statement that conforms to the requirements of Iowa Code section 422.16(87)*"a."* An income statement includes but is not limited to Internal Revenue Service (IRS) Form W-2, IRS Form 1099, and IRS Form W-2G.

"Payee" means an employee or other person who had Iowa income tax withheld pursuant to Iowa Code section 422.16.

"Payer" means an employer or other person required to withhold and remit Iowa income tax pursuant to Iowa Code section 422.16.

"Payroll period" means the same as described in IRC Section 3401 and includes "miscellaneous payroll period" as that term is defined and used in that section and the associated regulations.

"Semimonthly period" means the period from the first day of a calendar month through the fifteenth day of a calendar month, or the period from the sixteenth day of a calendar month through the last day of a calendar month.

This rule is intended to implement Iowa Code section 422.16.

701—307.2(422) Who must withhold.

307.2(1) *Requirement of withholding.*

a. General rule. Every employer maintaining an office or transacting business within Iowa and required under provisions of IRC Section 3401 through §3404 to withhold and pay federal income tax on compensation paid for services performed in Iowa to an individual is required to deduct and withhold from such compensation for each payroll period an amount computed in accordance with rule 701—307.4(422). Iowa income tax need not be withheld on any compensation paid in Iowa that is not subject to federal income tax withholding (whether or not such compensation is subject to withholding for federal taxes other than income tax, e.g., FICA taxes), except as provided in rule 701—307.6(422).

EXAMPLE 1: Temporary help. A has worked at B corporation regularly for two months. However, A is supplied to B corporation by C, a temporary help agency located in Iowa. C renders a weekly bill to B corporation for A's services, and C then pays A. B corporation is not A's employer within IRC Section 3401(d), and B corporation is therefore not required by the Internal Revenue Code to withhold a tax on A's compensation. Since B corporation is not required to withhold a tax for federal purposes on A's compensation, B is not required to do so for Iowa purposes. C, the temporary help agency, is required to withhold from A's compensation for federal purposes and must also do so for Iowa purposes.

EXAMPLE 2: Domestic help. A is employed by the B family. The Bs are required to withhold FICA (i.e., Social Security) tax from compensation paid to A but are not required to withhold income tax from such compensation under the Internal Revenue Code, because under IRC Section 3401(a)(3), A's

compensation does not constitute "wages." Since the Bs are not required to withhold income tax for federal purposes, they are not required to do so for Iowa purposes.

EXAMPLE 3: Executives. A is a corporate executive. On January 1, 2010, A entered into an agreement with B corporation under which he was to be employed by B in an executive capacity for a period of five years. Under the contract, A is entitled to a stated annual salary and to additional compensation of $10,000 for each year. The additional compensation is to be credited to a bookkeeping reserve account and deferred, accumulated, and paid in annual installments of $5,000 on A's retirement beginning January 1, 2015. In the event of A's death prior to exhaustion of the account, the balance is to be paid to A's personal representative. A is not required to render any service to B after December 31, 2014. During 2015, A is paid $5,000 while a resident of Iowa. The $5,000 is not excluded from "wages" under IRC Section 3401(a); therefore, B is required to withhold federal income tax, and, since it is compensation paid in this state, B must withhold Iowa income tax on A's deferred compensation.

b. Exemption from withholding.

(1) An employer may be relieved of the responsibility to withhold Iowa income tax on an employee who does not anticipate an Iowa income tax liability for the current tax year.

(2) An employee who anticipates no Iowa income tax liability for the current tax year shall file with the employer a withholding allowance certificate claiming exemption from withholding. An employee who meets this criterion may claim an exemption from withholding at any time; however, this exemption from withholding must be renewed by February 15 of each tax year that the criterion is met. If the employee wishes to discontinue or is required to revoke the exemption from withholding, the employee must file a new withholding allowance certificate within ten days from the date the employee anticipates a tax liability or on or before December 31 if a tax liability is anticipated for the next tax year. Subrule 307.5(2) contains more information.

c. Withholding from gambling winnings. The tax shall be deducted and withheld upon payment of the winnings to a payee by the person or payer making this payment. Any person or payee receiving a payment of winnings subject to withholding must furnish the payer with a statement as is required under 26 CFR §31.3402(q)-1, paragraph "e," with the information required by that paragraph. Payers of winnings subject to withholding must file Form W-2G with the Internal Revenue Service, the department, and the payee of the winnings by the dates specified in the Internal Revenue Code and in Iowa Code section 422.16. The W-2G form shall include the information described in 26 CFR §31.3402(q)-1, paragraph "f." The rules for determining the amount of proceeds from a wager under 26 CFR §31.3402(q)-1, paragraph "c," shall apply when determining whether the proceeds from Iowa lottery winnings meet the threshold for withholding.

d. Winnings from lottery, games of skill, games of chance, or raffles. Every person making any payment of winnings from the Iowa Lottery or gambling activities provided in Iowa Code chapter 99B that exceed $600 must withhold state income tax. This rule does not include winnings from tickets from multistate lottery games, or any other similar games, purchased outside of Iowa.

e. Winnings from pari-mutuel wagers. If winnings are in an amount sufficient to require that an information return be filed pursuant to 26 U.S.C. §6041 as amended to July 4, 2025, state income tax shall be withheld on the winnings.

f. Withholding from winnings from slot machines authorized under Iowa Code chapter 99F. Withholding of state income tax is required if the winnings from slot machines are in an amount sufficient to require that an information return be filed pursuant to 26 U.S.C. §6041 as amended to July 4, 2025.

g. Withholding from winnings from sports wagering. For winnings from sports wagering activities provided in Iowa Code chapter 99F, if federal income tax is required to be withheld from the winnings, state income tax must also be withheld from the same winnings.

307.2(2) *Withholding on pensions, annuities, similar periodic payments, and other nonwage payments to Iowa residents.* State income tax is to be withheld from payments of pensions, annuities, supplemental unemployment benefits, sick pay benefits, and other nonwage income payments made

to Iowa residents in those circumstances mentioned in the following paragraphs. This includes but is not limited to payments from profit-sharing plans, stock bonus plans, deferred compensation plans, individual retirement accounts, lump-sum distributions from qualified retirement plans, other retirement plans, and annuities, endowments and life insurance contracts issued by life insurance companies. These payments are subject to Iowa withholding tax if they are also subject to federal withholding tax. However, no state income tax withholding needs to be remitted from nonwage payments to residents to the extent those payments are not subject to state income tax. In the case of payments to residents such as payments of pensions and annuities, no state income tax is to be withheld if no federal income tax is being withheld from the payments of the pensions and annuities. Payers of pension and annuity benefits and other nonwage payments must withhold Iowa income tax from these payments at the rate of 3.8 percent.

EXAMPLE: A, an Iowa resident, deposits a nonwage payment from an Iowa corporation in an account at a bank located outside of Iowa. The fact that the payment was deposited at a bank located outside of Iowa does not change A's permanent residence status to the location of the bank.

a. Withholding from payments to residents from profit-sharing plans, stock bonus plans, deferred compensation plans, individual retirement accounts and from annuities, endowments and life insurance contracts issued by life insurance companies. In cases where the recipients elect withholding of state income tax from the income payments, the payers are to withhold from the payments at a rate of 3.8 percent on the taxable portion of the payment, if that can be determined by the payer or on the entire income payment if the payer does not know how much of the payment is taxable. Once a recipient makes an election for state income tax withholding, that election will remain in effect until a later election is made.

b. Withholding from payments to residents for supplemental unemployment compensation benefits and sick pay benefits.

(1) Income payments made for supplemental unemployment compensation benefits described in IRC Section 3402(o)(2)(a) and for sick pay benefits are subject to withholding of state income tax. In the case of supplemental unemployment compensation benefits, those benefits are treated as wages for purposes of state income tax withholding. Therefore, state income tax should be withheld from these payments when federal income tax is withheld.

(2) In the case of state income tax withholding for sick pay benefits paid by third-party payers in accordance with IRC Section 3402(o)(1), state income tax is to be withheld from the benefits by the payer only if state income tax withholding is requested by the payee of the benefits. If withholding is requested by the payee, the withholding should be done at a 3.8 percent rate on the sick pay benefits. Once withholding is started, it should continue until such time as the payee requests that no state income tax be withheld. For sick pay benefits not paid by third-party payers, state income tax is to be withheld since federal income tax is to be withheld.

c. Voluntary state income tax withholding from unemployment benefit payments. Recipients of unemployment benefit payments described in IRC Section 3402(p)(2) may elect to have state income tax withheld from the benefit payments at a rate of 3.8 percent. An individual's election to have state income tax withheld from unemployment benefits is separate from any election to have federal income tax withheld from the benefits.

d. Withholding on lump-sum distributions from qualified retirement plans. For lump-sum distribution payments from qualified retirement plans made to Iowa residents, state income tax is to be withheld under the conditions described in this paragraph. No state income tax is to be withheld from a lump-sum distribution payment to an Iowa resident in a situation where the payment is not subject to Iowa income tax. The rate of withholding of state income tax from the lump-sum distribution is 3.8 percent from the total distribution or 3.8 percent from the taxable amount if that amount is known by the payer. Note that in the case of a lump-sum distribution, the Iowa income tax imposed on the taxable amount of the distribution is 25 percent of the federal income tax on the distribution.

e. Withholding of state income tax from nonwage payments to residents on the basis of tax tables and tax formulas. State income tax from the nonwage payments made to Iowa residents may

be withheld on the basis of formulas and tables included in the Iowa withholding tax guide of the department. When state income tax is being withheld based upon the formulas or tables in the withholding guide, the amounts of the nonwage payments are treated as wage payments for purposes of the tables or the formulas.

(1) The frequency of the nonwage payments determines which of the withholding tables to use or the number of payroll periods in the calendar year to use in the formula. For example, if the nonwage payment is made on a monthly basis, the monthly wage bracket withholding table should be utilized for withholding or 12 should be utilized in the formula to indicate that there will be 12 nonwage payments in the year.

(2) The payers of nonwage payments should withhold state income tax from the nonwage payments to Iowa residents when federal income tax is being withheld from the nonwage payments. The payers should withhold from the nonwage payments to Iowa residents from tables or the formulas in the Iowa withholding guide on the basis of the number of withholding exemptions claimed on Form IA W-4 that has been completed by the payees of the payments. However, if a payee of a nonwage payment has not completed an IA W-4 form (Iowa employee's withholding allowance certificate) by the time a nonwage payment is to be made by the payer of the nonwage payment, the payer is to withhold state income tax on the basis that the payee has claimed an allowance amount of $40.

(3) In a situation when a payee of a nonwage payment completes Form IA W-4 and claims exemption from state income tax withholding when federal income tax is being withheld from the nonwage payment, the payer of the nonwage payment should withhold state income tax with no amount of withholding allowance or exemptions unless the payee has verified exemption from state income tax.

f. Withholding on distributions from qualified retirement plans that are not directly rolled over. Other than distributions to payees who qualify for the retirement income exclusion, state income tax is to be withheld at a rate of 3.8 percent from the gross amount or taxable amount if known by the payer of the distribution made to Iowa residents if the distributions are not transferred directly to an individual retirement account (IRA), Section 403(a) annuity, or another qualified retirement plan. The distributions that are subject to state income tax withholding are those distributions that are subject to 20 percent withholding for federal income tax purposes.

This rule is intended to implement Iowa Code sections 96.3, 99B.8, 99D.16, 99F.18, 99G.31, 422.5, 422.7, and 422.16.

701—307.3(422) Computation of amount withheld.

307.3(1) *Amount withheld.*

a. General. Every employer required to deduct and withhold a tax on compensation paid in Iowa to an individual shall deduct and withhold for each payroll period an amount the total of which will approximate the employee's annual tax liability.

b. Methods of computations. Employers required to withhold Iowa income tax on compensation paid in this state shall compute the amount of tax to be withheld for each payroll period pursuant to the methods and rules provided herein.

(1) Tables. An employer may elect to use the withholding tables provided in the Iowa employers' withholding tax guide and withholding tables, which are available from the department.

(2) Formulas. An employer may elect to use the formulas that are provided in the Iowa employers' withholding tax guide and tax tables.

(3) Other methods. An employer may request and be granted the use of an alternate method for computing the amount of Iowa tax to be deducted and withheld for each payroll period so long as the alternate proposal approximates the employee's annual Iowa tax liability. When submitting an alternate formula, the withholding agent should explain the formula and show examples comparing the amount of withholding under the proposed formula with the department's tables or formula at various income levels and by using various numbers of personal exemptions.

c. Supplemental wage payments. A supplemental wage payment is the payment of a bonus, commission, overtime pay, or other special payment that is made in addition to the employee's regular wage payment in a payroll period. If supplemental wages are paid at the same time as regular wages, the regular withholding tables or formulas are used in determining the amount of tax to be withheld as if the total of the supplemental and regular wages were a single wage payment for the regular payroll period. If supplemental wages are paid at any other time, the regular withholding tables or formulas are used in determining the amount of tax to be withheld as if the supplemental wage were a single wage payment for the regular payroll period. When a withholding agent makes a payment of supplemental wages to an employee and the employer withholds federal income tax on a flat-rate basis, pursuant to 26 CFR §31.3402(g)-1, state income tax shall be withheld from the supplemental wages at a rate of 3.8 percent without consideration for any withholding allowance or exemptions.

d. Vacation pay. Amounts of so-called "vacation allowance" shall be subject to withholding as though they were regular wage payments made for the period covered by the vacation. If the vacation allowance is paid in addition to the regular wage payment for such period, the allowance shall be treated as supplemental wage payments.

307.3(2) *Correction of underwithholding or overwithholding.*

a. Underwithholding. If an employer erroneously underwithholds an amount of Iowa income tax required to be withheld from compensation paid to an employee within a payroll period, the employer should correct the error within the same calendar year by deducting the difference between the amount withheld and the amount required to be withheld from any compensation still owed the employee, whether or not such compensation is subject to withholding. If the error is discovered in a subsequent calendar year, no correction may be made by the employer.

b. Overwithholding. If an employer erroneously overwithholds an amount of tax required to be withheld from compensation paid to an employee, repayment of such overwithheld amount shall be made in the same calendar year. Repayment may be made in either of two ways: (1) the amount of overwithholding may be repaid directly to the employee, in which case the employer must obtain written receipt showing the date and amount of the repayment, or (2) the employer may reimburse the employee by applying the overcollection against the tax required to be withheld on compensation to be paid in the same calendar year in which the overcollection occurred. If the error is discovered in a subsequent calendar year, no repayment shall be made.

This rule is intended to implement Iowa Code section 422.16.

701—307.4(422) Forms, returns, and reports.

307.4(1) *Withholding registration.*

a. Every payer required to deduct and withhold Iowa income tax must register with the department by filing an Iowa Business Tax Registration Form either on a paper form or through GovConnectIowa. The form shall indicate the payer's federal employer identification number. If a payer fails to provide the payer's federal employer identification number within 90 days of the registration filing, the department will consider the payer's withholding registration invalid.

b. If a payer deducts and withholds Iowa income tax but does not file the Iowa Business Tax Registration Form, the department may register the payer using the best information available. If a payer uses a service provider to report and remit Iowa withholding tax on behalf of the payer, the department may use information obtained from the service provider to register the payer if an Iowa Business Tax Registration Form is not filed. This information would include but is not limited to the name, address, federal employer identification number, filing frequency, and withholding contact of the payer.

307.4(2) *Allowance certificate.*

a. General. On or before the date on which a payee commences employment with an employer, the payee shall furnish the employer with a signed Iowa employee withholding allowance certificate (IA W-4) indicating the amount of withholding allowance that the individual claims, which in no event shall exceed the number to which the individual is entitled. The employer must request a

withholding allowance certificate from each employee. If the employee fails to furnish a certificate, the employee shall be considered as claiming no withholding allowance. The employer must submit to the department a copy of a withholding allowance certificate received from an employee if:

(1) The employee claimed more than $880 withholding allowance for dependents, or

(2) The employee is claiming an exemption from withholding, and it is expected that the employee's wages from that employer will normally exceed $200 per week.

Employers required to submit withholding certificates should be submitted as specified on the department website. The department may notify the employer whether to honor the withholding certificate or to withhold as though the employee is claiming no withholding allowance.

b. Form and content. The Iowa "Employee Withholding Allowance Certificate" (IA W-4) must be used to determine the amount of allowance that may be claimed by an employee for Iowa income tax withholding purposes. Generally, the greater amount of allowance an employee is entitled to claim, the lower the amount of Iowa income tax to be withheld for the employee. The following withholding allowance may be claimed on the IA W-4 form:

(1) Personal allowance.

1. An employee can claim a $40 personal allowance or $80 if the individual is eligible to claim head of household status. The employee can claim an additional $20 allowance if the employee is 65 years of age or older and another additional $20 allowance if the employee is blind.

2. If the employee is married and the spouse either does not work or is not claiming an allowance on a separate W-4 form, the employee can claim a $40 allowance for the spouse. The employee may also claim an additional $20 allowance if the spouse is 65 years of age or older and still another $20 allowance if the spouse is blind.

(2) Dependent allowance. The employee can claim a $40 allowance for each dependent that the employee will be able to claim on the employee's Iowa return.

(3) Allowance for itemized deductions. The employee can claim allowance for itemized deductions to the extent the total amount of estimated itemized deductions for the tax year for the employee exceeds the applicable standard deduction amount by $200. In instances where an employee is married and the employee's spouse is a wage earner, the total allowance for itemized deductions for the employee and spouse should not exceed the aggregate amount of itemized deduction allowance to which both taxpayers are entitled.

(4) Allowance for the child/dependent care credit. Employees who expect to be eligible for the child/dependent care credit for the tax year can claim withholding allowance for the credit. The allowance is determined from a chart included on the IA W-4 form on the basis of net income shown on the Iowa return for the employee. If the employee is married and has filed a joint federal return with a spouse who earns Iowa wages subject to withholding, the withholding allowance claimed by both spouses for the child/dependent care credit should not exceed the aggregate amount of allowance to which both taxpayers are entitled. Taxpayers that expect to have a net income of $45,000 or more should not claim withholding allowance for the child and dependent care credit, since these taxpayers are not eligible for the credit.

(5) Allowance for adjustments to income. Employees can claim allowance for adjustments to income that are set forth in 26 CFR §31.3402(m)-1, paragraph "b." This includes adjustments to income such as alimony, deductible IRA contributions, student loan interest and moving expenses that are allowed as deductions in computing income subject to Iowa income tax. In instances where an employee is married and the employee's spouse is a wage earner, the withholding allowance claimed by both spouses for adjustments to income for the employee and spouse should not exceed the aggregate amount of allowance to which both taxpayers are entitled.

c. Change in allowance.

(1) Decrease. If, on any day during the calendar year, the amount of withholding allowance to which an employee is entitled is less than the amount of withholding allowance claimed by the individual on a withholding certificate then in effect, the employee must furnish the employer with a new Iowa withholding allowance certificate relating to the amount of withholding allowance that the

employee then claims, which may in no event exceed the amount to which the employee is entitled on such day.

(2) Increase. If, on any day during the calendar year, the amount of withholding allowance to which an employee is entitled is more than the amount of withholding allowance claimed by the employee on the withholding allowance certificate then in effect, the employee may furnish the employer with a new Iowa withholding allowance certificate on which the employee may in no event claim more than the amount of withholding allowance to which the employee is entitled on such day.

d. Duration of allowance certificate. An Iowa withholding allowance certificate that is in effect pursuant to these regulations continues in effect until another withholding allowance certificate takes effect. Employers are to retain copies of the IA W-4 forms for at least four years after the certificate is no longer in effect.

307.4(3) *Reports and payments of income tax withheld.*

a. Returns of income tax withheld from wages.

(1) Quarterly returns. Every payer required to withhold tax on compensation shall file an Iowa Withholding Tax Quarterly Return for the first calendar quarter in which tax is withheld and for each subsequent calendar quarter, whether or not compensation is paid, until a final return is filed. A payer need not list the name(s) of the payee(s) when filing quarterly returns. If a payer's payroll is not constant, and the payer finds that no income was paid during the current quarter, the payer shall enter "zero" for total tax withheld this quarter on the return and submit the return as usual.

(2) Monthly deposits. Every payer who withholds more than $500 monthly but no more than $5,000 per semimonthly period must file a monthly tax deposit. The monthly deposit for the third month is due on the same day as the quarterly return. Payments shall be based upon the tax required to be withheld and must be remitted in full.

(3) Semimonthly deposits. Every payer who withholds more than $5,000 in a semimonthly period must file a semimonthly tax deposit. Payments shall be based upon the tax required to be withheld and must be remitted in full. When semimonthly deposits are required, a payer must still file a quarterly return.

(4) Final returns. A payer who in any return period permanently ceases doing business shall file the returns required by subparagraph 307.4(3)*"a"*(1) as final returns for such period. The payer shall cancel the withholding registration by submitting the Iowa Business Tax Cancellation Form.

b. Time for filing returns.

(1) Quarterly returns. Each return required by subparagraph 307.4(3)*"a"*(1) shall be filed on or before the last day of the first calendar month following the calendar quarter for which such return is made.

(2) Monthly tax deposits. Monthly deposits required by subparagraph 307.4(3)*"a"*(2) shall be remitted on or before the fifteenth day of the second and third months of each calendar quarter for the first and second months of each calendar quarter, respectively. The monthly deposit for the third month of each calendar quarter shall be paid on the same day as the quarterly return is due.

(3) Semimonthly tax deposits. Semimonthly deposits required by subparagraph 307.4(3)*"a"*(3) for the semimonthly period from the first day of the month through the fifteenth day of the month shall be remitted on or before the twenty-fifth day of the same month. The semimonthly deposits required by subparagraph 307.4(3)*"a"*(3) for the semimonthly period from the sixteenth day of the month through the last day of the month shall be remitted with payment of the tax on or before the tenth day of the month following the month in which the tax is withheld.

c. Electronic filing. Quarterly returns, amended returns, monthly deposits and semimonthly deposits shall be made electronically in a format and by means specified by the department. Tax payments are considered to have been made on the date that the tax is transmitted and released to the department. Tax payments shall be made using GovConnectIowa.

d. Determination of payment frequency. The department and the department of management have the authority to change payment thresholds by department rule. This paragraph sets forth the

payment thresholds and frequencies for each payer based on the amount withheld. The following criteria will be used to determine if a change in payment frequency is warranted.

Payment Frequency	Threshold
Semimonthly	Greater than $120,000 in annual withholding (more than $5,000 in a semimonthly period)
Monthly	Between $6,000 and $120,000 in annual withholding (more than $500 in a monthly period, less than $5,000 in a semimonthly period
Quarterly	Less than $6,000 in annual withholding and no more than $500 in any monthly period
Annual	Fewer than three employees

(1) Payment on a less frequent basis.

1. To request to pay on a less frequent basis than required, the request must be in writing and submitted to the department. A payer's written request to be allowed to pay less frequently will be reviewed by the department, and a written determination will be issued to the payer who made the request. A change in payment frequency to pay on a less frequent basis will be granted in only two instances:

- Incorrect historical data was used to determine the current payment frequency. A business may meet payment frequency criteria based on the original filing data, but, upon investigation, the filing history may prove that the business does not meet the dollar criteria because of adjustments, amended returns, or requests for refunds.
- Data available reflected an unusual pattern in tax collection. The factors causing such a distortion must be documented and made available to the department.

2. If a payer is permitted to pay on a less frequent basis, the payer must begin to pay on the less frequent basis at the start of the next quarter unless the payer is permitted to pay annually, in which case the payer must submit future payments in accordance with paragraph 307.4(3)*"f."*

(2) A payer may pay more frequently than required. No request is required to be made to pay on a more frequent basis.

e. Amended return. If the amount of Iowa income tax withheld and remitted to the department for the year is different than the withheld tax and withholding credits claimed, the payer must report the difference on an amended return and, if the return shows less tax withheld and remitted than shown due, the payer must submit payment of the difference to the department.

f. Reporting annual withholding.

(1) Any payer who does not have employee withholding but who is required to withhold state income tax from other distributions is exempted from the provisions of subparagraphs 307.4(3)*"a"*(2) and *"a"*(3) if these distributions are made annually in one calendar quarter. These payers need only comply with the reporting requirements of the one calendar quarter in which the tax is withheld.

(2) Every payer employing not more than two individuals and who expects to employ either or both for the full calendar year may pay the full amount of tax required to be withheld for the calendar year with the Iowa Withholding Tax Quarterly Return due for the first calendar quarter of the year. The payer shall advise the department that annual reporting is contemplated and also state the number of persons employed. The payer shall compute the annual withholding from wages by determining the normal withholding for one payroll period and multiply this amount by the total number of payroll periods within the calendar year. The payer is entitled to recover from the employee(s) any part of such lump-sum payment that represents an advance to the employee(s). If a payer pays a lump sum with the first quarterly return, the payer is excused from filing further quarterly returns for the calendar year involved unless the payer hires other or additional employees.

g. Furnishing income statements to payee.

(1) General rule. Every payer required to deduct and withhold income tax of a payee must furnish to each payee with respect to the income paid in Iowa by such payer during the calendar

year an income statement containing the following information: the name, address, and taxpayer identification number of the payer; the name, address, and taxpayer identification number of the payee; the total amount of taxable income paid in Iowa; the total amount deducted and withheld as tax under subrule 307.2(1); and the total amount of federal income tax withheld.

(2) Form of income statement. The information required to be furnished to a payee under the preceding paragraph shall be furnished on the appropriate IRS form, including but not limited to IRS Form W-2 and IRS Form 1099. Any reproduction, modification, or substitution for an IRS form by the payer must be approved by the department. Payers should keep copies of income statements for four years from the end of the year for which the income statements apply.

(3) Time for furnishing an income statement. Each income statement required by paragraph 307.4(3)*"g"* to be furnished for a calendar year and each corrected income statement required for any prior year shall be furnished to the payee on or before January 31 of the year succeeding such calendar year, or if an employee's employment is terminated before the close of a calendar year without expectation that it will resume during the same calendar year, within 30 days from the day on which the last payment of compensation is made, if requested by such employee, but not later than January 31 of the following year.

(4) Corrections. A payer must furnish a corrected income statement to a payee if, after the original statement has been furnished, an error is discovered in either the amount of income shown to have been paid in Iowa for the prior year or the amount of tax shown to have been deducted and withheld in the prior year. The corrected statement shall be marked "corrected."

(5) Undelivered income statements. Any payee's copy of the income statement that, after reasonable effort, cannot be delivered to a payee shall be transmitted to the department with a letter of explanation.

(6) Lost or destroyed. If the income statement is lost or destroyed, the payer shall furnish a substitute copy to the payee. The copy shall be clearly marked "Reissued."

h. Filing income statements with the department.

(1) All payers are required to electronically file all W-2 forms, W-2G forms, and 1099 forms, using GovConnectIowa, for payees from whom Iowa income tax was withheld with the department on or before February 15 following the tax year.

(2) Corrections. A payer must electronically file a corrected income statement with the department if, after the original statement has been filed, an error is discovered in either the amount of income shown to have been paid in Iowa for the prior year or the amount of tax shown to have been deducted and withheld in the prior year. The corrected statement shall be marked "corrected."

(3) Other income statements. Any income statement not listed in this paragraph that cannot be submitted electronically must be filed with the department by mail on or before February 15 following the tax year.

(4) Extension. The director or director's designee may allow a 30-day extension of time for filing income statements with the department in the case of illness, disability, absence, or if good cause is shown. To apply for an extension, a payer shall use the form available on the department website.

i. Withholding deemed to be held in trust. Funds withheld from income for Iowa income tax purposes are deemed to be held in trust for payment to the department. The state and the department shall have a lien upon all the assets of the payer and all the property used in the conduct of the payer's business to secure the payment of the tax as withheld under the provisions of this rule. An owner, conditional vendor, or mortgagee of property subject to such lien may exempt the property from the lien granted to Iowa by requiring the payer to obtain a certificate from the department, certifying that such payer has posted with the department security for the payment of the amounts withheld under this rule.

j. Correction of underpayment or overpayment of taxes withheld.

(1) Underpayment. If a return is filed for a return period under rule 701—307.4(422) and less than the correct amount of tax is reported on the return and paid to the department, the payer shall

report and pay the additional amount due by filing an amended Iowa Withholding Tax Quarterly Return.

(2) Overpayment. If a payer remits more than the correct amount of tax for a return period, the payer may file an amended Iowa Withholding Tax Quarterly Return and request a refund.

307.4(4) *Iowa W-4P—withholding certificate for pension or annuity payments.*

a. For payments made from pension plans, annuity plans, individual retirement accounts, deferred compensation plans, or other income payments contemplated under Iowa Code section 422.16(2)*"c"* to residents of Iowa, payers of these retirement benefits are to use Form IA W-4P for withholding of state income tax from the benefits. Iowa income tax withholding is not required on payments of distributions from qualifying retirement plans if the payee is eligible for the retirement income exclusion described in rule 701—302.47(422). However, withholding at a rate of 3.8 percent is required if the payee is not eligible for the retirement income exclusion or if the distribution is from a plan that does not qualify for the retirement income exclusion.

b. Payers of retirement benefits taxable in Iowa that want to use withholding formulas or tables to withhold state income tax instead of at the 3.8 percent rate may design their own IA W-4P withholding certificate form without approval of the department.

This rule is intended to implement Iowa Code sections 422.7, 422.12C, and 422.16.

701—307.5(422) Withholding on nonresidents.

307.5(1) *General.* Withholding agents should use the following methods and rates in withholding for nonresidents.

a. Wages or salaries. Use the same withholding procedures, tables, formulas, and rates as are used for residents, except for nonresidents engaged in film production or television production in this state. In addition, in accordance with the reciprocal tax agreement between Iowa and Illinois, Iowa withholding tax is not withheld on wages of Illinois residents who perform personal services in Iowa.

b. Payments to nonresidents other than wages, salaries, and other compensation for personal services. In lieu of using withholding tables or computer formulas to determine the amount of Iowa income tax to be withheld from payments made to nonresidents other than for salaries, wages, or other compensation for personal services, or income payments to nonresidents for agricultural commodities or products, Iowa income tax should be withheld at a rate of 3.8 percent of the amount of the payment.

307.5(2) *Income of nonresidents subject to withholding.* Listed below are various types of income paid to nonresidents that are subject to withholding. The list is for illustrative purposes and is not all-inclusive.

a. Personal service, including salaries, wages, commissions and fees for personal service wholly performed within this state and such portions of similar income of nonresident traveling salespersons or agents as may be derived from services rendered in this state.

b. Rents and royalties from real or personal property located within this state.

c. Interest or dividends derived from securities or investments within this state, when such interests or dividends constitute income of any business, trade, profession or occupation carried on within this state and subject to taxation.

d. Income derived from any business of a temporary nature carried on within this state by a nonresident, such as contracts for construction and similar contracts.

e. Income derived from sources within this state by attorneys, physicians, engineers, accountants, and similar sources as compensation for services rendered to clients in this state.

f. Compensation received by nonresident actors, singers, performers, entertainers, and wrestlers for performances in this state, except as described in subrule 307.5(5).

g. The gross income from commissions earned by a nonresident traveling salesperson, agent or other employee for services performed or sales made whose compensation depends directly on volume of business transacted by the nonresident, includes that proportion of the total compensation received that the volume of business or sales by the employee within this state bears to the total volume of business or sales within and without the state.

h. Payments made to landlords by agents, including elevator operators, for grain or other commodities that have been received by the landlord as rent constitute taxable income of the landlord when sold by the landlord, except as described in subrule 307.5(6).

307.5(3) *Income of nonresidents not subject to withholding.* Listed below are various types of income paid to nonresidents not subject to withholding. The list is for illustrative purposes only and is not deemed to be all-inclusive.

a. Wages paid to nonresidents of Iowa who earn compensation from regularly assigned duties in Iowa and one or more other states for a railway company or for a motor carrier are not taxable to Iowa. Pursuant to 49 U.S.C. §11502, the nonresidents in this situation are subject only to the income tax laws of their states of residence. Thus, when an Iowa resident performs regularly assigned duties in two or more states for a railroad or a motor carrier, the only state income tax that should be withheld from the wages paid for these duties is Iowa income tax.

b. Wages paid to nonresidents of Iowa who earn compensation from regularly assigned duties in Iowa and one or more states for an airline company. In accordance with 49 U.S.C. §40116, airline employees who are nonresidents of Iowa are subject only to the income tax laws of their states of residence or the state in which they perform 50 percent or more of their duties.

c. Wages paid to nonresidents of Iowa who earn compensation from regularly assigned duties in Iowa for a merchant marine company. In accordance with 46 U.S.C. §11108, interstate waterway workers who are nonresidents of Iowa are subject only to the income tax laws of their states of residence.

307.5(4) *Recovering excess tax withheld.* A nonresident payee may recover any excess Iowa income tax withheld from income of the payee by filing an Iowa income tax return after the close of the tax year and reporting income from Iowa sources in accordance with the income tax return instructions.

307.5(5) *Exemption from withholding of nonresidents engaged in film production or television production in this state.*

a. Nonresidents engaged in film production or television production in this state are not subject to state withholding on wages earned from this activity if the nonresidents' employer has applied to the department for exemption from withholding of state income tax and the employer's application includes the following information about the nonresident employees:

(1) The employees' names.

(2) The employees' permanent mailing addresses.

(3) The employees' social security numbers.

(4) The estimated amounts the employees are to be paid for services provided by the employees in this state.

b. The employer's application for exemption from withholding for the nonresident employees will not be approved by the department if the employer fails to provide all the necessary information. Only those nonresident employees described in the application for exemption from withholding will be covered if the application is approved by the department. If additional nonresident employees are hired after the initial application for exemption is filed, those employees should be described in an amendment to the application for exemption which must be filed with the department in the same manner as the original application. Applications for exemption from withholding for nonresident employees engaged in film production or television production should be submitted as specified on the form.

307.5(6) *Exemption from withholding for the sale of agricultural commodities or products.* Withholding agents are not required to withhold state income tax from income payments made to nonresidents or representatives of the nonresidents for the sales of agricultural commodities or products, if the withholding agents provide certain information to the department about the sales. The following paragraphs describe the agricultural commodities and products that are included in the exemption from withholding, specify the information needed on the sales and clarify other issues related to the exemption from withholding.

a. Agricultural commodities or products included in the exemption from withholding. Withholding agents are not required to withhold state income tax from income payments they make to nonresidents or representatives of the nonresidents for the sale of commodity credit certificates, grain (corn, soybeans, wheat, oats, etc.), livestock (cattle, hogs, sheep, horses, etc.), domestic fowl (chickens, ducks, turkeys, geese, etc.), or any other agricultural commodities or products, if the withholding agents provide the department with the information specified in paragraph 307.5(6)*"b."* A withholding agent is not exempt from withholding of state income tax on income payments to nonresidents on sales of agricultural commodities or products if the withholding agent does not provide the department with information on income payments made during the year by April 1 of the subsequent year.

b. Information to be provided to the department by withholding agents claiming exemption from withholding on income payments made to nonresidents for the sales of agricultural items. The following information is to be provided to the department by withholding agents electing exemption from withholding of state income tax on income payments made in the calendar year to nonresidents or representatives of the nonresidents on the sales of agricultural commodities or products made in the year:

(1) Name of the nonresident (last name, first name, and middle initial).

(2) Home address of the nonresident.

(3) Social security number of the nonresident.

(4) Aggregate payments made in the calendar year for the nonresident (includes payments made to a representative of the nonresident on behalf of the nonresident).

(5) Two-digit Iowa county code number of the first one of the following that applies to the nonresident:

1. County in which the nonresident owns real property or personal property.
2. County in which the nonresident leases real property or personal property.
3. County in which the nonresident has agricultural products stored or in which livestock is located.
4. County where the nonresident has performed custom farming activities in the year.
5. County where the nonresident has other business activities in Iowa other than merely sales activities.

c. If a nonresident does not own or lease property in Iowa and does not have another connection with Iowa as described in subparagraph 307.5(6)*"b"*(5), the nonresident is not subject to Iowa income tax on the income payments for agricultural commodities or products, and the nonresident's income payments should not be included on the listing.

NOTE: In a situation where a withholding agent is unable to get all the information that is to be provided to the department on income payments on sales of agricultural items, the agent is relieved of the requirement to withhold if the agent can provide written evidence showing an attempt was made to acquire all the information.

d. The listing of aggregate income payments to nonresidents with an Iowa connection for sales of agricultural commodities and products in the calendar year should be sent to the department by the withholding agent on or before April 1 of the year following the year in which the income payments were made. In lieu of the listing, the withholding agent may compile the information on aggregate income payments to nonresidents in a format described in 701—subrule 8.3(1).

e. Information must be submitted electronically via GovConnectIowa or other approved electronic submission vendor.

307.5(7) *Exemption from withholding of payments made to nonresidents for deferred compensation, pensions, and annuities.* Iowa income tax withholding is not required from payments of deferred compensation, pensions, and annuities made to nonresidents that are attributable to personal services of the nonresidents in Iowa since these payments are not subject to Iowa income tax.

307.5(8) *Exemption from withholding of a nonresident's distributive share of income from a pass-through entity.* A partnership, S corporation, estate, or trust is not required to withhold

state income tax on a nonresident member's distributive share of Iowa-source income from the pass-through entity. Instead, pass-through entities are subject to the composite return requirements in 701—Chapter 405.

This rule is intended to implement Iowa Code sections 422.15, 422.16, 422.17, and 422.73.

701—307.6(422) Penalty and interest.

307.6(1) *Penalties for willful failure to file or furnish an income statement or for willfully filing or furnishing a false or fraudulent income statement.*

a. Payers responsible for furnishing an income statement as described in paragraph 307.4(3)*"g"* or *"h"* shall be subject to a $500 penalty for each instance of any of the following:

(1) Willful failure to furnish an income statement to a payee by January 31 of the year following the year in which income tax is withheld.

(2) Willful failure to file an income statement with the department by February 15 of the year following the year in which income tax is withheld.

(3) Willfully furnishing a false or fraudulent income statement to a payee.

(4) Willfully filing a false or fraudulent income statement with the department.

b. Penalties assessed under this subrule will not be waived.

c. Penalties assessed under this subrule are in addition to any other penalty allowed under law.

307.6(2) *Examples.*

EXAMPLE 1: Employer has ten employees, all residing in Iowa. After the close of the tax year, Employer fails to furnish two of its employees with W-2s by January 31 of the following year. Additionally, Employer fails to file any W-2s with the department by February 15 of the following year and does not request an extension. If the department determines that Employer's failures to furnish W-2s to two of its employees and file ten W-2s with the department were willful, the department shall assess a penalty in the amount of $6,000 (12 instances × $500).

EXAMPLE 2: The same facts as Example 1, but the department determines Employer underpaid its withholding obligations by $2,000 for the tax year. Employer timely filed its required quarterly returns. In addition to the penalties assessed in Example 1, Employer shall be assessed a penalty of $100 (5% × $2,000) for failure to pay, plus interest calculated pursuant to subrule 307.5(5). If the department determines Employer willfully underpaid and filed a false return in order to avoid paying Iowa withholding, the department shall assess a penalty of $1,500 (75% × $2,000).

This rule is intended to implement Iowa Code sections 421.27, 422.16, and 422.25.

701—307.7(422) Withholding tax credit to workforce development fund. Upon payment in full of a certificate of participation or other obligation issued to fund a job training program under Iowa Code chapter 260E, the community college that provided the training is to notify the economic development authority of the amount paid by the employer to the community college during the previous 12 months. The economic development authority is to notify the department of this amount. The department is to credit 25 percent of this amount to the workforce development fund in each quarter for the next ten years from the withholding tax paid by the employer. If the withholding tax paid by the employer for a quarter is not sufficient to cover the sum to be credited to the workforce development fund, the sum to be credited is to be reduced accordingly.

This rule is intended to implement Iowa Code section 422.16A.

701—307.8(403) Targeted jobs withholding tax credit.

307.8(1) *Notification by the employer.* Once a withholding agreement is entered into with a pilot project city, the employer shall notify the department that an agreement has been executed and include the employer's address, tax identification number and the number of new jobs created under the agreement. In addition, for each year that the withholding agreement is in place, the employer must notify the department by January 31 of the number of new jobs created as of December 31 of the preceding year.

307.8(2) *Notification by the pilot project city.* The pilot project city must notify the department on a quarterly basis of the amount of the targeted jobs withholding credit that each employer covered by a withholding agreement remitted to the city. This notification must occur within 45 days after the end of each calendar quarter. In addition, the pilot project city must notify the department immediately when a withholding agreement with an employer is terminated.

This rule is intended to implement Iowa Code section 403.19A.

RA 26-368

REVENUE DEPARTMENT[701]

Regulatory Analysis

Notice of Intended Action to be published: 701—Chapter 308
"Estimated Income Tax for Individuals"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 422.16
State or federal law(s) implemented by the rulemaking: Iowa Code sections 422.16 and 422.17

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 18, 2026 9 to 10 a.m.	Via videoconference call: meet.google.com/sbm-ihix-ere

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis, which must be received by the Department of Revenue no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Kurt J. Konek
Department of Revenue
Hoover State Office Building
P.O. Box 10457
Des Moines, Iowa 50306
Phone: 515.587.0440
Email: kurt.konek@iowa.gov

Purpose and Summary

The purpose of the proposed rulemaking is to rescind Chapter 308 and to adopt a new Chapter 308 in its place. This chapter contains rules focused on the administration and remittance of income tax via the payment of estimated tax under Iowa Code section 422.16. After review, the Department determined the rules aid the public's understanding of this topic and provide guidance and direction to the public regarding the administration and application of the law. The Department proposes revisions to the text of the rules for clarification and organization and to remove portions of the rules that the Department determined are unnecessary, obsolete, or duplicative of statutory language.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

There are no costs of the proposed rulemaking beyond what is imposed by the underlying statute; therefore, no classes of persons have been identified to bear the costs.

- **Classes of persons that will benefit from the proposed rulemaking:**

The public benefits from the proposed rulemaking because the rulemaking will reduce confusion and provide guidance aiding the public's understanding on the imposition and administration of individual income tax.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

There is no economic impact associated with the proposed rulemaking beyond what is already contained in statute.

- **Qualitative description of impact:**

The proposed rulemaking will reduce uncertainty about when or whether the underlying statutes and any administrative rules are applicable. Without the proposed rulemaking, confusion could occur, which could lead to potential errors.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

There are no costs to the agency to implement the proposed rulemaking beyond those that would otherwise be required to administer the underlying statutes.

- **Anticipated effect on State revenues:**

There is no anticipated effect on State revenues. However, the proposed rulemaking provides guidance on the imposition and administration of fiduciary income tax, making it more likely that the correct amount of tax will be collected and remitted.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

The cost of inaction would be the failure to keep this chapter updated through the continued existence of unnecessary, obsolete, or duplicative statutory language. The benefit of the proposed rulemaking is reducing confusion and aiding the public's understanding on this topic.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

The proposed rulemaking is neither costly nor intrusive. The Department considered the option of not having rules explaining the imposition and administration of the laws related to estimated tax but determined that the rules provide useful guidance to the public.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

The Department considered not providing the rules in this chapter, but it ultimately determined the public would be served best by the guidance within the proposed chapter.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

The absence of rules on the imposition and administration of the laws related to estimated tax remittance would lead to confusion for those affected, as would leaving the rules in this chapter as is. This would likely lead to the overcollection or collection of the wrong amount of tax.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

The proposed rulemaking does not have a substantial impact on small business because it does not make any distinctions based upon size. The rules do not impose any requirements beyond what is imposed by the underlying statutes.

Text of Proposed Rulemaking

ITEM 1. Rescind 701—Chapter 308 and adopt the following **new** chapter in lieu thereof:

CHAPTER 308
ESTIMATED INCOME TAX FOR INDIVIDUALS

701—308.1(422) Who must pay estimated income tax.

308.1(1) *General.* Estimated payments are required if the taxpayer's income tax liability attributable to incomes not subject to withholding is expected to be $1,000 or more.

308.1(2) *Separate estimated tax payments by spouses.* Spouses may each make separate estimated payments. If separate estimated payments are made by married taxpayers, each spouse is to claim only the estimated payments made by that spouse.

308.1(3) *Examples of types of taxpayers who may be required to make estimated payments.* Listed below are examples of various types of taxpayers who may be required to make estimated tax payments. The list is for illustrative purposes and is not deemed to be all-inclusive.

a. Self-employed. A resident individual having taxable income from a trade or business where the individual has control of the work, the services rendered, and the fees and charges for services rendered or merchandise sold.

b. Nonresident. An individual who resides out of state and receives taxable income from an Iowa source that is not subject to withholding or to the composite tax requirements under Iowa Code section 422.16B.

c. Beneficiaries of estates and trusts. An individual who is the recipient of income from an estate or trust from an Iowa source.

d. Taxpayers with income in addition to wages. An individual drawing salary or wages subject to withholding tax, who has additional taxable income from an Iowa source that is not subject to withholding, such as interest, dividends, capital gains, rents, royalties, business income, or farm income.

e. Agricultural worker. An individual receiving a wage or salary for agricultural labor that is excluded by law for withholding tax purposes.

This rule is intended to implement Iowa Code section 422.16.

701—308.2(422) Payment of estimated tax.

308.2(1) *General.* Estimated tax due for the tax year may be paid in full on the date on which the first payment is due or in four equal installments. The taxpayer may elect to pay any installment prior to the date when the installment is due.

308.2(2) *Form of payment.* The estimated tax payment is to be submitted to the department's online portal GovConnectIowa or sent by mail to the address specified on the form.

308.2(3) *Calendar year installments.* The first estimated tax payment is due by April 30. The other installments shall be paid on or before June 30 and September 30 of the current year, and on or before January 31 of the succeeding year.

308.2(4) *Fiscal year installments.* The installment dates for a taxpayer filing estimated tax payments on a fiscal year basis are:

Installment No. 1. The last day of the fourth month of the fiscal year.

Installment No. 2. The last day of the sixth month of the fiscal year.

Installment No. 3. The last day of the ninth month of the fiscal year.

Installment No. 4. The last day of the first month of the next fiscal year.

308.2(5) *Special rule for farmers and fishers.* A farmer or fisher required to make estimated tax payments may use one of the following three methods:

a. Make the first estimated payment on April 30 and make the other three payments by the dates specified under subrule 308.2(3).

b. Make the entire estimated payment for the tax year by January 15 of the subsequent tax year and file the individual income tax return by April 30 of the subsequent tax year.

c. File the individual income tax return and pay the tax in full on or before March 1 of the subsequent tax year.

308.2(6) *Amended estimated payments.* Whenever a taxpayer required to make estimated payments believes that the anticipated income tax liability on which the estimated payments are based has changed, any subsequent estimated payments should be amended or adjusted accordingly.

EXAMPLE: A married couple is making joint estimated tax payments on a calendar year basis, anticipating an estimated tax liability of $1,000. The taxpayers paid the first quarter installment of $250 by the due date of April 30 of the current year and the second installment of $250 on June 30. On July 15, real estate owned jointly by the taxpayers was sold, creating additional tax liability for the year of $1,200. The total tax liability for the tax year is $2,200 ($1,000 + $1,200), the remaining balance due is $1,700 ($2,200 less the estimated tax payments paid of $500). The balance of $1,700 is to be paid in two equal installments of $850 each by September 30 of the current year and by January 31 of the succeeding year.

This rule is intended to implement Iowa Code section 422.16.

701—308.3(422) Estimated tax for nonresidents.

308.3(1) Estimated payments in lieu of withholding. Nonresidents who prefer to pay estimated tax in lieu of having state income tax withheld by a state withholding agent must obtain a release letter from withholding. The nonresident claim for release from withholding form must be accompanied by full payment and must include a list of the name(s) and address(es) of any Iowa agent or payer from which the taxpayer anticipates receiving income. The total gross income anticipated for the year must also be shown on the nonresident estimated tax form.

308.3(2) After the department's receipt and approval of the completed nonresident estimated tax form with the full payment of the tax shown due on the form, the certificate of release from withholding will be forwarded to the withholding agent or payer designated on the form. Since the nonresident estimated form is filed for the purpose of obtaining a release from withholding, the form must be filed prior to the time of the transactions that would subject the taxpayer to the state withholding tax requirements. The nonresident estimated tax form and payment should be submitted as specified on the form.

EXAMPLE: A nonresident individual owns a farm in Iowa that is operated by a farm manager. For tax purposes, the farm manager is considered to be the Iowa withholding agent when distributing proceeds from the farm to the nonresident. A crop is sold through the local farm cooperative elevator, and a check is issued to the farm manager, who then sends the check to the nonresident. Before doing so, Iowa income taxes are withheld from the gross proceeds and remitted to the department for deposit and credit to the income tax liability of the nonresident, unless the farm manager has possession of a certificate of release from withholding issued by the department.

308.3(3) Election by withholding agents to make estimated payments on behalf of nonresident taxpayers with net incomes from agricultural commodities or products. Withholding agents can elect to make estimated tax payments on behalf of nonresidents for net incomes that the nonresidents will have for the tax year from sales of agricultural commodities or products. If the withholding agent elects to make the estimated tax payments for the nonresident taxpayers, the estimated tax payments should be submitted to the department on or before the last day of the first month after the end of the tax year of the nonresidents. Net income from agricultural commodities or products means net incomes from those agricultural commodities or products described in 701—paragraph 307.5(6)*"a."*

If the estimated tax payments made on behalf of the nonresident taxpayers by the withholding agents are not sufficient to pay the Iowa income taxes on the net incomes of the nonresidents from the agricultural commodities or products, the nonresidents may be subject to penalties for underpayment of estimated taxes.

This rule is intended to implement Iowa Code sections 422.16 and 422.17.

701—308.4(422) Special estimated tax periods.

308.4(1) *Short taxable year.* A taxpayer having a taxable year of less than 12 months must make estimated tax payments if anticipating an Iowa tax liability of $1,000 or more for that short tax year.

308.4(2) *Part-year resident.* Part-year residents moving into or out of the state must determine their Iowa estimated tax on the ratio of income from Iowa sources not subject to withholding tax to income from all sources.

EXAMPLE: An individual moving into the state on April 15, having taxable income from an Iowa source that is not subject to withholding and an expected tax liability of $1,500, must make the first estimated payment of $500 by June 30 and pay the remaining balance of $1,000 in two equal installments of $500 each by September 30 and by January 31 of the succeeding year.

This rule is intended to implement Iowa Code section 422.16.

701—308.5(422) Nonresident reporting forms. A nonresident estimated tax form with instructions is available from the department for any nonresident wishing to make estimated tax payments in lieu of having Iowa income tax withheld by an Iowa withholding agent. The estimated payment should be submitted with the certificate or the release from withholding described in subrule 308.3(1).

This rule is intended to implement Iowa Code section 422.16.

701—308.6(422) Penalty—underpayment of estimated tax.

308.6(1) *Underpayment penalty computation.* The Iowa penalty for underpayment of estimated tax is computed on Form IA 2210F for individuals who have two-thirds of their gross annual incomes from farming or fishing activities and Form IA 2210 or Form 2210 for all other individual taxpayers.

308.6(2) *Exceptions that may avoid the underpayment penalty.* The following are exceptions under which taxpayers may avoid the penalty for underpayment of estimated tax:

a. Current year payments equal or exceed prior year's liability. Taxpayers may avoid the penalty for underpayment of estimated tax if the estimated tax payments and other tax payments for the current tax year are equal to or exceed the tax liability for the prior tax year. The payments must equal or exceed 110 percent of the prior year's tax if the individual's federal adjusted gross income exceeds $150,000. For purposes of this exception, the prior tax year must cover a 12-month period.

b. Current year payments equal or exceed 90 percent of the tax on the taxpayer's annualized income. Taxpayers may avoid the penalty for underpayment of estimated tax, if their tax payments for the tax year are equal to or exceed 90 percent of the tax on the taxpayer's annualized income for periods from the first of the tax year to the end of the month preceding the month in which an installment of estimated tax is due.

c. Casualty, disaster or unusual circumstance. A taxpayer may avoid the penalty for underpayment tax if the underpayment was due to casualty, disaster, or other unusual circumstances and imposition of the penalty would be against equity and good conscience.

d. Elderly or disabled. A taxpayer may avoid the penalty for underpayment tax if the underpayment was made by an individual who retired after having attained age 62, or who became disabled in the tax year for which the estimated payment was due or in the preceding tax year, and the underpayment was due to reasonable cause and not due to willful neglect.

This rule is intended to implement Iowa Code section 422.16.

701—308.7(422) Estimated tax carryforwards and how the carryforward amounts are affected under different circumstances.

308.7(1) *Estimated tax carryforwards, generally.* Taxpayers that file their Iowa returns prior to the last day of the next tax year and have overpayments shown on their returns may elect to have the overpayments credited to their estimated tax payments for the following tax year.

EXAMPLE 1: Taxpayer A filed a 2024 return on time, showing an overpayment of $400, and a credit to 2025 estimated tax for $400. Because the 2024 return was filed on or before December 31, 2025, Taxpayer A's election to credit the $400 overpayment to 2025 estimated tax was honored.

EXAMPLE 2: Taxpayer B filed 2023 and 2024 Iowa returns in March 2025. The 2023 return showed an overpayment of $300 and credit to 2024 estimated tax of $300. The 2024 return showed an overpayment of $200 that was determined from estimated payments of $800, including the $300 credit from the 2023 return. The overpayment from the 2023 return was to be refunded because the taxpayer had filed that return after the deadline for crediting overpayments to estimated payments for 2023 returns. Because the $300 credit to 2024 estimated tax was not allowed, there was tax due of $100 on the 2024 return. The tax due for 2024 was satisfied with part of the refund from the 2023 return.

308.7(2) *Estimated tax carryforward and how amount of carryover credit is affected by error on return.* If an Iowa return is filed timely with an overpayment shown on the return and the overpayment is to be credited to the taxpayer's estimated payments for the following year, the amount credited to estimated payments will be affected by an error on the return. Thus, if the error on the return is corrected and results in a smaller overpayment than was shown when the return was filed, the credit to estimated tax from the return may be reduced accordingly.

EXAMPLE: Taxpayer C filed a 2024 return on March 20, 2025, showing an overpayment of $400 and a credit to 2025 estimated tax of $400. During processing of the return, it was determined that an error resulted in an overpayment of $200 instead of $400. Thus, the amount credited to the taxpayer's estimated payments for 2025 was $200 instead of the $400 shown on the return. The department notified Taxpayer C of the error and advised that only $200 was being credited to Taxpayer C's estimated tax for 2025 instead of the $400 shown on the return.

308.7(3) *Estimated tax credit carryover, carryforward amount affected by amended return.* A taxpayer files an original return timely with an overpayment and with the overpayment credited to the following year's estimated tax payments. If the taxpayer files an amended return correcting an error on the original return and with a different amount credited to estimated tax than on the original return, the credit amount from the amended return will be credited to estimated tax, if the amended return is filed on or before the end of the year in which the return is due.

EXAMPLE: Taxpayer D filed an original 2024 return on April 15, 2025, with an overpayment of $500 and all of that overpayment credited to estimated tax for 2025. Later in 2025, Taxpayer D discovered a failure to claim a deduction on the return. Therefore, Taxpayer D filed an amended 2024 Iowa return on October 31, 2025, showing an overpayment of $700 and a credit to 2025 estimated tax of the same amount. Taxpayer D's amended return was filed on or before December 31, 2025, so the $700 credit to Taxpayer D's 2025 estimated tax from the amended return was allowed. Note that if the amended return had not been filed until sometime in January 2026, the credit from Taxpayer D's original return would have been applied to Taxpayer D's estimated payments for 2025. Since the amended return would have been filed too late for purposes of crediting the overpayment to Taxpayer D's estimated tax for the next year, the department would issue Taxpayer D a refund of $200, which is the portion of the overpayment from the amended return that had not been credited to estimated tax from the original return for 2024.

308.7(4) *Estimated tax carryforward and how amount of carryover credit is affected by state tax liability or other state liability of the taxpayer.* A taxpayer who files an Iowa return with an overpayment shown on the return and elects to have the overpayment credited to the taxpayer's estimated tax for the next tax year will not have the overpayment credited to estimated tax if the taxpayer has tax liabilities or other liabilities with the state that are subject to setoff as described in Iowa Code section 421.65.

EXAMPLE 1: Taxpayer E filed a 2024 Iowa return in April 2025 showing an overpayment of $400 and a credit to 2025 estimated tax of $400. During processing of Taxpayer E's 2024 return it was

determined that Taxpayer E had a liability of $150 from the 2023 Iowa return. Thus, $150 of the 2024 overpayment was offset against the tax liability from the 2023 return. The remaining portion of the 2024 overpayment of $250 was credited to Taxpayer E's estimated tax for 2025.

EXAMPLE 2: Taxpayer F filed a 2024 Iowa return in May 2025 with an overpayment of $500, a credit to 2025 estimated tax of $300 and a refund of $200. During processing, it was determined that Taxpayer F had a liability that is subject to setoff under Iowa Code section 421.65 of $1,000. After Taxpayer F was notified that the overpayment from the 2024 return was going to be applied to the liability subject to setoff, the entire overpayment of $500 was set off against Taxpayer F's liability. Thus, since the $300 credit to estimated tax was set off against the liability, there was no credit to estimated tax for 2025.

308.7(5) *Accrual of interest on an assessment of additional tax.* If the taxpayer has not elected to have an overpayment credited to an installment other than the first installment, interest shall accrue on an assessment of additional tax as follows: If the overpayment was credited to the first installment, interest on an assessment of additional tax shall accrue from the due date of the return. If the overpayment was credited to an installment due after the overpayment arose, interest shall accrue from the date the return was filed. Interest on that portion of an assessment greater than the overpayment shall accrue from the due date of the return.

This rule is intended to implement Iowa Code section 422.16.

RA 26-369

REVENUE DEPARTMENT[701]

Regulatory Analysis

Notice of Intended Action to be published: 701—Chapters 401 and 402
"Partnerships; S Corporations"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 421.14

State or federal law(s) implemented by the rulemaking: Iowa Code sections 422.7, 422.15, 422.21, and 422.35

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 18, 2026 9 to 10 a.m.	Via videoconference call: meet.google.com/sbm-ihix-ere

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis, which must be received by the Department of Revenue no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Tiana Slaney
Department of Revenue
Hoover State Office Building
P.O. Box 10457
Des Moines, Iowa 50306
Phone: 515.336.9007
Email: tiana.slaney@iowa.gov

Purpose and Summary

The purpose of this proposed rulemaking is to rescind Chapter 401 and replace it with a new chapter that discusses partnerships. The purpose of this rulemaking is also to move content from 701—subrule 501.1(5) to Chapter 402. The rulemaking removes unnecessary language from Chapter 401 and 701—subrule 501.1(5) as required under Executive Order 10. The proposed rulemaking helps taxpayers understand their obligations for filing returns for partnerships and S corporations.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

The proposed rulemaking does not create costs for any classes of persons.

- **Classes of persons that will benefit from the proposed rulemaking:**

Taxpayers that are required to file returns for partnerships and S corporations and tax practitioners will benefit from the proposed rulemaking.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

This rulemaking has no economic impact beyond that of the statutes it implements.

- **Qualitative description of impact:**

This rulemaking provides information to taxpayers that are required to file returns for partnerships and S corporations.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

There is no cost to the State from this proposed rulemaking beyond that of the statute it implements. There is no known cost to any other agency.

- **Anticipated effect on State revenues:**

There is no anticipated effect on State revenues from this proposed rulemaking. It only provides guidance on the requirements in statute. The guidance could help taxpayers meet their filing obligations more easily, which would reduce any impact on State revenues associated with enforcement.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

Without guidance from the Department on these requirements, taxpayers that are partnerships and S corporations operating in Iowa may not comply with filing obligations correctly or may spend time and money requesting guidance from the Department.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

There are no known less costly or intrusive methods.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

The only alternative would be not providing guidance at all or providing guidance on a case-by-case, informal basis.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

Providing no guidance or providing guidance on a case-by-case, informal basis would likely result in increased costs to the Department and taxpayers through increased questions or requests for guidance and could result in inconsistent guidance given over time.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

The requirements associated with this rulemaking are imposed by the Iowa Code, and the Department has no authority to make exceptions not already contemplated by the law for small businesses.

Text of Proposed Rulemaking

ITEM 1. Rescind 701—Chapter 401 and adopt the following **new** chapter in lieu thereof:

CHAPTER 401
PARTNERSHIPS

701—401.1(422) General. Every partnership or limited liability company required to file a partnership return of income for federal tax purposes doing business in this state or deriving income from sources within this state is required to file as a partnership for Iowa purposes. Rule 701—501.1(422) provides more information on specific criteria related to doing business in Iowa or deriving income from real, tangible or intangible property located or having a situs in Iowa. Iowa follows the federal Treasury check-the-box regulation 26 CFR §301.7701-3 for determination of the tax status of partnerships or limited liability companies, including single-member limited liability companies.

This rule is intended to implement Iowa Code section 422.15.

701—401.2(422) Partnership returns. Every partnership doing business in Iowa or deriving income from real, tangible or intangible property located or having a situs in Iowa must make a return of income regardless of the amount of income or loss and regardless of the residence of the partners. The return shall be made on the proper form and signed by one of the partners. The return shall be made on the same period basis, calendar or fiscal, as the partnership accounts are kept, irrespective of whether the partners are reporting their incomes on a different period basis. The return shall be filed with the department on or before the last day of the fourth month after the expiration of the tax year.

This rule is intended to implement Iowa Code sections 422.15 and 422.21.

701—401.3(422) Distribution and taxation of partnership income.

401.3(1) A partnership is not subject to tax unless the partnership makes an election under Iowa Code section 422.16C, but the members of a partnership are subject to tax, except as otherwise provided in 701—subrule 303.1(6) respecting nonresident members, upon their distributive shares of the net income of the partnership, whether distributed to the members or not.

401.3(2) If the result of the partnership operation is a net loss (i.e., excess of allowable deductions from gross income), the loss may be deducted by the members (except as otherwise provided respecting nonresident members) in the same proportion that net income would have been taxable to the members.

401.3(3) If the member reports income on the same taxable year basis as that of the partnership, the distributive share of the net income (or loss) of the partnership for the taxable year must be included in or deducted from gross income on the return for that year.

401.3(4) If the taxable year of the member is different from that of the partnership, distributive shares must be included in, or the proportion of the loss deducted from, gross income for the year in which the taxable year of the partnership ends.

401.3(5) Residents of Iowa must report in total their distributive share of partnership income or loss on their Iowa income tax return. Nonresidents must report, for income tax purposes, their distributive share of partnership income or loss as determined under 701—subrule 303.1(7).

This rule is intended to implement Iowa Code sections 422.7 and 422.15.

ITEM 2. Rescind 701—Chapter 402 and adopt the following **new** chapter in lieu thereof:

CHAPTER 402
S CORPORATIONS

701—402.1(422) Taxation of S corporations, domestic international sales corporations, and real estate investment trusts. Certain corporations and other types of entities that are taxable as corporations for federal purposes may by federal election and qualification have a portion or all of their income taxable to the shareholders or the beneficiaries.

402.1(1) Generally, Iowa follows the federal provisions (with adjustments provided by Iowa law) for determining the amount of income and to whom the income is taxable. The entity's portion of the net income that is taxable as corporation net income for federal purposes is generally also taxable as Iowa corporation income (with adjustments as provided by Iowa law), and the shareholders or beneficiaries will report on their Iowa returns their share of the organization's income reportable for federal purposes as shareholder income (with adjustments provided by Iowa law).

a. Examples of entities that may avail themselves of pass-through provisions for taxation of at least part of their net income are:

(1) Real estate investment trusts.

(2) Small business corporations electing to file under Internal Revenue Code (IRC) Sections 1371 through 1378.

(3) Domestic international sales corporations as authorized under IRC Sections 991 through 997.

(4) Certain types of cooperatives.

(5) Regulated investment companies.

b. Nonresident shareholders or beneficiaries are required to report their distributive share of said income reasonably attributable to Iowa sources. Schedules shall be filed with the individual's return showing the computation of the income attributable to Iowa sources and the computation of the nonresident taxpayer's distributive share. Entities with a nonresident beneficiary or shareholder shall include a schedule in the return computing the amount of income as determined under 701—Chapter 503. It will be the responsibility of the entity to make the apportionment of the income and supply the nonresident taxpayer with information regarding the nonresident taxpayer's Iowa taxable income.

c. Iowa recognizes the federal election to treat subsidiaries of a parent corporation that has elected S corporation status as qualified subchapter S subsidiaries (QSSSs). To the extent that, for federal income tax purposes, the incomes and expenses of the QSSSs are combined with the parent's income and expenses, the incomes and expenses must be combined for Iowa tax purposes.

402.1(2) S corporations that are subject to tax on built-in gains under IRC Section 1374 or passive investment income under IRC Section 1375 are subject to Iowa corporation income tax on this income to the extent such income and gains are received from business carried on in Iowa or from sources in Iowa.

a. The starting point for computing the Iowa tax on built-in gains is the amount of built-in gains subject to federal tax after considering the federal income limitation. The starting point for computing the passive investment income subject to Iowa income tax is the amount of passive investment income subject to federal tax.

b. The allocation and apportionment rules of 701—Chapter 503 apply to nonresident shareholders if the S corporation is carrying on business within and without Iowa.

c. Any net operating loss carryforward arising in a taxable year beginning prior to January 1, 2023, for which the corporation was a C corporation shall be allowed as a deduction against the net recognized built-in gain or passive investment income of the S corporation for the taxable year. For purposes of determining the amount of any such loss that may be carried to any of the 20 subsequent taxable years, after the year of the net operating loss, the amount of the net recognized built-in gain shall be treated as taxable income.

d. Except for estimated and other advance tax payments and any credit carryforward under Iowa Code section 422.33 arising in a taxable year for which the corporation was a C corporation, no credits shall be allowed against the built-in gains tax or the tax on capital gains or passive investment income.

This rule is intended to implement Iowa Code section 422.35.

RA 26-370

REVENUE DEPARTMENT[701]

Regulatory Analysis

Notice of Intended Action to be published: 701—Chapter 403
"Apportionment of Income for Resident Shareholders of S Corporations"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 421.14 and 422.8
State or federal law(s) implemented by the rulemaking: Iowa Code sections 422.5 and 422.8

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 18, 2026 9 to 10 a.m.	Via videoconference call: meet.google.com/sbm-ihix-ere

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis, which must be received by the Department of Revenue no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Tiana Slaney
Department of Revenue
Hoover State Office Building
P.O. Box 10457
Des Moines, Iowa 50306
Phone: 515.336.9007
Email: tiana.slaney@iowa.gov

Purpose and Summary

The purpose of this proposed rulemaking is to rescind Chapter 403 and replace it with a new chapter that discusses the apportionment of income earned by resident shareholders of S corporations. The rulemaking removes unnecessary and outdated language from Chapter 403 as required under Executive Order 10. The proposed rulemaking helps resident shareholders of S corporations doing business within and without Iowa understand how to calculate the S corporation apportionment tax credit.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

The proposed rulemaking does not create costs for any classes of persons.

- **Classes of persons that will benefit from the proposed rulemaking:**

Taxpayers that are electing to apportion their income received from S corporations doing business within and without Iowa will benefit from the proposed rulemaking.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

This rulemaking has no economic impact beyond that of the statutes it implements.

- **Qualitative description of impact:**

This rulemaking provides information to taxpayers that are electing to apportion their income received from S corporations doing business within and without Iowa.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

There is no cost to the State from this proposed rulemaking beyond that of the statute it implements. There is no known cost to any other agency.

- **Anticipated effect on State revenues:**

There is no anticipated effect on State revenues from this proposed rulemaking. It only provides guidance on the requirements in statute. The guidance could help taxpayers properly calculate their S corporation apportionment credit, which would reduce any impact on State revenues associated with education and enforcement.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

Without guidance from the Department on these requirements, taxpayers that are electing to apportion their income received from S corporations may not properly comply with the tax credit calculation or may spend time and money requesting guidance from the Department.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

There are no known less costly or intrusive methods.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

The only alternative would be to provide no guidance at all or to provide guidance on a case-by-case, informal basis.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

Not providing guidance or providing guidance on a case-by-case, informal basis would likely result in increased costs to the Department and taxpayers through increased questions or requests for guidance and could result in inconsistent guidance given over time.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

The requirements associated with these rules are imposed by the Iowa Code, and the Department has no authority to make exceptions not already contemplated by the law for small businesses.

Text of Proposed Rulemaking

ITEM 1. Rescind 701—Chapter 403 and adopt the following **new** chapter in lieu thereof:

CHAPTER 403
APPORTIONMENT OF INCOME FOR RESIDENT SHAREHOLDERS OF S CORPORATIONS

701—403.1(422) Apportionment of income for resident shareholders of S corporations.

403.1(1) Resident shareholders of all S corporations that carry on business within and without Iowa may, at their election, determine the S corporation income allocable to sources within Iowa by allocation and apportionment of the S corporation income. The criteria to determine whether the S corporation is carrying on business within and without Iowa is set forth in 701—subrule 503.1(3).

403.1(2) A shareholder in an S corporation that carries on business within and without Iowa that has elected to apportion income and then elects not to apportion income shall not reelect to apportion income for three tax years immediately following the first tax year in which the shareholder elected not to apportion income unless the director consents to the election.

This rule is intended to implement Iowa Code section 422.5.

701—403.2(422) Distributions.

403.2(1) Distributions from income not previously taxed by Iowa include the amount of all cash distributions and the fair market value of all property distributions made during the year, except as follows:

a. Distributions from income not subject to Iowa tax due to exclusion under Iowa Code section 422.7 (i.e., interest from federal securities or certain securities issued by Iowa). All distributions for a year shall be deemed to be made proportionally from income subject to Iowa tax and from income not subject to Iowa tax. Distributions from income apportioned outside of Iowa shall not be deemed to be made from income not subject to Iowa tax.

b. Distributions from income previously taxed by Iowa for a year in which the S corporation was a C corporation and that is taxed as a dividend or capital gain for federal income tax purposes.

c. Distributions from income previously taxed by Iowa for a year prior to the first tax year the resident shareholder elected to apportion income within and without Iowa.

d. Distributions paid from income for which the taxpayer can prove that Iowa tax has been previously paid. Any distributions paid from income apportioned outside of Iowa for tax years in which the resident shareholder elected to apportion income within and without Iowa will be considered distributions for which Iowa tax has not been previously paid and cannot be excluded for purposes of this rule.

403.2(2) For purposes of this rule, a distribution is taken into account on the date the corporation makes the distribution, regardless of when the distribution is treated as received by the shareholder. Distributions shall initially be deemed to have come from current-year income of the S corporation. If distributions during a year exceed the current income of the S corporation, any excess distributions shall be considered to have come first from the immediately preceding year's income of the S corporation, then from each preceding year's income of the S corporation in reverse chronological order, then in accordance with the ordering rules set forth in Internal Revenue Code (IRC) Section 1368 and the regulations thereunder.

EXAMPLE: An S corporation earned income of $20,000 in 2024, income of $30,000 in 2025 and income of $40,000 in 2026. The S corporation made no distributions during 2024 and 2025 and made distributions of $75,000 during 2026. The distributions will come first from the $40,000 income earned in 2026. The excess distributions of $35,000 will come first from the $30,000 income earned during 2025, and the remaining $5,000 will come from the income earned during 2024.

This rule is intended to implement Iowa Code section 422.8.

701—403.3(422) Income allocable to Iowa. To determine the amount of income allocable to Iowa from an electing S corporation, apply the allocation and apportionment rules in 701—Chapter 503.

This rule is intended to implement Iowa Code section 422.8.

701—403.4(422) Credit for taxes paid to another state. If a taxpayer elects to take advantage of the apportionment provisions for a resident shareholder of an S corporation, then the taxpayer cannot claim a credit against Iowa income tax for income taxes or taxes measured by income paid to another state or foreign country on the S corporation income. A taxpayer may claim a credit against Iowa income tax for income taxes or taxes measured by income paid to another state or foreign country on income other than S corporation income that may be earned in the tax year.

This rule is intended to implement Iowa Code section 422.8.

701—403.5(422) Example. The taxpayers are a married couple who have two dependent children. Their income consists of the one spouse's wages of $50,000, rental loss of $-5,000; the other spouse's S corporation income of $500,000, and joint interest income of $35,000. They have itemized deductions of $60,000 and an out-of-state tax credit of $1,150 on the S corporation income. The actual cash distribution from the S corporation was $289,840, none of which has been previously taxed by Iowa. Federal income tax paid during the year totals $191,214. The S corporation carries on business within and without Iowa with 10 percent of its sales in Iowa.

Wages	$50,000
S corporation income	500,000
Interest	35,000
Rent	(5,000)
Total income	$580,000
Less itemized deductions	(60,000)
Taxable income	$520,000
Tax	$19,760
Less personal credits two spouses and two dependents	(160)
Subtotal	$19,600
Less out-of-state tax credit	(1,150)
Iowa individual tax	$18,450
Computation of credit	
Total income	$580,000
Less S corporation income	(500,000)
Subtotal	$80,000
Add the greater of cash distributions not previously taxed, $289,840 less 100% of federal taxes on S corporation income of $164,840 = $125,000, or income attributable to Iowa sources = $50,000	125,000
Income attributable to Iowa sources	$205,000
Total income	$580,000
Taxable percentage	35.3449%
Iowa individual tax before credit	$19,600
Credit percentage	64.6551%
S corporation tax credit	$12,672

Computation of 100 percent of federal income tax attributable to S corporation income: $191,214 × $500,000 / $580,000 = $164,840.

Computation of percent of income attributable to Iowa sources: 100 × $205,000 / $580,000 = 35.3449%.

Computation of percent of income attributable to non-Iowa sources: 100% − 35.3449% = 64.6551%.

This rule is intended to implement Iowa Code section 422.8.

RA 26-371

REVENUE DEPARTMENT[701]

Regulatory Analysis

Notice of Intended Action to be published: 701—Chapters 404 and 405
"Composite Returns"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 422.16B
State or federal law(s) implemented by the rulemaking: Iowa Code section 422.16B

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 18, 2026 9 to 10 a.m.	Via videoconference call: meet.google.com/sbm-ihix-ere

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis, which must be received by the Department of Revenue no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Tiana Slaney
Department of Revenue
Hoover State Office Building
P.O. Box 10457
Des Moines, Iowa 50306
Phone: 515.336.9007
Email: tiana.slaney@iowa.gov

Purpose and Summary

The purpose of this proposed rulemaking is to rescind Chapter 404 and to rescind and adopt a new Chapter 405 that relates to the requirements of composite returns. The rulemaking rescinds Chapter 404, which is no longer applicable, and removes unnecessary language from Chapter 405 as required under Executive Order 10. The proposed rulemaking helps taxpayers understand their obligations for composite return tax and clarifies the requirements for composite returns.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

The proposed rulemaking does not create costs for any classes of persons.

- **Classes of persons that will benefit from the proposed rulemaking:**

Taxpayers that are required to file composite returns and remit composite return tax and taxpayers that can claim composite tax credits will benefit from the proposed rulemaking.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

This rulemaking has no economic impact beyond that of the legislation it implements.

- **Qualitative description of impact:**

This rulemaking provides information to taxpayers that are required to file composite returns and taxpayers who can claim composite tax credits.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

There is no cost to the State from this proposed rulemaking beyond that of the statute it implements. There is no known cost to any other agency.

- **Anticipated effect on State revenues:**

There is no anticipated effect on State revenues from this proposed rulemaking. It only provides guidance on the requirements in statute. The guidance could help taxpayers meet their obligations more easily, which would reduce any impact on State revenues from enforcement of the requirements.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

Without guidance from the Department on these requirements, taxpayers subject to the composite return requirements and taxpayers who are permitted to claim composite returns may do so incorrectly or may spend time and money requesting guidance from the Department.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

There are no known less costly or intrusive methods.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

The only alternative would be providing no guidance at all or providing guidance on a case-by-case, informal basis.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

Not providing guidance or providing guidance on a case-by-case, informal basis would likely result in increased costs to the Department and taxpayers through increased questions or requests for guidance and could result in inconsistent guidance given over time.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

The requirements associated with these rules are imposed by the Iowa Code, and the Department has no authority to make exceptions not already contemplated by the law for small businesses.

Text of Proposed Rulemaking

ITEM 1. Rescind and reserve **701—Chapter 404**.

ITEM 2. Rescind 701—Chapter 405 and adopt the following **new** chapter in lieu thereof:

CHAPTER 405
COMPOSITE RETURNS

701—405.1(422) Composite returns. A pass-through entity with one or more nonresident members for any period of time during the tax year shall file a composite return using the Iowa composite return (IA PTE-C) and pay Iowa income or franchise tax on behalf of all of its nonresident members, unless an exception in rule 701—405.5(422) applies.

This rule is intended to implement Iowa Code section 422.16B.

701—405.2(422) Definitions. Unless otherwise indicated in this rule or required by the context, all words and phrases defined in Iowa Code section 422.16B have the same meaning when used in this chapter. For the purposes of this chapter:

"Composite return" means the IA PTE-C Iowa composite return that reports information about the Iowa-source income or other amounts credited or paid to each nonresident member of the pass-through entity, the amount of composite return tax due on behalf of each nonresident member of the pass-through entity, and such other information as the department may require.

"Composite return tax" means the Iowa income tax or franchise tax due by a pass-through entity on behalf of the pass-through entity's nonresident members.

"Iowa income tax return" means the pass-through entity's IA 1065 Iowa partnership return, the IA 1120S Iowa income tax return for S corporations, or the IA 1041 Iowa fiduciary return, whichever is applicable.

"Tax year" means the tax year of the pass-through entity filing the composite return.

This rule is intended to implement Iowa Code section 422.16B.

701—405.3(422) Filing and payment for pass-through entities.

405.3(1) *Filing requirement.* A pass-through entity that is required to file a pass-through entity Iowa income tax return and that has one or more nonresident members for any period of time during the tax year is required to file a composite return unless it meets the conditions for an exception outlined in subrule 405.5(1).

a. A pass-through entity with nonresident members must file a composite return and pay composite return tax on behalf of all nonresident members, except for the nonresident members the pass-through entity can demonstrate are exempt from the composite return requirement pursuant to subrule 405.5(2) or that have elected out of the composite return requirement pursuant to rule 701—405.6(422).

b. A pass-through entity must report all of its nonresident members, including nonresident members who are exempt from or who elect out of the composite return requirement, even though the pass-through entity is not required to pay composite return tax on behalf of those nonresident members. If all nonresident members are exempt from or elect out of the composite return requirement, the pass-through entity shall file a composite return reporting required information about all of its nonresident members and showing no composite return tax due.

c. Any pass-through entity required to file its Iowa partnership return (IA 1065), Iowa income tax return for S corporations (IA 1120S), or Iowa fiduciary return (IA 1041) for a tax year in an electronic format under Iowa Code section 422.14, 422.15, or 422.36 shall also be required to file its composite return for that tax year in an electronic format. Rule 701—8.7(422) contains more information about mandatory electronic filing requirements.

d. The composite return must be filed as instructed on the return.

405.3(2) *Due date of composite return—automatic extensions.* The composite return is due and must be filed on or before the due date of the pass-through entity's Iowa income tax return. If the pass-through entity qualifies for and receives an extension to file its Iowa income tax return, it will

also automatically qualify for and receive the same period of extension to file its composite return. Any composite return filed after the due date, including extensions, may be subject to the penalty for failure to timely file a return pursuant to Iowa Code section 421.27 and subject to other applicable penalties provided by law.

405.3(3) *Due date of composite return tax.* The composite return tax is due by the original due date of the pass-through entity's Iowa income tax return. The filing extension described in subrule 405.3(2) does not extend the due date for paying the composite return tax. Any unpaid composite return tax is subject to interest computed from the original due date of the pass-through entity's income tax return. The pass-through entity may also be subject to the penalty for failure to timely pay tax due pursuant to Iowa Code section 421.27 and other applicable penalties provided by law.

405.3(4) *Payment of estimated composite return tax not required.* Pass-through entities are not required to make payments of estimated composite return tax. However, if a pass-through entity desires to make an estimated or other advance payment of composite return tax liability, the pass-through entity may do so electronically on GovConnectIowa or by sending a check with a voucher available on GovConnectIowa.

405.3(5) *Amended composite returns—refund limitation.*

a. If the pass-through entity becomes aware that information was erroneously stated on the composite return, including but not limited to information about the nonresident members, Iowa-source income, or composite return tax due, the pass-through entity shall file an amended composite return, except as otherwise provided in this subrule.

b. If after filing an initial composite return for a tax year the pass-through entity is required to amend its Iowa income tax return in a manner that increases the amount of composite return tax due, or the pass-through entity discovers that nonresident members were erroneously excluded from the composite return, the pass-through entity shall file an amended composite return and pay the additional composite return tax that is due. Any additional composite return tax payment determined to be due after the filing of the initial composite return shall be made by the pass-through entity. An amended composite return and additional composite return tax payment is not required if the return changes are from a centralized partnership audit or an Iowa pass-through entity audit and included in a pass-through entity's election to pay on its owners' behalf pursuant to Iowa Code section 422.25A(5).

c. If after filing an initial composite return for a tax year the pass-through entity is required to amend its Iowa income tax return in a manner that only decreases the amount of Iowa-source income reportable to one or more nonresident owners, the pass-through entity is not required to file an amended composite return. A pass-through entity cannot request a refund of composite return tax paid on behalf of a nonresident member after the initial composite tax return has been filed. When composite return tax is paid by a pass-through entity on behalf of a nonresident member, it is then treated as paid by the nonresident member and any refund of an overpayment may only be requested by the nonresident member on that nonresident member's own income, franchise, or composite return.

This rule is intended to implement Iowa Code section 422.16B.

701—405.4(422) Nonresident member determination. The following rules shall apply in determining who is a nonresident member under Iowa Code section 422.16B(1)*"a"*:

405.4(1) A partner, shareholder, or beneficiary of a pass-through entity shall be considered a nonresident member if any of the following were true for the entire period of time that person was a partner, shareholder, or beneficiary during that pass-through entity's tax year:

a. The person is an individual and was a nonresident of Iowa.

b. The person is a business entity and did not have a commercial domicile in Iowa as defined in Iowa Code section 422.32.

c. The person is an estate or trust and did not have a situs in Iowa.

405.4(2) Any partner, shareholder, or beneficiary whose state of residence, commercial domicile, or situs, as applicable, is not known by the pass-through entity shall be considered a nonresident member.

This rule is intended to implement Iowa Code section 422.16B.

701—405.5(422) Exceptions to the composite return requirement.

405.5(1) *Filing and payment exceptions for pass-through entities.* Pass-through entities are not required to file a composite return or pay composite return tax if the entity meets any of the following conditions for the tax year:

a. The pass-through entity is a publicly traded partnership that meets the requirements of Iowa Code section 422.16B(5)*"a."*

b. The pass-through entity is engaged in disaster or emergency-related work during a disaster response period and is not required to file a composite return as provided in Iowa Code section 29C.24.

c. The pass-through entity is prohibited under federal or state law from making distributions to members. This exception applies only for years in which distributions are prohibited under federal or state law. Contractual restrictions on distributions, such as loan covenants or organization documents, do not qualify an entity for this exception.

d. None of the pass-through entity's nonresident members have a positive amount of Iowa-source income from the pass-through entity. This exception does not apply if any nonresident member has a positive amount of Iowa-source income from the pass-through entity, even if the nonresident member has elected out of the composite return pursuant to rule 701—405.6(422) and no composite return tax is due.

e. The pass-through entity meets one of the following requirements:

(1) The pass-through entity is a financial institution subject to the franchise tax under Iowa Code section 422.60 and files an Iowa franchise return for financial institutions (IA 1120F) required under Iowa Code section 422.62 and pays any franchise tax shown due on that return.

(2) The pass-through entity wholly owns one or more financial institutions subject to the franchise tax under Iowa Code section 422.60 that are treated as disregarded entities for federal and Iowa income tax purposes, substantially all (at least 90 percent) of the pass-through entity's gross income for the tax year is also reportable income on those wholly owned financial institutions' Iowa franchise return for financial institutions (IA 1120F) required under Iowa Code section 422.62, and those wholly owned financial institutions file their Iowa franchise return for financial institutions (IA 1120F) and pay any franchise tax shown due on that return.

405.5(2) *Payment exceptions for nonresident members.* A pass-through entity is not required to pay composite return tax on behalf of a particular nonresident member if that nonresident member meets any of the following conditions for the tax year:

a. The nonresident member is a publicly traded partnership that meets the requirements of Iowa Code section 422.16B(5)*"a."*

b. The nonresident member is exempt from Iowa income tax under Iowa Code section 422.34(2), unless the Iowa-source income of the tax-exempt entity is unrelated business income.

c. The nonresident member is an insurance company exempt from Iowa income tax under Iowa Code section 422.34(1) and instead subject to the insurance premiums tax under Iowa Code section 432.1, 432.2, 432A.1, 518.18, or 518A.35.

d. The nonresident member and the pass-through entity complete and sign the Nonresident Member Composite Agreement form for the tax year as described in rule 701—405.6(422).

This rule is intended to implement Iowa Code section 422.16B.

701—405.6(422) Election out of the composite return tax requirement.

405.6(1) *In general.* A nonresident member may elect to be excluded from a pass-through entity's composite return unless prohibited from doing so under subrule 405.6(2). Electing out of the composite return only relieves the pass-through entity of the requirement to pay composite return tax on behalf of that nonresident member. It does not relieve the pass-through entity of the requirement to report that nonresident member on a composite return. For a nonresident member to be excluded

from the composite return tax payment, both the nonresident member and the pass-through entity must complete and sign the Nonresident Member Composite Agreement prior to the pass-through entity's composite return due date including extensions. The Nonresident Member Composite Agreement is available on the department's website. The Nonresident Member Composite Agreement is only valid for the tax year for which it is executed, and a separate Nonresident Member Composite Agreement must be executed for each tax year in which the nonresident member seeks to be excluded from the composite return.

405.6(2) *Circumstances in which a pass-through entity or nonresident member cannot elect out of the composite return requirement.*

a. The ability to elect out of the composite return is conditionally granted by the department based on the nonresident member's promise to comply with the filing and payment requirements listed in subrule 405.6(3) and the pass-through entity's compliance with Iowa tax law.

b. If information available to the department indicates that the pass-through entity has not complied with Iowa tax law, including but not limited to properly reporting or sourcing its income or other tax items within and without Iowa, the department may revoke the pass-through entity's ability to enter into a Nonresident Member Composite Agreement with its nonresident members.

c. If information available to the department indicates that a nonresident member has not complied with the filing and payment requirements listed in subrule 405.6(3), the department may revoke the pass-through entity's ability to enter into a Nonresident Member Composite Agreement with that particular nonresident member.

d. The pass-through entity will be notified in writing of a revocation under paragraph 405.6(2)*"b"* or *"c,"* and such revocation will take effect 30 days following the date on the revocation letter. The revocation will not affect any Nonresident Member Composite Agreement entered into prior to the effective date of the revocation. After such revocation, a pass-through entity will not be allowed to enter into a Nonresident Member Composite Agreement with the affected nonresident members without written permission from the department.

405.6(3) *Filing and payment requirements for a nonresident member electing out of composite return requirement.* To elect out of the composite return requirement, a nonresident member must agree to all of the following in the Nonresident Member Composite Agreement:

a. The nonresident member files an Iowa income or franchise tax return, unless such return is subject to a filing threshold and the nonresident member falls below that threshold and is not required to file.

b. The nonresident member timely pays all Iowa income or franchise tax related to the nonresident member's distributive share of Iowa-source income from the pass-through entity, including, if applicable, estimated tax payments and composite return tax payments.

c. The nonresident member acknowledges that the nonresident member is subject to personal jurisdiction in Iowa for the collection of Iowa income or franchise tax liability.

405.6(4) *Retention of records.* The signed Nonresident Member Composite Agreement is not required to be submitted with the composite return but shall be retained by the pass-through entity and submitted to the department upon request.

405.6(5) *Liability for unpaid tax, penalty, and interest for a nonresident member electing out of the composite return requirement.* A pass-through entity that enters into a Nonresident Member Composite Agreement with a nonresident member will remain jointly and severally liable for any unpaid composite return tax, penalty, and interest attributable to the electing nonresident member's distributive share of Iowa-source income from the pass-through entity. If the department determines that a nonresident member has failed to comply with the tax filing and payment requirements agreed to in subrule 405.6(3), it may collect the unpaid composite return tax, penalty, and interest directly from the pass-through entity.

This rule is intended to implement Iowa Code section 422.16B.

701—405.7(422) Determination of composite return tax.

405.7(1) Each nonresident member's distributive share of Iowa-source income from the pass-through entity shall be determined at the entity level in accordance with the Iowa statutes, administrative rules, and tax forms applicable to the pass-through entity's tax type, including provisions related to the allocation and apportionment of income.

405.7(2) A partner's Iowa-source income includes the amount of nonseparately stated income, separately stated income including guaranteed payments, and separately stated deductions, attributable to Iowa as properly reported on the partner's IA 1065 Schedule K-1. A shareholder's Iowa-source income includes the amount of nonseparately stated income, separately stated income, and separately stated deductions, attributable to Iowa as properly reported on the shareholder's IA 1120S Schedule K-1. A beneficiary's Iowa-source income includes the amount of distributable net income attributable to Iowa as properly reported on the beneficiary's IA 1041 Schedule K-1.

405.7(3) No net operating loss or other owner-level tax attribute modification, or reduction for Iowa tax credits, is allowed in the computation of each nonresident member's Iowa-source income for purposes of the composite return. To claim an owner-level tax attribute modification, or an Iowa tax credit, the nonresident member must file the nonresident member's own Iowa tax return.

405.7(4) If a nonresident member's Iowa-source income is a loss, that loss cannot be netted against the Iowa-source income of another nonresident member.

405.7(5) The composite return tax for each nonresident member is computed by multiplying the nonresident member's Iowa-source income, if positive, by the highest tax rate applicable to that nonresident member. C corporations, or tax-exempt entities with unrelated business income, will be taxed at the highest corporate tax rate in Iowa Code section 422.33. Financial institutions will be taxed at the franchise tax rate in Iowa Code section 422.63. Individuals, estates, trusts, partnerships, and S corporations (except those subject to the franchise tax) will be taxed at the individual tax rate in Iowa Code section 422.5. The sum of the composite return tax for all nonresident members is the pass-through entity's total composite return tax liability.

This rule is intended to implement Iowa Code section 422.16B.

701—405.8(422) Filing for nonresident members—composite tax credits.

405.8(1) *In general.* Nonresident members included on a pass-through entity's composite return may still have an Iowa return filing requirement. The nonresident member shall receive a refundable composite tax credit for the composite return tax paid on the nonresident member's behalf by the pass-through entity. The nonresident member's composite tax credit shall be claimed for the same tax year that the nonresident member's Iowa-source income from the pass-through entity is required to be reported on the nonresident member's Iowa income or franchise return.

405.8(2) *Nonresident member—partnership.* A nonresident member that is a partnership is required to file the Iowa partnership return (IA 1065). The partnership is also subject to the composite return requirements if it has one or more nonresident members for any period of time during the tax year or if it desires to claim a composite tax credit it received from another pass-through entity. The partnership can claim its composite tax credit on its partnership return or its composite return. Subrule 405.8(4) contains information related to financial institutions organized as pass-through entities.

405.8(3) *Nonresident member—S corporation.* A nonresident member that is an S corporation is required to file the Iowa income tax return for S corporations (IA 1120S). The S corporation is also subject to the composite return requirements if it has one or more nonresident members for any period of time during the tax year or if it desires to claim a composite tax credit it received from another pass-through entity. The S corporation can claim its composite tax credit on its S corporation return or its composite return. Subrule 405.8(4) contains information related to financial institutions organized as pass-through entities.

405.8(4) *Nonresident member—financial institution.*

a. A nonresident member that is a financial institution as defined in Iowa Code section 422.61 is required to file the Iowa franchise return for financial institutions (IA 1120F). The financial institution can claim its composite tax credit on its Iowa franchise return for financial institutions (IA 1120F).

b. If the nonresident financial institution is organized as a pass-through entity, it is also required to file the Iowa partnership return (IA 1065) or the Iowa income tax return for S corporations (IA 1120S), as applicable. The financial institution may claim its composite tax credit on its Iowa franchise return for financial institutions (IA 1120F) or its composite return.

405.8(5) *Nonresident member—C corporation or tax-exempt entity.* A nonresident member that is a C corporation, or a tax-exempt entity with unrelated business income, is required to file the Iowa corporation income tax return (IA 1120). The entity can claim its composite tax credit on its Iowa corporation income tax return (IA 1120).

405.8(6) *Nonresident member—estate or trust.* A nonresident member that is an estate or trust is required to file the Iowa fiduciary return (IA 1041) unless the estate's or trust's taxable income is below the Iowa return filing threshold in Iowa Code section 422.14. The estate or trust is also subject to the composite return requirement if its taxable income is above the Iowa return filing threshold in Iowa Code section 422.14 and if it has one or more nonresident members for any period of time during the tax year. The estate or trust may claim its composite tax credit on its Iowa fiduciary return (IA 1041) or its composite return.

405.8(7) *Nonresident member—individuals.* A nonresident member that is an individual is required to file the Iowa individual income tax return (IA 1040) unless the individual's income is below the Iowa return filing threshold in Iowa Code section 422.13, or unless the individual's distributive share of pass-through entity income included on one or more composite returns is the individual's only Iowa-source income. The individual can claim the composite tax credit on the individual's Iowa individual income tax return (IA 1040).

This rule is intended to implement Iowa Code section 422.16B.

701—405.9(422) Composite returns for nonresidents who are not members of a pass-through entity.

405.9(1) The department may require that a composite return be filed under this chapter for nonresidents who are not members of a pass-through entity. The requirement may be set forth in this chapter for a category of persons or may be made directly in writing by the department to a specific person.

405.9(2) If a person who is not required to file a composite return under this chapter desires to do so for a group of nonresidents, the person shall request and receive permission from the department before filing the composite return. In order to be a valid request, the request must be in writing and must include sufficient information about the person making the request, the nonresidents to be included in the composite return, and the reason for filing on a composite return basis to enable the department to evaluate the request and make a determination. Once a valid request is received, the department may request additional information. Written requests shall be mailed to Policy Bureau, Research and Policy Division, Iowa Department of Revenue, P.O. Box 14467, Des Moines, Iowa 50306-3467.

This rule is intended to implement Iowa Code section 422.16B.

RA 26-372

REVENUE DEPARTMENT[701]

Regulatory Analysis

Notice of Intended Action to be published: 701—Chapter 502
"Determination of Net Income"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 421.14, 422.35, and 422.37
State or federal law(s) implemented by the rulemaking: Iowa Code sections 422.35 and 422.37

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 18, 2026 9 to 10 a.m.	Via videoconference call: meet.google.com/sbm-ihix-ere

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis, which must be received by the Department of Revenue no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Benjamin Clough
Department of Revenue
Hoover State Office Building
P.O. Box 10457
Des Moines, Iowa 50306-3457
Phone: 515.587.0662
Email: ben.clough@iowa.gov

Purpose and Summary

The purpose of this proposed rulemaking is to rescind and adopt a new Chapter 502. Chapter 502 provides definitions, reporting instructions, and other useful information not included in the Iowa Code that are necessary for both taxpayers and the Department to understand how corporate income taxpayers must calculate their Iowa net income as required by Iowa Code chapter 422. The present version of Chapter 502 contains a significant number of rules relating to adjustments to Iowa income that have since been repealed. Those rules have been removed, and the chapter renumbered accordingly.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

There are no significant costs to the public associated with these proposed rules themselves. These proposed rules do not impose any adjustments to income beyond what is already required by law.

- **Classes of persons that will benefit from the proposed rulemaking:**

Taxpayers, tax preparers and Department staff will benefit from this proposed rulemaking.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

There is no known economic impact of this proposed rulemaking beyond what is contained in the underlying statutes.

- **Qualitative description of impact:**

These proposed rules provide guidance on how corporations should calculate net income for Iowa tax purposes, including guidance for filing consolidated group tax returns.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

These proposed rules themselves impose no additional costs on the agency. These proposed rules only clarify items relating to tax payments the department is already required by law to administer. These proposed rules have no known impact on any other agency.

- **Anticipated effect on State revenues:**

These proposed rules have no direct impact on State revenues. The adjustments these proposed rules describe are already required or allowed by law. The additional guidance these proposed rules provide may help taxpayers calculate their income more accurately the first time, saving both taxpayers and the State time and money that might otherwise be required to audit or make adjustments.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

Providing no guidance at all would likely increase costs to both taxpayers and the Department by generating requests for guidance and other questions that could otherwise have been answered by the rules and increasing the likelihood that taxpayers are given inconsistent guidance over time.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

There are no known less costly or less intrusive methods.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

The only real alternatives are providing no guidance to taxpayers at all or providing this guidance on a more informal basis.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

No guidance at all would likely increase costs to both taxpayers and the Department by generating requests for guidance and other questions that could otherwise have been answered by the rules and increasing the likelihood that taxpayers are given inconsistent guidance over time. Issuing this guidance through less formal means may be beneficial to the agency by making it faster and easier to make changes to the guidance when needed but could be detrimental to the public by removing the oversight inherent in the rulemaking process.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.

- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

The requirements associated with these proposed rules are imposed by the Iowa Code, and the Department has no authority to make exceptions to them not already contemplated by the law for small businesses.

Text of Proposed Rulemaking

ITEM 1. Rescind 701—Chapter 502 and adopt the following **new** chapter in lieu thereof:

CHAPTER 502
DETERMINATION OF NET INCOME

701—502.1(422) Computation of net income for corporations. Net income for state purposes shall mean federal taxable income as properly computed under the Internal Revenue Code (IRC) and shall include the adjustments in Iowa Code section 422.35.

502.1(1) *Consolidated groups.*

a. Separate Iowa/consolidated federal. In the case of a corporation that is a member of an affiliated group of corporations filing a consolidated income tax return for the taxable year for federal income tax purposes but files a separate return for state purposes, taxable income as properly computed for federal purposes is determined as if the corporation had filed a separate return for federal income tax purposes for the taxable year and each preceding taxable year for which it was a member of an affiliated group. For purposes of this paragraph, the taxpayer's separate taxable income shall be determined as if the election provided by IRC Section 243(b)(2) had been in effect for all those years.

b. Consolidated Iowa/consolidated federal. More information about filing consolidated Iowa returns can be found in rule 701—502.2(422).

502.1(2) *Short periods.* When a federal short period return is filed, an Iowa return must be filed for the same period and the income calculated in the same manner as for the federal short period. If the federal taxable income is required to be adjusted to an annualized basis, the Iowa taxable income shall also be adjusted to an annualized basis.

This rule is intended to implement Iowa Code section 422.35.

701—502.2(422) Consolidated returns.

502.2(1) *Definition.* Unless otherwise stated, the terms used in this rule shall have the same meaning as when used in a comparable context in the federal income tax regulations for consolidated returns except for determining whether an affiliated group had exercised its privilege of filing a consolidated return. All references to the "commissioner" or "district director" in the federal regulations shall be construed to mean the director for purposes of this rule.

The term "common parent" shall have the same general meaning as when used in the federal income tax regulation. Where the common parent has designated one of its subsidiaries to act as agent for the affiliated group, references in this rule to "common parent" shall mean the designated agent pursuant to subparagraph 502.2(2)*"c"*(2).

502.2(2) *Filing Iowa consolidated returns.*

a. Electing to file consolidated returns. An affiliated group of corporations that did not file an Iowa consolidated return for the immediately preceding taxable year may file a consolidated return in lieu of separate returns for the taxable year.

b. Membership of the Iowa group. Each corporation that is subject to the Iowa corporation income tax and has been a member during any part of the taxable year for which the consolidated return is to be filed must consent to the filing of the consolidated return.

c. Common parent. The consolidated return shall be filed for the group by the common parent corporation. The common parent corporation of the group must attach a copy of the federal Form 851 (Affiliations Schedule) to the consolidated return.

(1) Sole agent. The common parent, for all purposes other than the making of the consent required by paragraph 502.2(2)*"d,"* shall be the sole agent for each subsidiary in the group, duly authorized to act in its own name in all matters relating to the tax liability for the consolidated return year. No subsidiary shall have authority to act for or to represent itself in any matter. The provisions of this paragraph shall apply whether or not a consolidated return is made for any subsequent year and whether or not one or more subsidiaries have become or have ceased to be members of the group at any time.

(2) Designated subsidiary. Where the common parent is not subject to the Iowa income tax because it does not have an Iowa filing requirement, as described in 701—subrule 501.1(1) or because of a specific exemption under Iowa Code section 422.34 or 422.34A, the common parent shall designate as the agent for the affiliated group one of its subsidiaries subject to the Iowa income tax and notify the director of the same in writing.

d. Member consent. If a group wishes to exercise its privilege of filing a consolidated return, each subsidiary must consent to the filing of the consolidated return for the year. The subsidiaries must consent to the filing of an Iowa consolidated return by joining in the filing of an Iowa consolidated return on or before the due date, including any extensions of time. If both separate and consolidated returns are filed on or before the due date, including any extensions of time, the latest returns filed will be considered as the taxpayers' election in regard to the filing of separate or consolidated returns.

e. Time for filing. The consolidated return must be filed not later than the due date prescribed by Iowa Code section 422.21, including extensions of time for the filing of the common parent's return. The consolidated return may not be withdrawn after the due date for filing, including extensions of time, but the group may change the basis of its return at any time prior to the due date.

f. Taxable year. The taxable year of members of the group, including rules for changing the parent's taxable year, income to be included in the separate returns, and the time for making separate returns for periods not included in a consolidated return for the purposes of the Iowa Code, shall be in accordance with the rules prescribed in Treas. Reg. Section 1.1502-76(a)-(c).

g. Group existence. A group shall be considered as remaining in existence, for the purposes of the Iowa Code, in accordance with the rules prescribed in Treas. Reg. Section 1.1502-75(d).

502.2(3) *When director may require consolidated return.* The director may require a consolidated return for those members of an affiliated group of corporations that would be eligible to elect to consolidate their incomes under Iowa Code section 422.37 if the filing of separate returns for such corporations would improperly reflect the taxable incomes of said corporations or of said group.

502.2(4) *Discontinuance of filing consolidated returns.* An affiliated group that filed or was required to file a consolidated return for the immediately preceding taxable year is required to file a consolidated return for the taxable year unless it is allowed to discontinue filing consolidated returns or a federal consolidated return is not filed by the group.

a. Notification of discontinuance. In the event that a consolidated filing for Iowa tax purposes is discontinued for any reason, the common parent must notify the department in writing. The mere filing of separate returns does not, in itself, constitute sufficient notice.

b. When consolidated filing may be discontinued. A group may discontinue filing consolidated Iowa returns if any of the following factors are met:

(1) Separate federal returns. The group is not filing a federal consolidated return for the year. A group that files on a separate basis for federal income tax purposes for the tax year is not permitted to file an Iowa consolidated return for that same tax year.

(2) Determination that separate filing more clearly discloses the taxable income. The director determines that the filing of separate returns will more clearly disclose the taxable income of each member of the affiliated group. Corporations should apply to the director within a reasonable time prior to the due date of the return, including extensions of time. Normally, this would be not later than

90 days prior to said due date. The application should explain in detail the taxable income on both a consolidated and separate basis together with the reasons why separate returns would more clearly disclose Iowa taxable income. The mere fact that the consolidated tax liability is greater or less than the combined separate liabilities is not, alone, a ground for discontinuance of consolidated filing.

(3) Change in membership. When one or more of the members of the affiliated group cease to be subject to Iowa corporate income tax, consolidation may be discontinued in whole or in part.

(4) Members no longer taxable. One or more of the members of the affiliated group has changed in character so that they are no longer taxable under the Iowa corporate income tax law.

EXAMPLE: Common parent A is a manufacturer. Subsidiary B is a company engaged in small loans. A and B file consolidated Iowa returns. In a subsequent taxable year, B changes its business by surrendering its small loan company license and obtains a state bank charter. Even though A and B continue to file federal consolidated returns, B is now a corporation exempt from tax under Iowa Code section 422.34. Therefore, A and B should discontinue filing Iowa consolidated returns.

(5) Change in ownership. The affiliated group is purchased by another corporation or affiliated group so that after the purchase the stockholders own less than 50 percent of the market value of all classes of outstanding stock of the new corporation or affiliated group, then the old group must discontinue filing Iowa consolidated returns. The new group may exercise its privilege of filing a consolidated return.

c. Separate returns required. If a group is allowed to discontinue filing consolidated returns for any taxable year, then each member of the affiliated group subject to Iowa tax must file a separate return for such year on or before the due date, including extensions of time for the filing of the consolidated return for such year.

d. Tax allocation. In any case in which amounts have been assessed and paid upon the basis of a consolidated return and where the tax liability of one or more of the corporations included in the consolidated return is to be computed in the manner described in paragraph 502.2(6)*"c,"* the amounts so paid shall be allocated between the group composed of the corporations properly included in the consolidated return and each of the corporations whose tax liability is to be computed on a separate basis or on the basis of a consolidated return of another group. Where one or more of the corporations is included in the absence of an agreement, the tax liability of the group shall be allocated as follows. The net consolidated federal income tax liability is multiplied by a fraction, the numerator of which is the taxpayer's federal taxable income as computed on a separate basis, and the denominator of which is the total federal taxable incomes of each corporation included in the consolidated return. If the computation of the taxable income of a member results in an excess of deductions over gross income, such member's taxable income shall be zero.

502.2(5) *Changes in membership of the consolidated group.*

a. Dissolution of common parent. If the common parent corporation contemplates dissolution, or is about to be dissolved, or if for any other reason its existence is about to terminate, it must notify the director of that fact and designate another member to act as the common parent in its place. If this notice is not given by the common parent, the remaining members may, subject to the approval of the director, designate another member to act as agent, and notice of the designation shall be given to the director. Until a written notice designating a new agent has been approved by the director, any notice of assessment or other communications mailed to the common parent shall be considered as having been properly mailed to the agent of the group. If the director has reason to believe that the existence of the common parent has terminated, the director may communicate directly with any member with respect to its liability.

b. Member leaving the group. If a subsidiary has ceased to be a member of the group and if the subsidiary files written notice of the cessation with the director, then upon request of the subsidiary, the director will furnish it with a copy of any notice concerning the tax for a consolidated return year for which it was a member. The filing of the written notification and request by a corporation shall not have the effect of limiting the scope of the agency of the common parent.

c. Common parent actions binding. Unless the director agrees to the contrary, an agreement entered into by the common parent extending the time within which a notice of assessment may be issued, or a levy or a proceeding in court begun concerning the tax for a consolidated return year shall be applicable to each corporation that was a member of the group during any part of the taxable year and to each corporation, the income of which was included in the consolidated return for the taxable year, notwithstanding that the liability of the corporation is subsequently computed on the basis of a separate return under these rules.

502.2(6) *Determination of consolidated Iowa income.*

a. Unless otherwise provided by these rules or inconsistent with the provisions of the Iowa Code, the consolidated taxable income for a consolidated return year under the Iowa Code shall be determined in the same manner and under the same procedures, including intercompany adjustments and eliminations, as are required by the federal income tax regulations in the case of a federal consolidated return.

b. If the Iowa affiliated group differs in its members from the federal affiliated group, such nonqualifying member(s) shall not be considered includable corporations and all computations hereunder shall be made as if such member(s) were not members of the affiliated group. The consolidated federal income tax liability shall be allocated between includable corporations and nonincludable corporations by paragraph 502.2(4)*"d."* Transactions with a subsidiary that is not included as part of the Iowa consolidated return shall not be considered as intercompany transactions for elimination purposes in computing the consolidated Iowa taxable income for the return period.

c. If a consolidated return erroneously includes the income of one or more corporations that were not members of the group at any time during the consolidated return year, the tax liability of such corporations will be determined upon the basis of separate returns and the consolidated return will be considered as including only the income of the corporations that were members of the group during that taxable year.

d. The apportionment provisions of Iowa Code section 422.33 shall be taken into account by an affiliated group doing business within and without Iowa. All members of an affiliated group that join in the filing of an Iowa consolidated return shall determine the portion of the consolidated net income earned within and without Iowa by the same method. All intercompany transactions shall be eliminated in the determination of the apportionment factors.

The gross receipts of each corporation that joins in the filing of an Iowa consolidated corporation income tax return shall be included in the computation of the business activity ratio. The gross receipts of each corporation that has nexus in Iowa shall be included in the numerator of the business activity ratio to the extent its gross receipts are not eliminated by intercompany adjustments and are considered Iowa gross receipts by 701—Chapter 503. The gross receipts of each corporation that has nexus in Iowa shall be included in the denominator of the business activity ratio to the extent its gross receipts are not eliminated by intercompany adjustments.

e. 701—Chapter 276 contains more information for requirements of an out-of-state business to be a part of an affiliated group filing an Iowa consolidated return that enters Iowa to perform "disaster or emergency-related work" during a "disaster response period" as those terms are defined in Iowa Code section 29C.24.

502.2(7) *Liability for tax.*

a. Except as provided in paragraph 502.2(7)*"b,"* the common parent corporation and each subsidiary subject to the Iowa corporation income tax that was a member of the affiliated group during any part of the consolidated return year shall be severally liable for the tax for the year computed in accordance with Iowa Code chapter 422, on or before the due date, not including extensions of time for the filing of the consolidated return for that year.

b. If a subsidiary has ceased to be a member of the group and if the cessation resulted from a bona fide sale or exchange of its stock for fair value and occurred prior to the date upon which any deficiency is assessed, the director may make an assessment and collection of the deficiency from the former subsidiary in an amount not exceeding the portion of the deficiency that the director

may determine to be allocable to it. If the director makes assessment and collection of any part of a deficiency from the former subsidiary, then for purposes of any credit or refund of the amount collected from the former subsidiary, the agency of the common parent under the provisions of paragraph 502.2(2)*"c"* shall not apply.

c. No agreement entered into by one or more members of the affiliated group with any other member of the group shall in any case have the effect of reducing the liability prescribed under this subrule.

502.2(8) *Computation of contribution.* Computation of a separate corporation's contribution to consolidated income subject to Iowa tax shall be as follows:

$$\frac{A}{B} \times C \times \frac{D}{A} + E = \begin{array}{l}\text{separate corporation contribution to}\\ \text{consolidated income subject to Iowa tax}\end{array}$$

A = Separate corporation gross sales within and without Iowa after elimination of all intercompany transactions.

B = Consolidated gross sales within and without Iowa after elimination of all intercompany transactions.

C = Iowa consolidated net income subject to apportionment.

D = Separate corporation gross sales within Iowa after elimination of all intercompany transactions.

E = Separate corporation income allocable to Iowa.

This rule is intended to implement Iowa Code sections 422.35 and 422.37.

701—502.3(422) Capital loss carryback.

502.3(1) Capital losses shall be allowed or allowable for Iowa corporation income tax purposes to the same extent they are allowed or allowable for federal corporation income tax purposes. Capital loss carrybacks shall be treated as an adjustment to federal taxable income to arrive at net allocable and apportionable income.

a. Accrual-basis. For accrual-basis taxpayers, the federal income tax refund shall not be accrued to the loss year but rather treated as a reduction in federal income tax paid in the carryback year.

b. Cash-basis. Cash-basis taxpayers shall include the federal income tax refund in Iowa taxable income in the year received.

502.3(2) When the carryback year has both allocable and apportionable capital gains, the capital loss carryback shall be applied pro rata on a percentage basis of the specific gain to the total gains.

EXAMPLE: Assume a taxpayer has a capital loss carryback available of $2,000. The loss would be applied in the following manner:

Carryback year Total Capital Gain	Carryback year Allocable Gain	Carryback year Apportionable Gain
$16,000	$4,000	$12,000

Allocable gain	–$4,000		
Total capital gain	–$16,000	=	¼ or 25% of carryback to allocable gain

Carryback year allocable capital gain after application of loss carryback:

$4,000 less ($2,000 × 25%) = $3,500 net allocable capital gain.

This rule is intended to implement Iowa Code sections 422.35 and 422.37.

701—502.4(422) Interest and dividends from federal securities. A discussion of the exempt status of interest and dividends from federal securities is found in rule 701—302.2(422).

This rule is intended to implement Iowa Code section 422.35.

701—502.5(422) Interest and dividends from foreign securities and from securities of state and their political subdivisions. Interest and dividends from foreign securities and from securities of states and their political subdivisions are included in Iowa taxable income. Certain types of interest and dividends are exempt from federal taxable income. To the extent such income has been excluded for federal income tax purposes, it must be added to Iowa taxable income unless the item of income is specifically exempted from state taxation by the laws or constitution of Iowa or of the United States. A list of obligations of the state of Iowa and its political subdivisions, the interest from which is exempt from Iowa corporation income tax, can be found in rule 701—302.3(422).

Add dividends received from regulated investment companies exempt from federal tax under IRC Section 852(b)(5) and subtract the loss on the sale or exchange of a share of a regulated investment company held for six months or less to the extent the loss was disallowed under IRC Section 852(b)(4)(B).

This rule is intended to implement Iowa Code section 422.35.

701—502.6(422) Additions to federal taxable income for certain federal credits.

502.6(1) *Charitable contributions relating to the charitable conservation contribution tax credit.* A taxpayer who claims a charitable conservation contribution tax credit in accordance with rule 701—800.18(422) cannot claim a deduction for charitable contributions under IRC Section 170 for the amount of the contribution for which the tax credit is claimed for Iowa tax purposes.

502.6(2) *Charitable contributions relating to school tuition organizations.* A taxpayer who claims a school tuition organization tax credit in accordance with rule 701—800.10(422) cannot claim a deduction for charitable contributions under IRC Section 170 for the amount of the contribution to the school tuition organization for which the tax credit is claimed for Iowa tax purposes.

502.6(3) *Charitable contributions relating to the endow Iowa tax credit.* A taxpayer who claims an endow Iowa tax credit in accordance with rule 701—800.12(15E,422) cannot claim a deduction for charitable contributions under IRC Section 170 for the amount of the contribution for which the tax credit is claimed for Iowa tax purposes.

502.6(4) *Charitable contributions related to the from farm to food donation tax credit.* A taxpayer who claims a from farm to food donation tax credit in accordance with rule 701—800.14(422) cannot claim a deduction for charitable contributions under IRC Section 170 for the amount of the contribution for which the tax credit is claimed for Iowa tax purposes.

This rule is intended to implement Iowa Code section 422.35.

701—502.7(422) Additional deduction for wages paid or accrued for work done in Iowa by certain individuals. A small business corporation, as defined by subrule 502.7(2), is allowed a deduction for 65 percent but not more than $20,000 of the wages paid or accrued during the tax years for work done in Iowa by qualifying employees first hired by the taxpayer during the tax year.

The employee must meet the requirements of Iowa Code section 422.35(3)*"a."*

502.7(1) The additional deduction shall not be allowed for wages paid to an individual who was hired to replace an individual whose employment was terminated within the 12-month period preceding the date of first employment. However, if the individual being replaced left employment voluntarily without good cause attributable to the employer or if the individual was discharged for misconduct in connection with the individual's employment as determined by Iowa workforce development, the additional deduction shall be allowed.

The determination of whether an individual left employment voluntarily without good cause attributable to the employer or if the individual was discharged for misconduct is a factual determination which must be made on a case-by-case basis.

502.7(2) Definitions.

"Annual gross revenues" means total sales, before deducting returns and allowances but after deducting corrections and trade discounts, sales taxes and excise taxes based on sales as determined in accordance with generally accepted accounting principles.

"Has a record of such impairment" means has a history of, or has been misclassified as having, a mental or physical impairment that substantially limits one or more major life activities.

"Individual with a disability" means any person who has a physical or mental impairment that substantially limits one or more major life activities, has a record of such impairment, or is regarded as having such an impairment. "Individual with a disability" does not include any person whose current use of alcohol or controlled substances prevents the person from performing the duties of employment or whose employment, by reason of current use of alcohol or controlled substances, would constitute a direct threat to the property or the safety of others.

"Is regarded as having such an impairment" means a person who:

1. Has a physical or mental impairment that does not substantially limit major life activities but that is perceived as constituting such a limitation;
2. Has a physical or mental impairment that substantially limits major life activities only as a result of the attitudes of others toward such impairment; or
3. Has none of the impairments defined as physical or mental impairments but is perceived as having such an impairment.

"Major life activities" means functions such as caring for one's self, performing manual tasks, walking, seeing, hearing, speaking, breathing, learning, and working.

"Physical or mental impairment" means:

1. Any physiological disorder or condition, cosmetic disfigurement, or anatomical loss affecting one or more of the following body systems: neurological; musculoskeletal; special sense organs; respiratory, including speech organs; cardiovascular; reproductive; digestive; genitourinary; hemic and lymphatic; and skin and endocrine; or
2. Any mental or psychological disorder, such as intellectual disability, organic brain syndrome, emotional or mental illness, and specific learning disabilities.

"Probationary period" means the period of probation for newly hired employees if the employer has a written probationary policy. If the employer has no written probationary policy for newly hired employees, the probationary period shall be considered to be six months from the date of hire.

"Small business corporation" does not include the practice of a profession. The following conditions apply for the purpose of determining what constitutes a small business corporation.

1. A small business corporation shall not have had more than 20 full-time equivalent positions during each of the 26 consecutive weeks within the 52-week period immediately preceding the date on which the individual for whom an additional deduction for wages is taken was hired. Full-time equivalent position means any of the following:
   - An employment position requiring an average work week of 40 or more hours;
   - An employment position for which compensation is paid on a salaried full-time basis without regard to hours worked; or
   - An aggregation of any number of part-time positions that equal one full-time position. For purposes of this definition, each part-time position shall be categorized with regard to the average number of hours worked each week as a one-quarter, half, three-quarter, or full-time position as set forth in the following table:

Average Number of Weekly Hours	Category
More than 0 but less than 15	¼
15 or more but less than 25	½
25 or more but less than 35	¾
35 or more	1 (full-time)

2. A small business corporation cannot have more than $3 million in annual gross revenues for the preceding fiscal year or as the average of the three preceding tax years.
3. A small business corporation shall not be an affiliate or subsidiary of a business that is dominant in its field of operation.

"Successfully completing a probationary period" includes those instances where the employee quits without good cause attributable to the employer during the probationary period or was discharged for misconduct during the probationary period.

"The practice of a profession" means a vocation requiring specialized knowledge and preparation including but not limited to the following: medicine and surgery, podiatry, osteopathy, osteopathic medicine and surgery, psychology, psychiatry, chiropractic, nursing, dentistry, dental hygiene, optometry, speech pathology, audiology, pharmacy, physical therapy, occupational therapy, mortuary science, law, architecture, engineering and surveying, and accounting.

502.7(3) If a newly hired employee has been certified as either a vocational rehabilitation referral or an economically disadvantaged ex-convict for purposes of qualification for the work opportunity tax credit under IRC Section 51, that employee shall be considered to have met the qualifications for the additional wage deduction.

A vocational rehabilitation referral is any individual certified by a state employment agency as having a physical or mental disability which, for the individual, constitutes or results in a substantial handicap to employment. In addition, the individual must have been referred to the employer after completion or while receiving rehabilitation services pursuant to either a state or federal approved vocational rehabilitation program.

For all other newly hired employees, the employer has the burden of proof to show that the employees meet the qualifications for the additional wage deduction.

502.7(4) The taxpayer shall include a schedule with the filing of its tax return showing the name, address, social security number, date of hiring and wages paid of each employee for which the taxpayer claims the additional deduction for wages.

502.7(5) If the employee for which an additional deduction for wages was allowed fails to successfully complete a probationary period and the taxpayer has already filed an Iowa corporation income tax return taking the additional deduction for wages, the taxpayer shall file an amended return adding back the additional deduction for wages. The amended return shall state the name and social security number of the employee who failed to successfully complete a probationary period.

502.7(6) A taxpayer who did not qualify for the additional deduction for wages paid or accrued for work done in Iowa by certain individuals set forth above is allowed an additional deduction of 65 percent not to exceed $20,000 of the first 12 months of wages paid or accrued for work done in Iowa if the new employee is:

a. An individual domiciled in this state at the time of the hiring who meets any of the following conditions:

(1) Has been convicted of a felony in this or any other state or the District of Columbia.

(2) Is on parole pursuant to Iowa Code chapter 906.

(3) Is on probation pursuant to Iowa Code chapter 907 for an offense other than a simple misdemeanor.

(4) Is in a work release program pursuant to Iowa Code chapter 904, division IX.

b. An individual, whether or not domiciled in this state at the time of the hiring, who is on parole or probation and to whom the interstate compact for adult offender supervision under Iowa Code chapter 907B applies.

The additional deduction is not allowed for wages paid to an individual who was hired to replace an individual whose employment was terminated within the 12-month period preceding the date of first employment. However, if the individual being replaced left employment voluntarily without good cause attributable to the employer or if the individual was discharged for misconduct in connection with the individual's employment as determined by the Iowa division of job service of the department of employment services, the additional deduction is allowed.

The determination of whether an individual left employment voluntarily without good cause attributable to the employer or if the individual was discharged for misconduct is a factual determination that must be made on a case-by-case basis.

The taxpayer must include a schedule with the filing of its tax return showing the name, address, social security number, date of hiring, and wages paid of each employee for whom the taxpayer claims the additional deduction for wages.

If the employee for whom an additional deduction for wages was allowed fails to successfully complete a probationary period and the taxpayer has already filed an Iowa corporation income tax return taking the additional deduction for wages, the taxpayer must file an amended return adding back the additional deduction for wages. The amended return must state the name and social security number of the employee who failed to successfully complete a probationary period.

502.7(7) The additional deduction applies to any individual, whether or not domiciled in Iowa at the time of hiring, who is on parole or probation and to whom the compact for adult offenders under Iowa Code chapter 907B applies. The amount of additional deduction for hiring this individual is equal to 65 percent of the wages paid, but the additional deduction is not to exceed $20,000 for the first 12 months of wages paid for work done in Iowa. The conditions set out in the unnumbered paragraphs under paragraph 502.7(6)*"b"* also apply to the deduction for the hiring of certain individuals in this subrule.

This rule is intended to implement Iowa Code section 422.35.

701—502.8(422) Method of accounting, accounting period. The return shall be computed on the same basis and for the same accounting period as the taxpayer's return for federal corporation income tax purposes. Permission to change accounting methods or accounting periods for corporation tax purposes is not required provided the taxpayer furnishes the department with a copy of the federal consent.

This rule is intended to implement Iowa Code section 422.35.

701—502.9(422) Deductions related to the Iowa educational savings plan trust. Certain qualifying organizations may establish Iowa education savings plan trust accounts as participants as described in Iowa Code chapter 12D. Taxpayers may make contributions to such qualifying organizations so that the organization can deposit the contribution into the organization's Iowa education savings plan trust account. However, for Iowa income tax purposes, a taxpayer must add back any portion of the federal charitable contribution deduction allowed for a contribution to a qualifying organization, to the extent that the taxpayer designated that any part of such contribution be used for the direct benefit of a dependent of a shareholder or for the benefit of any other specific person chosen by the taxpayer.

This rule is intended to implement Iowa Code section 422.35.

701—502.10(422) Section 179 expensing.

502.10(1) *In general.* Iowa taxpayers who elect to expense certain depreciable business assets in the year the assets were placed in service under IRC Section 179 must also expense those same assets for Iowa income tax purposes in that year.

502.10(2) *Claiming the deduction.*

a. Timing and requirement to follow federal election. A taxpayer who takes a federal section 179 deduction must also take the deduction for the same asset in the same year for Iowa purposes.

b. Qualifying for the deduction. Whether a specific business asset qualifies for a section 179 deduction is determined by the IRC and applicable federal regulations for both federal and Iowa purposes.

c. Amount of the Iowa deduction. Generally, the Iowa deduction must equal the amount of the federal deduction taken for the same asset in the same year, subject to special Iowa limitations. The following chart provides a comparison of the Iowa and federal section 179 dollar limitations and reduction limitations. Information about section 179 rules applicable to individuals and other noncorporate entities can be found in rule 701—302.10(422); information about the section 179 rules applicable to financial institutions subject to the franchise tax can be found in rule 701—602.10(422).

Section 179 Deduction Allowances Under Federal and Iowa Law

	Federal		Iowa	
Tax Year	Dollar Limitation	Reduction Limitation	Dollar Limitation	Reduction Limitation
2003	$ 100,000	$ 400,000	$ 100,000	$ 400,000
2004	102,000	410,000	102,000	410,000
2005	105,000	420,000	105,000	420,000
2006	108,000	430,000	108,000	430,000
2007	125,000	500,000	125,000	500,000
2008	250,000	800,000	250,000	800,000
2009	250,000	800,000	133,000	530,000
2010	500,000	2,000,000	500,000	2,000,000
2011	500,000	2,000,000	500,000	2,000,000
2012	500,000	2,000,000	500,000	2,000,000
2013	500,000	2,000,000	500,000	2,000,000
2014	500,000	2,000,000	500,000	2,000,000
2015	500,000	2,000,000	500,000	2,000,000
2016	500,000	2,010,000	25,000	200,000
2017	510,000	2,030,000	25,000	200,000
2018	1,000,000	2,500,000	70,000	280,000
2019	1,020,000	2,550,000	100,000	400,000
2020 and later	Iowa limitations and deductions are the same as federal			

d. Reduction. Both the federal and the Iowa deductions for section 179 assets are reduced (phased out dollar for dollar) for taxpayers whose total section 179 assets placed in service during a given year cost more than the amount specified (reduction limitation) for that year.

e. Income limitation. The Iowa section 179 deduction for any given year is limited to the taxpayer's income from active conduct in a trade or business in the same manner that the section 179 deduction is limited for federal purposes. If an allowable Iowa section 179 deduction exceeds the taxpayer's business income for Iowa purposes for a given year, any excess allowable Iowa section 179 deduction may be carried forward as described in paragraph 502.10(2)*"f."*

f. Carryforward. As with the federal deduction, allowable Iowa section 179 deductions claimed in a given year that exceed a taxpayer's business income may be carried forward and claimed in future years.

g. Difference in basis. Iowa adjustments for differences between the Iowa and federal section 179 deduction limitations may cause the taxpayer to have a different basis in the same asset for Iowa and federal purposes. Taxpayers are required to use forms made available on the department's website to calculate and track these differences.

This rule is intended to implement Iowa Code section 422.35.

701—502.11(422) Broadband infrastructure grant exemption.

502.11(1) *Broadband infrastructure grant exemption, generally.* Certain qualifying communications service providers may subtract, to the extent included in federal taxable income, the amount of qualifying government grants used to install broadband infrastructure that facilitates broadband service in targeted service areas at or above download and upload speeds identified by the Federal Communications Commission pursuant to Section 706 of the federal Telecommunications Act of 1996 as amended.

502.11(2) *Definitions.*

"Facilitate" shall have the same meaning as defined in Iowa Code section 8.76.

"Grant" means a transfer of money or property for a governmental purpose to a transferee that is not a related party to or an agent of the transferor. The transfer must not impose any obligation or condition to directly or indirectly repay any amount to the transferor or a related party. Obligations or conditions intended solely to assure expenditure of the transferred moneys in accordance with the governmental purpose of the transfer do not prevent a transfer from being a grant.

1. "Federal grant" means any grant issued by the United States government, including any agency or instrumentality thereof.

2. "State grant" means any grant issued by any state of the United States, the District of Columbia, or a territory or possession of the United States, including any agency or instrumentality thereof.

3. "Local grant" means any grant issued by any city, county, township, school district, or any other unit of local government, including any agency or instrumentality thereof.

This rule is intended to implement Iowa Code section 422.35.

701—502.12(422) Interest expense deduction adjustments. The limit on the amount of business interest expense that a taxpayer may deduct in a taxable year under IRC Section 163(j) does not apply for Iowa purposes. This rule provides information on how taxpayers must calculate and report their business interest expense deduction for Iowa purposes. All references to the Code of Federal Regulations (Treas. Reg.) and certain other information in this rule are based on final Internal Revenue Service (IRS) regulations and guidance in effect on January 13, 2021.

502.12(1) *Definitions.* The following terms apply to the interpretation and application of this rule.

"Current-year business interest expense" means the same as defined in Treas. Reg. Section 1.163(j)-1(b)(9).

"Excess business interest expense" means the same as defined in Treas. Reg. Section 1.163(j)-1(b)(16).

"Iowa partnership" means any entity required to file an Iowa return (IA 1065) for the relevant tax year.

"Iowa S corporation" means any S corporation required to file an Iowa return (IA 1120S) for the relevant tax year.

"Non-Iowa partnership" means any entity that is required to file a federal 1065 but is not required to file an Iowa return (IA 1065) for the relevant tax year.

"Non-Iowa S corporation" means any S corporation that is not required to file an Iowa return (IA 1120S) for the relevant tax year.

502.12(2) *Corporations.* Iowa does not conform with the IRC Section 163(j) business interest expense deduction limitation. The following adjustments may be required for corporations and consolidated groups due to this nonconformity.

a. Current-year business interest expense. A taxpayer's current-year business interest expense is fully deductible to the extent permitted by IRC Section 163 for Iowa purposes without regard to any limitation under IRC Section 163(j). Even though Iowa does not conform to IRC Section 163(j), provisions of the IRC other than Section 163(j) may subject interest expense to disallowance, deferral, capitalization, or other limitations, and those other provisions of the IRC still generally apply for Iowa purposes. No additional Iowa adjustments are permitted for federal limitations such as those described in Treas. Reg. Section 1.163(j)-3(b)(4), which are determined after the application of IRC Section 163(j) for federal purposes. Treas. Reg. Section 1.163(j)-3 contains examples of other provisions of the IRC that may restrict interest expense deductions for federal and Iowa purposes, independent of the IRC Section 163(j) limitation.

b. Carryforward. When current-year interest expense, as defined in Treas. Reg. Section 1.163(j)-1(b)(10), is limited at the federal level, the disallowed business interest expense is carried forward to be deducted in future years for federal purposes, when certain conditions are met. Iowa law allows taxpayers to fully deduct current-year business interest expense, and no amounts are carried

forward for Iowa purposes. Disallowed business interest expense carryforward amounts from prior years, including excess business interest expense allocated to a partner in a prior year, cannot be deducted for Iowa purposes. All prior-year disallowed business interest expense carryforward amounts deductible under IRC Section 163(j) in the current year at the federal level, including excess business interest expense allocated to a partner in a prior year, must be added back in computing the taxpayer's Iowa income for the year.

EXAMPLE: QRS, Inc., has $100,000 in current-year business interest expense. For federal purposes, QRS, Inc., is subject to the IRC Section 163(j) limitation. QRS, Inc., deducts $70,000 in business interest expense on QRS, Inc.'s, federal return and carries the remaining $30,000 forward to be deducted in future years. For Iowa purposes, QRS, Inc., deducts the full $100,000 in current-year business interest expense.

In the following year, QRS, Inc., has $50,000 in current-year business interest expense. For federal purposes, QRS, Inc., is permitted to deduct the full $50,000 in interest expense generated in the current year, plus $5,000 of the amount that was disallowed in the previous year for a total federal deduction of $55,000. QRS, Inc., must add the federal carryforward amount ($5,000) back on the company's current-year Iowa return, limiting QRS, Inc.'s, Iowa deduction to the $50,000 in current-year business interest expense.

c. Consolidated groups. Corporations that were included on a federal consolidated return but that either file separate returns for Iowa purposes or file an Iowa consolidated return that does not include all members of the federal consolidated group are required to recalculate their proper current-year business interest expense deduction as described in paragraph 502.12(2)*"a,"* and the amount of any prior-year disallowed business interest expense carryforward that must be added back for Iowa purposes as described in paragraph 502.12(2)*"b,"* for the separate entity or Iowa consolidated group by completing pro forma federal interest expense deduction forms for the separate entity or Iowa consolidated group. Treas. Reg. Section 1.163(j)-4(d) and any other applicable federal regulations or guidance govern how Iowa consolidated groups should make this pro forma calculation. More information about the election to file Iowa consolidated returns and group membership requirements is contained in rule 701—502.2(422).

(1) Departure from group. In the event that a member leaves the consolidated group, both the newly separated member and the remaining group shall be required to include any carryforward amounts allocated to them under Treas. Reg. Section 1.163(j)-5(b)(3)(iii) in their respective Iowa incomes in the year or years the separate company or group actually deducts those amounts for federal purposes.

(2) Carryforwards from separate return limitation years (SRLY). A consolidated group is not permitted to deduct any disallowed business interest expense carryforward amount of a member arising in an SRLY for Iowa purposes and must add back such amounts on the Iowa return in the same year in which the consolidated group is permitted to deduct the SRLY carryforward amount for federal purposes. Treas. Reg. Section 1.163(j)-5(d) contains more information about the federal treatment of these carryforward amounts.

502.12(3) *Partners and partnerships.*

a. Partnership-level adjustments. Partnerships that file an Iowa income tax return for a tax year in which the partnership is subject to the IRC Section 163(j) limitation for federal purposes are permitted to deduct all current-year business interest expense at the partnership level in that tax year. More information about the calculation and reporting of partnership-level adjustments is found in 701—paragraph 302.85(5)*"a."*

b. Partner-level adjustments.

(1) Interest expense from Iowa partnerships. Iowa adjustments related to excess business interest expense of an Iowa partnership are made at the entity level as described in 701—paragraph 302.85(5)*"a"* and are reported to partners on an IA 1065 Schedule K-1. Partners are not permitted to make any Iowa adjustment at the partner level to their federal interest expense deduction for amounts of excess

business interest expense allocated from an Iowa partnership on the partner's federal Schedule K-1 related to that Iowa partnership.

EXAMPLE 1: P, a partnership doing business in Iowa, has $100,000 in current-year business interest expense. For federal purposes, $20,000 of that amount is disallowed under IRC Section 163(j). The partnership deducts $80,000 at the entity level, and the remaining disallowed $20,000 is allocated to the partners to be deducted in future years. For Iowa purposes, the $80,000 of business interest expense allowed for federal purposes is included in the partnership's non-separately stated ordinary business income (loss), and the partnership will make an adjustment on the entity's IA 1065 to deduct the $20,000 of current-year business interest expense that was disallowed for federal purposes. The $20,000 additional Iowa deduction will be reported to the partners as an all-source modification on the partners' IA 1065 Schedule K-1, and partners will receive the benefit of this all-source modification item when the partners report their Iowa partnership income on their own Iowa tax return for the year. The partners will not be permitted to make further Iowa adjustments on their own Iowa tax return for the excess business interest expense amounts passed through to them from the partnership for federal purposes.

(2) Interest expense from non-Iowa partnerships. Partners may include as part of their Iowa business interest expense deduction the total amount of current-year excess business interest expense deduction passed through to them from all non-Iowa partnerships as shown on the federal Schedule K-1 (Form 1065), line 13, code K.

EXAMPLE 2: ABC, Inc., is a corporation doing business in Iowa and a partner in P2, an out-of-state partnership with no business in Iowa and no Iowa filing obligation. P2 has $100,000 in current-year business interest expense and is subject to the IRC Section 163(j) limitation for federal purposes. At the entity level, P2 is permitted to deduct $80,000 on its federal partnership return. The $20,000 in excess business interest expense is then allocated to P2's partners. ABC, Inc., is allocated $5,000 in excess business interest expense from P2. Because P2 is not required to file an Iowa return, and therefore ABC, Inc., did not receive an IA 1065 Schedule K-1 from P2, ABC, Inc., is permitted to deduct the $5,000 allocated from P2 as current-year business interest expense on ABC, Inc.'s, Iowa income tax return.

(3) Partnership basis. A partner's basis is reduced (but not below zero) by the amount of excess business interest expense the partnership passes through to the partner each year. Treas. Reg. Section 163(j)-6(h) contains detailed information about how to make these basis adjustments. For federal purposes, immediately before disposition of the partnership interest, the partner's basis is then increased by the amount of any passed-through business interest expense which has not yet been treated as paid or accrued by the partner as described in Treas. Reg. Section 163(j)-6(h)(3). No basis increase at the time of disposition is allowed for Iowa purposes for passed-through business interest expense amounts that were deducted for Iowa but not for federal purposes due to Iowa's nonconformity with IRC Section 163(j).

502.12(4) *S corporation adjustments.* For federal purposes, IRC Section 163(j) limitations are applied at the S corporation level. Unlike partnerships, disallowed business interest expense amounts are carried forward and deducted in future years at the entity level rather than being passed through to shareholders. S corporations should calculate their entity-level business interest expense deduction for Iowa purposes under the provisions of this rule. Treas. Reg. Section 1.163(j)-6(l) contains more information about the application of IRC Section 163(j) to S corporations for federal purposes.

This rule is intended to implement Iowa Code section 422.35(11).

RA 26-373

REVENUE DEPARTMENT[701]

Regulatory Analysis

Notice of Intended Action to be published: 701—Chapter 503
"Allocation and Apportionment"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 421.14 and 422.33
State or federal law(s) implemented by the rulemaking: Iowa Code section 422.33

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 18, 2026 9 to 10 a.m.	Via videoconference call: meet.google.com/sbm-ihix-ere

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis, which must be received by the Department of Revenue no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Benjamin Clough
Department of Revenue
Hoover State Office Building
P.O. Box 10457
Des Moines, Iowa 50306-3457
Phone: 515.587.0662
Email: ben.clough@iowa.gov

Purpose and Summary

The purpose of this proposed rulemaking is to rescind and readopt Chapter 503. Chapter 503 provides rules for multistate businesses to apportion their income within and without Iowa. Apportionment is constitutionally required for income taxes on businesses engaged in interstate commerce. Iowa Code section 422.33 provides a statutory method for apportioning certain categories of income but specifically delegates to the Department the authority to set by rule apportionment methods for categories not covered in the statute. Chapter 503 provides allocation and apportionment methods for various common categories of business and nonbusiness income not covered by statute. The chapter also provides definitions, examples, and other useful information not included in the Iowa Code for the various apportionment methods covered in both the statute and the rules. Rule 701—503.7(422) includes new language clarifying which common categories of airline revenue are to be included as revenues from transportation operations for apportionment purposes. Rule 701—503.9(422) also provides a process by which taxpayers can request an alternative method of apportionment if they feel the method in the statute or the rules results in a disproportionate amount of their income being taxed by Iowa. This process is authorized by the statute and likely constitutionally required, and the rule provides a fair and uniform process to all taxpayers seeking this type of relief.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

There are no known or ascertainable costs to the public associated with the apportionment rules. Apportionment of income for multistate businesses is statutorily and constitutionally required, and the Iowa Code delegates setting the specific method of apportionment for many categories of income to the Department. There may be other conceivable methods of apportionment that would result in higher or lower costs as applied to specific taxpayers, but the methods outlined in the rules have been in place for decades and have provided uniform and consistent methods of apportionment for Iowa purposes for all of that time. Rule 701—503.9(422) does create a process for taxpayers to request permission to use an alternative method of apportionment.

- **Classes of persons that will benefit from the proposed rulemaking:**

Taxpayers, tax preparers and Department staff will benefit from the proposed rulemaking.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

There is no economic impact of the proposed rulemaking beyond what is contained in the underlying statutes.

- **Qualitative description of impact:**

The rules provide guidance on how to calculate the portion of a corporate income taxpayer's income allocated or apportioned to Iowa and provides a method for requesting to use an alternative apportionment method if the method provided in the rules disproportionately attributes income within and without Iowa. Taxpayers wishing to use an alternative method of apportionment will likely incur some costs to complete this process, but the director's permission to use an alternative method is required by law, and the process provided by the rule ensures a uniform experience across taxpayers making these requests.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

The rules themselves impose no additional costs on the agency; they only clarify items relating to allocation and apportionment that the Department is already required by law to administer. The rules have no known impact on any other agency.

- **Anticipated effect on State revenues:**

This filing implements substantially the same apportionment methods for corporate income taxpayers that have been in place for decades. The rules will be the same for these taxpayers both before and after the filing, so no effect on revenues is anticipated.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

The Iowa Code provides a statutory method for determining how certain specific categories of income should be attributed within and without the State but also delegates to the Department the authority to set allocation and apportionment methods for categories of income not explicitly covered by the statute. Without these rules, there would be no Iowa apportionment method for various types of income not explicitly listed in the statute.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

There are no known less costly or intrusive methods.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

Since the Iowa Code delegates setting apportionment methods for some categories of income to the Department, the only alternative would be to simply not provide an Iowa apportionment method for those categories of income.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

Not providing some of these rules would leave taxpayers with no clear method of apportioning certain common types of income within and without Iowa, making it difficult or impossible for multistate financial institutions to file fair and accurate Iowa franchise returns.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

The allocation and apportionment methods associated with these rules are either imposed by the Iowa Code or delegated by the Iowa Code to the Department to create by rule. Allocation and apportionment of income subject to State tax is constitutionally required. Not apportioning income is typically disadvantageous to any multistate business, regardless of size, since it would likely result in double taxation across states. The rules do provide a process by which any business could seek an alternative method of apportionment, and a small business that was somehow uniquely affected by these rules would be entitled to utilize this process and seek an alternative method.

Text of Proposed Rulemaking

ITEM 1. Rescind 701—Chapter 503 and adopt the following **new** chapter in lieu thereof:

CHAPTER 503
ALLOCATION AND APPORTIONMENT

701—503.1(422) Basis of corporate tax. Iowa Code section 422.33 imposes a tax on all corporations doing business in Iowa. A corporation whose trade or business is carried on partly within and partly without Iowa or whose income is derived from sources partly within and partly without Iowa may allocate and apportion its income within and without Iowa.

503.1(1) *Corporations doing business within and without Iowa.*

a. For corporations or other entities subject to the tax (as corporations), the tax is levied and collected only on such income as may accrue or be recognized to the corporation from business done or carried on in Iowa plus net income from certain sources without Iowa that by law follows the commercial domicile of the corporation. An Iowa-domiciled corporation may apportion its income if the trade or business is carried on partly within and partly without Iowa or if income is derived from sources partly within and partly without Iowa, or if income is derived from trade or business and sources, all of which are not entirely in Iowa.

b. Some activities may not create a tax liability in another state because of the protections afforded by Public Law 86-272, 15 U.S.C.A. Sections 381-385, or because of that state's own laws. Irrespective of whether the corporation is taxable in another state, it may apportion its income if it carries on one or a combination of the activities listed in subrule 501.1(2) on a regular and continuing basis by corporate officers or employees in at least one other state.

c. The mere shipment of goods via common carrier or the United States Postal Service to non-Iowa destinations does not constitute doing business partly within and partly without Iowa.

503.1(2) *Corporations doing business only within Iowa.* If a corporation carries on its trade or business entirely within Iowa, no allocation or apportionment of its income is allowed. The corporation will be presumed to be carrying on its business entirely within Iowa if its sales or other activities are carried on only in Iowa, even though it received income from sources outside Iowa in the form of interest, dividends, royalties and other sources of income from intangibles. An Iowa-domiciled corporation may apportion its income if it has income from intangibles that have acquired a business situs outside Iowa even if it has no other activities outside Iowa.

503.1(3) *Carrying on a trade or business partly within and partly without Iowa.* Carrying on a trade or business partly within and partly without Iowa means having business activities in at least one other state sufficient to meet the minimum constitutional standards for doing business in a state under the due process and commerce clauses of the United States Constitution. Income from sources partly within and partly without Iowa includes income from real, tangible, or intangible property located or having situses within and without Iowa.

a. Annual determination. The determination of whether a corporation is carrying on a trade or business partly within and partly without Iowa must be made on a tax-year-by-tax-year basis. The activities of a past or future tax year have no bearing on the current year.

b. Activities that qualify as "doing business." The activities described in 701—subrule 501.1(2) carried on in at least one other state on a non-de minimis basis would constitute the minimum activities that would meet the constitutional standards for doing business in that state. Whether a corporation's activity in a state is de minimis is determined by aggregating all activities carried on in a regular, systematic, and continuing basis by corporate officers or employees or representatives in a state.

503.1(4) *Iowa taxable income.* In determining the total net taxable income, the apportionable (business) income attributable to Iowa, as determined by use of the apportionment fraction, shall be added to the nonapportionable (nonbusiness) income allocable to Iowa.

This rule is intended to implement Iowa Code section 422.33.

701—503.2(422) Allocation or apportionment of investment income.

503.2(1) *Investment business income.* The classification of investment income by the labels customarily given them, such as interest, dividends, rents, and royalties, is of no aid in determining whether that income is business or nonbusiness income. Interest, dividends, rents, royalties, and other investment income shall be apportioned as business income to the extent the income was earned as a part of a corporation's unitary business, a portion of which is conducted in Iowa. Whether investment income is part of a corporation's unitary business income depends upon the facts and circumstances in the particular situation. The burden of proof is upon the taxpayer to show that the treatment of investment income on the return as filed is proper. There is a rebuttable presumption that an affiliated group of corporations in the same line of business have a unitary relationship, although that is not the only element used in determining unitariness.

503.2(2) *Inclusion in the apportionment factor.*

a. Income that must be included. All investment business income described in subrule 503.2(3), including capital gains or losses, shall be included in the computation of the denominator of the business activity formula if the income is derived from intangible property that has become an integral part of some business activity occurring regularly in or outside of Iowa. More information can be found in 701—subrule 501.1(1).

b. Income included by election. All other investment business income, including capital gains or losses, described in subrule 503.2(3) may at the taxpayer's election be included in the computation of the denominator of the business activity formula. However, a taxpayer cannot elect to exclude or include investment business income where the election would result in an understatement of net income reasonably attributable to Iowa. A taxpayer cannot elect to include some investment business

income in and exclude other investment business income from the business activity formula. The election applies to all investment business income of the taxpayer subject to the election.

(1) Written election. If the taxpayer has investment income that is deemed to be business income under the provisions of this rule, a written election shall be made with the taxpayer's income tax return in the first year in which the taxpayer has such income. The election must state whether the taxpayer wishes to include or exclude investment income that is deemed to be business income under the provisions of this rule in the computation of the business activity formula. The election shall be signed by a duly authorized officer of the corporation. The election is binding on all future tax years unless the taxpayer is granted permission by the department to change the election. If the taxpayer fails to make a written election, the fact that investment business income was or was not included in the computation of the business activity formula shall be deemed to be the taxpayer's election for all future tax years.

(2) Changing the election. If a taxpayer wishes to change the taxpayer's election to include or exclude investment business income in the taxpayer's Iowa apportionment factor, the taxpayer must request the department's permission to change the election not less than 90 days prior to the due date of the return for the tax year in which the taxpayer wishes the change to take effect. Permission to make a change in this election shall only be granted if the department determines that the change will more accurately reflect the net income reasonably attributable to Iowa.

503.2(3) *Apportionment method by category of investment income.* The computation of the business activity formula associated with investment business income is as follows where the investment business income is required to be included in the business activity formula or where an election for inclusion has been made.

a. Interest income from accounts receivable. If an inclusion election is made, accounts receivable interest income is included in the numerator of the business activity formula if the taxpayer receives accounts receivable interest income from customers located in Iowa. Accounts receivable interest income that cannot be segregated by geographical source shall be included in the numerator of the business activity ratio applying the same ratio as gross receipts within Iowa bear to total gross receipts.

EXAMPLE 1: The taxpayer operates a multistate chain of gasoline service stations, selling for cash and on credit. Interest is charged on credit sales, but the interest income cannot be segregated by geographical source. During the tax year, the taxpayer had gross receipts within Iowa of $300,000, total gross receipts everywhere of $1,000,000, and accounts receivable interest income everywhere of $10,000. $10,000 would be included in the denominator of the business activity formula, and 30 percent of $10,000, or $3,000, would be included in the numerator of the business activity formula.

b. Interest income other than accounts receivable. All other interest income determined to be business income, except nontaxable interest income, shall be included in the numerator of the business activity formula to the extent that the interest-bearing asset is an integral part of some business activity occurring regularly in Iowa. If the interest-bearing asset is not an integral part of some business activity occurring regularly in or outside of Iowa and if an election of inclusion is made, the interest, except nontaxable interest income, shall be included in the numerator of the business activity formula if the taxpayer's commercial domicile is in Iowa.

EXAMPLE 2: The taxpayer earns interest income from loans to affiliated corporations, commercial paper, bonds issued by multistate corporations, and federal income tax refunds. The interest income is business income. None of these interest-bearing assets are an integral part of some business activity occurring regularly within or without Iowa. Accordingly, the interest income produced by such assets is subject to an election of inclusion in or exclusion from the business activity formula.

c. Dividend income. All dividend income (net of special deductions) determined to be business income shall be included in the numerator of the business activity formula to the extent that the dividend asset is an integral part of some business activity occurring regularly in Iowa. If the dividend asset is not an integral part of some business activity occurring regularly in or outside of Iowa and

if an election of inclusion is made, the dividends shall be included in the numerator of the business activity formula if the taxpayer's commercial domicile is in Iowa.

EXAMPLE 3: The taxpayer earns dividend income from dividends payable from a mutual fund. The dividend income is business income. The dividends are not an integral part of some business activity occurring regularly within or without Iowa. Assume that the taxpayer had also earned interest income that was business income and that was not an integral part of some business activity occurring regularly within or without Iowa and that the taxpayer had included that interest income in the business activity formula. Under these circumstances, the taxpayer must also include the dividend income in the business activity formula. If no inclusion of investment business income had been made in the business activity formula, the taxpayer would exclude the dividend income from the formula.

d. Rental income. If an inclusion election is made, all rental income determined to be business income shall be included in the numerator of the business activity formula to the extent that property is utilized in Iowa or in its entirety if the taxpayer's commercial domicile is in Iowa and the taxpayer is not taxable in the state in which the property is utilized. The extent of utilization of tangible personal property in a state is determined by multiplying the rent by a fraction, the numerator of which is the number of days of physical location of the property in the state during the rental period in the taxable year and the denominator of which is the number of days of physical location of the property everywhere during all rental periods in the taxable year. If the physical location of the property during the rental period is unknown or not ascertainable by the taxpayer, tangible personal property is utilized in the state in which the property was located at the time the rental payer obtained possession.

e. Royalty income and licensing fees. All royalty income and licensing fees from intangible personal property determined to be business income shall be included in the numerator of the business activity formula to the extent that the royalty or licensing asset is an integral part of some business activity occurring regularly in Iowa. If the royalty or licensing asset is not an integral part of some business activity occurring regularly in or outside of Iowa and if an election of inclusion is made, the royalties or licensing fees shall be included in the numerator of the business activity formula if the taxpayer's commercial domicile is in Iowa.

EXAMPLE 4: A, a corporation with a commercial domicile outside of Iowa, derives royalties from a trade name that is used by other corporations doing business in Iowa in their Iowa businesses. Since the royalty asset is an integral part of an Iowa business activity, A must include the royalties associated with Iowa business activity in the numerator of A's business activity formula.

EXAMPLE 5: The taxpayer, a corporation with a commercial domicile in Iowa, derives license fees from others who do business solely outside of Iowa. The license fees are business income. The license fees are an integral part of some business activity carried on regularly by the others outside of Iowa. The taxpayer must include the license fees in the business activity formula. If the taxpayer also had other license fees that were business income and that were not an integral part of some business activity occurring regularly within or without Iowa, these other license fees would be subject to an election of inclusion in or exclusion from the business activity formula. If an inclusion election is made, all royalty income from tangible personal property or real property determined to be business income shall be included in the numerator of the business activity formula if the situs of the tangible personal property or real property is within Iowa.

f. Gains or losses. Gain or loss from the sale, exchange, or other disposition of real or tangible or intangible personal property, if the property while owned by the taxpayer was operationally related to the taxpayer's trade or business carried on in Iowa, shall be apportioned by the business activity ratio applicable to the return for the year the gain or loss is included in taxable income and shall be included in the computation of the business activity ratio as follows:

(1) Gain or loss from the sale, exchange, or other disposition of real property shall be included in the numerator if the property is located in Iowa and if an election of inclusion has been made.

(2) Gain or loss from the sale, exchange, or other disposition of tangible personal property shall be included in the numerator if an election of inclusion has been made and if the property has a situs

in Iowa at the time of sale, or the taxpayer's commercial domicile is in Iowa and the taxpayer is not taxable in the state in which the property had a situs.

(3) Gain or loss from the sale, exchange, or other disposition of intangible personal property shall be included in the numerator of the business activity formula to the extent that the intangible personal property is an integral part of some business activity occurring regularly in Iowa in the tax year that gain or loss is recognized. If the intangible personal property is not an integral part of some business activity occurring regularly in or outside of Iowa in the tax year that gain or loss is recognized and if an election of inclusion has been made, the gain or loss shall be included in the numerator if the taxpayer's commercial domicile is in Iowa.

EXAMPLE 6: The taxpayer carries on its trade or business within and without Iowa. The taxpayer has patents that it licenses others to use in activities within and without Iowa. The patents are an integral part of business activity occurring regularly within and without Iowa. The taxpayer receives royalty income for the use of the patents. The taxpayer sells the patents on July 1 and realizes a capital gain. The capital gain from the sale of the patents cannot be segregated by geographical source. The taxpayer is on a calendar tax year. From January 1 to July 1, 5 percent of the royalties were attributable to some business activity regularly occurring in Iowa. The taxpayer should include 5 percent of the capital gain in the numerator of the business activity formula.

(4) All gain or loss shall be included in the denominator of the business activity ratio if an election of inclusion has been made or if the gain or loss is required to be included in the business activity ratio.

Nonexclusive examples of gains or losses from the sale, exchange, or other disposition of real or tangible or intangible property, which cannot be included in the computation of the business activity ratio because to do so would result in an understatement of net income reasonably attributable to Iowa, are the gain recognized under an election pursuant to Section 338 of the Internal Revenue Code and the gain recognized under Section 631(a) of the Internal Revenue Code.

g. Other miscellaneous income. All other miscellaneous income determined to be business income that is not subject to an election or that is the subject of a proper election of inclusion shall be included in the computation of the business activity formula to the extent such income items do not represent a recapture of expense. The miscellaneous income shall be included in the numerator of the business activity formula if the income is from an Iowa source.

h. Other investment income. All other investment income shall be included in the numerator of the business activity formula to the extent that the intangible personal property that produced that income is an integral part of some business activity occurring regularly in Iowa. If the intangible personal property is not part of some business activity occurring regularly in or outside of Iowa and if an election of inclusion has been made, the other investment income shall be included in the numerator if the taxpayer's commercial domicile is in Iowa.

i. Activity ratio. Income that is not subject to Iowa tax shall not be included in the computation of the business activity ratio.

503.2(4) *Grossed-up foreign income.* For purposes of administration of the Iowa corporation income tax law, gross-up (Section 78 of the Internal Revenue Code) shall be considered to be nonbusiness income, irrespective of the fact that the income creating the gross-up may be business income, and shall be allocated to the situs of the income payor.

This rule is intended to implement Iowa Code sections 422.32(2) and 422.33(1).

701—503.3(422) Application of related expense to allocable interest, dividends, rents and royalties. Rule 701—503.2(422) deals with the separation of "net" income; therefore, determination and application of related expenses must be made before allocation and apportionment within and without Iowa. Related expenses shall mean those expenses directly related. Related expense includes both directly related expense and indirectly related interest expense. The portion of interest expense indirectly related to allocable interest, other than interest from securities of states and their political subdivisions, dividends, rents and royalties, is determined by multiplying the net amount of interest

expense, after deducting interest directly related to an item of income, by a ratio. The numerator of the ratio is the average value of investments that produce or are held for the production of allocable interest, other than interest from securities of states and their political subdivisions, dividends, rents and royalties. The denominator is the average value of all assets of the taxpayer, less securities of states and their political subdivisions.

A "directly related expense" means an expense that can be specifically attributed to an item of income. Interest expense is considered directly related to a specific property that generates, has generated, or could reasonably have been expected to generate gross income if the existence of all of the following facts and circumstances are established:

1. The indebtedness on which the interest was paid was specifically incurred for the purpose of purchasing, maintaining, or improving the specific property;
2. The proceeds of the borrowing were actually applied to the specified purpose;
3. The creditor can look only to the specific property (or any lease or other interest therein) as security for the loan;
4. It may be reasonably assumed that the return on or from the property will be sufficient to fulfill the terms and conditions of the loan agreement with respect to the amount and timing of payment of principal and interest; and
5. There are restrictions in the loan agreement on the disposal or use of the property consistent with the assumptions described in numbered paragraphs 3 and 4 above.

A deduction for interest cannot be considered definitely related solely to specific property, even though the above facts and circumstances are present in form, if any of such facts and circumstances are not present in substance. Any expense directly or indirectly attributable to allocable interest, dividends, rents and royalties shall be deducted from such income to arrive at net allocable income.

EXAMPLE 1: For purposes of this example, it is assumed that the taxpayer has nonbusiness rental income. The taxpayer invests in a 20-story office building. Under the terms of the lease agreements, the taxpayer provides heat, electricity, janitorial services and maintenance. The taxpayer also pays the property taxes. Construction of the building was funded through borrowings that meet the criteria of a direct expense under the provisions of this paragraph. The directly related expenses to the operation of the property are:

Interest expense	$1,200,000
Property taxes	500,000
Depreciation	500,000
Electricity	300,000
Heat	200,000
Insurance	150,000
Janitorial services	100,000
Repairs	50,000
Total expense	$3,000,000

The directly related expense of the allocable nonbusiness rental income is $3,000,000.

EXAMPLE 2: For purposes of this example, it is assumed that the taxpayer has nonbusiness income. The taxpayer is a multistate manufacturer of processed foods. It has a nonbusiness investment portfolio that is managed by an investment firm for a fee. The fee paid for the management of the portfolio is a directly related expense to the dividends and interest income received. The fee is attributed to the various types of income on the ratio that the various types of income bear to the total income produced.

EXAMPLE 3: Same as Example 2, except that in addition to the investments described, the taxpayer also has investments in oil properties. The depletion expense is a directly related expense to the oil royalty income.

This rule is intended to implement Iowa Code section 422.33.

701—503.4(422) Net gains and losses from the sale of assets. For purposes of administration of this rule, a capital gain or loss means the sale price or value at the time of disposal of an asset less the adjusted basis, whether reportable as short-term or long-term capital gain or ordinary income for federal income tax purposes.

Nonbusiness gain or loss from the sale, exchange or other disposition of property if the property while owned by the taxpayer was not operationally related to the taxpayer's trade or business carried on in Iowa is allocated as follows:

503.4(1) Gains or losses from the sale, exchange or other disposition of real property located in Iowa are allocable to Iowa.

503.4(2) Gains and losses from the sale, exchange or other disposition of tangible personal property are allocable to Iowa if:

a. The property had a situs in Iowa at the time of sale; or

b. The taxpayer's commercial domicile is in Iowa and the taxpayer is not taxable in the state in which the property had a situs.

503.4(3) Gains or losses from the sale, exchange or other disposition of intangible personal property are allocable to Iowa if the taxpayer's commercial domicile is in Iowa.

503.4(4) Gains or losses from the sale, exchange or other disposition of stock of another corporation, if the activities of the other corporation were not operationally related to the taxpayer's trade or business carried on in Iowa while the stock was owned by the taxpayer, are allocable to Iowa if the taxpayer's commercial domicile is in Iowa.

This rule is intended to implement Iowa Code section 422.33(1).

701—503.5(422) Where income is derived from the manufacture or sale of tangible personal property. Net income derived from the manufacture or sale of tangible personal property is apportioned to Iowa by the proportion that the gross sales made within Iowa bear to the total gross sales.

503.5(1) Definitions.

"Gross receipts" means gross sales, less returns and allowances. Federal and state excise taxes shall be included as part of such receipts if such taxes are passed on to the buyer or included as part of the selling price of the product.

"Gross sales" includes all gross receipts from the sales of goods, products, or other property included in the inventory of the taxpayer held by the taxpayer primarily for sale to customers in the ordinary course of its trade or business.

"Purchaser within Iowa" includes the ultimate recipient of the property if the taxpayer in Iowa, at the designation of the purchaser, delivers to or has the property shipped to the ultimate recipient within Iowa.

EXAMPLE 1: A taxpayer in Iowa sold merchandise to a purchaser in State A. The taxpayer directed the manufacturer or supplier of the merchandise in State B to ship the merchandise to the purchaser's customer in Iowa pursuant to the purchaser's instructions. The sale by the taxpayer is in Iowa.

503.5(2) Sales of tangible personal property are in Iowa if the property is delivered or shipped to a purchaser within Iowa regardless of the f.o.b. point or other conditions of the sales.

a. Shipped from out of state. Property shall be deemed to be delivered or shipped to a purchaser within Iowa if the recipient is located in Iowa, even though the property is ordered from outside Iowa.

EXAMPLE 1: The taxpayer, with inventory in State A, sold $100,000 of its products to a purchaser having branch stores in several states, including Iowa. The order for the purchase was placed by the purchaser's central purchasing department located in State B. $25,000 of the purchase order was shipped directly to the purchaser's branch store in Iowa. The branch store in Iowa is the purchaser within Iowa with respect to $25,000 of the taxpayer's sales.

b. Shipment terminates in Iowa. Property is delivered or shipped to a purchaser within Iowa if the shipment terminates in Iowa, even though the property is subsequently transferred by the purchaser to another state.

EXAMPLE 2: The taxpayer makes a sale to a purchaser who maintains a central warehouse in Iowa at which all merchandise purchases are received. The purchaser reships the goods to its branch stores in other states for sale. All of the taxpayer's products shipped to a purchaser's warehouse in Iowa are property delivered or shipped to a purchaser within Iowa.

c. Shipment diverted to Iowa. When property being shipped by a seller from the state of origin to a consignee in another state is diverted while en route to a purchaser in Iowa, the sales are in Iowa.

EXAMPLE 3: The taxpayer, a produce grower in State A, begins shipment of perishable produce to the purchaser's place of business in State B. While en route, the produce is diverted to the purchaser's place of business in Iowa. The sale by the taxpayer is attributed to Iowa.

503.5(3) Deliveries for transportation outside the state. The taxpayer sells merchandise to a purchaser outside Iowa, and the purchaser picks up the product or makes arrangements to have the product picked up at the taxpayer's place of business in Iowa to be taken outside the state. The sale by the taxpayer is a sale outside Iowa.

503.5(4) Dock or pickup sales. The taxpayer sells merchandise to a purchaser within Iowa, and the purchaser picks up the product at the taxpayer's place of business outside of Iowa. The sale by the taxpayer is a sale in Iowa.

This rule is intended to implement Iowa Code section 422.33.

701—503.6(422) Apportionment of income derived from business other than the manufacture or sale of tangible personal property. Income derived from business other than the manufacture or sale of tangible personal property shall be attributed to Iowa in the proportion that the Iowa gross receipts bear to the total gross receipts. Gross receipts are includable in the numerator of the apportionment factor in the proportion that the recipient of the service receives benefit of the service in Iowa.

503.6(1) *Services in general.* This subrule applies to all services other than those set forth in subrules 503.6(3) through 503.6(5) and rule 701—503.7(422).

a. All of the benefit received in Iowa. All gross receipts from the performance of services are includable in the numerator of the apportionment factor if the recipient of the service receives all of the benefit of the service in Iowa.

EXAMPLE 1: A real estate development firm from State A is developing a tract of land in Iowa. The real estate development firm from State A engages a surveying company from State B to survey the tract of land in Iowa. The survey work is completed and the plats are drawn in Iowa. The gross receipts from this survey work are attributable to Iowa and included in the numerator of the apportionment factor because the recipient of the service received all of the benefits of the service in Iowa.

EXAMPLE 2: A corporation headquartered in State Y is building an office complex in Iowa. The corporation from State Y contracts with an engineering firm from State X to oversee construction of the buildings on the site. The engineering firm performs some of its service in Iowa at the building site and also some of its service in State X. The gross receipts from the engineering service are attributable to Iowa and included in the numerator of the apportionment factor because the recipient of the service received all of the benefit of the service in Iowa.

EXAMPLE 3: A corporation from State A contracts with a computer software company from State D to develop and install a custom software application in a business office in Iowa of the company from State A. The software firm does consulting work on the project in State A and in Iowa. The software development is done in State D and in Iowa. The software package is delivered to the corporation from State A in Iowa. The gross receipts from the software development are attributable to Iowa and included in the numerator of the apportionment factor because the recipient of the service received all of the benefit of the service in Iowa.

b. Benefit received partially within and partially without Iowa. If the recipient of the service receives some of the benefit of the service in Iowa with respect to a specific contract or item of income, the gross receipts are includable in the numerator of the apportionment factor in proportion to the extent the recipient receives the benefit of the service in Iowa.

EXAMPLE 4: A corporation located in Iowa performs direct mail activities for a customer located in State X. The direct mail activities include the preparation and mailing of materials to households located throughout the United States. The corporation located in Iowa performed some activities related to the direct mail contract in State X. One percent of the direct mailings went to addresses within Iowa. One percent of the gross receipts related to this direct mail contract are attributable to Iowa and included in the numerator of the apportionment factor because the recipient of the service received the 1 percent of the benefit of the service in Iowa.

EXAMPLE 5: A corporation located in State A performs direct mail activities for a customer located in State X. The corporation has nexus with Iowa due to other activities of the unitary business. The direct mail activities include the preparation and mailing of materials to households throughout the United States. The corporation located in State A printed and mailed the direct mail materials to households on a mailing list prepared by the direct mailing company in State A. Five percent of the direct mailings went to addresses within Iowa. Five percent of the gross receipts related to this direct mail contract are attributable to Iowa and included in the numerator of the apportionment factor.

EXAMPLE 6: A company that owns apartments in Iowa and State A contracts with a pest control corporation for pest control activities. One contract is entered into that covers 100 apartment units in Iowa and 400 apartment units in State A. Twenty percent (100/500) of the gross receipts from the pest control contract are attributable to Iowa and are included in the numerator of the apportionment factor as 20 percent of the apartment units are located in Iowa, and in the absence of more accurate records, it is presumed that the number of apartment units is the best measure of the extent the recipient of the service received benefit of the service in Iowa.

503.6(2) *Fees and commissions included in gross receipts.* If the business activity consists of providing services, such as the operation of an advertising agency, or the performance of equipment service contracts, research and development contracts, "sales" includes the gross receipts from the performance of such services, including fees, commission, and similar items. In the case of cost plus fixed fee contracts, such as the operation of a government-owned plant for a fee, gross receipts include the entire reimbursed cost, plus the fee.

503.6(3) *Financial organizations.*

a. "Financial organization" means any finance company or investment company doing business in Iowa. A finance company includes any consumer finance company, sales finance company, or commercial finance company making loans to individuals and businesses. An investment company includes a company primarily engaged in the business of investing, reinvesting, owning, holding or trading in securities. "Financial organization," for purposes of this subrule, does not include financial institutions exempt from the corporation income tax under Iowa Code section 422.34(1).

b. A financial organization conducting business partially within and partially without Iowa must apportion to Iowa the sum of:

(1) Fees, commission or other compensation for financial services rendered for a customer located in Iowa or an account maintained within Iowa;

(2) Gross profits from trading in stocks, bonds or other securities rendered for a customer located within Iowa;

(3) Interest income from a loan on real property located in Iowa, interest and other receipts from assets in the nature of loans and installment obligations if the borrower is located within Iowa, and other fees and other miscellaneous earnings if connected with loans to borrowers within Iowa;

(4) Interest charged to customers within Iowa or to accounts maintained within Iowa for carrying debit balances of margin accounts, without deduction of any costs incurred in carrying such accounts;

(5) Interest, lease payments, or other receipts from financing leases, installment sales contracts, leases or other financing instruments received from customers within Iowa; and

(6) Any other gross income resulting from the operation as a financial organization within Iowa.

503.6(4) *Construction contracts.* Net business income of construction contractors shall be attributed to Iowa in the proportion that Iowa gross receipts bear to total gross receipts. Iowa gross receipts are those gross receipts from contracts performed in Iowa.

503.6(5) *Partnerships and joint ventures.* A corporation's distributive share of net income or loss from a joint venture, limited liability company, or partnership (pass-through entity) is subject to apportionment within and without Iowa. If the income from the pass-through entity is received in connection with the taxpayer's regular trade or business operations, the income from the pass-through entity shall be apportioned within and without Iowa on the basis of the pass-through entity's business activity ratio. The corporation's distributive share of the gross receipts of the pass-through entity shall be included in the computation of the business activity ratio in accordance with the provisions of this chapter.

EXAMPLE 1: A, a corporation with a commercial domicile in State X, is engaged in business within and without Iowa whereby A sells tangible personal property. A also has an interest in a limited partnership whose business is conducted within and without Iowa. Five percent of the limited partnership's gross receipts are derived from the sale of tangible personal property to Iowa purchasers and 95 percent are derived from sales and deliveries to purchasers outside of Iowa. A will include 5 percent of its distributive share of the gross receipts of the partnership in the numerator along with A's destination Iowa sales in calculating its business activity ratio. A will include 100 percent of its distributive share of the gross receipts in the denominator along with A's total sales in calculating its business activity ratio.

EXAMPLE 2: B, a corporation with a commercial domicile in State X, has no physical presence in the state of Iowa. B's only contact with Iowa is B's interest in a limited partnership whose business is conducted within and without Iowa. Ten percent of the limited partnership's gross receipts are derived from the sale of tangible personal property to Iowa purchasers and 90 percent are derived from sales and deliveries to purchasers outside of Iowa. B will include 10 percent of its distributive share of the gross receipts of the partnership in the numerator in calculating its business activity ratio. B will include 100 percent of its distributive share of the gross receipts in the denominator along with B's total sales in calculating its business activity ratio.

503.6(6) *Rents and royalties.*

a. Real property. Gross receipts from rent or royalties or other fees received for the use of real property are attributable to Iowa if the real property is located in Iowa.

b. Tangible personal property. Gross receipts from rent, royalties, license fees, or other fees received for the use of tangible personal property are attributable to Iowa to the extent that the property is utilized in Iowa. The extent of utilization of tangible personal property in Iowa is determined by multiplying the rents, royalties, license fees or other fees by a fraction, the numerator of which is the number of days or other measure of physical location of the property in the state during the rental period in the taxable year and the denominator of which is the number of days or other measure of physical location of the property everywhere during all rental periods in the taxable year. If the physical location of property during the rental period is unknown or not ascertainable by the taxpayer, tangible personal property is utilized in the state in which the property was located at the time the rental payer obtained possession. An example of another measure of physical location of property is where a lessee of transportation equipment is required to report to the lessor miles traveled by state.

EXAMPLE 1: A lessee takes possession of a rental car in Iowa. Six days later after driving 1,500 miles, the rental car is returned to the lessor in Iowa. Absent evidence to the contrary, the rental receipts are attributable to Iowa.

EXAMPLE 2: A lessee takes possession of a rental car in Iowa. Six days later after driving 1,500 miles, the rental car is returned to the lessor in an adjacent state. Absent evidence to the contrary, it is assumed that 50 percent of the rental receipts are attributable to Iowa.

EXAMPLE 3: A lessee takes possession of a rental semi-truck in another state. The lessee is required to maintain mileage records by state for purposes of special fuel tax. The lessee provides copies of these records to the lessor. The lessor must use these records to determine the portion of the rental receipts that are attributable to Iowa.

503.6(7) *Allocation and apportionment of out-of-state business due to state-declared disaster.* 701—Chapter 276 contains more information about allocation and apportionment of income derived from an out-of-state business that enters Iowa to perform "disaster and emergency-related work" during a "disaster response period" as those terms are defined in Iowa Code section 29C.24.

This rule is intended to implement Iowa Code section 422.33(1).

701—503.7(422) Apportionment of income of transportation, communications, and certain public utilities corporations. Net income of these corporations, other than interest, dividends, rents and royalties, that is not specifically allocated by rules 701—503.2(422) and 701—503.6(422) shall be apportioned as follows:

503.7(1) Railroads shall determine their Iowa proportion of gross receipts or gross revenue from railroad operations by the following methodology:

a. Freight revenue. Freight revenue within and without Iowa is determined for each individual freight movement by taking the proportion of car and locomotive miles traveled in Iowa to total car and locomotive miles traveled within and without Iowa for the individual freight movement and applying such individual percentage to the gross receipts derived from the individual freight movement. Empty mileage that does not produce gross receipts will not be used.

b. Passenger revenue. Passenger revenue within and without Iowa is determined by use of the same principles applicable to freight revenue.

c. Switching revenue. Unless the switching revenue is accounted for in the freight revenue or passenger revenue categories, it will be determined in accordance with subrule 503.6(1).

d. Miscellaneous revenue. Nonexclusive examples of miscellaneous revenues include demurrage revenue, station services revenue, storage revenue, railway property rental, joint facility revenue, and amounts received from government authorities. These revenues are attributed to the state in which they were earned.

e. All of the above classes of revenues shall be aggregated and combined with other gross receipts or gross revenues from sources within Iowa to compose the numerator. The denominator shall include all gross receipts or gross revenues of the business.

503.7(2) Truck and bus line companies, water transportation companies, and freight car and equipment companies shall determine their Iowa proportion of gross receipts or gross revenues derived from transportation operations by taking the proportion of mileage traveled in Iowa to the total mileage traveled within and without the state.

503.7(3) Airlines shall determine their Iowa proportion of gross receipts or gross revenues derived from transportation operations by taking the proportion of mileage traveled in Iowa to the total mileage traveled within and without Iowa. For purposes of this subrule, "gross receipts from transportation operations" means all passenger and freight transportation receipts.

a. "Passenger transportation receipts" means revenue earned by an airline from:

(1) Selling air transportation services to transport passengers and their baggage, including but not limited to the sale of capacity on its aircraft to other airlines or entities in order to transport passengers, the sale of tickets to passengers under agreements (e.g., codesharing agreements) with other airlines, baggage fees, and the sale of "points" or "miles" that may be redeemed by the purchaser or by a third party for air travel; and

(2) Selling or renting property or services to be used or consumed by passengers during the course of air transportation, including but not limited to the sale of food or liquor, the sale of on-flight services such as entertainment and wi-fi, and the rental of pet crates.

b. "Freight transportation receipts" means revenue earned by an airline from:

(1) Selling air transportation services to transport freight, packages, or mail, including but not limited to the sale of capacity on its aircraft to other airlines or entities in order to transport freight and the sale of freight transportation services under agreements (e.g., codesharing agreements) with other airlines; and

(2) Selling or renting property or services to be consumed or used during the course of an aircraft flight.

503.7(4) Oil, gasoline, gas and other pipeline companies shall determine the proportion of transportation revenue derived from interstate business that is attributable to Iowa by the proportion of Iowa traffic units to total traffic units. The "traffic unit" of an oil pipeline is defined as the transportation of one barrel of oil for a distance of one mile; the "traffic unit" of a gasoline pipeline is defined as the transportation of one barrel of gasoline for a distance of one mile; and a "traffic unit" of a gas pipeline is defined as the transportation of 1,000 cubic feet or one dekatherm of natural or casinghead gas for a distance of one mile. The taxpayer may use either 1,000 cubic feet or one dekatherm as a "traffic unit" as long as the numerator and denominator are computed on the same basis. Any other pipeline company will use the definition of the "traffic unit" that would most nearly describe the substance transported.

503.7(5) Telecommunications companies shall determine the Iowa proportion of gross receipts or gross revenues from telecommunication operations as described in this rule.

"Telecommunication companies" includes but is not limited to telephone companies; resellers of telephone services; cellular phone companies; personal communication service providers; paging service providers; radio communication providers; internet access providers; cable television, satellite television, and community antenna television companies; and other companies of a similar type.

"Telecommunications" is an electronic mode of transmitting data, information, and audio and video signals and includes but is not limited to both one-way and two-way signals using land-line phones, cellular phones, paging devices, satellites, and microwave systems. Telecommunications is a medium or mode of delivery, not the actual content of the information transmitted over the medium. Telecommunications does not include broadcast radio and television. More information can be found in Iowa Code section 422.33(2)*"a"*(2)(e).

a. Gross receipts or gross revenues from local service in Iowa are attributable to Iowa.

b. Gross receipts or gross revenues from toll services originating and terminating in Iowa are attributable to Iowa.

c. Gross receipts or gross revenues from interstate toll services originating in Iowa and charged to an Iowa service address are attributable to Iowa.

d. Gross receipts or gross revenues from interstate toll services terminating in Iowa and charged to an Iowa service address are attributable to Iowa.

e. Gross receipts or gross revenues from the sale of phone cards in Iowa are attributable to Iowa.

f. Gross receipts or gross revenues from the sale of telecommunication services to resellers of telecommunication services for telecommunication services used for local service in Iowa are attributable to Iowa.

g. Gross receipts or gross revenues from the sale of telecommunication services to resellers of telecommunication services for telecommunication services used for toll services originating and terminating in Iowa are attributable to Iowa.

h. Gross receipts or gross revenues from the sale of telecommunication services to resellers of telecommunication services for telecommunication services used for interstate toll services originating in Iowa are attributable to Iowa.

i. Gross receipts or gross revenues from internet access originating in Iowa and charged to an Iowa service address are attributable to Iowa.

j. Gross receipts or gross revenues from cellular phone services originating in Iowa and charged to an Iowa service address are attributable to Iowa.

k. Gross receipts or gross revenues from personal communication services originating in Iowa and charged to an Iowa service address are attributable to Iowa.

l. Gross receipts or gross revenues from paging services originating in Iowa and charged to an Iowa service address are attributable to Iowa.

m. Services originating in Iowa and charged to an Iowa service address are attributable to Iowa.

n. Gross receipts from cable television, satellite television, and community antenna television services charged to an Iowa service address are attributable to Iowa.

o. Gross receipts from providing internet access charged to an Iowa service address are attributable to Iowa.

p. Any other gross receipts or gross revenues from fees, access charges, toll services or other charges for communication services charged to an Iowa service address are attributable to Iowa.

q. All of the above classes of revenues shall be aggregated and combined with other gross receipts or gross revenues from sources within Iowa to compose the numerator. The denominator shall include all gross receipts or gross revenues of the business.

503.7(6) Corporations in the business of publishing, selling, licensing, or distributing newspapers, magazines, periodicals, trade journals, or other printed material, or that publish, sell, license or distribute in a filmed or microfilmed image, over a website or application, or in an electronic media, an electronic virtual storage system or broadcasts any of the above items that have been traditionally disseminated in a printed format shall determine the Iowa portion of gross receipts by the following methodology:

a. Gross receipts from the sale of tangible personal property, including printed materials, electronic storage media, fees for use of an electronic virtual storage system or fees to receive a broadcast delivered, shipped or broadcast to a purchaser or a subscriber in Iowa.

b. Gross receipts from advertising shall be attributed to Iowa as determined by the taxpayer's circulation factor during the tax period. The circulation factor shall be determined for each individual publication of the taxpayer containing advertising and shall be equal to the ratio that the taxpayer's Iowa circulation to purchasers and subscribers of its printed material, electronic storage media, electronic virtual storage system or broadcasts containing advertising bears to its total circulation to purchasers and subscribers everywhere.

The circulation factor for an individual publication shall be determined by reference to the rating statistics as reflected in such sources as the Audit Bureau of Circulations or other comparable sources, provided that the source selected is consistently used from year to year for such purpose. If none of the foregoing sources are available, or, if available, none are in a form or content sufficient for such purposes, then the circulation factor shall be determined from the taxpayer's books and records.

c. When specific items of advertisement can be shown, upon clear and convincing evidence, to have been distributed solely to a limited regional or local geographic area of which Iowa is a part, the taxpayer may petition, or the director may require, that all or a portion of such receipts be attributed to Iowa on the basis of a regional or local geographic area circulation factor and not upon the basis of the circulation factor provided by paragraph 503.7(6)*"b."*

Such attribution shall be based on the ratio that the taxpayer's circulation to purchasers and subscribers located in Iowa bears to its total circulation to purchasers and subscribers located within such regional or local geographic area. This alternative attribution method shall be permitted only on the condition that such receipts are not double counted or otherwise included in the numerator of any other state.

503.7(7) Utility companies shall determine their Iowa gross receipts or gross revenues from transporting natural or casinghead gas for others that is attributable to Iowa by the proportion of Iowa traffic units to total traffic units. The "traffic unit" is defined to be the transportation of 1,000 cubic feet or one dekatherm of natural or casinghead gas for a distance of one mile. Where the transportation is less than one mile, the taxpayer must accumulate the fractions of one mile into one-mile increments for purposes of computing traffic units. The taxpayer may use either 1,000 cubic feet or one dekatherm as a traffic unit as long as the numerator and denominator are computed on the same basis.

503.7(8) Utility companies shall determine their Iowa gross receipts or gross revenues from transporting electricity for others that is attributable to Iowa by the proportion of Iowa traffic units to total traffic units. The "traffic unit" is defined to be the transportation of 1,000 kilowatt-hours of electricity for a distance of one mile. Where the transportation is less than one mile, the taxpayer must accumulate the fractions of one mile into one-mile increments for purposes of computing traffic units.

This rule is intended to implement Iowa Code section 422.33.

701—503.8(422) Apportionment of income derived from more than one business activity carried on within a single corporate structure. Net income from corporations where more than one business activity is conducted within a single unitary corporate structure shall be apportioned by combining gross receipts or gross revenues of each business activity in the business activity ratio. Where necessary, formulas authorized by the department's rules or statute shall be used to ascertain the gross receipts from such business activities.

EXAMPLE: The taxpayer is engaged in the business of both manufacture of tangible personal property and trucking. During the tax year, the taxpayer received $1,000,000 in gross receipts, $400,000 of which was from its manufacturing operations and $600,000 of which was from its trucking operations. In its trucking operations, the taxpayer traveled 100,000 miles in Iowa and 400,000 everywhere, and in its manufacturing operations, $300,000 of sales were attributable to Iowa. The numerator of the business activity ratio would be $450,000, which includes $300,000 from manufacturing operations and $150,000 (100,000/400,000 × 600,000 = 150,000) from trucking operations. More information can be found in subrule 503.7(2). The denominator of the business activity ratio would be $1,000,000.

This rule is intended to implement Iowa Code section 422.33.

701—503.9(422) Allocation and apportionment of income in special cases. If a taxpayer believes that the allocation and apportionment method as prescribed by Iowa Code section 422.33(2) or this chapter in the taxpayer's case results in taxation of a greater portion of the income than is reasonably attributable to Iowa, the taxpayer may request the department's permission to determine the taxable net income to the state, both allocable and apportionable, on some other basis.

503.9(1) *Definition—statutory method of apportionment.* The term "statutory method of apportionment" means the Iowa allocation and apportionment methods set forth in Iowa Code section 422.33(2) and the allocation and apportionment methods set forth in this chapter.

503.9(2) *Request requirements.*

a. A taxpayer that wishes to apply for an alternative method of apportionment must meet all of the following requirements.

(1) Original return. The taxpayer must first file the return as prescribed by Iowa Code section 422.33(2) and pay the tax shown due.

(2) Statement of facts. The request must be in writing and set forth in detail the facts upon which the request is based.

(3) Statement of objections. The request should include a detailed explanation of the taxpayer's objections to the statutory method of apportionment as well as any schedules or other documentation needed to support the objections.

(4) Requested alternative method. A detailed explanation of the alternative method requested by the taxpayer must be included with the request and should include any schedules or other documentation needed to support the requested method.

(5) Supporting documentation. The department may request any additional information the department deems necessary to analyze the request for an alternative method of apportionment, and the taxpayer must produce the information within a reasonable period of time.

(6) Submission method. Requests for alternative apportionment or allocation may be submitted through GovConnectIowa or by mail to Iowa Department of Revenue, P.O. Box 14467, Des Moines, Iowa 50306-3467.

b. If any of these requirements are not met, the request may be denied.

503.9(3) *Review.* The burden of proof will be on the taxpayer as to the validity of the method and its results.

a. The taxpayer must show by clear and cogent evidence that:

(1) The statutory formula apportions income to Iowa out of all reasonable proportion to the business transacted within Iowa;

(2) The alternative apportionment method proposed by the taxpayer reasonably reflects the business transacted within and without Iowa; and

(3) The alternative apportionment method proposed by the taxpayer better reflects the business transacted within and without Iowa than any other reasonably conceivable methods.

b. A mere showing that one alternative apportionment method produces a result substantially different than the statutory method of apportionment is not sufficient to justify the granting of the apportionment method requested.

503.9(4) *Department determination.*

a. Review. All requests to use an alternative method of allocation and apportionment submitted to the department will be considered by the policy bureau.

b. Determination of method. If the department concludes that the statutory method of allocation and apportionment is, in fact, both inapplicable and inequitable, the department may either approve the alternative method requested by the taxpayer or prescribe some other method of allocation and apportionment that the department deems to equitably attribute income to business activities carried on within Iowa.

c. Department determination. The department will provide the taxpayer with a written determination either denying the request, or approving the request and describing the method approved.

503.9(5) *Appeals.* If the taxpayer disagrees with the determination of the department, the taxpayer may file an appeal within 60 days of the date of the letter setting forth the department's determination and the reasons therefore in accordance with rule 701—7.8(17A). The department's determination letter shall set forth the taxpayer's rights to appeal the department's determination. If no appeal is filed within the 60-day period, then no hearing will be granted on the department's determination under this rule.

503.9(6) *Applicability.*

a. The use of an alternative method of allocation and apportionment is applicable to the years under consideration at the time the alternative method of allocation and apportionment is approved. The taxpayer's continued use of an approved method of allocation and apportionment in future years may be allowed, subject to review and change within the statutory or legally extended period(s).

b. If there is a material change in the business operations or accounting procedures from those in existence at the time the taxpayer was permitted to determine the business transacted within Iowa by an alternative method of allocation and apportionment, the taxpayer shall notify the department of such changes prior to filing its return for the current year. After reviewing the information submitted, along with any other information the department deems necessary, the department will notify the taxpayer if the alternative method of allocation and apportionment is still allowed.

This rule is intended to implement Iowa Code section 422.33.

RA 26-374

REVENUE DEPARTMENT[701]

Regulatory Analysis

Notice of Intended Action to be published: 701—Chapters 504 and 505
"Assessments, Refunds, Appeals; Estimated Tax for Corporations"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 421.14 and 422.92

State or federal law(s) implemented by the rulemaking: Iowa Code sections 422.85, 422.86, 422.87, 422.88, 422.90, 422.91, and 422.92

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 18, 2026 9 to 10 a.m.	Via videoconference call: meet.google.com/sbm-ihix-ere

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis, which must be received by the Department of Revenue no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Benjamin Clough
Department of Revenue
Hoover State Office Building
P.O. Box 10457
Des Moines, Iowa 50306-3457
Phone: 515.587.0662
Email: ben.clough@iowa.gov

Purpose and Summary

The purpose of this proposed rulemaking is to rescind and readopt Chapter 504 and rescind and reserve Chapter 505. Chapter 504 provides rules related to assessments, refunds, and appeals. These rules are not unique to corporation income tax and are largely duplicative of rules that existed for both individual income and franchise taxes. Therefore, the rules that exist in Chapter 504 are proposed to be rescinded, and the content will be moved into 701—Chapter 300, which is applicable to all three tax types, in a concurrent rulemaking (**RA 26-363**, IAB 10/28/26).

The Department proposes to move the existing rules from Chapter 505 to Chapter 504. This chapter provides definitions, examples, and other useful information not included in the Iowa Code that help both taxpayers and the Department understand how and when corporate income taxpayers must calculate and pay their quarterly Iowa estimated payments, as well as the application of penalties for underpayment or failure to pay and exceptions to those penalties. This information, formerly found in Chapter 505, has been revised to eliminate language that was outdated or repetitive of the Iowa Code.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

There are no significant costs to the public associated with the rules themselves. The rules do not impose additional payments, reporting, or recordkeeping requirements beyond what is already required by law.

- **Classes of persons that will benefit from the proposed rulemaking:**

Taxpayers, tax preparers, and Department staff will benefit from the proposed rulemaking.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

There is no economic impact of the proposed rulemaking beyond what is contained in the underlying statutes.

- **Qualitative description of impact:**

The rules provide guidance on how to calculate estimated payment amounts, understand how overpayments may be applied and, when applicable, understand how and when penalties and exceptions to those penalties apply.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

The rules themselves impose no additional costs on the agency; they only clarify items relating to tax payments that the Department is already required by law to administer. The rules have no known impact on any other agency.

- **Anticipated effect on State revenues:**

There is no anticipated effect on State revenues.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

Providing no guidance at all would likely increase costs to both taxpayers and the Department by generating requests for guidance and other questions that could otherwise have been answered by the rules, increasing the likelihood that taxpayers are given inconsistent guidance over time.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

There are no known less costly or intrusive methods.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

The alternatives are providing no guidance to taxpayers at all or providing this guidance on a more informal basis.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

Providing no guidance at all would likely increase costs to both taxpayers and the Department by generating requests for guidance and other questions that could otherwise have been answered by the rules and increasing the likelihood that taxpayers are given inconsistent guidance over time. Issuing this guidance through less formal means may be beneficial to the agency by making it faster and easier to make changes to the guidance when needed but could be detrimental to the public by removing the oversight inherent in the rulemaking process.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.

- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

The deadlines and reporting requirements associated with these rules are imposed by the Iowa Code, and the Department has no authority to make exceptions not already contemplated by the law for small businesses.

Text of Proposed Rulemaking

ITEM 1. Rescind 701—Chapter 504 and adopt the following **new** chapter in lieu thereof:

CHAPTER 504
ESTIMATED TAX FOR CORPORATIONS

701—504.1(422) Who must pay estimated tax. Every corporate taxpayer must pay estimated tax if the amount of tax payable, less credits, can reasonably be expected to be more than $1,000 for the calendar or fiscal year. Any amount of estimated tax paid is a credit against the amount of tax due on a final completed return.

This rule is intended to implement Iowa Code section 422.85.

701—504.2(422) Time for filing and payment of tax.

504.2(1) *Time for filing.*

a. General. Estimates may be paid in full at the time of the first filing or in four equal installments. The taxpayer may also elect to pay any installment prior to the date prescribed.

b. Calendar year. The first installment for a corporation filing on a calendar-year basis is due by April 30. The other installments, if applicable, shall be paid on or before June 30, September 30, and December 31, of the current year.

c. Fiscal year. The installment dates for a corporation filing on a fiscal-year basis are:

(1) Installment No. 1. The last day of the fourth month of the fiscal year.
(2) Installment No. 2. The last day of the sixth month of the fiscal year.
(3) Installment No. 3. The last day of the ninth month of the fiscal year.
(4) Installment No. 4. The last day of the twelfth month of the fiscal year.

504.2(2) *Payment of estimated tax.*

a. In general. Payments may be made electronically through GovConnectIowa or by check. Checks must be sent with a corporate income tax estimated payment voucher and mailed to Corporate Estimate Processing, P.O. Box 10466, Des Moines, Iowa 50306.

b. Electronic transfer payments. Installments shall be made electronically in a format and by means specified by the department when total corporate tax liability for the tax year prior to the tax year just completed exceeds $80,000.

This rule is intended to implement Iowa Code section 422.85.

701—504.3(422) Special estimate periods.

504.3(1) *Short taxable year.* A corporation having a taxable year of less than 12 months shall pay estimated tax if anticipating an Iowa tax liability of more than $1,000 for that short taxable year.

a. Short taxable year where a new corporation first commences doing business. In filing the first estimated tax payment, the taxpayer shall state the tax period that the estimated tax payment covers.

(1) If the tax year is three months or less, no estimated tax payment need be made.

(2) If the tax year is greater than three months but not more than four months and the estimated tax payment is required to be made on the last day of the fourth month, the estimated tax shall be paid based upon the taxable income for the first three months.

(3) If the tax year is greater than four months but not more than six months and the first estimated tax payment is required to be made on the last day of the fourth month, the estimated tax shall be paid in two equal installments. The first installment shall be due the last day of the fourth month based on the first three months' taxable income annualized by multiplying the taxable income by the number of months in the tax year and dividing by three. The second installment shall be due the last day of the tax year.

If the first estimated tax payment is required to be made after the fourth month, the estimated tax payment shall be made on the last day of the tax year and the estimated tax shall be paid in one installment based upon the taxable income for the first four months if the tax year ends during the fifth month, or for the first five months if the tax year ends during the sixth month.

(4) If the tax year is greater than four months, but not more than nine months, and the first estimated tax payment is required to be made on the last day of the fourth month, the estimated tax shall be paid in three equal installments. The first installment shall be due the last day of the fourth month based on the first three months' taxable income annualized by multiplying the taxable income by the number of months in the tax year and dividing by three. The second installment shall be due the last day of the sixth month of the tax year. The third installment shall be due the last day of the tax year.

If the first estimated tax payment is required to be made on the last day of the sixth month of the tax year, the estimated tax shall be paid in two equal installments. The first installment shall be due on the last day of the sixth month based upon the first five months' taxable income annualized by multiplying the taxable income by the number of months in the tax year and dividing by five. The second installment shall be due on the last day of the tax year.

If the first estimated tax payment is required to be made after the last day of the sixth month of the tax year, the estimated tax payment shall be made on the last day of the tax year and the estimated tax shall be paid in one installment based on the taxable income for the first seven months if the tax year ends during the eighth month, or for the first eight months if the tax year ends during the ninth month.

(5) If the tax year is greater than four months, but not more than eleven months, and the first estimated tax payment is required to be made on the last day of the fourth month, the estimated tax shall be paid in four equal installments. The first installment shall be due the last day of the fourth month based upon the first three months' income annualized by multiplying the taxable income by the number of months in the tax year and dividing by three. The second installment shall be due on the last day of the sixth month of the tax year. The third installment shall be due on the last day of the ninth month of the tax year. The fourth installment shall be due the last day of the tax year.

If the first estimated tax payment is required to be made on the last day of the sixth month of the tax year, the estimated tax shall be paid in three equal installments. The first installment shall be due on the last day of the sixth month based upon the first five months' taxable income annualized by multiplying the taxable income by the number of months in the tax year and dividing by five. The second installment shall be due the last day of the ninth month of the tax year. The third installment shall be due on the last day of the tax year.

If the first estimated tax payment is required to be made on the last day of the ninth month of the tax year, the estimated tax shall be paid in two equal installments. The first installment shall be due on the last day of the ninth month, based upon the first eight months' taxable income annualized by multiplying the taxable income by the number of months in the tax year and dividing by eight. The second installment shall be due the last day of the tax year.

If the first estimated tax payment is required to be made after the last day of the ninth month of the tax year, the estimated tax payment shall be made on the last day of the tax year and the estimated tax

shall be paid in one installment based upon the taxable income for the first nine months if the tax year ends during the tenth month or for the first ten months if the tax year ends during the eleventh month.

(6) If, during the tax year, the taxpayer determines that its tax year will be different than the tax year specified in its original payment of estimated tax, the remaining estimated tax payments, if any, shall be based upon the above schedule.

b. Short taxable year where the taxpayer is liquidated during the tax year or where under any provision of the Internal Revenue Code the taxpayer is required to file a return for a period of less than 12 months.

(1) If the tax year is 3 months or less, no estimated tax payment need be made.

(2) If the tax year is greater than 3 months, an estimated tax payment shall be made the same as if the taxpayer's tax year is a full 12 months except that the final installment shall be due the last day of the tax year.

(3) Special exception to penalty. If the taxpayer uses the exception under Iowa Code section 422.89(1) to avoid the penalty for underpayment of estimated tax, no penalty will accrue if the following conditions are met:

1. The total amount of all payments of estimated tax made on or before the last date prescribed for the payment of estimated tax equals the prior year's tax multiplied by the number of months in the short tax year and divided by 12, and

2. A return for the preceding tax year of a full 12 months showing a tax liability was filed by the taxpayer.

504.3(2) Reserved.

This rule is intended to implement Iowa Code section 422.92.

701—504.4(422) Penalties.

504.4(1) *Underpayment penalty.*

a. A penalty is imposed for underpayment of the estimated tax by the taxpayer regardless of whether there was reasonable cause for the underpayment.

b. The amount of the underpayment penalty is determined at the statutory rate upon the amount of underpayment of the estimated tax for the period from the date the amount is required to be paid until the last day of the fourth month following the close of the income year, or the date the underpayment is paid, whichever is earlier.

EXAMPLE: A calendar year corporation is required to make four equal estimated payments of $2,500 in the current year to meet the exception to the underpayment of estimated tax penalty. The corporation does not make a first quarter estimated payment that was due on April 30, but makes an estimated payment of $5,000 for the second quarter on June 30. The corporation is subject to the underpayment of estimated tax penalty for the period from April 30 to June 30, when the underpayment was paid.

504.4(2) *Exception to imposition of the underpayment penalty.*

a. In general. The underpayment penalty will not be imposed for any underpayment if, on or before the date prescribed for payment, the total amount of all payments made of the estimated tax equals or exceeds the amount that would have been required to be paid on or before such date if the estimated tax were the least of the following amounts:

(1) The tax shown on the return for the preceding taxable year, provided that the preceding taxable year was a taxable year of 12 months and a return showing a tax liability was filed for such year;

(2) An amount equal to a tax determined on the basis of the tax rates for the taxable year but otherwise on the basis of the facts shown on the return for the preceding taxable year if the taxable year was a taxable year of 12 months or, if the preceding taxable year was a taxable year of less than 12 months, then by placing the income on an annual basis and the law applicable to the preceding year, in the case of a taxpayer required to file a return for the preceding taxable year; or

(3) An amount equal to 100 percent of the tax determined by placing on an annual basis the net income for the first 3, 5, 6, 8, 9, or 11 months of the taxable year, whichever is applicable. The net income so determined shall be placed on an annual basis by multiplying it by 12, and dividing the resulting amount by the number of months in the taxable year for which the net income was so determined.

b. Statement of exception. If there has been an underpayment of the amount of the estimated tax, and the taxpayer believes that one or more of the exceptions to the penalty applies, the taxpayer should attach a statement showing the applicability of any exception upon which the taxpayer relies.

This rule is intended to implement Iowa Code sections 422.88 and 422.89.

701—504.5(422) Overpayment of estimated tax.

504.5(1) *Credit to next year's tax.* In lieu of claiming a refund, the taxpayer may elect to have the overpayment credited to the next year's tax liability. The election cannot be changed after the end of the calendar year in which the return is due, including any extension of time to file. If the taxpayer elects to have the overpayment credited to the next year's tax liability, the overpayment will be credited to the first installment if the overpayment arose on or before the due date of the return. If the overpayment arises after the due date of the return, the overpayment will be credited to the first installment due after the date of payment. The taxpayer may, by a written election included with the filing of the return, elect to have the overpayment credited to a different installment.

504.5(2) *Estimated tax carryforwards and how the carryforward amounts are affected under different circumstances.*

a. Estimated tax carryforward and how the amount of carryover credit is affected by error on return. If an Iowa return is timely filed with an overpayment shown on the return and the overpayment is to be credited to the taxpayer's estimated payments for the following year, the amount credited to estimated payments will be affected by an error on the return. Thus, if the error on the return is corrected and results in a smaller overpayment than was shown when the return was filed, the credit to estimated tax from the return may be reduced accordingly.

EXAMPLE 1: Corporation X filed its return on April 20, showing an overpayment of $400 and a credit to the next year's estimated tax of $400. During processing of the return, it was determined that a deduction was taken in error. Correction of this error resulted in an overpayment of $200 instead of $400. Thus, the amount credited to the taxpayer's estimated payments for the following year was $200 instead of the $400 shown on the return form.

b. Estimated tax credit carryover, the carryforward amount affected by amended return. A taxpayer timely files an original return with an overpayment and with the overpayment credited to the following year's estimated tax payments. If the taxpayer files an amended return correcting an error on the original return and with a different amount credited to estimated tax than on the original return, the credit amount from the amended return will be credited to estimated tax, if the amended return is filed before the last day of the year in which the return is due. Thus, if an amended return for a calendar year filer is filed by September 30 of the year in which it was due, the amount shown as a credit to estimated tax from that amended return will be the amount credited to the taxpayer's estimated tax for the following year.

EXAMPLE 2: Corporation X filed its original September 30 return on January 15 of the following year with an overpayment of $500 and all of the overpayment credited to its estimated tax for the following tax year ending September 30. Later, in the year the return was filed, X determined that it had failed to claim a deduction on the return. Therefore, X filed an amended Iowa return for the tax year ending September 30 of the prior year on July 15, showing an overpayment of $700 and a credit to estimated tax of the same amount. X's amended return was filed on or before the end of the year in which the original return was due, so the $700 credit to X's estimated tax for the next tax year ending September 30 from the amended return was allowed.

Note that if the amended return had not been filed until sometime in January, only the credit from X's original return would have been applied to X's estimated payments for the tax year ending

September 30. Since the amended return would have been filed too late for purposes of crediting the overpayment to the taxpayer's estimated tax for the next year, the department would issue X a refund of $200 that is the portion of the overpayment from the amended return that had not been credited to estimated tax from the original return for tax year that was amended.

c. Estimated tax carryforward and how the amount of carryover credit is affected by state tax liability or other state liability of the taxpayer. A taxpayer who files an Iowa return with an overpayment shown on the return and elects to have the overpayment credited to the taxpayer's estimated tax for the next tax year will not have the overpayment credited to estimated tax if the taxpayer has tax liabilities or other liabilities with the state that are subject to setoff. Other liabilities with the state that are subject to setoff are those liabilities described in Iowa Code section 421.65.

EXAMPLE 3: Corporation Z timely filed its Iowa return showing an overpayment of $400 and a credit to the following year's estimated tax of $400. During processing of Z's return, it was determined that Z had a liability of $150 from a prior year's Iowa return. Thus, $150 of the current year's overpayment was offset against the tax liability from the prior year's return. The remaining portion of the current year's overpayment of $250 was credited to Z's estimated tax for the next year.

This rule is intended to implement Iowa Code section 422.91.

ITEM 2. Rescind and reserve **701—Chapter 505**.

RA 26-375

REVENUE DEPARTMENT[701]

Regulatory Analysis

Notice of Intended Action to be published: 701—Chapter 601
"Filing Returns"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 422.62, 422.63, and 422.66

State or federal law(s) implemented by the rulemaking: Iowa Code sections 422.24, 422.60, 422.61, 422.62, 422.66, and 422.73

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 18, 2026 9 to 10 a.m.	Via videoconference call: meet.google.com/sbm-ihix-ere

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis, which must be received by the Department of Revenue no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Benjamin Clough
Department of Revenue
Hoover State Office Building
P.O. Box 10457
Des Moines, Iowa 50306-3457
Phone: 515.587.0662
Email: ben.clough@iowa.gov

Purpose and Summary

The purpose of this proposed rulemaking is to rescind and readopt Chapter 601. Chapter 601 provides the rules pertaining to the filing requirements of franchise tax. These rules are intended to help taxpayers comply and members of the public understand who must file franchise tax returns. Chapter 601 contains rules the Department has determined are either unnecessary, obsolete, or duplicative of statutory language and could be rescinded. The Department determined that some rules were duplicative of existing statutory language, and that some of the chapters governing separate areas of income tax were duplicative of each other, and could be combined into one uniform chapter for the administration of all income tax types under 701—Chapter 300.

The Department proposes updates to these rules in order to provide better organization and clarification and to remove unnecessary, obsolete, and duplicative statutory language. The Department has also determined the rules in this chapter that aid the public in understanding the qualifications and process in order to claim tax credits against franchise tax to be useful and will be proposed under 701—Chapter 800.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

There are no costs to the proposed rulemaking beyond those that are imposed by the underlying statutes.

- **Classes of persons that will benefit from the proposed rulemaking:**

The public will benefit from the proposed rulemaking because updating the rules on the administration of franchise tax provides easier accessibility to those rules and reduces confusion related to franchise tax.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

There are no significant quantitative impacts known to be associated with this rulemaking.

- **Qualitative description of impact:**

The proposed rulemaking will reduce uncertainty about which administrative rules apply to franchise tax because the rules will all be amended to include only those rules necessary for such administration not found in the Iowa Code.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

There are no costs to the Department to implement the proposed rulemaking beyond what would otherwise be required to administer the underlying statutes.

- **Anticipated effect on State revenues:**

There is no anticipated effect on State revenues, although the revision of repromulgated rules and the elimination of rules that are no longer necessary or are obsolete will provide clarity to the public.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

There is no benefit to retaining the rules, subrules, and other language changed or rescinded under this chapter. Not updating the rules in the proposed rulemaking would lead to confusion and frustration. The benefits to the proposed rulemaking are to eliminate unnecessary and obsolete language and rules and to make it easier for taxpayers to navigate administrative rules generally.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

No less costly or less intrusive methods have been identified.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

The Department considered rescinding all of the rules in this chapter but determined that the proposed rulemaking was necessary to provide guidance and clarification to the public beyond what is provided in the underlying statutes.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

The Department determined that retention of rules in the proposed rulemaking with the proposed updates will reduce confusion about the subjects of those rules. Proceeding without these rules could negatively impact the public by complicating good-faith taxpayers' ability to comply with Iowa tax law in a proper and timely manner.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.

- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

The proposed rulemaking does not have a substantial impact on small business and does not impose any additional requirements on businesses other than what is imposed by the underlying statutes.

Text of Proposed Rulemaking

ITEM 1. Rescind 701—Chapter 601 and adopt the following **new** chapter in lieu thereof:

CHAPTER 601
FILING RETURNS

701—601.1(422) Who must file. Every financial institution as defined in Iowa Code section 422.61, regardless of net income, shall file a complete return of its income or loss for the taxable period. The return shall be signed by the president or other duly authorized officer.

601.1(1) *Income tax of financial institutions in liquidation.* When a financial institution is in the process of liquidation, or in the hands of a receiver, the franchise tax returns must be made under oath or affirmation of the persons responsible for the conduct of the affairs of such financial institutions and must be filed at the same time and in the same manner as required of other financial institutions.

601.1(2) *Franchise tax returns for financial institutions dissolved.*

a. Financial institutions that have been dissolved during the tax year must file franchise tax returns for the period prior to dissolution that has not already been covered by previous returns. Officers and directors are responsible for the filing of the returns and for the payment of taxes, if any, for the audit period provided by law.

b. Where a financial institution dissolves and disposes of its assets without making provision for the payment of its accrued Iowa franchise tax, liability for the tax follows the assets so distributed and upon failure to secure the unpaid amount, suit to collect the tax may be instituted against the stockholders and other persons receiving the property, to the extent of the property received, except bona fide purchasers or others as provided by law.

This rule is intended to implement Iowa Code sections 422.60 and 422.61.

701—601.2(422) Time and place for filing return.

601.2(1) *Returns of financial institutions.* A return of income for all financial institutions must be filed on or before the delinquency date. Iowa Code section 421.9A contains additional information on due dates that fall on a Saturday, Sunday, or holiday. If a return is placed in the mail, properly addressed and postage paid in ample time to reach the department on or before the delinquency date for filing, no penalty will attach should the return not be received until after that date.

601.2(2) *Short period returns.* Where under a provision of the Internal Revenue Code, a financial institution is required to file a tax return for a period of less than 12 months, a short period Iowa franchise tax return must be filed for the same period. The delinquency date for the short period return is 45 days after the federal due date, not considering any federal extension of time to file.

This rule is intended to implement Iowa Code sections 422.24, 422.62, and 422.66.

701—601.3(422) Form for filing.

601.3(1) *Use and completeness of prescribed forms.*

a. Returns shall be made by financial institutions on forms supplied by the department. Each question shall be answered and each direction complied with in the same manner as if the forms and instructions were embodied in these rules.

b. Returns received that are not completed but merely state "see schedule attached" are not valid. This may result in the imposition of penalties and interest due to the return being filed after the due date.

601.3(2) *Form for filing—financial institutions.*

a. Financial institutions as defined by Iowa Code section 422.61(1) shall include a complete copy of their federal income tax return, including all applicable schedules as filed with the Internal Revenue Service, with the filing of their Iowa return.

b. When a financial institution whose income is included in a consolidated federal income tax return files an Iowa return, federal consolidating income statements as properly computed for federal income tax purposes showing the income and expenses of each member of the consolidated group are required together with any additional schedules required by the return instructions.

601.3(3) *Amended returns.* If the amount of income reported to be federal net income or Iowa taxable income subject to franchise tax was erroneously stated on the Iowa return, or changed by Internal Revenue Service audit, or otherwise, the taxpayer shall file an amended Iowa return along with supporting schedules, to include the amended federal return and a copy of the federal revenue agent's report, if applicable.

This rule is intended to implement Iowa Code sections 422.62, 422.66 and 422.73.

RA 26-376

REVENUE DEPARTMENT[701]

Regulatory Analysis

Notice of Intended Action to be published: 701—Chapter 602
"Determination of Net Income"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 421.14, 422.35, and 422.61
State or federal law(s) implemented by the rulemaking: Iowa Code sections 422.35 and 422.61

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 18, 2026 9 to 10 a.m.	Via videoconference call: meet.google.com/sbm-ihix-ere

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis, which must be received by the Department of Revenue no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Benjamin Clough
Department of Revenue
Hoover State Office Building
P.O. Box 10457
Des Moines, Iowa 50306-3457
Phone: 515.587.0662
Email: ben.clough@iowa.gov

Purpose and Summary

The purpose of this proposed rulemaking is to rescind and readopt Chapter 602. Chapter 602 provides definitions, reporting instructions, and other useful information not included in the Iowa Code that are necessary for both taxpayers and the Department to understand how franchise taxpayers must calculate their Iowa net income as required by Iowa Code chapter 422. The present version of Chapter 602 contains a significant number of rules relating to adjustments to Iowa income that have since been repealed. It also contains several rules related to apportionment that are being moved to 701—Chapter 603. Those rules have been removed from this chapter, and the chapter has been renumbered accordingly.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

There are no significant costs to the public associated with the rules themselves. The rules do not impose any adjustments to income beyond what is already required by law.

- **Classes of persons that will benefit from the proposed rulemaking:**

Taxpayers, tax preparers and Department staff will benefit from the proposed rulemaking.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

There is no economic impact of the proposed rulemaking beyond what is contained in the underlying statutes.

- **Qualitative description of impact:**

The rules provide guidance on how corporations should calculate net income for Iowa tax purposes, including guidance for filing combined group tax returns.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

The rules themselves impose no additional costs on the agency; they only clarify items relating to tax payments the Department is already required by law to administer. The rules have no known impact on any other agency.

- **Anticipated effect on State revenues:**

These rules have no direct impact on State revenues. The adjustments they describe are already required or allowed by law. The additional guidance the rules provide may help taxpayers calculate their income more accurately the first time, saving both taxpayers and the State time and money that might otherwise be required to audit or make adjustments.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

Providing no guidance at all would likely increase costs to both taxpayers and the Department by generating requests for guidance and other questions that could otherwise have been answered by the rules, and by increasing the likelihood that taxpayers are given inconsistent guidance over time.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

There are no known less costly or less intrusive methods.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

The only real alternatives are providing no guidance to taxpayers at all or providing this guidance on a more informal basis.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

No guidance at all would likely increase costs to both taxpayers and the Department by generating requests for guidance and other questions that could otherwise have been answered by the rules, and by increasing the likelihood that taxpayers are given inconsistent guidance over time. Issuing this guidance through less formal means may be beneficial to the agency by making it faster and easier to make changes to the guidance when needed, but could be detrimental to the public by removing the oversight inherent in the rulemaking process.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.

- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

The requirements associated with these rules are imposed by the Iowa Code, and the Department has no authority to make exceptions to those not already contemplated by the law for small businesses.

Text of Proposed Rulemaking

ITEM 1. Rescind 701—Chapter 602 and adopt the following **new** chapter in lieu thereof:

CHAPTER 602
DETERMINATION OF NET INCOME

701—602.1(422) Computation of net income for financial institutions. "Net income" for state purposes shall mean federal taxable income, as properly computed under the Internal Revenue Code (IRC), and shall include the adjustments in Iowa Code sections 422.35 and 422.61(3).

602.1(1) *Federal consolidated groups.* In the case of a financial institution that is a member of an affiliated group of corporations filing a consolidated income tax return for the taxable year for federal income tax purposes, but files a separate return for state purposes, taxable income as properly computed for federal purposes is determined as if the financial institution had filed a separate return for federal income tax purposes for the taxable year and each preceding taxable year for which it was a member of an affiliated group.

602.1(2) *Short period returns.* When a federal short period return is filed and the federal taxable income is required to be adjusted to an annual basis, the Iowa taxable income shall also be adjusted to an annual basis. The tax liability for a short period is computed by multiplying the taxable income for the short period by 12 and dividing the result by the number of months in the short period. The tax is determined on the resulting total as if it were the taxable income, and the tax computed is divided by 12 and multiplied by the number of months in the short period. This adjustment shall apply only to income attributable to business carried on within the state of Iowa.

This rule is intended to implement Iowa Code section 422.35.

701—602.2(422) Method of accounting, accounting period. The return shall be computed on the same basis and for the same accounting period as the taxpayer's return for federal corporation income tax purposes. Permission to change accounting methods or accounting periods for franchise tax purposes is not required provided the taxpayer furnishes the department with a copy of the federal consent.

This rule is intended to implement Iowa Code sections 422.35 and 422.61.

701—602.3(422) Capital loss carryback. Capital losses shall be allowed or allowable for Iowa franchise tax purposes to the same extent they are allowed or allowable for federal corporation income tax purposes. Capital loss carrybacks shall be treated as an adjustment to federal taxable income to arrive at net income. Refunds of federal corporation income taxes shall not be an adjustment in computing income subject to the franchise tax.

This rule is intended to implement Iowa Code sections 422.35 and 422.61.

701—602.4(422) Interest and dividends from federal securities. For franchise tax purposes, dividends received from corporations owned or sponsored by the federal government, or interest derived from obligations of the United States and its possessions, agencies and instrumentalities are included in the taxable income. Examples of these types of obligations are bonds issued by the governments of Puerto Rico; Washington, D.C.; Guam and the Virgin Islands. Gains or losses from

the sale or other disposition of any bonds shall be taxable for state franchise tax purposes. Interest received on federal tax refunds is taxable for Iowa franchise tax purposes.

This rule is intended to implement Iowa Code section 422.61.

701—602.5(422) Interest and dividends from foreign securities and securities of states and other political subdivisions. Interest and dividends from foreign securities and securities of states and their political subdivisions including Iowa shall be included in taxable income. Subtract interest expense allocable to interest exempt from federal income tax that was disallowed as a deduction under IRC Section 265(b) or 291(e)(1)(B).

602.5(1) Add dividends received from regulated investment companies exempt from federal income tax under IRC Section 852(b)(5) and subtract the loss on the sale or exchange of a share of a regulated investment company held for six months or less to the extent the loss was disallowed under IRC Section 852(b)(4)(B).

602.5(2) Add, to the extent not already included, income from the sale of obligations of the state of Iowa and its political subdivisions and interest and dividend income from these obligations. Gains or losses from the sale or other disposition of bonds issued by the state of Iowa or its political subdivisions, along with interest and dividend income from these bonds, shall be included in Iowa taxable income unless the law authorizing these obligations specifically exempts the income from the sale and interest and dividend income from Iowa franchise tax.

This rule is intended to implement Iowa Code sections 422.35 and 422.61.

701—602.6(422) Additional deduction for wages paid or accrued for work done in Iowa by certain individuals. A small business corporation, as defined by subrule 602.8(2), is allowed a deduction for 65 percent, but not more than $20,000 of the wages paid or accrued during the tax years for work done in Iowa by qualifying employees first hired by the taxpayer, during the tax year. The employee must meet the requirements of Iowa Code section 422.35(3)*"a."*

602.6(1) The additional deduction shall not be allowed for wages paid to an individual who was hired to replace an individual whose employment was terminated within the 12-month period preceding the date of first employment. However, if the individual being replaced left employment voluntarily without good cause attributable to the employer or if the individual was discharged for misconduct in connection with the individual's employment as determined by the department of workforce development, the additional deduction shall be allowed.

The determination of whether an individual left employment voluntarily without good cause attributable to the employer or if the individual was discharged for misconduct is a factual determination that must be made on a case-by-case basis.

602.6(2) "Small business corporation" does not include the practice of a profession. The following conditions apply for the purpose of determining what constitutes a small business corporation.

a. A small business corporation shall not have had more than 20 full-time equivalent positions during each of the 26 consecutive weeks within the 52-week period immediately preceding the date on which the individual for whom an additional deduction for wages is taken was hired. "Full-time equivalent position" means any of the following:

(1) An employment position requiring an average work week of 40 or more hours;

(2) An employment position for which compensation is paid on a salaried full-time basis without regard to hours worked; or

(3) An aggregation of any number of part-time positions that equal one full-time position. For purposes of this subrule, each part-time position shall be categorized with regard to the average number of hours worked each week as a one-quarter, half, three-quarter, or full-time position, as set forth in the following table:

Average Number of Weekly Hours	Category
More than 0 but less than 15	¼
15 or more but less than 25	½
25 or more but less than 35	¾
35 or more	1 (full-time)

b. A small business corporation cannot have more than $3 million in annual gross revenues for the preceding fiscal year or as the average of the three preceding tax years.

c. A small business corporation shall not be an affiliate or subsidiary of a business that is dominant in its field of operation.

602.6(3) Definitions.

"Annual gross revenues" means total interest received from loans and investments, service charges, management fees, fiduciary fees, commissions, and gross proceeds from the sale of securities held as investments as determined in accordance with generally accepted accounting principles.

"Has a record of such impairment" means has a history of, or has been misclassified as having, a mental or physical impairment that substantially limits one or more major life activities.

"Individual with a disability" means any person who has a physical or mental impairment that substantially limits one or more major life activities, has a record of such impairment, or is regarded as having such an impairment. "Individual with a disability" does not include any person whose current use of alcohol or controlled substances prevents the person from performing the duties of employment or whose employment, by reason of current use of alcohol or controlled substances, would constitute a direct threat to the property or the safety of others.

"Is regarded as having such an impairment" means:

1. Has a physical or mental impairment that does not substantially limit major life activities but that is perceived as constituting such a limitation;
2. Has a physical or mental impairment that substantially limits major life activities only as a result of the attitudes of others toward such impairment; or
3. Has none of the impairments defined as physical or mental impairments but is perceived as having such an impairment.

"Major life activities" means functions such as caring for one's self, performing manual tasks, walking, seeing, hearing, speaking, breathing, learning, and working.

"Physical or mental impairment" means:

1. Any physiological disorder or condition, cosmetic disfigurement, or anatomical loss affecting one or more of the following body systems: neurological; musculoskeletal; special sense organs; respiratory, including speech organs; cardiovascular; reproductive; digestive; genitourinary; hemic and lymphatic; and skin and endocrine; or
2. Any mental or psychological disorder, such as intellectual disability, organic brain syndrome, emotional or mental illness, and specific learning disabilities.

"Probationary period" means the period of probation for newly hired employees if the employer has a written probationary policy. If the employer has no written probationary policy for newly hired employees, the probationary period shall be considered to be six months from the date of hire.

"Small business" means a business entity organized for profit including but not limited to an individual proprietorship, partnership, joint venture, association or cooperative. "Small business" does not include the practice of a profession.

"Successfully completing a probationary period" includes those instances where the employee quits without good cause attributable to the employer during the probationary period or was discharged for misconduct during the probationary period.

"The practice of a profession" means vocation requiring specialized knowledge and preparation including but not limited to the following: medicine and surgery, podiatry, osteopathy, osteopathic medicine and surgery, psychology, psychiatry, chiropractic, nursing, dentistry, dental hygiene,

optometry, speech pathology, audiology, pharmacy, physical therapy, occupational therapy, mortuary science, law, architecture, engineering and surveying, and accounting.

602.6(4) If a newly hired employee has been certified as either a vocational rehabilitation referral or an economically disadvantaged ex-convict for purposes of qualification for the targeted jobs tax credit under IRC Section 59, that employee shall be considered to have met the qualifications for the additional wage deduction.

a. A vocational rehabilitation referral is any individual certified by a state employment agency as having a physical or mental disability that, for the individual, constitutes or results in a substantial handicap to employment. In addition, the individual must have been referred to the employer after completion or while receiving rehabilitation services pursuant to either a state- or federal-approved vocational rehabilitation program.

b. For all other newly hired employees, the employer has the burden of proof to show that the employees meet the qualifications for the additional wage deduction.

602.6(5) The taxpayer shall include a schedule with the filing of the taxpayer's tax return showing the name, address, social security number, date of hiring and wages paid of each employee for whom the taxpayer claims the additional deduction for wages.

602.6(6) If the employee for whom an additional deduction for wages was allowed fails to successfully complete a probationary period and the taxpayer has already filed an Iowa corporation income tax return taking the additional deduction for wages, the taxpayer shall file an amended return adding back the additional deduction for wages. The amended return shall state the name and social security number of the employee who failed to successfully complete a probationary period.

602.6(7) A taxpayer who did not qualify for the additional deduction for wages paid or accrued for work done in Iowa by certain individuals set forth above is allowed an additional deduction of 65 percent not to exceed $20,000 of the first 12 months of wages paid or accrued for work done in Iowa if the new employee is:

a. An individual domiciled in this state at the time of the hiring who meets any of the following conditions:

(1) Has been convicted of a felony in this or any other state or the District of Columbia.

(2) Is on parole pursuant to Iowa Code chapter 906.

(3) Is on probation pursuant to Iowa Code chapter 907, for an offense other than a simple misdemeanor.

(4) Is in a work release program pursuant to Iowa Code chapter 904, division IX.

b. An individual, whether or not domiciled in this state at the time of the hiring, who is on parole or probation and to whom the interstate compact for adult offender supervision under Iowa Code chapter 907B applies.

(1) The additional deduction is not allowed for wages paid to an individual who was hired to replace an individual whose employment was terminated within the 12-month period preceding the date of first employment. However, if the individual being replaced left employment voluntarily without good cause attributable to the employer or if the individual was discharged for misconduct in connection with the individual's employment as determined by the Iowa division of job service of the department of employment services, the additional deduction is allowed.

(2) The taxpayer must include a schedule with the filing of the taxpayer's tax return showing the name, address, social security number, date of hiring, and wages paid of each employee for whom the taxpayer claims the additional deduction for wages.

(3) The determination of whether an individual left employment voluntarily without good cause attributable to the employer or if the individual was discharged for misconduct is a factual determination that must be made on a case-by-case basis.

(4) If the employee for which an additional deduction for wages was allowed fails to successfully complete a probationary period and the taxpayer has already filed an Iowa franchise tax return taking the additional deduction for wages, the taxpayer must file an amended return adding back the

additional deduction for wages. The amended return must state the name and social security number of the employee who failed to successfully complete a probationary period.

602.6(8) The additional deduction applies to any individual hired on or after July 1, 2001, whether or not domiciled in Iowa at the time of hiring, who is on parole or probation and to whom the compact for adult offenders under Iowa Code chapter 907B applies. The amount of additional deduction for hiring this individual is equal to 65 percent of the wages paid, but the additional deduction is not to exceed $20,000 for the first 12 months of wages paid for work done in Iowa. The conditions set out in the unnumbered paragraphs under 701—paragraph 502.11(7)*"b"* also apply to the deduction for the hiring of certain individuals in this subrule.

This rule is intended to implement Iowa Code sections 16.1 and 422.35.

701—602.7(15E,422) Charitable contributions relating to the endow Iowa tax credit. A taxpayer who claims an endow Iowa tax credit in accordance with rule 701—800.12(15E,422) cannot claim a deduction for charitable contributions under IRC Section 170 for the amount of the contribution for which the tax credit is claimed for Iowa tax purposes.

This rule is intended to implement Iowa Code section 15E.305.

701—602.8(422) Disallowance of expenses to carry an investment subsidiary. A taxpayer must add back, to the extent included, any deduction for that portion of the taxpayer's expenses computed under this rule that is allocable to an investment in an investment subsidiary.

602.8(1) *Definitions.*

"Affiliate" means a corporation, trust, estate, association, or similar organization:

1. Of which a financial institution, directly or indirectly, owns or controls either a majority of the voting shares or more than 50 percent of the number of shares voted for the election of its directors, trustees, or other individuals exercising similar functions at the preceding election, or controls in any manner the election of a majority of its directors, trustees, or other individuals exercising similar functions; or

2. Of which control is held, directly or indirectly, through share ownership or in any other manner, by the shareholders of a financial institution who own or control either a majority of the shares of such financial institution or more than 50 percent of the number of shares voted for election of directors of such financial institution at the preceding election, or by trustees for the benefit of the shareholders of such financial institution; or

3. Of which a majority of its directors, trustees, or other individuals exercising similar functions are directors of any financial institution; or

4. That owns or controls, directly or indirectly, either a majority of the voting shares of a financial institution or more than 50 percent of the number of shares voted for the election of directors of a financial institution at the preceding election, or controls in any manner the election of a majority of the directors of a financial institution, or for the benefit of those shareholders or members all or substantially all of the outstanding voting shares of a financial institution is held by trustees; or

5. That is a bank holding company, as defined by the laws of the United States, of which a financial institution is a subsidiary, and any other subsidiary as defined by the laws of the United States, of a bank holding company.

"Average adjusted basis" means the financial institution's average adjusted basis as computed pursuant to IRC Section 1016 on a separate company basis.

"Investment subsidiary" means an affiliate that is owned, capitalized, or utilized by a financial institution with one of its purposes being to make, hold, or manage, for and on behalf of the financial institution, investments in securities that the financial institution would be permitted by applicable law to make for its own account.

602.8(2) *Calculating the addition.*

a. A financial institution that has an investment in an investment subsidiary must allocate a portion of its total expenses used in computing its federal taxable income on a separate return basis

to its investment subsidiary. The expenses that are allocable to the investment in an investment subsidiary are computed by multiplying the financial institution's total expenses used in computing its federal taxable income on a separate return basis by the ratio of the average adjusted basis in its investment subsidiary to the average adjusted basis for all assets of the financial institution.

b. A calculation of the average for the tax year of the adjusted bases of a financial institution's investment in investment subsidiaries, and total assets, held each day of the tax year is the most accurate method for determining under Iowa Code section 422.61(3) the portion of a financial institution's total expenses that is allocable to the financial institution's investment in investment subsidiaries. However, the department will generally allow the average adjusted bases of an investment in investment subsidiaries for the tax year to be calculated using the average of the adjusted bases of the investment in investment subsidiaries held by the financial institution at the end of each month within the tax year. The department generally will allow the average bases of all assets of the financial institution for the tax year to be calculated using the average bases of all assets held by the financial institution at the end of each quarter of the tax year. A financial institution may compute for any tax year, without prior permission of the director, the average adjusted bases of investment in investment subsidiaries or total assets on a more frequent basis than set forth above. However, a financial institution cannot compute these averages for any tax year on a less frequent basis than quarterly without obtaining prior approval of the director. This permission will be granted only in extraordinary circumstances. In addition, a financial institution cannot compute these averages for any tax year on a less frequent basis than it used for the preceding tax year unless the financial institution obtains prior approval of the director. A financial institution that has elected to use an estimate of the adjusted tax bases of its total assets for each of the first three quarters of the taxable year under Internal Revenue Service's Revenue Ruling 90-44 for federal income tax purposes may use this estimate for Iowa franchise purposes.

602.8(3) *Exception to the addition.* Financial institutions that elect to file a combined Iowa return with their investment subsidiaries as provided in rule 701—602.13(422) are not required to add back expenses allocable to an investment subsidiary.

This rule is intended to implement Iowa Code section 422.61.

701—602.9(422) S corporation and limited liability company financial institutions. A financial institution as defined in IRC Section 581 that has in effect an election under IRC Subchapter S, or a financial institution organized as a limited liability company under Iowa Code chapter 524 that is taxed as a partnership for federal income tax purposes must compute an amount of income as if the financial institution were subject to federal corporation income tax. The income is to be computed in the same manner as a financial institution that is subject to or liable for federal income tax under the Internal Revenue Code in effect for the applicable tax would compute its federal taxable income.

This rule is intended to implement Iowa Code section 422.61.

701—602.10(422) Section 179 expensing.

602.10(1) *In general.* Iowa taxpayers that elect to expense certain depreciable business assets in the year the assets were placed in service under IRC Section 179 must also expense those same assets for Iowa income tax purposes in that year.

602.10(2) *Claiming the deduction.*

a. Timing and requirement to follow federal election. A taxpayer that takes a federal section 179 deduction must also take the deduction for the same asset in the same year for Iowa purposes.

b. Qualifying for the deduction. Whether a specific business asset qualifies for a section 179 deduction is determined by the Internal Revenue Code and applicable federal regulations for both federal and Iowa purposes.

c. Amount of the Iowa deduction. Generally, the Iowa deduction must equal the amount of the federal deduction taken for the same asset in the same year, subject to special Iowa limitations. The following chart provides a comparison of the Iowa and federal section 179 dollar limitations and

reduction limitations. Rule 701—302.10(422) provides section 179 rules applicable to individuals and other noncorporate entities, while rule 701—502.10(422) provides section 179 rules applicable to corporations (both C and S corporations) and other entities subject to the corporate income tax.

Section 179 Deduction Allowances Under Federal and Iowa Law				
	Federal		Iowa	
Tax Year	Dollar Limitation	Reduction Limitation	Dollar Limitation	Reduction Limitation
2003	$ 100,000	$ 400,000	$ 100,000	$ 400,000
2004	102,000	410,000	102,000	410,000
2005	105,000	420,000	105,000	420,000
2006	108,000	430,000	108,000	430,000
2007	125,000	500,000	125,000	500,000
2008	250,000	800,000	250,000	800,000
2009	250,000	800,000	133,000	530,000
2010	500,000	2,000,000	500,000	2,000,000
2011	500,000	2,000,000	500,000	2,000,000
2012	500,000	2,000,000	500,000	2,000,000
2013	500,000	2,000,000	500,000	2,000,000
2014	500,000	2,000,000	500,000	2,000,000
2015	500,000	2,000,000	500,000	2,000,000
2016	500,000	2,010,000	25,000	200,000
2017	510,000	2,030,000	25,000	200,000
2018	1,000,000	2,500,000	70,000	280,000
2019	1,020,000	2,550,000	100,000	400,000
2020 and later	Iowa limitations and deductions are the same as federal			

d. Reduction. Both the federal and the Iowa deductions for section 179 assets are reduced (phased out dollar for dollar) for taxpayers whose total section 179 assets placed in service during a given year cost more than the amount specified (reduction limitation) for that year.

e. Special information for pass-throughs. In the case of pass-through entities, section 179 limitations apply at both the entity level and the owner level. Pass-through entities that are required to file an Iowa return and that actually place section 179 assets in service should follow former numbered paragraph 602.24(2)*"e"*(1)"1" to account for any assets for which the total federal section 179 deductions for a given year exceeded the Iowa limitation. Owners of pass-throughs receiving section 179 deductions from one or more pass-throughs that, in the aggregate, exceed the Iowa limitations should follow former numbered paragraph 602.24(2)*"e"*(1)"2."

f. Income limitation. The Iowa section 179 deduction for any given year is limited to the taxpayer's income from active conduct in a trade or business in the same manner that the section 179 deduction is limited for federal purposes. If an allowable Iowa section 179 deduction exceeds the taxpayer's business income for a given year, any excess allowable Iowa section 179 deduction may be carried forward as described in paragraph 602.10(2)*"g."*

g. Carryforward. As with the federal deduction, allowable Iowa section 179 deductions claimed in a given year that exceed a taxpayer's business income may be carried forward and claimed in future years.

h. Difference in basis. Iowa adjustments for differences between the Iowa and federal section 179 deduction limitations may cause the taxpayer to have a different basis in the same asset for Iowa

and federal purposes. Taxpayers are required to use forms made available on the department's website to calculate and track these differences.

This rule is intended to implement Iowa Code section 422.35.

701—602.11(422) Broadband infrastructure grant exemption.

602.11(1) *Broadband infrastructure grant exemption, generally.* Certain qualifying communications service providers may subtract, to the extent included in federal taxable income, the amount of qualifying government grants used to install broadband infrastructure that facilitates broadband service in targeted service areas at or above download and upload speeds identified by the Federal Communications Commission pursuant to Section 706 of the federal Telecommunications Act of 1996 as amended.

602.11(2) *Definitions.*

"Facilitate" shall have the same meaning as defined in Iowa Code section 8.76.

"Grant" means a transfer of money or property for a governmental purpose to a transferee that is not a related party to or an agent of the transferor. The transfer must not impose any obligation or condition to directly or indirectly repay any amount to the transferor or a related party. Obligations or conditions intended solely to assure expenditure of the transferred moneys in accordance with the governmental purpose of the transfer do not prevent a transfer from being a grant.

1. "Federal grant" means any grant issued by the United States government, including any agency or instrumentality thereof.

2. "State grant" means any grant issued by any state of the United States, the District of Columbia, or a territory or possession of the United States, including any agency or instrumentality thereof.

3. "Local grant" means any grant issued by any city, county, township, school district, or any other unit of local government, including any agency or instrumentality thereof.

This rule is intended to implement Iowa Code section 422.35.

701—602.12(422) Interest expense deduction adjustments. The limit on the amount of business interest expense that a taxpayer may deduct in a taxable year under IRC Section 163(j) does not apply for Iowa purposes. This rule provides information on how taxpayers must calculate and report their business interest expense deduction for Iowa purposes. All references to the Code of Federal Regulations (Treas. Reg.) and certain other information in this rule are based on final Internal Revenue Service (IRS) regulations and guidance in effect on January 13, 2021.

602.12(1) *Definitions.* The following terms apply to the interpretation and application of this rule.

"Current-year business interest expense" means the same as defined in Treas. Reg. Section 1.163(j)-1(b)(9).

"Excess business interest expense" means the same as defined in Treas. Reg. Section 1.163(j)-1(b)(16).

"Iowa partnership" means any entity required to file an Iowa return (IA 1065) for the relevant tax year.

"Iowa S corporation" means any S corporation required to file an Iowa return (IA 1120S) for the relevant tax year.

"Non-Iowa partnership" means any entity that is required to file a federal 1065 but is not required to file an Iowa return (IA 1065) for the relevant tax year.

"Non-Iowa S corporation" means any S corporation that is not required to file an Iowa return (IA 1120S) for the relevant tax year.

602.12(2) *Corporations.* Iowa does not conform with the IRC Section 163(j) business interest expense deduction limitation. The following adjustments may be required for corporations subject to Iowa franchise tax due to this nonconformity.

a. Current-year business interest expense. A taxpayer's current-year business interest expense is fully deductible to the extent permitted by IRC Section 163 for Iowa purposes without regard to any limitation under IRC Section 163(j). Even though Iowa does not conform to IRC Section 163(j), provisions of the IRC other than Section 163(j) may subject interest expense to disallowance, deferral, capitalization, or other limitations, and those other provisions of the IRC still generally apply for Iowa purposes. No additional Iowa adjustments are permitted for federal limitations such as those described in Treas. Reg. Section 1.163(j)-3(b)(4), which are determined after the application of IRC Section 163(j) for federal purposes. Treas. Reg. Section 1.163(j)-3 contains examples of other provisions of the IRC that may restrict interest expense deductions for federal and Iowa purposes, independent of the Section 163(j) limitation.

b. Carryforward. When current-year interest expense is limited at the federal level, the disallowed business interest expense, as defined in Treas. Reg. Section 1.163(j)-1(b)(10), is carried forward to be deducted in future years for federal purposes when certain conditions are met. Iowa law allows taxpayers to fully deduct current-year business interest expense, and no amounts are carried forward for Iowa purposes. Disallowed business interest expense carryforward amounts from prior years, including excess business interest expense allocated to a partner in a prior year, cannot be deducted for Iowa purposes. All prior year disallowed business interest expense carryforward amounts deductible under IRC Section 163(j) in the current year at the federal level, including excess business interest expense allocated to a partner in a prior year, must be added back in computing the taxpayer's Iowa income for the year.

EXAMPLE: X Bank has $100,000 in current-year business interest expense. For federal purposes, X Bank is subject to the IRC Section 163(j) limitation. X Bank deducts $70,000 in business interest expense on X Bank's federal return and carries the remaining $30,000 forward to be deducted in future years. For Iowa purposes, X Bank deducts the full $100,000 in current-year business interest expense.

The following year, X Bank has $50,000 in current-year business interest expense. For federal purposes, X Bank is permitted to deduct the full $50,000 in interest expense generated in the current year, plus $5,000 of the amount that was disallowed in the previous year for a total federal deduction of $55,000. X Bank must add the federal carryforward amount ($5,000) back on the company's current year Iowa return, limiting X Bank's Iowa deduction to the $50,000 in current-year business interest expense.

602.12(3) *Partners and partnerships.*

a. Partnership-level adjustments. Partnerships that file an Iowa income tax return for a tax year in which the partnership is subject to the IRC Section 163(j) limitation for federal purposes are permitted to deduct all current-year business interest expense at the partnership level in that tax year. 701—paragraph 302.17(3)*"a"* contains more information about the calculation and reporting of partnership-level adjustments.

b. Partner-level adjustments.

(1) Interest expense from Iowa partnerships. Iowa adjustments related to excess business interest expense of an Iowa partnership are made at the entity level as described in 701—paragraph 302.17(3) *"a"* and are reported to partners on an IA 1065 Schedule K-1. Partners are not permitted to make any Iowa adjustment at the partner level to their federal interest expense deduction for amounts of excess business interest expense allocated from an Iowa partnership on the partner's federal Schedule K-1 related to that Iowa partnership. The example above provides specific details.

(2) Interest expense from non-Iowa partnerships. Partners may include as part of their Iowa business interest expense deduction the total amount of current-year excess business interest expense deduction passed through to them from all non-Iowa partnerships as shown on the federal Schedule K-1 (Form 1065), line 13, code K.

(3) Partnership basis. A partner's basis is reduced (but not below zero) by the amount of excess business interest expense the partnership passes through to the partner each year. Treas. Reg. Section 163(j)-6(h) contains detailed information about how to make these basis adjustments. For

federal purposes, immediately before disposition of the partnership interest, the partner's basis is then increased by the amount of any passed-through business interest expense that has not yet been treated as paid or accrued by the partner as described in Treas. Reg. Section 163(j)-6(h)(3). No basis increase at the time of disposition is allowed for Iowa purposes for passed-through business interest expense amounts that were deducted for Iowa but not for federal purposes due to Iowa's nonconformity with IRC Section 163(j).

602.12(4) *S corporation adjustments.* For federal purposes, IRC Section 163(j) limitations are applied at the S corporation level. Unlike partnerships, disallowed business interest expense amounts are carried forward and deducted in future years at the entity level rather than being passed through to shareholders. S corporations should calculate their entity-level business interest expense deduction for Iowa purposes under the provisions of rule 701—502.12(422). More information can be found in Treas. Reg. Section 1.163(j)-6(l) about the application of IRC Section 163(j) to S corporations for federal purposes.

This rule is intended to implement Iowa Code sections 422.35(27) and 422.61.

701—602.13(422) Investment subsidiary combined returns. Financial institutions that own or control investment subsidiaries may elect to file combined Iowa franchise tax returns with those investment subsidiaries.

602.13(1) *Definitions.*

"Affiliate" means the same as defined in subrule 602.8(1).

"Unitary business," for purposes of this rule, means a single economic enterprise made up either of separate parts of a single business entity or of a commonly controlled group of business entities that are sufficiently interdependent, integrated, and interrelated through their activities so as to provide a synergy and mutual benefit that produces a sharing or exchange of value among them and a significant flow of value to the separate parts. A unitary business includes that part of the business that meets this definition and is conducted by a taxpayer through the taxpayer's interest in a partnership, whether the interest in that partnership is held directly or indirectly through a series of partnerships or other passthrough entities.

602.13(2) *Election to file a combined return.* A financial institution and its investment subsidiaries that did not file a combined return for the immediately preceding taxable year may elect to file a combined return in lieu of separate returns for the taxable year.

a. Making the election. The election is made by filing a return that includes both the financial institution and its investment subsidiaries on forms provided by the department, on or before the statutory due date for filing the return, including extensions. The parent financial institution may withdraw the election by filing a separate return at any time prior to the due date of the return (including extensions of time) in the first year in which the election is made, but the group cannot withdraw the election after the due date of the return (including extensions of time). All requirements of this paragraph and any additional requirements provided in the instructions to the form must be met for the election to be valid.

(1) The financial institution and each investment subsidiary that is to be included on the combined return must consent to the filing of the combined return in the same manner as members of an affiliated group consent to the filing of a consolidated return in 701—paragraph 502.2(2)*"d."*

(2) The combined group must include the parent financial institution and all investment subsidiaries.

(3) The combined group cannot include any entity other than the parent financial institution and the investment subsidiaries.

b. Election binding. Except as provided in subrule 602.13(3), an election to file a combined return under this paragraph is binding on all future tax years.

c. Treated as financial institutions. By making this election, all investment subsidiaries agree to be treated as financial institutions under Iowa Code chapter 422, and this rule, for every tax year the election remains in effect, except as provided in rule 701—800.6(422).

602.13(3) *Discontinuing the election.* A combined group shall discontinue filing combined returns when:

a. All investment subsidiaries cease to be subsidiaries of the parent financial institution. If on or before the beginning of the tax year the parent financial institution no longer owns an investment subsidiary, the group is not required or permitted to file combined returns. However, for combined groups that included more than one investment subsidiary, if at least one entity remains an investment subsidiary, the remaining group members must continue filing combined returns even after other investment subsidiaries have left the group. Reasons an investment subsidiary may cease to be a subsidiary of the parent for purposes of this rule include:

(1) The parent financial institution no longer owns or controls the investment subsidiary previously included in the combined group.

(2) The investment subsidiary no longer meets the definition of investment subsidiary in Iowa Code section 422.61(2).

(3) The investment subsidiary ceases to exist.

b. The parent entity ceases to be subject to Iowa franchise tax. If the parent entity ceases to be subject to Iowa franchise tax, for any reason, the group is no longer allowed to file a combined return.

(1) The following are examples of common reasons a parent financial institution may no longer be subject to Iowa franchise tax:

1. The parent financial institution is no longer doing business in Iowa as defined in 701—subrule 501.1(1).

2. The parent entity changes in character such that it no longer meets the statutory definition of "financial institution" for Iowa franchise tax purposes.

3. The parent entity ceases to exist.

(2) Members of the group that continue doing business in Iowa after the parent entity ceases to be subject to Iowa franchise tax may still be required to file Iowa income or franchise tax returns.

c. The director finds separate returns would more clearly disclose the taxable income of the combined group. If the group believes that the filing of separate returns will more clearly disclose the taxable income of each member of the combined group, the group may apply to the director to discontinue filing combined returns.

(1) Applications to discontinue filing combined returns must be submitted not later than 90 days prior to the due date of the return, including extensions of time.

(2) Applications to discontinue filing consolidated returns must include:

1. A detailed description of the taxable income of both the group on a combined basis and each entity on a separate basis.

2. A clear statement of the reasons why separate returns would more clearly disclose Iowa taxable income. The mere fact that the group's combined tax liability is greater or less than the sum of each member's separate tax liabilities for a given year is not, by itself, a ground for discontinuance of combined filing.

(3) Submitting the application. Applications to discontinue combined filing under this paragraph must be submitted through GovConnectIowa or by mail to:

Policy Bureau - Research and Policy Division
Iowa Department of Revenue
P.O. Box 14467
Des Moines, Iowa 50306-3467

602.13(4) *Filing combined returns.*

a. Filed by parent financial institution. The combined return must be filed under the name and federal employer identification number of the parent financial institution that is subject to Iowa franchise tax.

b. Responsibility for filing and signing. The return must be filed and signed on behalf of the combined group by an officer or employee of the parent financial institution.

c. Tax year. All members of the combined group are required to have the same tax year as the parent financial institution. The combined return is due on or before the statutory due date for the parent financial institution, including extensions.

602.13(5) *Combined group net income calculation.* The combined group calculates its Iowa net income as provided in this subrule.

a. Total combined income or loss. The total combined group income or loss shall be determined as follows:

(1) Each member of the combined group determines its separate income or loss by determining the member's taxable income under the Internal Revenue Code, on a separate entity basis, after making adjustments required under Iowa Code section 422.61(3).

(2) Unless otherwise provided in these rules, or by instructions on the required tax return and supporting schedules, income or loss of the members as determined under subparagraph 602.13(5)*"a"* (1) are combined, eliminating items of income, expense, gain, and loss from transactions between members of the combined group, applying the consolidated filing rules under the Internal Revenue Code as defined in Iowa Code section 422.3, and rule 701—502.2(422), as if the combined group were a consolidated filing group.

b. Net operating loss (NOL) deduction. The starting point for Iowa taxable income is federal taxable income, which includes the application of the federal net operating loss deduction, if any.

(1) NOL calculation. The combined group must calculate its NOL deduction, if any, by applying the applicable rules under the Internal Revenue Code as defined in Iowa Code section 422.3 and rule 701—502.2(422) as if the combined group were filing a consolidated federal income tax return. The combined group net income should then be adjusted by this combined group federal net operating loss deduction, if any, subject to the adjustments in numbered paragraph 602.13(5)*"b"*(2)"2."

(2) The following adjustments are required for pre-2023 federal and Iowa losses:

1. Add back to the extent included in the calculation under subparagraph 602.13(5)*"a"*(1) any federal net operating loss deduction attributable to losses incurred in a tax year beginning prior to January 1, 2023.

2. Subtract from the income attributable to Iowa, to the extent available, any Iowa net operating loss carryovers attributable to the parent or any investment subsidiary included in the group from a year beginning prior to January 1, 2023.

602.13(6) *Allocation and apportionment of combined group income.* Determine combined group business income or loss by eliminating from the amount determined in subrule 602.13(5) any nonbusiness income or loss or item of nonbusiness income, expense, gain, or loss.

a. Apportionment of business income.

(1) Combined group apportionment factor. The combined group apportionment factor is a percentage determined under 701—Chapter 603, where the numerator of the factor includes amounts sourced to the state for the combined group's unitary business, regardless of the separate entity to which those factors may be attributed, and the denominator of the factor includes amounts associated with the combined group's unitary business, wherever located.

(2) Separate entity apportionment factor. Except as provided in paragraph 602.13(6)*"c,"* the separate entity apportionment factor for a member of the combined group is a percentage determined under 701—Chapter 603 where the numerator of the factor includes amounts sourced to the state for the member and the denominator of the factor includes amounts associated with the combined group's unitary business, wherever located.

(3) If a member of the combined group holds a partnership interest from which it derives apportionable income, the share of the partnership's apportionment factor(s) to be included in the apportionment factor(s) of the group is determined by multiplying the partnership's factor(s) by a ratio the numerator of which is the amount of the partnership's apportionable income properly included in the member's income, and including any guaranteed payments, and the denominator of which is the amount of the partnership's total apportionable income.

b. Allocation of nonbusiness income. Determine the amount of any combined group nonbusiness items of income, expense, gain or loss not apportioned under paragraph 602.13(6)*"a"* that are allocable to the state under Iowa Code sections 422.33(2) and 422.63(1)*"b."*

c. Combined group commercial domicile. Notwithstanding any other rule to the contrary, for purposes of determining where items of income for the combined group should be attributed, the commercial domicile of all investment subsidiaries is deemed to be that of the parent financial institution.

602.13(7) *Payment of tax.*

a. Franchise rates. The tax liability for the combined group shall be imposed on the group's combined income as calculated under this rule and determined according to the Iowa franchise tax rate provided in Iowa Code section 422.63.

b. Liability for tax.

(1) The financial institution and each investment subsidiary included on the combined return shall be severally liable for the tax for the year computed in accordance with Iowa Code chapter 422 on or before the due date (not including extensions of time) for the filing of the combined return for that year.

(2) If an investment subsidiary has ceased to be a member of the group and if the cessation resulted from a bona fide sale or exchange of the parent's interest in the subsidiary for fair value that occurred prior to the date upon which any deficiency is assessed, the director may make an assessment and collection of the deficiency from the former subsidiary in an amount not exceeding the portion of the deficiency that the director may determine to be allocable to it.

(3) No agreement entered into by one or more members of the affiliated group with any other member of the group shall in any case have the effect of reducing the liability prescribed under this subrule.

This rule is intended to implement Iowa Code section 422.60.

RA 26-377

REVENUE DEPARTMENT[701]

Regulatory Analysis

Notice of Intended Action to be published: 701—Chapter 603
"Allocation and Apportionment"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 421.14 and 422.63

State or federal law(s) implemented by the rulemaking: Iowa Code sections 422.33, 422.60 and 422.63

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 18, 2026 9 to 10 a.m.	Via videoconference call: meet.google.com/sbm-ihix-ere

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis, which must be received by the Department of Revenue no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Benjamin Clough
Department of Revenue
Hoover State Office Building
P.O. Box 10457
Des Moines, Iowa 50306-3457
Phone: 515.587.0662
Email: ben.clough@iowa.gov

Purpose and Summary

The purpose of this proposed rulemaking is to rescind and readopt Chapter 603. Chapter 603 currently provides rules related to assessments, refunds, and appeals. These rules are not unique to franchise tax and are largely duplicative of rules that exist for both individual and corporate income taxes. Therefore, the rules that exist in this chapter are proposed to be rescinded, and the content will be consolidated into 701—Chapter 300, which is applicable to all three tax types, in a concurrent rulemaking (**RA 26-363**, IAB 10/28/26).

The Department proposes to move rules related to multistate financial institutions apportioning their income within and without Iowa from 701—Chapter 602 to Chapter 603 to make them easier to find and to separate them from rules related to net income adjustment. Iowa Code section 422.33 provides a statutory method for apportioning certain categories of income, but specifically delegates to the Department the authority to set apportionment methods for categories not covered in the statute by rule. Proposed Chapter 603 provides allocation and apportionment methods for various common categories of financial institution income. They are substantially different from those in 701—Chapter 503, which is applicable to corporate income tax apportionment, since there are certain categories of income more common to financial institutions than to other businesses. The chapter also provides definitions, examples, and other useful information not included in the Iowa Code for the various apportionment methods covered in both the statute and the rules. The chapter also cross-references

rule 701—503.9(422), which provides a process by which taxpayers can request an alternative method of apportionment if they feel the method in the statute or the rules results in a disproportionate amount of their income being taxed by Iowa. This process is authorized by statute and likely constitutionally required, and the rule provides a fair and uniform process to all taxpayers seeking this type of relief.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

There are no known or ascertainable costs to the public associated with the apportionment rules. Apportionment of income for multistate businesses is statutorily and constitutionally required, and the Iowa Code delegates setting the specific method of apportionment for many categories of income to the Department. There may be other conceivable methods of apportionment that would result in higher or lower costs as applied to specific taxpayers, but the methods outlined in the rules have been in place for decades and have provided uniform and consistent methods of apportionment for Iowa purposes for all of that time. Rule 701—503.9(422) (cross-referenced in this chapter) does create a process for taxpayers to request permission to use an alternative method of apportionment.

- **Classes of persons that will benefit from the proposed rulemaking:**

Taxpayers, tax preparers and Department staff will benefit from the proposed rulemaking.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

There is no economic impact of the proposed rulemaking beyond what is contained in the underlying statutes.

- **Qualitative description of impact:**

The rules provide guidance on how to calculate the portion of a franchise taxpayer's income allocated or apportioned to Iowa and incorporate by cross-reference a method for requesting to use an alternative apportionment method if the method provided in the rules disproportionately attributes income within and without Iowa. Taxpayers wishing to use an alternative method of apportionment will likely incur some costs to complete this process, but the director's permission to use an alternative method is required by law, and the process provided by the rule ensures a uniform experience among taxpayers making these requests.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

The rules themselves impose no additional costs on the agency; they only clarify items relating to allocation and apportionment that the Department is already required by law to administer. The rules have no known impact on any other agency.

- **Anticipated effect on State revenues:**

This rulemaking implements the same apportionment methods for franchise taxpayers that have been in place for decades. The rules will be the same for these taxpayers both before and after the rulemaking, so no effect on State revenues is anticipated.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

The Iowa Code provides a statutory method for determining how certain specific categories of income should be attributed within and without the State, but also delegates to the Department the authority to set allocation and apportionment methods for categories of income not explicitly covered by the statute. Without these rules, there would be no Iowa apportionment method for various types of income not explicitly listed in the statute.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

There are no known less costly or intrusive methods.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

Since the Iowa Code delegates setting apportionment methods for some categories of income to the Department, the only alternative would be to simply not provide an Iowa apportionment method for those categories of income.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

Not providing some of these rules would leave taxpayers with no clear method of apportioning certain common types of income within and without Iowa, making it difficult or impossible for multistate financial institutions to file fair and accurate Iowa franchise returns.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

The allocation and apportionment methods associated with these rules are either imposed by the Iowa Code or delegated by the Iowa Code to the Department to create by rule. Allocation and apportionment of income subject to State tax is constitutionally required. Not apportioning income would typically be disadvantageous to any multistate business, regardless of size, since it would likely result in double taxation across states. The rules do provide a process by which any business could seek an alternative method of apportionment, and a small business that was somehow uniquely affected by these rules would be entitled to utilize this process to seek an alternative method.

Text of Proposed Rulemaking

ITEM 1. Rescind 701—Chapter 603 and adopt the following **new** chapter in lieu thereof:

CHAPTER 603
ALLOCATION AND APPORTIONMENT

701—603.1(422) Basis of franchise tax. Iowa Code section 422.60 imposes a franchise tax on financial institutions as defined in Iowa Code section 422.61 for the privilege of doing business within the state. The tax is measured by net income. For financial institutions subject to the tax, the tax is levied and collected only on income that may accrue or be recognized to the financial institutions from business done or carried on in the state plus net income from certain sources without the state that by rule follows the commercial domicile of the financial institution.

If a financial institution carries on business entirely within the state of Iowa, no allocation or apportionment of its income may be made. The financial institution will be presumed to be carrying on its business entirely within the state of Iowa if its activities are carried on only within Iowa, even

though it receives income from sources outside the state in the form of interest, dividends, royalties, and other sources of income from intangibles.

603.1(1) *Definition—doing business.* The term "doing business" is used in a comprehensive sense and includes all activities or any transactions for the purpose of financial or pecuniary gain or profit. Irrespective of the nature of its activities, every financial institution organized for profit and carrying out any of the purposes of its organization shall be deemed to be "doing business." In determining whether a financial institution is doing business, it is immaterial whether its activities actually result in a profit or loss.

603.1(2) *Definition—carrying on business partly within and partly without the state.* "Carrying on business partly within and partly without the state" means having business activities in at least one other state sufficient to meet the minimum constitutional standards for doing business in a state under the due process and commerce clauses of the United States Constitution.

a. Annual determination. The determination of whether a financial institution is carrying on business partly within and partly without the state must be made on a tax-year-by-tax-year basis. The activities of past or future years have no bearing on the current year.

b. Activities that qualify as doing business. The following nonexclusive activities if done on a regular and continuing basis by financial institution officers or employees in at least one other state would constitute the minimum activities that would meet the constitutional standards for doing business in a state under the due process and commerce clauses of the United States Constitution:

(1) Solicitation of loans by traveling loan officers.

(2) Collection of overdue accounts.

(3) Any other activities carried on in advancement, promotion, or fulfillment of the business of the financial institution.

This rule is intended to implement Iowa Code sections 422.60 and 422.63.

701—603.2(422) Allocation and apportionment.

603.2(1) The classification of income by the labels customarily given, such as interest, dividends, rents, and royalties, is of no aid in determining whether that income is business or nonbusiness income. Interest, dividends, rents and royalties shall be apportioned as business income to the extent the income was earned as a part of a financial institution's unitary business, a portion of which is conducted in Iowa. Whether income is part of a financial institution's unitary business income depends upon the facts and circumstances in the particular situation. The burden of proof is upon the taxpayer to show that the treatment of income on the return as filed is proper. There is a rebuttable presumption that an affiliated group of financial institutions in the same line of business have a unitary relationship, although that is not the only element used in determining unitariness.

603.2(2) Application of related expense to nonbusiness income. Subrule 603.2(1) deals with the separation of net income; therefore, determination and application of directly related expenses must be made before allocation and apportionment within and without Iowa.

a. Directly related expenses. A directly related expense is an expense that can be specifically attributed to an item of income. Interest expense is considered directly related to a specific property that generates, has generated, or could reasonably have been expected to generate gross income if the existence of all of the facts and circumstances described below are established.

(1) The indebtedness on which the interest was paid was specifically incurred for the purpose of purchasing, maintaining, or improving the specific property;

(2) The proceeds of the borrowing were actually applied to the specified purpose;

(3) The creditor can look only to the specific property (or any lease or other interest therein) as security for the loan;

(4) It may be reasonably assumed that the return on or from the property will be sufficient to fulfill the terms and conditions of the loan agreement with respect to the amount and timing of payment of principal and interest; and

(5) There are restrictions in the loan agreement on the disposal or use of the property consistent with the assumptions described in subparagraphs 603.2(2)*"a"*(3) and *"a"*(4).

b. Expenses not considered directly related. A deduction for interest cannot be considered definitely related solely to specific property, even though the above facts and circumstances are present in form, if any of the facts and circumstances are not present in substance. Any expense directly attributable to allocable interest, dividends, rents and royalties shall be deducted from income to arrive at net allocable income.

EXAMPLE: For purposes of this example, it is assumed that the taxpayer has nonbusiness rental income. The taxpayer invests in a 20-story office building. Under the terms of the lease agreements, the taxpayer provides heat, electricity, janitorial services, and maintenance. The taxpayer also pays the property taxes. Construction of the building was funded through borrowings that meet the criteria of a direct expense under the provisions of this paragraph. The directly related expenses to the operation of the property are:

Interest expense	$1,200,000
Property taxes	500,000
Depreciation	500,000
Electricity	300,000
Heat	200,000
Insurance	150,000
Janitorial services	100,000
Repairs	50,000
Total expenses	$3,000,000

The directly related expense of the allocable rental income is $3,000,000.

This rule is intended to implement Iowa Code section 422.63.

701—603.3(422) Net gains and losses from the sale of assets. For purposes of administration of this rule, a capital gain or loss means the sale price or value at the time of disposal of an asset less the adjusted basis, whether reportable as short-term or long-term capital gain or ordinary income for federal income tax purposes.

603.3(1) *Apportionment of business gains.* Gain or loss from the sale, exchange, or other disposition of real or tangible or intangible personal property, if the property while owned by the taxpayer was used in the taxpayer's trade or business, shall be apportioned by the business activity ratio applicable to the year the gain or loss is reported on the federal income tax return and may at the taxpayer's election be included in the computation of the business activity ratio as follows:

a. Gain from the sale, exchange, or other disposition of real property shall be included in the numerator if the property is located in Iowa.

b. Gain from the sale, exchange, or other disposition of tangible personal property shall be included in the numerator if:

(1) The property has a situs in Iowa at the time of sale; or

(2) The taxpayer's commercial domicile is in Iowa and the taxpayer is not taxable in the state in which the property had a situs.

c. Gains from the sale, exchange, or other disposition of intangible personal property shall be included in the numerator if the taxpayer's commercial domicile is in Iowa.

d. All gains shall be included in the denominator of the business activity ratio.

A taxpayer cannot elect to exclude or include gains or loss from the sale of assets where the election would result in an understatement of income reasonably attributable to Iowa. Noninclusive examples of gains or loss from the sale, exchange or other disposition of real or tangible or intangible property that cannot be included in the computation of the business activity ratio because to do

so would result in an understatement of net income reasonably attributable to Iowa are the gain recognized under an election pursuant to Section 338 of the Internal Revenue Code or gain recognized under Section 631(a) of the Internal Revenue Code.

603.3(2) *Allocation of nonbusiness gains.* Gain or loss from the sale, exchange, or other disposition of property not used in the taxpayer's trade or business shall be allocated as follows:

a. Gains or losses from the sale, exchange, or other disposition of real property located in Iowa are allocable to Iowa.

b. Gains or losses from the sale, exchange, or other disposition of tangible personal property are allocable to Iowa if:

(1) The property has a situs in Iowa at the time of sale; or

(2) The taxpayer's commercial domicile is in Iowa and the taxpayer is not taxable in the state in which the property had a situs.

c. Gains or losses from the sale, exchange, or other disposition of intangible personal property are allocable to Iowa if the taxpayer's commercial domicile is in Iowa.

This rule is intended to implement Iowa Code section 422.63.

701—603.4(422) Apportionment factor. In determining the total net taxable income, the apportionable income attributable to Iowa, as determined by use of the apportionment fraction, is added to the nonapportionable income allocable to Iowa.

603.4(1) Receipts derived from transactions and activities in the regular course of trade or business that produce business income are included in the denominator of the apportionment factor. Income that is not subject to the Iowa franchise tax shall not be included in the computation of the apportionment factor.

603.4(2) The numerator of the apportionment factor is that portion of the total receipts included in the denominator of the taxpayer attributable to Iowa during the income year determined as follows:

a. Receipts from the lease, rental, or other use of real property are included in the numerator if the real property is located in Iowa.

b. Receipts from the sale of tangible personal property are included in the numerator if the property is delivered or shipped to a purchaser in Iowa regardless of the f.o.b. point or other conditions of the sales.

c. Receipts from the use of tangible personal property are included in the numerator of the business activity formula to the extent that property is utilized in Iowa. The extent of utilization of tangible personal property in a state is determined by multiplying the rent by a fraction, the numerator of which is the number of days of physical location of the property in the state during the rental period in the taxable year and the denominator of which is the number of days of physical location of the property everywhere during all rental periods in the taxable year. If the physical location of the property during the rental period is unknown or not ascertainable by the taxpayer, tangible personal property is utilized in the state in which the property was located at the time the rental payer obtained possession.

d. All royalty income from intangible personal property determined to be business income is included in the numerator of the business activity formula if the taxpayer's commercial domicile is in Iowa.

e. All royalty income from tangible personal property or real property determined to be business income is included in the numerator of the business activity formula if the situs of the tangible personal property or real property is within Iowa.

f. Interest and other receipts from assets in the nature of loans (including federal funds sold and banker's acceptances) and installment obligations are attributed to the state where the borrower is located.

g. Interest income from a participating bank's portion of participation loan is attributed to the state where the borrower is located.

h. Interest income from loans solicited by traveling loan officers is attributed to the state where the borrower is located.

i. Interest or service charges from bank, travel, and entertainment credit card receivables and credit card holders' fees are attributed to the state in which the credit card holder resides in the case of an individual or, if a corporation, to the state of the corporation's commercial domicile.

j. Merchant discount income derived from bank and financial corporation credit card holder transactions with a merchant is attributed to the state in which the merchant is located. It is presumed that the location of the merchant is the address on the invoice submitted by the merchant to the taxpayer.

k. Receipts for the performance of fiduciary services are attributable to the state where the services are principally performed.

l. Receipts from investments of a bank in securities, the income from which constitutes business income, are attributed to its commercial domicile except that:

(1) Receipts from securities used to maintain reserves against deposits to meet federal and state reserve deposit requirements are attributed to each state based upon the ratio that total deposits in the state bear to total deposits everywhere.

(2) Receipts from securities owned by a bank but held by a state treasurer or other public official or pledged to secure public or trust funds deposited in the bank are attributed to the banking office at which the secured deposit is maintained.

m. Receipts (fees or charges) from the issuance of traveler's checks and money orders are attributed to the state where the taxpayer's office is located that issued the traveler's checks. If the traveler's checks are issued by an independent representative or agent of the taxpayer, the fees or charges shall be attributed to the state where the independent representative or agent issued the traveler's checks.

n. Fees, commissions, or other compensation for financial services rendered for a customer located in Iowa or an account maintained within Iowa are attributed to Iowa.

o. Any other gross receipts resulting from the operation as a financial organization within Iowa are attributed to Iowa to the extent the items do not represent a recapture of an expense.

p. Receipts from management services if the recipient of the management services is located in Iowa are attributed to Iowa.

This rule is intended to implement Iowa Code section 422.63.

701—603.5(422) Allocation and apportionment of income in special cases. If a taxpayer feels that the allocation and apportionment method as prescribed by rule 701—603.4(422) in the taxpayer's case results in an injustice, the taxpayer may petition the department for permission to determine the taxable net income, both allocable and apportionable, to the state on some other basis as provided in rule 701—503.9(422).

This rule is intended to implement Iowa Code section 422.63.

RA 26-378

REVENUE DEPARTMENT[701]

Regulatory Analysis

Notice of Intended Action to be published: 701—Chapter 604
"Estimated Tax for Corporations"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 421.14 and 422.92

State or federal law(s) implemented by the rulemaking: Iowa Code sections 422.85, 422.86, 422.87, 422.88, 422.90, 422.91 and 422.92

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 18, 2026 9 to 10 a.m.	Via videoconference call: meet.google.com/sbm-ihix-ere

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis, which must be received by the Department of Revenue no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Benjamin Clough
Department of Revenue
Hoover State Office Building
P.O. Box 10457
Des Moines, Iowa 50306-3457
Phone: 515.587.0662
Email: ben.clough@iowa.gov

Purpose and Summary

The purpose of this proposed rulemaking is to rescind and readopt Chapter 604. This chapter provides definitions, examples and other useful information not included in the Iowa Code that help both taxpayers and the Department understand how and when financial institutions subject to the franchise tax must calculate and pay their quarterly Iowa estimated payments, as well as the application of penalties for underpayment or failure to pay and exceptions to those penalties. This information has been revised to eliminate language that was outdated or repetitive of the Iowa Code.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

There are no significant costs to the public associated with the rules themselves. The rules do not impose additional payments, reporting, or recordkeeping requirements beyond what is already required by law.

- **Classes of persons that will benefit from the proposed rulemaking:**

Taxpayers, tax preparers, and Department staff will benefit from the proposed rulemaking.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

There is no economic impact of the proposed rulemaking beyond what is contained in the underlying statutes.

- **Qualitative description of impact:**

The rules provide guidance on how to calculate estimated payment amounts, understand how overpayments may be applied and, when applicable, understand how and when penalties and exceptions to those penalties apply.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

The rules themselves impose no additional costs on the agency; they only clarify items relating to tax payments that the Department is already required by law to administer. The rules have no known impact on any other agency.

- **Anticipated effect on State revenues:**

There is no anticipated effect on State revenues.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

Providing no guidance at all would likely increase costs to both taxpayers and the Department by generating requests for guidance and other questions that could otherwise have been answered by the rules, increasing the likelihood that taxpayers are given inconsistent guidance over time.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

There are no known less costly or intrusive methods.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

The only alternatives are providing no guidance to taxpayers at all or providing this guidance on a more informal basis.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

Providing no guidance at all would likely increase costs to both taxpayers and the Department by generating requests for guidance and other questions that could otherwise have been answered by the rules and increasing the likelihood that taxpayers are given inconsistent guidance over time. Issuing this guidance through less formal means may be beneficial to the agency by making it faster and easier to make changes to the guidance when needed but could be detrimental to the public by removing the oversight inherent in the rulemaking process.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

The deadlines and reporting requirements associated with these rules are imposed by the Iowa Code, and the Department has no authority to make exceptions not already contemplated by the law for small businesses.

Text of Proposed Rulemaking

ITEM 1. Rescind 701—Chapter 604 and adopt the following **new** chapter in lieu thereof:

CHAPTER 604
ESTIMATED TAX FOR FINANCIAL INSTITUTIONS

701—604.1(422) Who must pay estimated tax. Every taxpayer subject to the franchise tax on financial institutions must pay estimated tax if the amount of tax payable, less credits, can reasonably be expected to be more than $1,000 for the calendar or fiscal year. Any amount of estimated tax paid is a credit against the amount of tax due on a final completed return.

This rule is intended to implement Iowa Code section 422.85.

701—604.2(422) Time for filing and payment of tax.

604.2(1) *Time for filing.*

a. General. Estimates may be paid in full at the time of the first filing or in four equal installments. The taxpayer may also elect to pay any installment prior to the date prescribed.

b. Calendar year. The first installment for a corporation filing on a calendar year basis is due by April 30. The other installments, if applicable, shall be paid on or before June 30, September 30, and December 31 of the current year.

c. Fiscal year. The installment dates for a financial institution filing on a fiscal year basis are:

(1) Installment No. 1. The last day of the fourth month of the fiscal year.

(2) Installment No. 2. The last day of the sixth month of the fiscal year.

(3) Installment No. 3. The last day of the ninth month of the fiscal year.

(4) Installment No. 4. The last day of the twelfth month of the fiscal year.

604.2(2) *Payment of estimated tax.* Payments may be made electronically through GovConnectIowa or by check. Checks must be sent with a corporate income tax estimated payment voucher and mailed as directed on the form.

This rule is intended to implement Iowa Code sections 422.85 and 422.86.

701—604.3(422) Special estimate periods.

604.3(1) *Short taxable year.* A financial institution having a taxable year of less than 12 months shall pay estimated tax if anticipating an Iowa tax liability of more than $1,000 for that short taxable year.

a. Short taxable year where a new financial institution first commences doing business. In filing the first estimated tax payment, the taxpayer shall state the tax period that the estimated tax payment covers.

(1) If the tax year is three months or less, no estimated tax payment need be made.

(2) If the tax year is greater than three months, but not more than four months, and the estimated tax payment is required to be made on the last day of the fourth month, the estimated tax shall be paid based upon the taxable income for the first three months.

(3) If the tax year is greater than four months, but not more than six months, and the first estimated tax payment is required to be made on the last day of the fourth month, the estimated tax shall be paid in two equal installments. The first installment shall be due the last day of the fourth month based on the first three months' taxable income annualized by multiplying the taxable income

by the number of months in the tax year and dividing by three. The second installment shall be due the last day of the tax year.

If the first estimated tax payment is required to be made after the fourth month, the estimated tax payment shall be made on the last day of the tax year and the estimated tax shall be paid in one installment based upon the taxable income for the first four months if the tax year ends during the fifth month or for the first five months if the tax year ends during the sixth month.

(4) If the tax year is greater than four months, but not more than nine months, and the first estimated tax payment is required to be made on the last day of the fourth month, the estimated tax shall be paid in three equal installments. The first installment shall be due the last day of the fourth month based on the first three months' taxable income annualized by multiplying the taxable income by the number of months in the tax year and dividing by three. The second installment shall be due the last day of the sixth month of the tax year. The third installment shall be due the last day of the tax year.

If the first estimated tax payment is required to be made on the last day of the sixth month of the tax year, the estimated tax shall be paid in two equal installments. The first installment shall be due on the last day of the sixth month based upon the first five months' taxable income annualized by multiplying the taxable income by the number of months in the tax year and dividing by five. The second installment shall be due on the last day of the tax year.

If the first estimated tax payment is required to be made after the last day of the sixth month of the tax year, the estimated tax payment shall be made on the last day of the tax year and the estimated tax shall be paid in one installment based on the taxable income for the first seven months if the tax year ends during the eighth month or for the first eight months if the tax year ends during the ninth month.

(5) If the tax year is greater than 4 months, but not more than 11 months, and the first estimated tax payment is required to be made on the last day of the fourth month, the estimated tax shall be paid in four equal installments. The first installment shall be due the last day of the fourth month based upon the first three months' income annualized by multiplying the taxable income by the number of months in the tax year and dividing by three. The second installment shall be due on the last day of the sixth month of the tax year. The third installment shall be due on the last day of the ninth month of the tax year. The fourth installment shall be due the last day of the tax year.

If the first estimated tax payment is required to be made on the last day of the sixth month of the tax year, the estimated tax shall be paid in three equal installments. The first installment shall be due on the last day of the sixth month based upon the first five months' taxable income annualized by multiplying the taxable income by the number of months in the tax year and dividing by five. The second installment shall be due the last day of the ninth month of the tax year. The third installment shall be due on the last day of the tax year.

If the first estimated tax payment is required to be made on the last day of the ninth month of the tax year, the estimated tax shall be paid in two equal installments. The first installment shall be due on the last day of the ninth month, based upon the first eight months' taxable income annualized by multiplying the taxable income by the number of months in the tax year and dividing by eight. The second installment shall be due the last day of the tax year.

If the first estimated tax payment is required to be made after the last day of the ninth month of the tax year, the estimated tax payment shall be made on the last day of the tax year and the estimated tax shall be paid in one installment based upon the taxable income for the first nine months if the tax year ends during the tenth month or for the first ten months if the tax year ends during the eleventh month.

(6) If, during the tax year, the taxpayer determines that its tax year will be different than the tax year specified in its original payment of estimated tax, the remaining estimated tax payments, if any, shall be based upon the above schedule.

b. Short taxable year where the taxpayer is liquidated during the tax year or where under any provision of the Internal Revenue Code the taxpayer is required to file a return for a period of less than 12 months.

(1) If the tax year is three months or less, no estimated tax payment need be made.

(2) If the tax year is greater than three months, an estimated tax payment shall be made the same as if the taxpayer's tax year is a full 12 months except that the final installment shall be due the last day of the tax year.

(3) Special exception to penalty. If the taxpayer uses the exception under Iowa Code section 422.89(1) to avoid the penalty for underpayment of estimated tax, no penalty will accrue if the following conditions are met: (a) The total amount of all payments of estimated tax made on or before the last date prescribed for the payment of estimated tax equals the prior year's tax multiplied by the number of months in the short tax year and divided by 12, and (b) a return for the preceding tax year of a full 12 months showing a tax liability was filed by the taxpayer.

604.3(2) Reserved.

This rule is intended to implement Iowa Code section 422.92.

701—604.4(422) Penalties—failure to file and underpayment of estimated tax.

604.4(1) *Underpayment penalty.*

a. A penalty is imposed for underpayment of the estimated tax by the taxpayer. This underpayment penalty is imposed whether or not there was reasonable cause for the underpayment.

b. The amount of the underpayment penalty is determined at the statutory rate upon the amount of underpayment of the estimated tax for the period from the date the amount is required to be paid until the last day of the fourth month following the close of the income year, or the date the underpayment is paid, whichever is earlier.

EXAMPLE: A calendar year financial institution is required to make four equal estimated payments of $2,500 in the current year to meet the exception to the underpayment of estimated tax penalty. The financial institution does not make a first quarter estimated payment that was due on April 30, but makes an estimated payment of $5,000 for the second quarter on June 30. The financial institution is subject to the underpayment of estimated tax penalty for the period from April 30 to June 30, when the underpayment was paid.

604.4(2) *Exception to imposition of the underpayment penalty.*

a. In general. The underpayment penalty will not be imposed for any underpayment if, on or before the date prescribed for payment, the total amount of all payments made of the estimated tax equals or exceeds the amount that would have been required to be paid on or before such date if the estimated tax were the least of the following amounts:

(1) The tax shown on the return for the preceding taxable year, provided that the preceding taxable year was a taxable year of 12 months and a return showing a tax liability was filed for such year;

(2) An amount equal to a tax determined on the basis of the tax rates for the taxable year but otherwise on the basis of the facts shown on the return for the preceding taxable year if the taxable year was a taxable year of 12 months or, if the preceding taxable year was a taxable year of less than 12 months, then by placing the income on an annual basis and the law applicable to the preceding year, in the case of a taxpayer required to file a return for the preceding taxable year; or

(3) An amount equal to 100 percent of the tax determined by placing on an annual basis the net income for the first 3, 5, 6, 8, 9, or 11 months of the taxable year, whichever is applicable. The net income so determined shall be placed on an annual basis by multiplying it by 12, and dividing the resulting amount by the number of months in the taxable year for which the net income was so determined.

b. Statement of exception. If there has been an underpayment of the amount of the estimated tax, and the taxpayer believes that one or more of the exceptions to the penalty applies, the taxpayer should attach a statement showing the applicability of any exception upon which the taxpayer relies.

This rule is intended to implement Iowa Code sections 422.88 and 422.89.

701—604.5(422) Overpayment of estimated tax.

604.5(1) *Credit to next year's tax.* In lieu of claiming a refund, the taxpayer may elect to have the overpayment credited to the next year's tax liability. The election cannot be changed after the end of the calendar year in which the return is due, including any extension of time to file. If the taxpayer elects to have the overpayment credited to the next year's tax liability, the overpayment will be credited to the first installment if the overpayment arose on or before the due date of the return. If the overpayment arises after the due date of the return, the overpayment will be credited to the first installment due after the date of payment. The taxpayer may by a written election included with the filing of the return elect to have the overpayment credited to a different installment.

604.5(2) *Estimated tax carryforwards and how the carryforward amounts are affected under different circumstances.*

a. Estimated tax carryforward and how the amount of carryover credit is affected by error on return. If a state return is timely filed with an overpayment shown on the return and the overpayment is to be credited to the taxpayer's estimated payments for the following year, the amount credited to estimated payments will be affected by an error on the return. Thus, if the error on the return is corrected and results in a smaller overpayment than was shown when the return was filed, the credit to estimated tax from the return will be reduced accordingly.

EXAMPLE 1: Financial Institution X filed its tax return on April 20 showing an overpayment of $400 and a credit to the next year's estimated tax of $400. During processing of the return, it was determined that interest from municipal bonds was subtracted from net income instead of being added to net income. Correction of this error resulted in an overpayment of $200 instead of $400. Thus, the amount credited to the taxpayer's estimated payments for the next year was $200 instead of the $400 shown on the return form.

b. Estimated tax credit carryover, the carryforward amount affected by amended return. A taxpayer timely files an original return with an overpayment and with the overpayment credited to the following year's estimated tax payments. If the taxpayer files an amended return correcting an error on the original return and with a different amount credited to estimated tax than on the original return, the credit amount from the amended return will be credited to estimated tax, if the amended return is filed before the last day of the year in which the return is due. Thus, if an amended return for a calendar year filer is filed by September 30 of the year in which the return is due, the amount shown as a credit to estimated tax from that amended return will be the amount credited to the taxpayer's estimated tax for the following year.

EXAMPLE 2: Financial Institution Y filed its original September 30 return on January 15 of the following year with an overpayment of $500 and all of the overpayment credited to its estimated tax for the following tax year ending September 30. Later, in the year after the return was filed, Y determined that it had failed to claim a deduction on the return. Therefore, Y filed an amended Iowa return for the tax year ending on September 30 of the prior year on July 15, showing an overpayment of $700 and a credit to estimated tax of the same amount. Y's amended return was filed on or before the end of the year in which the original return was due, so the $700 credit to Y's estimated tax for the next tax year ending September 30 from the amended return was allowed.

Note that if the amended return had not been filed until sometime in January, only the credit from Y's original return would have been applied to Y's estimated payments for the tax year ending September 30. Since the amended return would have been filed too late for purposes of crediting the overpayment to the taxpayer's estimated tax for the next year, the department would issue Y a refund of $200, which is the portion of the overpayment from the amended return that had not been credited to estimated tax from the original return for the tax year that was amended.

c. Estimated tax carryforward and how the amount of carryover credit is affected by state tax liability or other state liability of the taxpayer. A taxpayer who files an Iowa return with an overpayment shown on the return and elects to have the overpayment credited to the taxpayer's estimated tax for the next tax year will not have the overpayment credited to estimated tax, if the taxpayer has tax liabilities or other liabilities with the state that are subject to setoff. Other

liabilities with the state that are subject to setoff are those liabilities described in Iowa Code section 421.65. These liabilities are for district court debts and any other debts of the taxpayer with a board, commission, department, or other administrative office or unit of the state of Iowa.

EXAMPLE 3: Financial Institution Z timely filed its Iowa return showing an overpayment of $400 and a credit to the following year's estimated tax of $400. During processing of Z's return, it was determined that Z had a liability of $150 from a prior year's Iowa return. Thus, $150 of the current year's overpayment was offset against the tax liability from the prior year's return. The remaining portion of the current year's overpayment of $250 was credited to Z's estimated tax for next year.

This rule is intended to implement Iowa Code section 422.91.

RA 26-379

TRANSPORTATION DEPARTMENT[761]

Regulatory Analysis

Notice of Intended Action to be published: 761—Chapter 115
"Utility Accommodation"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 307.12(1)"j" and 306A.3 as amended by 2026 Iowa Acts, Senate File 2214

State or federal law(s) implemented by the rulemaking: Iowa Code section 306A.3

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 17, 2026 11 to 11:30 a.m.	Microsoft Teams Or dial: 515.817.6093 Conference ID: 332 754 769#

Public Comment

Any interested person may submit written comments concerning this Regulatory Analysis, which must be received by the Department of Transportation no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Ryan Pell
800 Lincoln Way
Ames, Iowa 50010
Email: ryan.pell@iowadot.us

Purpose and Summary

The purpose of the proposed amendments is to align the rules with 2026 Iowa Acts, Senate File 2214. This Act amends the Iowa Code relating to installation of transmission lines on highway rights-of-way and requires the Department to coordinate with utility and transmission line developers, upon written request, to review highway corridors for potential locations to place transmission lines. It also prohibits the Department from denying longitudinal transmission line installations in the primary road rights-of-way unless the Department determines the installation would endanger public safety or interfere with the proper function of the highway.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

There are no costs or fees associated with these proposed amendments beyond the underlying statutes.

- **Classes of persons that will benefit from the proposed rulemaking:**

No classes of persons are affected by the proposed amendments.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

There are no quantitative impacts beyond those of the underlying statutes.

- **Qualitative description of impact:**

There are no qualitative impacts beyond those of the underlying statutes.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

There are no implementation or enforcement costs beyond those of the underlying statutes.

- **Anticipated effect on State revenues:**

There are no anticipated effects on State revenues beyond those of the underlying statutes.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

There is no benefit of inaction. The amendments are required to conform with the underlying statutes.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

There are no less costly or less intrusive methods to achieve the purpose of the proposed amendments, which is compliance with the underlying statutes.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

The Department did not consider alternatives for the proposed amendments.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

Not applicable.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

There is no impact on small business from the proposed amendments beyond those of the underlying statutes.

Text of Proposed Rulemaking

ITEM 1. Amend rule 761—115.1(306A,314,320), parenthetical implementation statute, as follows:

761—115.1(<u>306,</u>306A,314,320) General.

ITEM 2. Amend rule **761—115.2(306,306A,321)**, definitions of "Cable" and "Communication line," as follows:

"Cable" means an insulated conductor or a ~~combination~~ group of insulated conductors used to transmit electrical power or communication signals.

"Communication line" or *"communication cable"* means a cable used for ~~the transmission of~~ transmitting data, voice, images, television, alarm systems or traffic control.

ITEM 3. Adopt the following **new** definitions of "Department," "Distribution facility," "Transmission line" and "Transmission line developer" in rule **761—115.2(306,306A,321)**:

"Department" means the Iowa department of transportation.

"Distribution facility" means a utility line with moderate capability that distributes a product from a transmission line to points convenient for its customers, also known as "main" or "primary."

"Transmission line" means a utility facility with high capacity, which generally carries a product from its source to a distribution facility.

"Transmission line developer" means a company or organization that plans, designs, and builds high-voltage electric transmission lines.

ITEM 4. Amend rule 761—115.3(306A,318,320) as follows:

761—115.3(306,306A,318,320) General provisions.

115.3(1) *Permit required.* A permit is required to place utility facilities in, on, above or below the primary road rights-of-way to attach utility facilities to a primary road structure or to adjust existing utility facilities occupying the rights-of-way.

115.3(2) *Longitudinal electric transmission lines.*

a. The utility owner or transmission line developer must provide a written request to the department to engage in coordination activities to review highway corridors identified in the request for potential locations to place transmission lines during the approval process with the Iowa utilities commission.

b. The department will share all known plans with the utility owner or transmission line developer on planned projects in the highway corridor if the planned project impacts the placement or siting of transmission lines.

c. Installations in the primary road rights-of-way, including freeways, may be permitted if the department determines the installation will not endanger public safety, is complementary with the proper function of the road, and does not impede potential future roadway improvements.

d. The department shall notify the utility owner or transmission line developer of its acceptance or denial of the request within 90 days of receiving the written request.

~~**115.3(2)**~~ **115.3(3)** *Future adjustment.*

a. and *b.* No change.

~~**115.3(3)**~~ **115.3(4)** *Compliance with requirements.* It is the responsibility of the utility owner to ensure that the utility owner's utility facility complies with all applicable federal, state, local and franchise requirements and meets generally accepted industry standards at the time of installation.

~~**115.3(4)**~~ **115.3(5)** *Performance bond.* The department may require a performance bond for utility work within the primary road rights-of-way under the following circumstances: the work is being done to adjust or relocate the utility facility to accommodate a planned primary road project; the installation is unusual; abnormal site conditions exist, such as but not limited to unstable soil or unique vegetation; or the utility owner has a history of performance problems. A performance bond is required for longitudinal freeway occupancy; more information contained in subrule ~~115.15(9)~~ 115.15(11).

a. to *c.* No change.

~~**115.3(5)**~~ **115.3(6)** *Execution of work.* Utility construction and maintenance work within the primary road rights-of-way is to be accomplished in a manner satisfactory to the department.

~~**115.3(6)**~~ **115.3(7)** *Disturbance of other contractors.* Utility construction and maintenance work within the primary road rights-of-way is to be accomplished in a manner that minimizes disturbance

to any other contractor working within the rights-of-way. It is the responsibility of the utility owner to coordinate work with other contractors.

~~**115.3(7)**~~ **115.3(8)** *No adverse effect on primary road.* A utility facility must not adversely affect the safety, design, construction, operation, maintenance or stability of the present use or future expansion of a primary road.

~~**115.3(8)**~~ **115.3(9)** *Safety, health and sanitation.* Construction and maintenance of a utility facility shall be accomplished in a manner that minimizes disruption of primary road traffic and other hazards to the road user. The utility owner is responsible to comply with the MUTCD and all applicable federal, state and local statutes, ordinances and regulations governing safety, health and sanitation. The utility owner is to furnish such additional safeguards, safety devices and protective equipment and take actions to protect the life and health of the public.

~~**115.3(9)**~~ **115.3(10)** *Parking or storage in clear zone or median.*

a. to *c.* No change.

~~**115.3(10)**~~ **115.3(11)** *Protection of landscaped or planted areas.* Prior to permit approval, specific authorization is to be obtained from the district representative for mowing, trimming trees and shrubs, and for spraying within the rights-of-way. Landscaped and planted areas are to be avoided as much as practical. A landscaped or planted area that is disturbed is to be restored as nearly as practical to its original condition.

~~**115.3(11)**~~ **115.3(12)** *Noncompliance.* The department may take any or all of the following actions for noncompliance with any provision of this chapter or any term of a permit:

a. to *e.* No change.

f. Initiate a claim on the performance bond as set out in subrule ~~115.3(4)~~ 115.3(5), when a bond is required.

~~**115.3(12)**~~ **115.3(13)** *Identification signs and markers.* Utility facilities within primary road rights-of-way shall be properly marked in accordance with the following unless otherwise authorized by the district representative:

a. to *j.* No change.

~~**115.3(13)**~~ **115.3(14)** *Insufficient capacity of rights-of-way.* The department may deny issuance of a permit if it determines there is insufficient room for additional utility facilities within the rights-of-way.

ITEM 5. Amend subrule 115.7(10) as follows:

115.7(10) *Term of permit.* Except for permits for longitudinal occupancy of freeways as outlined in subrule ~~115.15(11)~~ 115.15(13), an issued permit will continue in perpetuity or until future maintenance or construction of the primary road requires an adjustment of the utility facility (more information contained in paragraph ~~115.3(2)"b"~~ 115.3(3)"b").

ITEM 6. Amend paragraph **115.11(4)"a"** as follows:

a. The utility owner is to pay to the department an attachment fee for attaching the utility owner's utility facility to a primary road bridge. The attachment fee is $181.60 per bridge plus $0.99 times the weight of the attachment in pounds per foot times the length of the bridge in feet. The fee will increase 3 percent per year over the previous year after the base year of 2024. Additional fees may apply for longitudinal freeway occupancy (more information contained in subrule ~~115.15(8)~~ 115.15(10)). The department maintains the current fee listing available on the department's website at www.iowadot.gov/consultants-contractors/right-way/utility-accommodation-coordination.

ITEM 7. Amend paragraph **115.12(6)"c"** as follows:

c. More information is contained in subrule ~~115.15(8)~~ 115.15(10) regarding occupancy fees for longitudinal installations on freeways.

ITEM 8. Amend rule 761—115.13(306A) as follows:

761—115.13(306A) Freeways.

115.13(1) *Access to utility facilities occupying freeway rights-of-way.*

a. Except for emergency work, access to utility facilities during utility construction or maintenance activities is to be obtained from ~~the~~ areas other than the freeway or its ramps. More information is contained in subrules 115.8(3) and 115.17(2) regarding emergency work.

b. to *d.* No change.

115.13(2) No change.

~~**115.13(3)** *Aboveground appurtenances.* Aboveground appurtenances, including but not limited to poles, guys and other supporting structures, are not allowed within the rights-of-way of freeways.~~

~~**115.13(4)**~~ **115.13(3)** *Existing utility facilities.*

a. No change.

b. If the conditions in paragraph ~~115.13(4)*"a"*~~ 115.13(3)*"a"* are not met, the department may request the utility facility be relocated outside the freeway rights-of-way.

ITEM 9. Amend subrule 115.14(2) as follows:

115.14(2) *Aboveground installations—transverse installations on freeways.*

a. No change.

b. The location of aboveground appurtenances, including but not limited to guys and other supporting structures, must be approved by the district representative.

~~*b.*~~ *c.* Within interchange areas:

(1) No change.

(2) Overhead lines are to be constructed on tangent, parallel to the intersecting road, without guys or anchors being placed in the areas between the ramps and the main freeway, and located outside the working area of cranes or similar equipment that are anticipated to operate near and adjacent to proposed bridges or structures. Guy poles are to be located as near to the freeway rights-of-way line as practical.

(3) Poles are to be located outside the clear zone and situated as far from the main freeway and ramps and as close to the toe of foreslope of the intersecting road as practical but shall remain outside the clear zone and outside the working area of cranes or similar equipment that are anticipated to operate near and adjacent to proposed bridges or structures.

(4) No change.

ITEM 10. Amend rule 761—115.15(306A,314) as follows:

761—115.15(306,306A,314) Longitudinal installations on freeways.

115.15(1) *Type of installation permitted.*

a. and *b.* No change.

c. ~~If the department determines that an aboveground installation is necessary to advance the state's priorities, can be installed safely with minimal impact on the traveling public, can be safely accommodated within existing right-of-way, is along a roadway that is not anticipated to require additional right-of-way for future improvements in the foreseeable future, and extends for a relatively short distance, the department may permit installation with proper justification.~~ Longitudinal transmission lines may be authorized to be installed on freeway rights-of-way upon written request by a utility owner or transmission line developer unless the department determines such an installation would endanger public safety or interfere with the proper function and use of the highway.

115.15(2) *Assignment of project coordinator.* Upon written request by a utility owner or transmission line developer to review a highway corridor for potential electric transmission line placement, the department shall assign a dedicated project coordinator within 30 days of receiving the request to manage ongoing coordination activities.

~~**115.15(2)**~~ **115.15(3)** *Prohibitions on longitudinal occupancy.*

a. to *c.* No change.

115.15(4) *Denial of longitudinal electric transmission installations.* If the department denies the request, the department shall make the written reason for denying the installation available to the public and the requesting party within 90 days of receiving the request.

~~**115.15(3)**~~ **115.15(5)** *Minimal maintenance.* Once installed, the utility facility should require minimal maintenance.

~~**115.15(4)**~~ **115.15(6)** *Location and depth.* The utility facility should be located on uniform alignment, preferably within 8 feet of the freeway rights-of-way line, and at a location approved by the department.

a. to *c.* No change.

~~**115.15(5)**~~ **115.15(7)** ~~*Pedestals, cabinets, vaults, hand holes, repeater stations or similar appurtenances.*~~ *Aboveground installations—longitudinal installations on freeways.*

a. Single-pole construction should be used, with the number of poles kept to a minimum.

b. The location of aboveground appurtenances, including but not limited to guys and other supporting structures, must be approved by the district representative.

c. Overhead lines should be constructed on a tangent, parallel to the road, without guys or anchors, and located outside the working area of cranes or similar equipment that are anticipated to operate near and adjacent to proposed bridges or structures.

d. Poles are to be located outside the clear zone, situated as far as practical from the main freeway and ramps, and outside the working area of cranes or similar equipment that are anticipated to operate near and adjacent to proposed bridges or structures.

e. For intersecting roadways, bridges, or structures, poles are to be located as close to the toe of foreslope of the intersecting road as practical but shall remain outside the clear zone and outside the working area of cranes or similar equipment that are anticipated to operate near and adjacent to proposed bridges or structures.

f. The use of self-supporting poles or towers, double arming and insulators, breakaway devices and dead-end construction should be considered.

~~*a.*~~ *g.* Aboveground pedestals are permissible. All pedestals, cabinets, vaults, hand holes or similar appurtenances should be placed one foot from the right-of-way fence. The number of installations is subject to district representative approval.

~~*b.*~~ *h.* Repeater stations are not allowed in the rights-of-way.

~~**115.15(6)**~~ **115.15(8)** *Metallic warning tape.* Metallic warning tape is to be installed a minimum of 12 inches below the existing grade and above ~~the~~ underground utility ~~installation~~ installations unless installation is done by directional boring or other trenchless methods.

~~**115.15(7)**~~ **115.15(9)** *Engineering.* The utility owner is to retain the services of a licensed, professional engineer familiar with the requirements for utility work to be accomplished in Iowa.

a. to *c.* No change.

~~**115.15(8)**~~ **115.15(10)** *Occupancy fee.* The utility owner is to pay to the department an annual fee for longitudinal occupancy of the freeway rights-of-way in accordance with Iowa Code section 314.20. The initial fee is due before any construction work commences within the rights-of-way. Additional fees may apply for bridge attachments (more information is contained in subrule 115.11(4)). The department maintains the current fee listing available on the department's website at www.iowadot.gov/consultants-contractors/right-way/utility-accommodation-coordination.

a. to *c.* No change.

~~**115.15(9)**~~ **115.15(11)** *Performance bond.* The utility owner is to file a performance bond with the department prior to commencing work within the freeway rights-of-way.

a. and *b.* No change.

~~**115.15(10)**~~ **115.15(12)** *Insurance.*

a. to *d.* No change.

~~**115.15(11)**~~ **115.15(13)** *Term of permit.* The permit is valid for 20 years from the date of issuance. Upon written request, the department may extend or renegotiate the term.

~~**115.15(12)**~~ **115.15(14)** *Utilities for road facilities.* Longitudinal occupancy of utility facilities that service road-related facilities are permissible upon such terms and conditions as the department may determine.

ITEM 11. Amend paragraph **115.16(2)"e"** as follows:

e. Utility facility locations shall be marked and identified as set out in subrule ~~115.3(12)~~ 115.3(13).

ITEM 12. Amend rule 761—115.20(306A), parenthetical implementation statute, as follows:

761—115.20(306,306A) Utility investigation and notice of project.

ITEM 13. Amend rule 761—115.21(306A) as follows:

761—115.21(306,306A) Preliminary plan, verifying accuracy of information.

115.21(1) No change.

115.21(2) *Preliminary plan.* The department will submit its preliminary plan to the owner of each known utility facility within the vicinity of a proposed primary road project and ask utility owners to provide information regarding the accuracy of utility information depicted in the preliminary plan and potential conflicts and the utility owners' recommended solutions. The department ~~should~~ shall schedule a utility coordination meeting after the preliminary plan is sent to the utility owners. The department shall invite all affected utility owners and local jurisdictions to the utility coordination meeting during the preliminary design processes to jointly review conflicts, evaluate strategies to avoid or minimize utility adjustments, and establish timelines for necessary relocations.

115.21(3) No change.

ITEM 14. Amend rule 761—115.22(306A), parenthetical implementation statute, as follows:

761—115.22(306,306A) Semifinal plan, utility work plan.

ITEM 15. Amend paragraph **115.22(5)"f"** as follows:

f. If the revised work plan is still not acceptable, the department may initiate noncompliance procedures per subrule ~~115.3(11)~~ 115.3(12). If the department determines that meaningful progress is being made, the department may elect to repeat the process set out in paragraphs 115.22(5)*"c"* ~~to~~ through *"e."*

ITEM 16. Adopt the following **new** subrule 115.22(7):

115.22(7) *Project noninterference.* A utility owner's failure to respond to a project notice, attend early coordination meetings, or submit a work plan within the designated time frames shall not delay, stall, or prevent the department from proceeding with the construction project design, contract bidding, or scheduled construction activities.

ITEM 17. Amend subrule 115.24(4) as follows:

115.24(4) *Failure to comply with these rules, to provide an acceptable work plan, or to adjust utility facilities.* If a utility owner fails to comply with these rules, fails to provide an acceptable work plan per subrule 115.22(5), fails to comply with the accepted work plan, or fails to complete the adjustment of its utility facilities in accordance with the accepted work plan, and its failure results in a delay to the primary road project or causes damages to be incurred by the department or the department's contractor, the utility owner is liable for all costs and damages incurred as a result of its failure. In addition to any other remedy that may exist at law, in equity, or under these rules, the department may initiate noncompliance procedures per subrule ~~115.3(11)~~ 115.3(12) for failure to comply with the requirements of these rules.

RA 26-380

TRANSPORTATION DEPARTMENT[761]

Regulatory Analysis

Notice of Intended Action to be published: paragraph 800.1(3)"a"
"Items of General Application for Railroads"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 307.12(1)"j," 327D.201 and 327G.24
State or federal law(s) implemented by the rulemaking: Iowa Code sections 307.12(1)"j," 307.26, 327C.38, 327C.41, 327C.42, 327D.201, 327F.31 and 327G.24

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 18, 2026 1 to 1:30 p.m.	Microsoft Teams Or dial: 515.817.6093 Conference ID: 159 581 407#

Public Comment

Any interested person may submit written comments concerning this Regulatory Analysis, which must be received by the Department of Transportation no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Ryan Pell
800 Lincoln Way
Ames, Iowa 50010
Email: ryan.pell@iowadot.us

Purpose and Summary

The proposed amendment is intended to comply with Iowa Code chapters 327D and 327G governing operations of railroads. The rules implement annual reporting standards consistent with the Surface Transportation Board requirements, adopt by date certain federal laws addressing the removal of railroad tracks after abandonment or discontinuance and the process to review and approve a local jurisdiction's train speed ordinance, and reference the procedure for acquisition or use of railroad rights-of-way proposed for abandonment or trail use per 16 U.S.C. 1247(d). The amendment to this paragraph will bring uniformity and consistency to the industry.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

Iowa railroad operators will bear the costs.

- **Classes of persons that will benefit from the proposed rulemaking:**

Public roadway users will benefit.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

Reports are filed annually at the same prescribed date, electronically and consistent with those required by the Surface Transportation Board by all operating railroads in Iowa. Local jurisdictions cover implementation and enforcement of train speed ordinances, coordination of track removal through roadways, and potential trail development of abandoned rail lines.

- **Qualitative description of impact:**

Documentation is received annually by the Department, and the statistical information provided is used in developing Department planning documents. Compliance with a train speed ordinance would be enforced by political subdivisions and local jurisdictions. Restoring roadway surface material and removal of tracks from discontinued railroad lines provides safety and continuity of road surface material. This proposed amendment provides consistent abandonment and discontinuance of rail lines.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

The Department bears minimal costs of resources for oversight, review and enforcement to implement the proposed amendment.

- **Anticipated effect on State revenues:**

There is no anticipated impact on State revenues.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

The benefits of information received and data collected outweigh the minimal costs of resources used to process reports. The cost to local roadway jurisdictions varies depending on the enforcement of train speed ordinances. The level of effort required for Departmental review of submissions for train speed ordinances is minimal, and the volume does not create a negative impact. The cost to consider the use of abandoned railroad lines for interim trail use and rail banking processes would be a cost to the entity making the request of the rights-of-way. The coordination to restore roadway surfaces with the railroads is at the expense of the railroad corporation.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

There are no less costly or less intrusive methods to achieve the purpose of the proposed amendment.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

The Department did not consider alternatives for the proposed amendment. The annual report submittal by railroad operators is consistent with the reports filed with the Surface Transportation Board. This proposed amendment adopts federal law guidance and standards setting consistency and uniformity for these rules.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

Not applicable.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.

- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

This proposed amendment has no impact on small business.

Text of Proposed Rulemaking

ITEM 1. Amend paragraph **800.1(3)"a"** as follows:

a. The department adopts the following portions of the Code of Federal Regulations, which are referenced throughout this chapter:

(1) 49 CFR Part 1152 (~~October 1, 2024~~ February 3, 2026).

(2) 49 CFR Part 1241 (~~October 1, 2024~~ May 8, 2026).

(3) No change.

RA 26-381

TRANSPORTATION DEPARTMENT[761]

Regulatory Analysis

Notice of Intended Action to be published: paragraph 810.1(1)"a"
"Railroad Safety Standards"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 307.12(1)"j," 327F.38 and 327F.39
State or federal law(s) implemented by the rulemaking: Iowa Code sections 307.12(1)"j," 307.26, 321.449A, 327C.4, 327F.38 and 327F.39

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 18, 2026 1:30 to 2 p.m.	Microsoft Teams Or dial: 515.817.6093 Conference ID: 162 002 862#

Public Comment

Any interested person may submit written comments concerning this Regulatory Analysis, which must be received by the Department of Transportation no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Ryan Pell
800 Lincoln Way
Ames, Iowa 50010
Email: ryan.pell@iowadot.us

Purpose and Summary

This proposed amendment is intended to comply with Iowa Code sections 321.449A, 327C.4, 327F.38 and 327F.39 governing safety standards for railroad tracks and employee conditions. The rules adopt by reference, with date certain, the Federal Railroad Administrations' federal regulation (49 CFR Part 213) and the Federal Motor Carrier Safety Administration's regulation (49 CFR Section 393.77). These federal regulations address track safety standards and heater equipment requirements in motor vehicles used to transport railroad workers. The proposed amendment establishes guidance regarding the availability of first aid and medical treatment for railroad employees and sets expectations for track inspection credentials. Additionally, the amendment implements procedures for addressing violations of heating equipment requirements in vehicles used to transport railroad workers and rest periods for drivers transporting railroad workers. This proposed amendment creates consistency and uniformity of standard safety measures.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

Iowa railroad operators will bear the costs.

- **Classes of persons that will benefit from the proposed rulemaking:**

Railroad employees and the Department will benefit from this chapter.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

Track inspections are conducted on railroad tracks by two track inspectors for the entire State. The inspections and heater requirements are consistent with the standards required by the Federal Railroad Administration for all railroads in Iowa.

- **Qualitative description of impact:**

Inspection of track conditions for the movement of freight and safety standards of railroad operations provides continuity of track conditions for the operations and movement of freight. Provisions to provide first aid and medical treatment to railroad employees are provided by the railroad operators. This proposed rulemaking provides consistent track standards for the industry and safe, comfortable transport of railroad employees.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

The Department bears the costs of two track inspectors to conduct track inspections and enforcement in the State. There are minimal costs for the review, oversight and enforcement of the railroad employee safety provisions.

- **Anticipated effect on State revenues:**

There is no anticipated impact on State revenues.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

The benefit of track safety standards and oversight of employee safety conditions outweigh the cost of resources used to complete the inspection and process review of complaints filed. Compliance with the safety conditions for first aid and medical treatment of railroad employees and the transport vehicle standards fall to the railroad operators. Railroad operators will benefit from the consistent requirements to operate and maintain track conditions in the industry. Railroad employees will benefit from access to medical resources and safe transport in vehicles.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

There are no less costly or less intrusive methods to achieve the purpose of the proposed amendment.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

The Department did not consider alternatives for the proposed amendment. The track inspection and safety standards are consistent with the standards of the Federal Railroad Administration. This proposed amendment adopts federal law guidance and safety standards, setting consistency and uniformity for these rules. The vehicle transportation equipment standards are minimal and provide basic conditions for the transport of railroad employees.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

Not applicable.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.

- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

The proposed amendment has no impact on small business.

Text of Proposed Rulemaking

ITEM 1. Amend paragraph **810.1(1)"a"** as follows:

a. The department adopts the following portions of the Code of Federal Regulations concerning railroad track safety standards and heaters in vehicles.

(1) 49 CFR Part 213 (~~July 1, 2025~~ April 28, 2026).

(2) No change.

RA 26-382

VETERANS AFFAIRS, IOWA DEPARTMENT OF[801]

Regulatory Analysis

Notice of Intended Action to be published: 801—Chapter 14
"Veterans Trust Fund"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 35A.5, 35A.13, and Executive Order 10

State or federal law(s) implemented by the rulemaking: Iowa Code section 35A.13 and Executive Order 10

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 18, 2026 3 p.m.	Video call link: meet.google.com/qeo-yozx-mjg Or dial: 317.932.0179 Conference ID: 266 575 994#

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis, which must be received by the Iowa Department of Veterans Affairs no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Mike Olson
Iowa Department of Veterans Affairs
Legislative Liaison
1301 Summit Street
Marshalltown, Iowa 50158
Phone: 641.750.6185
Email: michael.olson@ivh.state.ia.us

Purpose and Summary

The Department is proposing a revised Chapter 14 to update procedures, bring benefits into alignment with the Iowa Code, and reduce unnecessary text pursuant to Executive Order 10. Relevant content will be streamlined to provide greater clarity for applicants.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

Individuals receiving funds for categories that are proposed to be eliminated from eligibility due to not being specifically authorized in the Iowa Code will bear the costs.

- **Classes of persons that will benefit from the proposed rulemaking:**

Applicants will benefit because the revised rules will allow for greater clarity on the benefits offered and the requirements to apply for them.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

There are no direct costs associated with the proposed rulemaking.

- **Qualitative description of impact:**

This rulemaking will positively impact applicants by making the requirements and process easier to understand.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

No costs are expected.

- **Anticipated effect on State revenues:**

No effect on State revenues is expected.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

The benefit will be an updated chapter revised in compliance with Executive Order 10.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

Not applicable.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

There are no viable alternative methods.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

There are no alternatives because this rulemaking is required by Executive Order 10.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

This rulemaking is not anticipated to have an impact on small business.

Text of Proposed Rulemaking

ITEM 1. Rescind 801—Chapter 14 and adopt the following **new** chapter in lieu thereof:

CHAPTER 14
VETERANS TRUST FUND

801—14.1(35A) Purpose. These rules establish the requirements for veterans or their spouses or dependents to receive benefits from the veterans trust fund.

801—14.2(35A) Definition. For purposes of this chapter:

"Veteran" means the same as defined in Iowa Code section 35.1 and federal United States Department of Veterans Affairs (VA) regulations.

801—14.3(35A) Eligibility. Veterans, their spouses, their dependents, and unremarried spouses of deceased veterans applying for benefits available under subrules 14.4(1) through 14.4(11) must meet the following threshold requirements. Regarding funding from other sources, applications shall not be approved if the applicant is eligible to receive aid from other sources to meet the purposes authorized in this chapter.

14.3(1) *Income.* The department cannot pay benefits under this chapter if the available liquid assets of a veteran are in excess of $20,000. For the purposes of this chapter, an applicant's household income, including VA pension benefits, service-connected disability income, and social security income, shall not exceed 300 percent of the federal poverty guidelines for the number of members living in the primary residence in effect on the date the application is received. Federal poverty guidelines shall be those guidelines established by the department of health and human services for the veteran's family size. The commission shall adjust the guidelines on July 1 of each year to reflect the most recent federal poverty guidelines.

14.3(2) *Resources.* For the purposes of this chapter, "available liquid assets" means cash on hand, cash in a checking or savings account, stocks, bonds, certificates of deposit, treasury bills, money market funds and other liquid investments owned individually or jointly by the applicant and the applicant's spouse, unless the applicant and spouse are separated or are in the process of obtaining a divorce, but does not include funds deposited in IRAs, Keogh plans or deferred compensation plans, unless the veteran is eligible to withdraw such funds without incurring a penalty. Cash surrender value of life insurance policies, real property, established burial account, or a personal vehicle shall not be included as available liquid assets.

14.3(3) *Additional requirements and limitations.* Applicants must meet any additional requirements.

801—14.4(35A) Benefits available. Applications may be approved for any of the following purposes. By a majority vote, the commission may suspend some or all of these benefits for payment.

14.4(1) *Travel expenses for wounded veterans and their spouses directly related to medical care.* Travel expenses under this subrule include the unreimbursed cost of airfare, lodging, and a $50 per diem for required medical appointments from the veteran's home. Spouses may be reimbursed for in-state lodging and a $50 per diem when visiting a veteran who is in a hospital for medical care related to an injury or disability. The veteran or the veteran's spouse shall provide such evidence as the commission may require. The maximum amount for travel expense reimbursement shall be $150 for in-state lodging. The maximum amount of aid payable in a consecutive 12-month period under this subrule is $1,800.

14.4(2) *Job training or college tuition assistance for job retraining.*

a. The commission may pay a veteran not more than $5,000 for retraining or postsecondary education and internet connection to enable the veteran to obtain gainful employment. The commission may provide aid under this subrule if all of the following apply:

(1) The veteran is enrolled in a training course in a technical college or school, is enrolled in an accredited postsecondary institution, or is engaged in a structured on-the-job training program.

(2) The veteran is unemployed, is underemployed, or has received a notice of termination of employment.

(3) The commission determines that the veteran's proposed program, or current program, will provide retraining or initial training that could enable the veteran to find gainful employment. In making its determination, the commission shall consider whether the program provides adequate employment skills and is in an occupation for which favorable employment opportunities are anticipated.

(4) The veteran requesting aid has not received full reimbursement or payment from any other retraining or education scholarship programs and the veteran does not have other assets or income available to meet retraining or initial training expenses. Applicants requesting aid under this subrule will only be granted the unpaid portion of their tuition statement and a monthly internet invoice. Payments will be made directly to the institution and internet provider.

b. The veteran shall provide such evidence as the commission may require to satisfy the requirements of this subrule.

14.4(3) *Unemployment assistance during a period of unemployment due to service connection or disability resulting from military service (must provide a doctor's note stating the person is physically and mentally able to return to work).* The commission may provide subsistence payments to a veteran who has suffered unemployment due to prolonged physical or mental illness resulting from military service or disability resulting from military service. The commission may provide subsistence payments of up to $500 per month of unemployment to a veteran. A veteran must provide documentation of assistance from Iowa workforce development and vocational rehabilitation. No payment may be made under this subrule if the veteran has other assets or income available to meet basic subsistence needs. A period of unemployment implies that it is possible for the veteran to be employed in the future. A rating from the VA of 100 percent due to individual unemployability (IU) rated permanent and total indicates that a veteran is unemployable and will not qualify for assistance under this subrule. The veteran shall provide such evidence as the commission may require. The maximum amount of aid payable in a consecutive 12-month period under this subrule is $3,000 and a lifetime maximum of $6,000.

14.4(4) *Expenses relating to the purchase of durable medical equipment or services to allow veterans to remain in their homes.*

a. The commission may make reimbursement payments to a veteran for the purchase of durable medical equipment that allows veterans to remain in their home with family members or equipment that allows veterans the ability to utilize more of their home.

b. Individuals requesting reimbursement under this subrule will be required to provide verification of the purchase and installation of the equipment and information relating to the need for the equipment. Individuals may also provide a product and installation cost estimate to the commission for approval, with the understanding that the commission will pay no more than the cost estimate to the supplier or installer. Applicants in need of durable equipment as a medical necessity must provide information from a physician. Applicants must provide a denial from other available programs, such as the Home Improvements and Structural Alterations (HISA) benefits program.

c. Assistance under this subrule cannot duplicate assistance from other entities, and the maximum amount that may be paid cannot exceed $5,000.

14.4(5) *Expenses related to hearing care, dental care, vision care, or prescription drugs.*

a. The commission may provide health care aid to a veteran, to the veteran's spouse or dependents, or to the unremarried spouse of a deceased veteran for dental care, including dentures; vision care, including eyeglass frames and lenses; hearing care, including hearing aids; and prescription drugs that are not covered by the veterans affairs medical center.

b. The maximum amount that may be paid under this subrule for any consecutive 12-month period cannot exceed $10,000 for dental care, $1,000 for vision care, $3,000 per ear for hearing care, and $1,500 for prescription drugs and prescribed over-the-counter drugs. Lifetime maximum benefit: $10,000 per eligible family member.

c. The commission shall not provide health care aid under this subrule unless the aid recipient's health care provider agrees to accept, as full payment for the health care provided, the amount of the payment and the amount of the recipient's health insurance or other third-party payments. Payment under this subrule will be provided directly to the health care provider.

d. Applicants for assistance under this subrule will be required to provide the commission with an unpaid bill for service or an estimated cost of service from the health care provider and documentation of the need for the service. For prescription drugs, the applicant must produce

documentation of the need for the prescribed drug and documentation stating whether a generic drug is available or appropriate. The commission payment will not exceed an estimated cost of service by a health care provider.

14.4(6) *Individual counseling or family counseling programs.*

a. The commission may make mental health, substance use, and family counseling available to veterans and their families. Individual family members are eligible for counseling.

b. The assistance may include appropriate counseling and treatment programs for veterans and their families.

c. Any assistance provided under this subrule shall not duplicate other services readily available to veterans and their families. Veterans who are eligible for VA mental health services must initially visit their nearest VA medical facility for initial consultation and continued psychiatric treatment. Payment under this subrule will be made for additional services for the veteran in a location closer to the veteran's home and at a greater frequency than the VA medical center can accommodate.

d. The commission may provide up to $150 per hour and $75 per half-hour for outpatient counseling visits to providers who will accept as full payment for the counseling services the amount provided. Counseling and substance use services provided in a group setting may be paid up to $40 per hour. Counseling and substance use services may also be provided in an inpatient setting, subject to the maximum amount eligible under paragraph 14.4(6)*"e."*

e. The maximum amount that may be paid under this subrule for any consecutive 12-month period shall not exceed $5,000. Individuals seeking counseling services are eligible for up to $2,500, individuals seeking substance use treatment and counseling combined are eligible for up to $3,500, and families seeking counseling services that may also include individual counseling and substance use services are eligible for up to $5,000.

f. The commission cannot provide counseling under this subrule unless the aid recipient's counseling service provider agrees to accept, as full payment for the counseling services provided, the amount of the payment; the amount of the recipient's health insurance or other third-party payments; and the amount that the commission determines the veteran is capable of paying. The commission will make payment directly to the entity providing counseling and substance use services.

14.4(7) *Family support group programs or programs for children of members of the military.*

a. The commission may award grants to unit family readiness/support groups, family support offices, and other such organizations providing support and programs to families and children of family members.

b. The grant shall be only for projects or programs that are not funded from any other source. The commission shall determine if the applicant's proposed project or program will provide the intended support. In making its determination, the commission shall consider whether the proposed program will provide anticipated favorable results.

14.4(8) *Honor guard services.*

a. The commission may reimburse veterans organizations for providing military funeral honors as follows:

(1) If a single veterans organization provides basic honors, $100.

(2) If a single veterans organization provides full honors, $150.

(3) If two or more veterans organizations participate in providing full honors and one of the organizations provides a firing detail, $100. The organizations may request that the commission split the reimbursement.

(4) If two or more veterans organizations participate in providing basic honors, $50. Payment shall be to one veterans organization as determined by the commission.

b. Notwithstanding paragraph 14.4(8)*"a,"* the commission shall not reimburse a veterans organization if federal funding is available to reimburse the veterans organization for providing military funeral honors. The veterans organization shall request reimbursement from federal sources. If a veterans organization receives federal funding for providing military funeral honors at

the reimbursement rate of one funeral per day, the department shall reimburse the organization for the provision of military funeral honors at any additional funerals on that day.

c. The maximum amount of aid payable in a calendar year under this subrule to a veterans organization is $4,000.

d. Veterans service organizations that are not currently providing honor guard services may apply for a $1,000 up-front grant for the use of creating a new honor guard within their organization. Applicants must present the commission with an estimated cost for purchasing uniforms and firearms for providing military honors and an estimated number of members who will be available to perform honor guard services. Organizations should also provide information regarding how they plan to pay for additional expenses that may occur outside of trust fund assistance. Applicants will be eligible for reimbursements under paragraphs 14.4(8)*"a"* through *"c"* 12 months after the receipt of their original $1,000 grant.

14.4(9) *Expenses relating to ambulance and emergency room services for veterans who are trauma patients.* Expenses under this subrule are reimbursable for up to 12 months from the date services were provided.

a. The commission may provide assistance to veterans for expenses related to ambulance trips, including air ambulance transportation, emergency lodging for immediate family members, and emergency room visits for emergency care patients or VA health care patients who cannot indicate to emergency personnel that they are to be transported to a VA medical center.

b. Funding through this subrule shall be paid directly to the entity providing the emergency service or transportation after the commission is provided with an unpaid bill. All efforts should be made to utilize all other methods of payment prior to accessing assistance under this subrule.

c. The maximum amount that may be paid under this subrule cannot exceed $10,000.

14.4(10) *Emergency expenses related to vehicle repair, housing repair, or temporary housing assistance.*

a. The commission may provide assistance to a veteran or to the unremarried spouse of a deceased veteran for emergency vehicle repair, emergency housing repair, and temporary housing.

b. Assistance for vehicle repair is limited to expenses that are required for continued use of the vehicle. This assistance will only be granted in cases where the vehicle is needed for travel to and from work-related activities or substantial hardship will occur. Temporary rental vehicle expenses also qualify. Assistance may be provided in situations where the applicant does not have sufficient means to pay an insurance deductible. Assistance will be paid directly to the entity performing the maintenance or the insurance company owed the deductible. Assistance will not be provided for damage caused during the commission of a crime, for cosmetic needs, for damage resulting in an auto accident when automobile insurance has not been purchased, or for routine maintenance. Assistance cannot exceed $10,000.

c. Assistance for home repair is limited to repairs that are required to improve the conditions and integrity of the home and are necessary for the safety and security of the residents. Applicants with homeowners insurance may request assistance for payment of a deductible. Assistance may be provided for applicants in disaster situations, home accidents, vandalism, or other situations as determined by the commission. Proof of homeowners insurance is required as well as an insurance claim, if applicable.

d. Assistance for transitional housing may be provided to applicants who are displaced from their home during a period of repairs related to a disaster, vandalism, home accident, or other reason that makes staying in the home hazardous to the health of the residents. Any refunded security deposits paid for under this subrule shall be returned to the Iowa veterans trust fund.

e. The maximum amount that may be paid under this subrule for any consecutive 12-month period cannot exceed $1,000 for transitional housing. Lifetime maximum benefit for housing repair and vehicle repair: $10,000 each.

14.4(11) *Expenses related to establishing whether a minor child is a dependent of a deceased veteran.*

a. The commission may provide assistance to the family of veterans who are killed while serving on active federal service and for expenses related to paternity or maternity tests or the cost of procuring additional DNA samples from the deceased veteran. This assistance is available to determine whether a child is eligible for VA war orphan benefits.

b. Applicants are required to provide the results of the paternity or maternity examinations to the commission upon completion of the tests. Where the deceased veteran is not the parent of the child, the applicant will be required to repay the assistance received as provided in rule 801—14.6(35A).

c. The maximum amount that may be paid under this subrule is $2,500.

14.4(12) *Expenses related to initial screening for any military service-connected traumatic brain injury.* The injury must be sustained while on federal active duty, state active duty, or national guard duty as defined in Iowa Code section 29A.1, or sustained while on federal reserve duty pursuant to orders issued under Tit. 10 of the United States Code for which payment or reimbursement is not otherwise available through any other federal or state program or, if applicable, through a veteran's private insurance or managed care organization. Recipients of funds pursuant to this subrule shall not be subject to an income limit.

14.4(13) *Expenses related to survivor outreach activities supported by the department of public defense.* These funds are for limited purposes and shall be subject to the same requirements as paragraph 14.4(7)*"b."*

14.4(14) *Rental housing assistance.* Rental housing assistance is authorized for veterans who meet the definition of homeless, as set out in 42 U.S.C. §11302 as effective on [effective date of this rulemaking], for payment of rental application fees needed for obtaining rental housing.

14.4(15) *Monetary assistance on a one-time basis per recipient to be used to prevent homelessness.* This is in an amount not to exceed $2,000 per recipient.

The commission may verify the use of these funds.

801—14.5(35A) Application procedure. Applications for benefits from the veterans trust fund may be obtained at any county veterans affairs office. The county director of veterans affairs shall date-stamp the application and submit it to the Iowa Department of Veterans Affairs, Camp Dodge, Bldg. 3465, 7105 NW 70th Avenue, Johnston, Iowa 50131-1824.

14.5(1) *Application process.* A person who wishes to apply shall complete an Application for Veterans Trust Fund form and provide such documentation or other evidence as the commission may require in order to determine the awarding or denial of the benefits available under this chapter.

14.5(2) *Date of application.* The date of the application shall be the date the signed application and written verification are received by the Iowa department of veterans affairs.

14.5(3) *Eligibility determination.*

a. The county director of veterans affairs shall make a recommendation to the Iowa commission of veterans affairs as to whether to approve or deny the application. The commission or three or more commissioners may approve or deny all applications, to include emergency applications. Applications submitted to the commission will be processed at monthly special meetings as set forth in 801—paragraph 1.2(2)*"a"* or during a conference call for the purpose of voting on a trust fund expenditure. The trust fund administrator of the commission shall notify an applicant within 15 days of the commission's decision. An explanation of the reasons for rejection of an application will accompany denials.

b. Applications for honor guard reimbursements under subrule 14.4(8) shall be processed solely by the Iowa department of veterans affairs and do not need commission approval for expenditure of trust fund interest balance funds for this purpose.

14.5(4) *Waiting list.* After all veterans trust fund moneys have been obligated, the commission shall approve or deny pending applications based on eligibility. Applicants who meet the eligibility requirements and are approved for payment by the commission shall be placed on a waiting list based on the date of approval and then according to the order in which the completed applications and

verification were received by the commission. In the event that more than one application is received at one time, the applicant shall be entered on the waiting list on the basis of the applicant's birthday, the oldest applicant being first on the waiting list.

801—14.6(35A) Recovery of erroneous payments.

14.6(1) *Erroneous payments.* The commission may recover payments made as a grant under this chapter if any of the following apply:

a. The information provided by the applicant is inaccurate.

b. The commission incorrectly calculated the grant amount.

c. The applicant is not entitled to a grant or is entitled to a lower grant amount as a result of a change in circumstances that affects the applicant's eligibility to receive the grant.

14.6(2) *Amount of recovery.* The commission may recover only the portion of the grant to which the applicant would not have been entitled if the correct information had been provided or if the grant had been properly calculated or as a change in circumstances warrants.

14.6(3) *Remedies.* The commission may request repayment of the amount due under subrule 14.6(2). In lieu of a lump sum payment, the commission may enter into an agreement under which the applicant may repay the amount due within a 12-month period. If the applicant fails to repay the amount due within 30 days of a request for repayment or fails to comply with the terms of a repayment agreement, the commission may offset future grants that the applicant may be entitled to under this chapter until the amount due has been recovered. The commission may also suspend other benefits available to the applicant until the amount due has been recovered.

14.6(4) *Waiver.* The commission may temporarily or permanently waive its authority to recover payments under subrule 14.6(1) or suspend benefits under subrule 14.6(3) if the applicant's household income is totally exempt from Iowa garnishment law.

14.6(5) *Appeal.* Any commission decision under this chapter is subject to appeal under rule 801—14.7(35A).

801—14.7(35A) Appeal rights.

14.7(1) *Appeal action.* An applicant may appeal the initial decision to the full Iowa commission of veterans affairs. The applicant shall appeal the decision of the subcommittee to the commission in writing within 30 days of receiving the written denial and shall provide relevant new information to substantiate the appeal.

14.7(2) *Final agency action.* The approval or denial of an application by the commission or by the department shall be the final decision of the agency.

14.7(3) *Judicial review.* Judicial review of the commission's or department's final decisions may be sought in accordance with Iowa Code section 17A.19.

These rules are intended to implement Iowa Code section 35A.13.

ARC 0679D

AGRICULTURE AND LAND STEWARDSHIP DEPARTMENT[21]

Notice of Intended Action

Proposing rulemaking related to fertilizers and agricultural lime and providing an opportunity for public comment

The Agriculture and Land Stewardship Department hereby proposes to rescind Chapter 43, "Fertilizers and Agricultural Lime," Iowa Administrative Code, and to adopt a new Chapter 43 with the same title.

Legal Authority for Rulemaking

This rulemaking is proposed under the authority provided in Iowa Code section 200.14.

State or Federal Law Implemented

This rulemaking implements, in whole or in part, Iowa Code chapter 200.

Purpose and Summary

The purpose of this proposed rulemaking is to update and clarify language in Chapter 43 that is vague and open to different interpretations. This rulemaking clarifies the meaning of public assembly and specifies a procedure to extend the use of anhydrous ammonia storage tanks.

Regulatory Analysis

A Regulatory Analysis for this rulemaking was published in the Iowa Administrative Bulletin on July 8, 2026. A public hearing was held on the following date(s):

- July 29, 2026

Fiscal Impact

This rulemaking has no fiscal impact to the State of Iowa.

Jobs Impact

After analysis and review of this rulemaking, no impact on jobs has been found.

Waivers

Any person who believes that the application of the discretionary provisions of this rulemaking would result in hardship or injustice to that person may petition the Department for a waiver of the discretionary provisions, if any, pursuant to 7—Chapter 2504.

Public Comment

Any interested person may submit written comments concerning this proposed rulemaking, which must be received by the Department no later than 4:30 p.m. on November 17, 2026. Comments should be directed to:

Colin Tadlock
Iowa Department of Agriculture and Land Stewardship
Hoover State Office Building
1305 East Walnut Street
Des Moines, Iowa 50319
Email: colin.tadlock@iowaagriculture.gov

Public Hearing

No public hearing is scheduled at this time. As provided in Iowa Code section 17A.4(1)"b," an oral presentation regarding this rulemaking may be demanded by 25 interested persons, a governmental subdivision, the Administrative Rules Review Committee, an agency, or an association having 25 or more members.

Review by Administrative Rules Review Committee

The Administrative Rules Review Committee, a bipartisan legislative committee which oversees rulemaking by executive branch agencies, may, on its own motion or on written request by any individual or group, review this rulemaking at its regular monthly meeting or at a special meeting. The Committee's meetings are open to the public, and interested persons may be heard as provided in Iowa Code section 17A.8(6).

The following rulemaking action is proposed:

ITEM 1. Rescind 21—Chapter 43 and adopt the following **new** chapter in lieu thereof:

CHAPTER 43
FERTILIZERS AND AGRICULTURAL LIME

21—43.1(200) Additional plant food elements besides N, P and K. Additional plant nutrients, besides nitrogen, phosphorus and potassium, when mentioned in any form or manner shall be registered and shall be guaranteed. Guarantees shall be made on the elemental basis. Sources of the elements guaranteed shall be shown on the application for registration. The minimum percentages that will be accepted for registration except for those fertilizers designed to be applied and ordinarily applied directly to growing plant foliage to stimulate further growth are as follows:

Element	*Percent*
Calcium (Ca)	1.00
Magnesium (Mg)	0.50
Sulfur (S)	1.00
Boron (B)	0.02
Chlorine (Cl)	0.10
Cobalt (Co)	0.0005
Copper (Cu)	0.05
Iron (Fe)	0.10
Manganese (Mn)	0.05
Molybdenum (Mo)	0.0005
Sodium (Na)	0.10
Zinc (Zn)	0.05

Guarantees or claims for the above-listed additional plant nutrients are the only ones that will be accepted. Proposed labels and directions for use of the fertilizer shall be furnished with the application for registration upon request. Any of the above-listed elements that are guaranteed shall appear in the order listed, immediately following guarantees for the primary nutrients, nitrogen, phosphorus and potassium. Warning statements are required on the label for any product that contains 0.03 percent or more of boron in a water-soluble form or 0.001 percent or more of molybdenum.

21—43.2(200) Warning required. When any product that contains 0.03 percent or more of boron in a water-soluble form or 0.001 percent or more of molybdenum is incorporated in a commercial fertilizer a special warning tag or statement must be furnished to the purchaser. This tag or statement shall carry

the word "WARNING" prominently placed on the front of the package or label in size no less than the nutrient guarantee statement; it shall state the crops for which the fertilizer is to be used and it shall state that use of the fertilizer on any other than those recommended may result in serious injury to the crops. The tag or statement is to be attached to or printed on the bag or other container in which the fertilizer is sold; for bulk fertilizers the statement must be placed on the invoice or other document that shall accompany delivery and be supplied to the purchaser at the time of delivery as provided in Iowa Code section 200.6(2).

21—43.3(200) Specialty fertilizer labels. Specialty fertilizer products shall be labeled to show the following information, if not appearing on the face or display side in a readable and conspicuous form, shall occupy at least the upper third of a side of the container.

Net Weight
Brand Name
Grade
Guaranteed Analysis:
Total Nitrogen (N) _____ %
_____% Ammoniacal Nitrogen**
_____% Nitrate Nitrogen**
_____% Water Insoluble Nitrogen*
Available Phosphorus (P) or P_2O_5 or both _____ %
Soluble Potassium (K) or K_2O or both _____ %
Additional Plant Nutrients, if claimed, and in the order and not less than the minimum percentage as shown in 21—43.1(200).
**Potential Acidity or Basicity _____ % or _____ lbs.
Calcium Carbonate Equivalent per ton.
Name and Address of Registrant

NOTES:
*If claimed or the statement "organic" or "slow acting nitrogen" is used on the label.
**If claimed or required.

21—43.4(200) Pesticides in fertilizers. When an insecticide, herbicide or any other additive for pest control is added to fertilizer the product must be registered and guaranteed with respect to the kind and percentage of each of these additives as well as with respect to plant food elements. In a prominent manner the label on the package shall state the crops for which the fertilizer is to be used and shall state that the use of the fertilizer on any other crops or under conditions other than those recommended may result in serious injury to crops.

21—43.5(200) Cancellation or suspension of registration or license. If official sampling and analysis of any registered commercial fertilizer or beneficial substance indicates that the product does not meet the guarantees or claims made for it, or that the products do not meet the minimum plant nutrient values established by rule 21—43.1(200), the secretary may notify the person guaranteeing the product that the quality of the fertilizer or beneficial substances must be improved prior to any further sale, distribution or offer for sale of such products in Iowa and the secretary may request that monetary reimbursement be made to purchaser to rectify the deficiency of the product reported by laboratory analysis and the monetary reimbursement be reported to the department. Reimbursement must be made within 30 days of the reported deficiency. In addition, if it appears to the secretary that the composition of the article does not warrant the claims made for it, or if the article, its labeling or other material required by Iowa Code section 200.5(6) to be submitted to the secretary, do not comply with the requirements of the Iowa fertilizer law, the secretary may revoke, suspend or refuse to register any commercial fertilizer or beneficial substance; or refuse to issue or revoke or suspend any license issued under Iowa Code chapter 200.

21—43.6(200) Design plans with specifications for installing a new or modifying existing anhydrous ammonia facilities. Application with design plans and specifications for facilities under these rules shall be submitted to the department prior to construction. A signed letter acknowledging the acceptance of the plans by the department must be received by the applicant prior to construction. Upon completion of construction, a certification by the owner or owner's agent shall be made to the department that the facilities were constructed in accordance with rule 21—43.7(200). If investigation by the department, subsequent to the completion of construction, determines the constructed facilities were not constructed or the tank tested in accordance with the submitted plans and specifications or the requirements of these rules, the owner shall correct any deficiencies in a timely manner as set forth by the department. All forms shall be supplied by the department.

21—43.7(200) Standard for the storage and handling of anhydrous ammonia. The Compressed Gas Association's (CGA's) American National Standard Safety Requirements for the Storage and Handling of Anhydrous Ammonia (6th edition), commonly referred to as ANSI/CGA G-2.1 2014, is adopted by this reference as the official requirement for the storage and handling of anhydrous ammonia, with the following exceptions:

1. Strike subrule 3.1 in its entirety and insert in lieu thereof the following:

3.1 Any person required to handle, transfer, transport, or otherwise work with ammonia shall be trained once each calendar year prior to handling to understand the properties of ammonia, to become competent in safe operating practices, and to take appropriate actions in the event of a leak or an emergency.

2. Insert a new subrule 5.1.3 to read as follows:

5.1.3 Equipment and components must be installed, operated, and maintained in accordance with the manufacturer's recommendations or best engineering practices.

3. Strike subrule 5.3.4 in its entirety and insert in lieu thereof the following:

5.3.4 In the absence of a specific determination by local jurisdictions, separation distances for new, additional or relocated ammonia stationary storage containers and placements of containers covered by Sections 9, 10, 11 and 12 after January 1, 2002, shall be in accordance with Table 5:

Minimum Separation[1, 2] Distances for Location of Ammonia Storage Containers

	Minimum Distances (in feet or meters) from Each Container to:			
Nominal Capacity of Container[3] (Gallons or Cubic Meters)	Mainline of Railroad[4]	Highway[5] or Line of Adjoining Property	Place of Public Assembly[6] or Residential Occupancy[7]	Institutional Occupancy[8]
Over 500 to 2,000 gals[9]	100 ft	25 ft	150 ft	250 ft
Over 2,000 to 30,000 gals	100 ft	50 ft	300 ft	500 ft
Over 30,000 to 100,000 gals	100 ft	50 ft	450 ft	750 ft
Over 100,000 gals	100 ft	50 ft	600 ft	1000 ft
Over 2 to 8 m^3	30 m	8 m	45 m	75 m
Over 8 to 110 m^3	30 m	15 m	90 m	150 m
Over 110 to 400 m^3	30 m	15 m	140 m	230 m
Over 400 m^3	30 m	15 m	180 m	300 m

1) Separation distances referred to are approximate and based on experience with minor releases.

2) For additional distances, see ANSI/ASHRAE 5.3.2, 5.3.3, 5.3.4, 5.3.5, 5.3.6 and 6.4.6.

3) The nominal capacity of multiple containers shall be aggregated, but only if containers are interconnected and safeguards do not exist to prevent a leak from one container from emptying interconnected containers.

4) Class II track or better. See 49 CFR 213.9 [8].

5) A highway is defined as a public way for purposes of vehicular travel, including the entire area within the right of way. See American Association of State Highway and Transportation Officials (AASHTO) Transportation Glossary (1983) [37].

6) Place of public assembly occupancy is a premises or that portion of a premises where 20 or more people may congregate at least six times a year and from which occupants cannot quickly vacate. Public assembly occupancies include,

among others, auditoriums, ballrooms, classrooms, passenger depots, restaurants, churches, businesses open to the general public, cemeteries, parks and theatres and the portion of surrounding land that is maintained for occupancy usage. Public assembly occupancies do not include bike and walking trails. See ANSI/ASHRAE 15 [1].

7) Residential occupancy is a premise or that portion of a premise that provides the occupants with complete independent living facilities including permanent provisions for living, sleeping, eating, cooking, and sanitation. Residential occupancies include, among others, dormitories, hotels, multiunit apartments, and private residences and the portion of surrounding land that is maintained for occupancy usage. See ANSI/ASHRAE 15 [1].

8) Institutional occupancy is a premise or that portion of a premise from which, because they are disabled, debilitated, or confined, occupants cannot readily leave without the assistance of others. Institutional occupancies include, among others, hospitals, nursing homes, asylums, and spaces containing locked cells and the portion of surrounding land that is maintained for occupancy usage. See ANSI/ASHRAE 15 [1].

9) For 500 gallons ($2m^3$) or less, see ANSI/ASHRAE 5.3.1 and 5.3.3.

4. Strike subrule 5.3.6 in its entirety and insert in lieu thereof the following:

5.3.6 Areas within 10 feet (3 meters) of a storage container shall be maintained clear of dry grass and weeds and other combustible materials. Areas shall be kept clear of debris or any item that would interfere with emergency actions or evacuation as well as materials or objects not necessary for the operation of the storage system and components.

5. Insert new subrules 5.4.3.2.1 through 5.4.3.2.5 to read as follows:

5.4.3.2.1 Eligible tanks. The following anhydrous ammonia storage tanks are eligible for dataplate replacement through testing:

5.4.3.2.1.1 Nonrefrigerated anhydrous ammonia storage tanks (other than DOT containers) not conforming to 5.4.1 and whose dataplate cannot be replaced pursuant to 5.4.3.1.

5.4.3.2.1.2 An anhydrous ammonia storage tank will have been in anhydrous ammonia service in Iowa by the applicant as of January 1, 2026, and will have been in continuous service by the applicant through the date of application.

5.4.3.2.1.3 Tanks with unauthorized welds, repairs, or modifications are not eligible.

5.4.3.2.2 Application and Testing.

5.4.3.2.2.1 Prior to an anhydrous ammonia storage tank being tested pursuant to 5.4.3.2, an application for dataplate replacement must be submitted to the department on forms approved by the department.

5.4.3.2.2.2 The department will notify the applicant if the dataplate application is initially approved for testing or denied.

5.4.3.2.2.3 Tanks that have been initially approved for a dataplate must be tested within six months of the application being approved for testing.

5.4.3.2.2.4 Tanks must be inspected and tested to API 510 standards by a certified API 510 pressure vessel inspector. The inspector must create a testing data report as a result of the testing. The testing data report will include the date the tank was tested, the inspector conducting the testing, the location of the tank, whether the tanks is passed for service, and the period of time which the tank can be in service. The testing data report will be signed by the inspector.

5.4.3.2.3 Testing Data Report Results. The applicant must forward to the department the testing data report conducted pursuant to 5.4.3.2.2.4. The testing data report will be maintained by the applicant for the lifetime of the tank.

5.4.3.2.3.1 Tanks that are not passed for service pursuant to 5.4.3.2.2.4 above will be removed from service immediately by the owner.

5.4.3.2.3.2 Tanks that are passed for service pursuant to 5.4.3.2.2.4 above will be issued a dataplate number by the department. The dataplate will be effective for the period of time identified by the data testing report in 5.4.3.2.2.4 above, up to a maximum of ten years.

5.4.3.2.3.3 A tank that had previously been issued a dataplate pursuant to 5.4.3.2 must reapply and retest for a new dataplate prior to the dataplate expiring. The tank will be retested and approved by the department prior to the expiration of the previous dataplate in compliance with 5.4.3.2. All tanks with an expired dataplate will be immediately removed from service by the owner.

5.4.3.2.4. Dataplates. Dataplates replaced pursuant to 5.4.3.2 will be made of a noncorroding metal and will include the following information in a legible size:

5.4.3.2.4.1 "IOWA DEPARTMENT OF AGRICULTURE REPLACEMENT DATA PLATE", with the replacement plate number, across the top portion of the plate in letters no less than 3/16 inch.

5.4.3.2.4.2 The phrase "Above Ground Anhydrous Ammonia Storage Only."

5.4.3.2.4.3 Expiration date of dataplate as provided in 5.4.3.2.3.2.

5.4.3.2.4.4 Maximum Working Pressure 250 psi @ 125 degrees Fahrenheit.

5.4.3.2.4.5 Gallon Capacity.

5.4.3.2.4.6 Surface Area (in sq. ft.).

5.4.3.2.4.7 Length (in ft.).

5.4.3.2.4.8 Shell Thickness (in inches).

5.4.3.2.4.9 Surface Area (in sq. ft.).

5.4.3.2.4.10 Outside Diameter (in ft.).

5.4.3.2.4.11 Head Thickness (in inches).

5.4.3.2.4.12 The phrase, "This tank has met or exceeded the standards and specification established by American Petroleum Institute 510."

5.4.3.2.4.13 The test performed by the qualified 510 personnel.

5.4.3.2.4.14 Any other information required to be included as identified by the ABI test 510 inspector.

5.4.3.2.5 Dataplate Installation. The dataplate will be permanently attached to the tank in a location that is readily accessible for inspection. The installation of the dataplate must be witnessed by the department. The department will inspect the tank and dataplate for compliance with 5.4.3.2 and will issue its final approval or denial of the dataplate.

6. Strike subrule 5.6.6 in its entirety and insert in lieu thereof the following:

5.6.6 Adequate provisions shall be made to protect the storage system and components, including all exposed piping, from physical damage which could result from impact by moving machinery, automobiles or trucks, or any other equipment at the facility. See also 6.7.1.

7. Insert a new subrule 5.10.8.2 to read as follows:

5.10.8.2 For transfer of liquids from a container utilizing a remote transfer point, each liquid filling connection shall have a positive shut-off valve in conjunction with either an internal back-pressure check valve or an internal excess flow valve. Vapor connections shall have a positive shut-off valve between the supply source and the intake side of the pump. The liquid line supplying this transfer from the pump shall have an emergency shut-off valve between the supply source and the intake side of the pump. The emergency shut-off valve shall remain closed when the plant is not in use.

NOTE: The internal back-pressure check valves or internal excess flow valves shall be installed in the facility piping prior to the positive shut-off valves. These valves shall be installed so that any break will occur on the side of the transfer hose. Protection from pull away while connected is the same as described in 5.10.8.1.

8. Add the following subrule 5.10.10:

5.10.10 Anhydrous ammonia shall be vented into an adequate supply of water. For this purpose, an adequate supply of water means ten gallons of water for each gallon of liquid ammonia or fraction thereof which is contained in the hose or vessel to be vented. The ammonia should be injected into the water as near the bottom of a vented water containing vessel as practical. If a hose is used to inject ammonia into water, the hose should be weighted or secured so that the end of the hose will remain near the bottom of the vessel. An approved sparging device is recommended. Any aqueous ammonia solution resulting from the venting process shall be disposed of safely and properly.

NOTE: Ammonia vapor may be flared off when appropriate equipment is used to not allow ammonia vapor to escape unchecked into the atmosphere. This section does not apply to venting of a coupling between transfer hose and nurse tank or applicator or venting of vapor through 85 percent bleeder valve when loading a nurse tank or applicator.

9. Add the following subrule 5.10.10.1:

5.10.10.1 Anhydrous ammonia shall not be vented into the air. Each transport truck unloading point at an anhydrous ammonia storage facility shall have a valve for venting purposes installed in the piping at or near the point where the piping and hose from the transport truck are connected. Anhydrous

ammonia from any transport truck hose shall be vented into an adequate supply of water. For this purpose, an adequate supply of water means ten gallons of water for each gallon of liquid ammonia or fraction thereof which could be contained in the hose. The ammonia should be injected into the water as near the bottom of a vented water containing vessel as practical. If a hose is used to inject ammonia into water, the hose should be weighted or secured so that the end of the hose will remain near the bottom of the vessel. An approved sparging device is recommended. Any aqueous solution resulting from the venting process shall be disposed of safely and properly.

10. Add the following subrule 5.10.11:

5.10.11 All anhydrous ammonia storage locations shall have a permanent working platform installed at each nurse tank or applicator loading location. The working platform shall be designed to allow for connecting and disconnecting of transfer hoses without standing on equipment being loaded.

NOTE: This section does not apply to nurse tanks or applicators with a working surface designed for loading purposes.

11. Add the following subrule 6.3.1.1:

6.3.1.1 Containers designed with internal pressure relief systems are exempt from this requirement.

12. Strike subrule 9.7.3 in its entirety and insert in lieu thereof the following:

9.7.3 A cargo tank of 3,500 gallons or less water capacity may be unloaded into permanent storage locations meeting the requirements of 3.4.1 and 5.10.8 through 5.10.8.2 or into implements of husbandry meeting the requirements of Section 11. A cargo tank of greater than 3,500 gallons water capacity but not greater than 5,000 gallons water capacity may be unloaded at permanent storage locations meeting the requirements of 3.4 and 5.10.8 through 5.10.8.2 or into a portable application equipment container which is capable of holding the entire load. A cargo tank of greater than 5,000 gallons water capacity may only be unloaded into a permanent storage location meeting the requirements of 3.4 and 5.10.8 through 5.10.8.2 and capable of holding the entire load.

13. Strike subrule 11.3.5 in its entirety and insert in lieu thereof the following:

11.3.5 All vapor and liquid connections, except pressure relief valves and those specifically exempt in 5.5.5 and 5.5.6, shall be equipped with approved excess flow valves or may be fitted with quick-closing internal valves, which shall remain closed except during operating periods.

1. All vapor and liquid connections shall be closed except during operation periods.

2. Shared piping where multiple containers are plumbed together shall be equipped with additional excess flow valves or back-pressure check valves or both to meet the requirements of 5.10.8.

3. Mechanical remote shut-off valves may be added or substituted for excess flow valves in the piping after the vapor and liquid connections as a means of controlling the flow.

13. Strike subrule 11.6.1 in its entirety and insert in lieu thereof the following:

11.6.1 Each person operating, repairing appurtenances of, or inspecting a nurse tank shall comply with the following requirements:

1. Any person required to handle, transfer, transport, or otherwise work with ammonia shall be trained once each calendar year prior to handling to understand the properties of ammonia, to become competent in safe operating practices, and to take appropriate actions in the event of a leak or an emergency; and

2. Any person making, breaking or testing any ammonia connection, transferring ammonia or performing maintenance or repair on an ammonia system under pressure shall wear chemical splash goggles and protective gloves impervious to ammonia. A full face shield may be worn over the goggles. However, a face shield shall not be worn as a substitute for a primary eye protection device (goggles).

14. Strike subrule 11.6.2 in its entirety and insert in lieu thereof the following:

11.6.2 Each nurse tank shall be equipped with the following safety equipment and features:

1. Each container shall have for first-aid purposes at least 5 gallons (20 liters) of clean water in a container designed to provide ready access to the water for flushing any area of the body contacted by ammonia; and

2. A legible decal listing first-aid procedures to follow for injuries caused by ammonia.

15. Strike subrule 12.3.3 in its entirety and insert in lieu thereof the following:

12.3.3 An excess flow valve is not required in the vapor connections, provided that the controlling orifice is not in excess of 0.4375 inches (11.1 mm) in diameter and the valve is a hand-operated (attached hand wheel or equivalent) shut-off valve. Bleed off of vapors may be done into water meeting requirements of 5.10.10 if vapor connections cannot be made to the supplying vessel when filling applicator tanks. Vapors may be vented into the ground in the field of application under proper field conditions.

16. Strike subrule 12.4.1 in its entirety and insert in lieu thereof the following:

12.4.1 Each person operating, repairing appurtenances of, or inspecting an applicator tank shall comply with the following requirements:

1. Any person required to handle, transfer, transport, or otherwise work with ammonia shall be trained once each calendar year prior to handling to understand the properties of ammonia, to become competent in safe operating practices, and to take appropriate actions in the event of a leak or an emergency; and

2. Any person making, breaking or testing any ammonia connection, transferring ammonia or performing maintenance or repair on an ammonia system under pressure shall wear chemical splash goggles and protective gloves impervious to ammonia. A full face shield may be worn over the goggles. However, a face shield shall not be worn as a substitute for a primary eye protection device (goggles).

21—43.8(200) Groundwater protection fee.

43.8(1) There shall be paid by the licensee, as licensed under Iowa Code section 200.4, to the secretary for all commercial fertilizers and beneficial substances sold or distributed in this state, a groundwater protection fee of 75 cents per ton based on an 82 percent nitrogen solution. Other product formulations containing nitrogen shall pay a fee based on the percentage of actual nitrogen contained in the formulation with 82 percent nitrogen solution serving as the base. Product formulations containing less than 2 percent nitrogen shall be exempt from the payment of a groundwater protection fee. Payment of the groundwater protection fee by any licensee exempts all other persons, firms or corporations from the payment.

43.8(2) Every licensee and any person required to pay a groundwater protection fee under this chapter shall file not later than the last day of January and July of each year, on forms furnished by the secretary, a semiannual statement setting forth the number of net tons of commercial fertilizer or beneficial substances containing nitrogen that were distributed in this state during the preceding six-month period; and upon filing the statement shall pay the groundwater protection fee at the rate stated in subrule 43.8(1), except that manufacturers of individual packages of fertilizer containing 25 pounds or less shall file not later than the last day of July of each year, on forms furnished by the secretary, an annual statement setting forth the number of net tons of fertilizer containing nitrogen distributed in this state in packages of 25 pounds or less during the preceding 12-month period; and upon filing the statement shall pay the groundwater protection fee at the rate stated in subrule 43.8(1).

43.8(3) All licensees who distributed specialty fertilizer, as defined in Iowa Code section 200.3(5), or apply specialty fertilizer for compensation, shall file not later than the last day of July of each year, on forms furnished by the secretary, an annual statement setting forth the number of tons of fertilizer containing nitrogen distributed in this state and listing the manufacturer from which the product was purchased but no groundwater protection fee shall be due.

21—43.9(200) Minimum requirements for registration of fertilizer and beneficial substances.

43.9(1) Fertilizer and beneficial substances submitted for registration may be required to be tested for a minimum of two growing seasons in at least three Iowa crop reporting districts in accordance with standards for efficacy testing. The results of testing shall be reviewed by the secretary or person authorized by the secretary. The testing requirement may be waived if research has been conducted with crops and under conditions relevant to the state of Iowa. The Secretary or person authorized by the secretary may require the applicant for registration to submit an economic or environmental impact statement.

43.9(2) Applications for registration shall include methods of laboratory analysis of products used for achieving results consistent with the label guarantee.

43.9(3) Fertilizer or beneficial substances submitted for registration may be required to provide documented evidence of the safety of any ingredient in regards to human and animal health and the environment. The proof must be from a source other than the applicant unless scientifically reviewed.

21—43.10(200) Provisional product registration. A provisional product registration may be granted during the time required to complete efficacy testing to achieve product registration. Prior to the growing seasons or granting of a provisional product registration, the registrant must submit a plan for efficacy testing to the department for approval by the first day of February. A fee of $100 shall be collected for each provisional product registration. Annual reviews of provisional product registrations shall determine if satisfactory progress is being made toward achieving product registration. A provisional product registration may be canceled if it appears that conditions under which provisional product registration was granted have not been completed.

The registrant does not have the right to sell, distribute or promote any fertilizer or beneficial substances within the state of Iowa under a provisional product registration.

21—43.11(200) Review of product registrations. Fertilizer and beneficial substance registrations may be reviewed to determine that the product meets claims, guarantees and labeling for which registration was granted. If credible cause can be demonstrated that product claims have not been substantiated, registration may be canceled. A new registration may be submitted once the minimum requirements for registrations of the canceled fertilizers or beneficial substances has been satisfied.

21—43.12(200) Product claims.

43.12(1) Product claims may be substantiated by one of two methods:

a. Efficacy testing; or

b. Substantiation of data relevant to Iowa crops and soils. Efficacy testing and substantiation shall be completed when requested by the department to support claims made for fertilizer and beneficial substances that are sold, distributed or offered for sale in Iowa.

43.12(2) Documentation substantiating product claims by efficacy testing shall contain the following information:

a. All guaranteed ingredients must be identified and indicated by percentage.

b. State the crop or soil response being measured.

c. The research facility and investigators conducting the trials.

d. Dates and locations of trials.

e. The trials must be conducted, utilizing the principles of experimental design and methods consistent with those in agricultural research. This involves raw data from proper treatment selection, replication and randomization in such a manner that statistical analysis of data is possible.

f. Exclude consumer testimonials.

21—43.13(201A) Definitions. When used in this chapter:

"Agricultural liming material" means a product containing calcium and magnesium compounds capable of neutralizing soil acidity.

"Brand" means the term, designation, trade name, product name, or other specific designation under which individual agricultural liming material is offered for sale.

"Bulk" means in nonpackaged form.

"Calcium carbonate equivalent" means the acid-neutralizing capacity of an agricultural liming material expressed as percentage of pure calcium carbonate.

"Effective calcium carbonate equivalent" or *"ECCE"* means the acid-neutralizing capacity of an agricultural liming material or specialty limestone.

"Fineness" means the percentage by weight of the material that will pass U.S. standard sieves of specified sizes.

"Industrial by-product" means agricultural liming material containing calcium or a combination of calcium with magnesium and capable of neutralizing soil acidity that is derived from any industrial waste or by-product.

"Label" means any written or printed material on or attached to the package or on the delivery ticket that accompanies bulk shipments.

"Limestone" means a material consisting essentially of calcium carbonate or a combination of calcium carbonate with magnesium carbonate capable of neutralizing soil acidity.

"Pelletized lime" means agricultural liming material containing calcium or a combination of calcium with magnesium and capable of neutralizing soil acidity that has been processed into pellet or granular form, with or without binding agents.

"Percent" or *"percentage"* means by weight.

"Permanent production facilities" means stationary crushing and screening equipment that is immobile.

"Person" means individual, partnership, association, firm or corporation.

"Portable plant" means mobile crushing and screening equipment mounted on wheels.

"Quarry lime" means agricultural liming material containing calcium or a combination of calcium with magnesium that has been excavated from the earth and processed by crushing and screening and capable of neutralizing soil acidity.

"Specialty limestone" means agricultural liming material distributed primarily for nonfarm use, such as home gardens, lawns, shrubbery, flowers, golf courses, municipal parks, cemeteries, greenhouses and nurseries.

"Ton" means a net weight of 2,000 pounds avoirdupois.

"Water treatment lime" means agricultural liming material containing calcium or a combination of calcium with magnesium and capable of neutralizing soil acidity that is derived from water treatment plants.

"Weight" means the weight of undried agricultural liming material or specialty limestone offered for sale.

21—43.14(201A) Determination of ECCE. Agricultural liming material or specialty limestone offered for sale, sold or otherwise distributed in this state shall be analyzed on the basis of the number of pounds of effective calcium carbonate equivalent per ton, using the method set forth in this rule.

43.14(1) A fineness factor shall be determined as follows:

a. Multiply the percent of the total material passing the number 4 sieve by one-tenth.

b. Multiply the percent of the total material passing the number 8 sieve by three-tenths.

c. Multiply the percent of the total material passing the number 60 sieve by six-tenths.

d. Add the results obtained from paragraphs 43.14(1)*"a," "b"* and *"c"* to obtain the fineness factor.

43.14(2) Multiply the fineness factor obtained by using the method in subrule 43.14(1) by the percent of calcium carbonate equivalent in the material to obtain the percent of ECCE.

43.14(3) The percent of ECCE obtained in subrule 43.14(2) shall be reduced by the percent of moisture contained in the sample.

43.14(4) Multiply 2,000 pounds by the percent ECCE obtained in subrule 43.14(3) to determine the number of pounds of ECCE per ton of agricultural liming material or specialty limestone.

21—43.15(201A) Sample procedure.

43.15(1) Samples of agricultural liming material for analyzing the number of pounds of ECCE shall be obtained by taking samples from the manufacturer's production belt or stockpile. A minimum of one sample and up to five samples shall be taken at locations where there are permanent production facilities each year that agricultural liming material is being produced. Samples shall be taken at locations where there are no permanent production facilities once during the time that a portable plant is at the location producing agricultural liming material. Subsequent samples will be taken either during the period that the portable plant is at the location or from the stockpile created, until a total of three

to five representative samples from the pile have been accumulated and submitted for analysis. The manufacturer or producer of agricultural liming material shall notify the secretary of agriculture or person or persons appointed by the secretary of the production of agricultural liming material seven calendar days prior to the manufacture or production of agricultural liming material so that samples may be obtained by a person or persons appointed by the secretary in compliance with this rule.

43.15(2) Samples of specialty limestone for analyzing the number of pounds of ECCE shall be submitted to the secretary of agriculture by the manufacturer or producer of specialty limestone for analysis in accordance with rule 21—43.16(201A).

43.15(3) Samples of agricultural liming material may be obtained from manufacturers' or producers' production belts, stockpiles or in transportation and analyzed for compliance with certification requirements of rule 21—43.18(201A). Samples of specialty limestone may be obtained from packages and analyzed for compliance with certification requirements of rule 21—43.18(201A).

43.15(4) Samples of water treatment plant lime for analyzing the number of pounds of ECCE shall be obtained by taking samples from the water plant designated sampling point. Samples shall be taken when agricultural liming material is being taken off-site for land application. The producer of the agricultural liming material shall notify the secretary of agriculture or person(s) appointed by the secretary about the intent to land apply the liming material seven calendar days prior to the land application when agricultural liming material is stockpiled so that samples may be obtained in compliance with this rule.

21—43.16(201A) Sample analysis. Samples of agricultural liming material or specialty limestone obtained as provided in rule 21—43.15(201A) shall be submitted to a certified commercial lab whose services have been retained by the department for analysis of acid neutralization capacity expressed as calcium carbonate equivalent, percentage of material passing a 4-, 8- and 60-mesh sieve and the percentage of moisture contained in the sample. The results of the analysis of each sample shall be submitted to the secretary of agriculture.

21—43.17(201A) Sample fee. The manufacturer or producer of agricultural liming material or specialty limestone shall pay a fee of no more than $60 per sample collected. This fee may be adjusted by the secretary of agriculture by a separate notice letter to each manufacturer or producer to reflect as accurately as possible the actual cost of sampling and testing expended by the Iowa department of agriculture and land stewardship for each sample collected.

21—43.18(201A) Certification.

43.18(1) The secretary of agriculture shall, upon receipt of the analysis provided in rule 21—43.16(201A), certify the number of pounds of ECCE, using the method provided in rule 21—43.14(201A). The certification shall be forwarded to the manufacturer or producer from whom the sample was obtained by written notice and sent by United States mail.

Each certification of ECCE should be based on the average of a maximum of five analyses from five samples. Each new analysis received should be added to the previous five analyses and the oldest analysis shall be omitted. Fewer than five analyses shall be averaged on the basis of the actual number of analyses. Nothing in this rule shall preclude a manufacturer or producer from having a certification on separate stockpiles of agricultural liming material provided that each stockpile shall be separated from any other stockpile and each separate stockpile has been sampled and certified as required.

43.18(2) All agricultural liming material or specialty limestone offered for sale, sold or otherwise distributed shall be offered for sale, sold or distributed by the pound of ECCE. Any person who offers for sale, sells or distributes agricultural liming material or specialty limestone shall affix or cause to be affixed to every bill of lading, scale ticket, delivery receipt or other instrument of sale or package the certification of the secretary of agriculture of the number of pounds of ECCE per ton in the agricultural liming material or specialty limestone. The certification shall be in the following form: Iowa Secretary of Agriculture Certified _____ pounds ECCE per ton. The pounds of ECCE certified by the secretary of agriculture for the agricultural liming material or specialty limestone shall be inserted in the space provided.

43.18(3) Agricultural liming material that has been further processed, subsequent to certification, as provided in rule 21—43.14(201A), including but not limited to decreasing or increasing moisture content, shall have the certification adjusted accordingly. Within 48 hours from the time of delivery, the adjusted certification shall be provided to the ultimate consumer of the agricultural liming material in writing together with the certification as provided in subrule 43.18(2) and shall accurately reflect the ECCE of the agricultural liming material.

43.18(4) All agricultural liming material and specialty limestone certifications shall expire on January 1, three years after being issued, provided no samples have been obtained and analyzed.

21—43.19(201A) Compliance with certification. If official sampling and analysis of agricultural liming material or specialty limestone in accordance with subrule 43.15(3) and rule 21—43.16(201A) indicates that the agricultural liming material or specialty limestone does not meet a minimum of 90 percent of the certification as provided in rule 21—43.18(201A), the secretary shall notify the manufacturer or producer of the agricultural liming material or specialty limestone that the certification must be corrected prior to any further sale, distribution or offer for sale of the agricultural liming material or specialty limestone in Iowa. The secretary may request that monetary reimbursement be made to the purchaser to rectify the deficiency of the agricultural liming material or specialty limestone and that the monetary reimbursement be reported to the department. Reimbursement must be made within 30 days of the reported deficiency.

21—43.20(201A) Labeling. Agricultural liming material shall not be offered for sale, sold or otherwise distributed in this state unless a label accompanies the agricultural liming material that provides the identification of the type of agricultural liming material in accordance with rule 21—43.13(201A).

21—43.21(201A) Toxic materials prohibited. It shall be unlawful for any manufacturer or producer of agricultural liming material or specialty limestone to sell, distribute or offer for sale any agricultural liming material or specialty limestone that contains toxic materials in quantities injurious to plant, animal, human or aquatic life or that causes soil or water contamination. The secretary may require additional laboratory analysis be conducted and results submitted to the department by the manufacturer or producer of agricultural liming material or specialty limestone to determine that the product does not contain an injurious quantity of toxic materials.

21—43.22(201A) Added materials. It shall be unlawful to sell, distribute or offer for sale any agricultural liming material or specialty limestone that contains other added materials unless the added materials are registered and guaranteed as provided in Iowa Code section 200.5(1), except binding materials used in the production of pelletized lime as defined in rule 21—43.13(201A).

21—43.23(201A) Egg shells. The following shall apply to any agricultural liming material that consists primarily of egg shells:

1. With the exception of numbered paragraph "2," the material shall be stored in a structure that prevents precipitation from contacting the stored material.
2. The material may be stored in a manner not meeting the requirements of numbered paragraph "1" for a period of not more than 14 days in the field where the material will be land-applied.

These rules are intended to implement Iowa Code chapters 200 and 201A.

ARC 0678D

AGRICULTURE AND LAND STEWARDSHIP DEPARTMENT[21]

Notice of Intended Action

Proposing rulemaking related to animal welfare and providing an opportunity for public comment

The Agriculture and Land Stewardship Department hereby proposes to rescind Chapter 67, "Animal Welfare," Iowa Administrative Code, and to adopt a new Chapter 67 with the same title.

Legal Authority for Rulemaking

This rulemaking is proposed under the authority provided in Iowa Code section 162.16.

State or Federal Law Implemented

This rulemaking implements, in whole or in part, Iowa Code chapter 162.

Purpose and Summary

This proposed rulemaking rescinds and replaces Chapter 67 to clarify animal welfare requirements, remove duplicative provisions, and update standards for regulated commercial establishments. The proposed rules require annual veterinary examinations for dogs and cats in commercial breeders' care; address licensing and animal counting for guardian-home arrangements; and strengthen grooming, preventive veterinary care, housing, sanitation, fire safety, and emergency planning requirements. The rulemaking also establishes specific vaccination ages and intake deadlines, allows rescues to receive animals under the revised vaccination schedule, and updates veterinary agreement requirements. Amendments to dog-day-care provisions revise staffing thresholds and space requirements and provide flexibility in rest periods. The proposed rulemaking also updates recordkeeping and inspection provisions and extends licensing disqualification periods following revocation, relinquishment during a pending revocation, or court findings of animal mistreatment. These changes are intended to improve clarity, support consistent oversight, and protect animal health and welfare while updating operational requirements.

Regulatory Analysis

A Regulatory Analysis for this rulemaking was published in the Iowa Administrative Bulletin on July 8, 2026. A public hearing was held on the following date(s):

- July 29, 2026

Fiscal Impact

This rulemaking has no fiscal impact to the State of Iowa.

Jobs Impact

After analysis and review of this rulemaking, no impact on jobs has been found.

Waivers

Any person who believes that the application of the discretionary provisions of this rulemaking would result in hardship or injustice to that person may petition the Department for a waiver of the discretionary provisions, if any, pursuant to 7—Chapter 2504.

Public Comment

Any interested person may submit written comments concerning this proposed rulemaking, which must be received by the Department no later than 4:30 p.m. on November 17, 2026. Comments should be directed to:

Colin Tadlock
Iowa Department of Agriculture and Land Stewardship
Hoover State Office Building
1305 East Walnut Street
Des Moines, Iowa 50319
Email: colin.tadlock@iowaagriculture.gov

Public Hearing

No public hearing is scheduled at this time. As provided in Iowa Code section 17A.4(1)"b," an oral presentation regarding this rulemaking may be demanded by 25 interested persons, a governmental subdivision, the Administrative Rules Review Committee, an agency, or an association having 25 or more members.

Review by Administrative Rules Review Committee

The Administrative Rules Review Committee, a bipartisan legislative committee which oversees rulemaking by executive branch agencies, may, on its own motion or on written request by any individual or group, review this rulemaking at its regular monthly meeting or at a special meeting. The Committee's meetings are open to the public, and interested persons may be heard as provided in Iowa Code section 17A.8(6).

The following rulemaking action is proposed:

ITEM 1. Rescind 21—Chapter 67 and adopt the following **new** chapter in lieu thereof:

CHAPTER 67
ANIMAL WELFARE

21—67.1(162) Definitions.

"Acclimated" means the animal is accustomed to a climate or environment and has the ability to maintain its body temperature.

"Adequate grooming" means the provision of care necessary to maintain an animal's coat, skin, nails, ears, and overall hygiene in a condition that prevents pain, injury, disease or impairment of normal movement or bodily functions.

"Adequate space" means the animals contained within the primary enclosure all must have the ability to comfortably turn about, stand erect, sit or lie with limbs fully extended.

"Animal mistreatment" means the same as defined in Iowa Code chapter 717B.

"Breeding male or female" means any sexually intact adult dog or cat over 12 months of age.

"Cleaning" means the mechanical removal of organic matter and waste through the application of soap, detergent or other cleaning agent followed by the rinsing of all surfaces with clean water.

"Commingle" means to combine animals from different owners in a common area or enclosure.

"Common area" means any area where dogs are commingled for exercise or social interaction.

"Direct and immediate visual supervision" means a person providing visual supervision is located on the premises and within the line of sight of the animal and is available to provide immediate attention to the animals within the group.

"Distemper" means canine distemper virus or feline panleukopenia virus.

"Dog day care" means a facility licensed as a commercial kennel or a boarding kennel and designed and operated with the intention that a dog admitted to the facility is allowed, in compliance with this chapter, to commingle and interact with other dogs in one or more playgroups operating in the facility.

"Facility" means all buildings, yards, pens and other areas, or any portion thereof, at a single location in which any animal is kept, handled, or transported for the purpose of adoption, breeding, boarding, grooming, handling, selling, sheltering, trading, rescuing or otherwise transferring.

"Foster care home" means a private residence that is authorized to provide temporary shelter and care for dogs or cats that has been accepted by a foster oversight organization.

"Foster oversight organization" means a registered animal shelter or pound or licensed dealer that has been authorized by the department to utilize foster care homes in its operation.

"Group housing" means more than two animals housed together within the same primary enclosure.

"Guardian home" means a person or residence, other than a boarding kennel or commercial kennel, that pursuant to an agreement provides the primary housing and care of a breeding male or female for another person who is engaged in the business of breeding dogs or cats, and that provides that the person

who is engaged in the business of breeding dogs or cats retains a portion of breeding rights of the breeding male or female in the guardian home or retains interest in the offspring of the breeding male or female.

"Identification" means breed, color, markings, sex, and age of the dog or cat. If applicable, identification can also include a microchip number, rabies tag number, tattoo, or other similar form of identification.

"In-home facility" means an individual required to be licensed as a boarding kennel, commercial breeder, commercial kennel, or dealer who maintains or harbors animals within the individual's residence.

"Isolation" means the separation, for the period of communicability, of infected animals from other animals in such a place and under such conditions to prevent the direct or indirect transmission of the infectious agent from those infected to those that are susceptible or that may spread the agent to others.

"Isolation facility" means the location where animals infected with disease may be placed to contain, control and limit the spread of disease.

"Kennel" means a facility, location, or area where dogs or cats are brought together or commingled for the purpose of but not limited to boarding, grooming, or training.

"Licensee" means any person or facility authorized to operate pursuant to Iowa Code chapter 162.

"Parvo" means canine parvovirus or feline panleukopenia virus.

"Potable water" means liquid water suitable for drinking.

"Rescue" means a person or group of persons, licensed as a dealer, who holds itself out as an animal rescue, or who accepts, purchases, exchanges or solicits for dogs or cats with the intention of finding permanent adoptive homes or providing lifelong care for such dogs and cats or who uses foster homes as a primary means of housing dogs or cats.

"Rescue manager" means any person designated by a rescue to carry out the responsibilities of the rescue.

"Residence" means any area or space where a person lives or resides.

"Sanitize" means to disinfect inanimate objects to eliminate as many or all pathogenic microorganisms, except bacterial spores.

"Seizure and impoundment," as used in this chapter, means either of the following:

1. The confinement of the animals to the property of the owner or custodian of the animals with provisions being made for the care of the animals pending review and final disposition.
2. The physical removal of the animals to another facility for care pending review and final disposition.

"Transfer" means to adopt, sell, give away, trade, barter, exchange, return or convey ownership of an animal.

"Veterinarian" means a person who is validly and currently licensed to practice veterinary medicine in the state of Iowa.

21—67.2(162) Animals included in rules. "Dog," as that term is used in the rules, includes hybrid dog mixtures. "Animals," as that term is used in rules relating to boarding kennels, commercial kennels, commercial breeders, dealers, public auctions, and animal shelters, means dogs and cats. "Animals," as that term is used in rules relating to pounds and pet shops, means dogs, cats, rabbits, rodents, nonhuman primates, birds, or other vertebrate animals, excluding fish.

21—67.3(162) Housing facilities and primary enclosures.

67.3(1) *Housing facilities.*

a. Buildings shall be of adequate structure and maintained in good repair so as to ensure protection of animals from injury.

b. Shelter shall be provided to allow access to shade from direct sunlight and regress from exposure to wind, rain or snow. Heat, insulation, or clean and dry bedding adequate to provide comfort shall be provided when the atmospheric temperature is below 50°F or the temperature to which the particular animals are acclimated. Indoor housing facilities shall be provided for dogs and cats under

the age of eight weeks and for dogs and cats within two weeks of whelping. Dogs and cats that are not acclimated to the temperatures prevalent in the area or region where they are kept and sick, aged, young or infirm dogs and cats cannot be housed in outdoor facilities.

c. Temperature and humidity.

(1) Housing facilities for dogs and cats must be capable of controlling the temperature and humidity in the housing facility and sufficiently heated and cooled when necessary to protect dogs and cats from temperature or humidity extremes and to provide for their well-being.

(2) When dogs and cats are present, the ambient temperature in the housing facility cannot fall below 50°F for dogs and cats not acclimated to lower temperatures, for breeds that cannot tolerate lower temperatures without stress or discomfort, and for sick, aged, young or infirm dogs and cats except as approved by the attending veterinarian. Heat, insulation, clean and dry bedding or other methods of conserving body heat that are adequate to provide comfort shall be provided when the atmospheric temperature is below 50°F. The ambient temperature must not fall below 45°F or rise above 85°F for more than four consecutive hours when dogs or cats are present.

(3) Relative humidity must be maintained at a level that ensures the health and well-being of the animals housed in the housing facility, including:

1. Maintaining humidity levels between 30 percent and 70 percent; and
2. Rapidly eliminating odors from within the building.

d. Ventilation. Housing facilities shall at all times be provided with ventilation by means of doors, windows, vents, air conditioning or direct flow of fresh air that is adequate to provide for the good health and comfort of the animals. Such ventilation shall be environmentally provided so as to maintain adequate temperature and humidity and minimize drafts, moisture condensation, odors or stagnant vapors of excreta. Auxiliary ventilation, such as fans, blowers or air conditioning, must be provided when the ambient temperature is above 85°F.

e. Adequate lighting shall be provided by natural or artificial means, or both, during sunrise to sunset hours to allow efficient cleaning of the facilities, routine inspection of the facilities and animals contained therein and well-being of the animals.

f. Ceilings, walls and floors shall be constructed so as to lend themselves to efficient cleaning and sanitizing. Such surfaces shall be kept in good repair and maintained so that they are substantially impervious to moisture. Floors and walls to a height of four feet shall have finished surfaces. No sharp or jagged edges may be present that may injure an animal. Animal contact surfaces must be free of excessive rust that prevents required cleaning and sanitizing or that affects the structural strength of the surface or that may be detrimental to the health of the animal.

g. Food supplies and bedding materials shall be stored so as to adequately protect them from contamination or infestation by vermin or other factors that would render the food or bedding unclean. Separate storage facilities shall be used to store cleaning and sanitizing equipment and supplies. Cleaning and sanitation supplies must not be accessible to animals within the housing facility. Cleaning and sanitation supplies actively in use may be maintained within or immediately adjacent to a supervised play area when secured and inaccessible to animals.

h. Washrooms, basins or sinks for maintaining cleanliness among animal caretakers and the sanitizing of food and water supplies shall be provided within or be readily accessible to each housing facility.

i. Equipment shall be available for removal and disposal of all waste materials from housing facilities to minimize vermin infestation, odors and disease hazards. Drainage systems shall be functional to effect the above purposes.

j. Group housing is permitted for animals that are compatible with one another, except as otherwise stated herein. Adequate space shall be provided to prevent crowding and to allow freedom of movement and comfort to animals of the size that are housed in the facility. Females in estrus shall not be housed with males except for breeding purposes.

k. Facilities shall be provided to isolate diseased animals and to prevent exposure to healthy animals.

l. Outdoor dog areas shall be of sound construction and kept in good repair so as to safely contain the animal(s) therein without injury. Floors shall be concrete, gravel or materials that can be regularly cleaned and kept free of waste accumulation. Grass areas are permissible provided that adequate ground cover is maintained, holes are kept filled and the ground cover is not allowed to become overgrown. Ground cover composed of wood is permissible but must be removed daily. Artificial turf is permissible so long as it is regularly cleaned, it is kept free of waste accumulation, odor is controlled and the drainage system underneath is maintained. Dog areas utilizing wire floors are permissible provided that the wire floors are structurally sound and adequately maintained. Wire flooring cannot cause injury or discomfort to any animal contained in an outdoor area and must:

(1) Have a solid resting surface(s) of adequate size for the animal(s) to lie on their side; solid resting surface(s) must be of adequate size to contain all animals.

(2) Be in good repair, free of excessive rust that prevents required cleaning and sanitizing or that affects the structural strength of the surface or that may be detrimental to the health of the animal;

(3) Be free of jagged or sharp edges, and constructed so as to lend itself to efficient cleaning and sanitizing; and

(4) Be coated and of a gauge and construction to prevent bending and sagging and to prevent physical harm to an animal or entrapment of the toes or feet of an animal housed within the primary enclosure.

m. Housing facilities and areas used for storage of food or bedding must be free of trash, garbage, waste, weeds, debris and other materials potentially harmful to animals.

n. Animal areas must be kept clean, neat, and free of clutter.

o. The department may limit the number of animals allowed in any housing facility based on but not limited to the number of available primary enclosures, the animal care space available within a facility, or lack of available personnel to care for the animals.

p. Facilities must maintain working smoke alarms and have a means of fire suppression.

67.3(2) *Primary enclosures.*

a. Primary enclosures shall be of sound construction and maintained in good repair to protect the animals from injury. No sharp points, protruding wires or jagged edges may be present that may cause injury to an animal. Animal contact surfaces must be free of excessive rust that prevents required cleaning and sanitizing or that affects the structural strength of the surface or that may be detrimental to the health of the animal. Animal contact surfaces must also be free of jagged edges, sharp points and anything that may cause injury to an animal.

b. Construction materials and maintenance shall allow the animals to be kept clean and dry. Walls and floors shall be impervious to urine and other moisture and lend themselves to efficient cleaning and sanitizing.

c. A primary enclosure shall provide for adequate space appropriate for the age, size, weight, breed, and temperament of the animal.

d. The shape and size of the enclosure shall afford adequate space for the individual animal(s) within the enclosure. Adequate space includes but is not limited to allowing the animal the ability to comfortably reposition, turn about, stand erect, sit or lie while limbs are fully extended.

e. A nursing bitch or queen must be provided additional space. The amount of additional space required should be based on the breed and behavioral characteristics of the animal.

f. The department may limit the number of animals housed in a primary enclosure based on but not limited to the amount of available and usable floor space, personnel available to care for the animals and the compatibility of the animals within the enclosure.

g. Group housing.

(1) Group housing for animal shelters, pounds, commercial breeders, pet shops, dealers, public auctions or research facilities is permitted for animals that are compatible with one another, except as otherwise stated herein. Adequate space shall be provided to prevent crowding and to allow freedom of movement and comfort to animals of the size that are housed within the primary enclosure. No more than 12 adult dogs or cats may be housed in the same primary enclosure. Dogs and cats shall not

be housed in the same primary enclosure. Group housing shall not adversely affect the health of the animal(s).

(2) Group housing in boarding kennels and commercial kennels is permitted only if the animals are owned by the same person and are compatible or by operating as a dog day care as required in rule 21—67.8(162).

h. Elevated resting surfaces are required for all cats housed in groups of four or more. Elevated resting surfaces must be collectively large enough and of sufficient quantity to simultaneously hold all occupants of a primary enclosure and must be impervious to moisture, easily cleaned and sanitized, easily replaced, and of sufficient elevation for the cats enclosed in the primary enclosure to comfortably lie under the elevated surfaces.

i. Litter boxes containing clean litter shall be provided at all times for kittens and cats. Adequate litter boxes must be provided for the number of cats within a primary enclosure. Primary enclosures must have adequate space for a litter box so that litter does not contaminate food and water. Litter boxes must:

(1) Be cleaned at minimum once daily or more often as necessary to prevent the accumulation of animal waste and odor;

(2) Contain adequate litter and be of adequate size; and

(3) Be cleaned and sanitized in a separate sink from food and water containers. If a separate sink is not available, then the sink must be cleaned and sanitized after the litter boxes are washed and before anything else is washed in the sink.

j. Animal waste, including used cat litter, must be removed from primary enclosures at minimum once daily or more frequently to prevent the accumulation of waste, to prevent contamination of the animals contained within the primary enclosure, and to eliminate odors and must be discarded in accordance with state, county and local ordinances.

k. Means shall be provided to maintain the temperature, humidity and ventilation as described in subrule 67.3(1) that are comfortable for the species within the primary enclosure. Lighting shall be adequate to allow observation of the animals, but the animals shall be protected from excessive illumination.

l. Animals shall be removed from their primary enclosures at least twice in each 24-hour period and exercised unless the primary enclosure is of sufficient size to provide for sufficient exercise. The amount of exercise should be appropriate for the age, breed, and health condition of the animal. Impounded animals, animals deemed too dangerous to be removed from the primary enclosure, and animals undergoing rabies quarantine may be exempt from removal from their primary enclosure but must be housed in a primary enclosure large enough to allow for exercise within the primary enclosure. Animals under the medical supervision of a veterinarian may be exempt in writing from exercise if exemption is deemed medically appropriate by the attending veterinarian.

m. Doghouses with tethered restraints cannot be used as primary enclosures for dogs or for the purpose of exercise.

n. Primary enclosures containing wire flooring cannot cause injury or discomfort to any animal contained in the primary enclosure, and the wire flooring must:

(1) Have a solid resting surface(s) of adequate size for the animal(s) to lie on their side; Solid resting surface(s) must be of adequate size to contain all animals within the primary enclosure.

(2) Be in good repair, free of excessive rust that prevents required cleaning and sanitizing or that affects the structural strength of the surface or that may be detrimental to the health of the animal;

(3) Be free of jagged or sharp edges, and constructed so as to lend itself to efficient cleaning and sanitizing; and

(4) Be coated and of a gauge and construction to prevent bending and sagging and to prevent physical harm to an animal or entrapment of the toes or feet of an animal housed within the primary enclosure.

o. When primary enclosures are stacked, all stacked enclosures must be secured so that the upper primary enclosure(s) cannot fall in a manner that may cause injury or harm to any animal. A means to prevent urine, feces, and other debris from passing into or being discharged into the underlying primary enclosure(s) is required.

p. All enclosures must be impermeable to water and easily cleaned and sanitized.

q. Bedding within primary enclosures must be easily cleaned and sanitized or disposable. Bedding must be removed or cleaned and sanitized every 24 hours or more frequently as necessary to maintain cleanliness.

r. Primary enclosures shall utilize latches that cannot be inadvertently opened or shall be equipped with some form of locking device so as to prevent the accidental release of the animal contained in the primary enclosure.

21—67.4(162) General care and husbandry standards.

67.4(1) *Feeding and watering.*

a. All species covered under Iowa Code chapter 162 shall be provided with adequate feed and adequate water as defined in Iowa Code chapter 162.

b. Young animals and animals under veterinary care shall be fed and given water at more frequent intervals and with specific diets as their needs dictate.

c. Water must be provided as often as necessary for the health and comfort of the animal. The frequency of providing water should be appropriate to the species, age, condition, and size of the animal as well as the environmental conditions.

d. Water for dogs and cats must be made available at minimum two times daily for at least one hour each time.

e. The containers for food and water must be:

(1) Readily accessible;

(2) Located to minimize contamination with excreta;

(3) Made of durable material that can easily be cleaned and sanitized or be disposable;

(4) Appropriate for the species, size, age and breed of animal; and

(5) Replaced after a single use if the receptacles are disposable.

67.4(2) *Cleaning and sanitation.*

a. Housing facilities and primary enclosures shall be cleaned a minimum of once in each 24-hour period and more frequently as may be necessary to reduce disease hazards and odors. Dirt, hair, excreta (including but not limited to urine and feces), food waste, and other debris shall be removed from a primary enclosure daily or at a frequency to prevent their accumulation and the contamination of the animals contained within the primary enclosure. Pressure water systems or live steam may be used for cleaning if animals are removed while the cleaning takes place.

b. Housing facilities and primary enclosures shall be sanitized at intervals not to exceed two weeks or sanitized more frequently as may be necessary to reduce disease hazards. Sanitizing shall be done by washing the surfaces with hot water (at least 180°F (82.2°C)) and soap or detergent, followed by the application of a safe and effective disinfectant. Runs and exercise areas having gravel or other nonpermanent surface materials shall be sanitized by periodic removal of soiled materials, application of suitable disinfectants, and replacement of the soiled materials with clean surface materials. Dirt, hair, excreta, food waste, and other debris shall be removed before sanitizing begins. Manufacturer labels shall be followed for dilution and contact time for all soaps, detergents, disinfectants, or other chemicals used for sanitization.

c. An effective program shall be established and maintained for the control of vermin infestation.

d. Before a primary enclosure, food or water container or bedding is used for another animal, the primary enclosure, food or water container or bedding shall be cleaned and sanitized.

67.4(3) *Veterinary care.*

a. Programs of disease prevention and control shall be established in writing and maintained for all commercial establishments. Programs shall be approved by a veterinarian annually at time of veterinary agreement/inspection.

(1) Commercial establishments, excluding commercial kennels and boarding kennels, shall include:

1. Vaccination schedules, intestinal parasite control (fecals, deworming, etc.), heartworm and ectoparasite prevention, and dental schedules,

2. Cleaning and sanitation protocols,

3. Isolation and emergency procedures, and

4. Grooming practices.

(2) Commercial kennels and boarding kennels shall include:

1. Vaccination requirements,

2. Cleaning and sanitation protocols, and

3. Isolation and emergency procedures.

b. Sick, diseased or injured animals shall be provided with prompt veterinary care or disposed of by euthanasia. Euthanasia must be performed in a manner deemed acceptable by and published in the American Veterinary Medical Association Guidelines for Euthanasia of Animals: 2020 Edition.

c. All species regulated under Iowa Code chapter 162 that are infected with infectious, contagious or communicable diseases shall be immediately placed into isolation facilities as provided for in this paragraph to prevent exposure to healthy animals. Isolation facilities must be an area separate from the remainder of the animals in a facility with the ability to contain disease and to reduce the risk of disease spread. Animals in isolation must be cared for separately from the remainder of the animals in a facility. All equipment and supplies used for animals in an isolation facility must be cleaned and disinfected prior to removal from the isolation facility or discarded in a manner that prevents disease spread.

d. Vaccination.

(1) Rabies vaccination.

1. Dogs and cats 16 weeks of age and older within all commercial establishments must be vaccinated for rabies.

2. Rabies titers shall not be accepted by a commercial establishment in lieu of a rabies vaccination.

3. There are no exemptions for rabies vaccination.

4. Dogs and cats under 16 weeks of age not vaccinated for rabies must not be commingled, except with their dam and littermates.

5. Animal shelters, rescues and pounds must vaccinate dogs and cats older than 16 weeks of age in their care for rabies within 14 days of a dog or cat entering the care of the licensee.

(2) Distemper and parvo virus vaccination.

1. Commercial establishments, excluding animal shelters, rescues and pounds. All dogs and cats taken into the care of a dealer (excluding rescue) or transported into housing facilities regulated under Iowa Code chapter 162, excluding animal shelters, rescues and pounds, shall have been vaccinated against distemper and parvo before entering the housing facility or being taken into the care of a dealer (excluding rescue). Dogs and cats may be exempted from distemper or parvo vaccination, or both, by direct written recommendation of the owner's veterinarian stating vaccination would endanger the animal's life; however, dogs and cats that have been exempted may not be commingled.

2. Animal shelters, rescues and pounds must vaccinate dogs and cats in their care for distemper and parvo within 14 days of a dog or cat entering the animal shelter, rescue or pound.

3. All commercial establishments must keep dogs and cats current on vaccinations for rabies, distemper and parvo while in their care.

(3) Vaccine titers shall not be accepted as a form of vaccine verification.

(4) Vaccine verification for admittance of a dog or cat into a commercial establishment, excluding animal shelters and pounds, must be from a veterinarian. Vaccine records and written vaccine exemptions shall be kept on file (paper or electronic).

e. Dogs and cats brought into the state of Iowa must meet importation requirements under rule 21—Chapter 65.

f. Commercial establishments, excluding commercial kennels and boarding kennels, shall enter into a written agreement with a veterinarian licensed by the state of Iowa to provide veterinary care for the animals maintained in the facility. The agreement shall include a requirement that the veterinarian visit the facility at least once every 12 months for the purpose of viewing all the animals in the facility, making a general determination concerning the health/disease status of the animals, and reviewing the facility's program for disease prevention and control. Rescues without facilities and pounds are exempt from the veterinarian visiting the facility. If during the course of the visit the veterinarian identifies an

animal that requires a more detailed individual examination to determine the specific condition of the animal or to determine an appropriate course of treatment, then such examination shall be undertaken.

g. Commercial kennels and boarding kennels must have a written agreement with a veterinarian licensed by the state of Iowa to provide veterinary care for an animal in their care should veterinary care be required. The agreement must be updated every two years.

h. If during an inspection of a facility the department finds an animal that appears to have a physical condition or disease that, in the opinion of the inspector, requires a veterinarian's attention, the department may order that the licensee subject the animal to a veterinarian's examination at the licensee's expense. The department may require the licensee to submit written proof of the veterinarian's examination and results of the examination within a time frame set by the department.

67.4(4) *Personnel.*

a. The owner or personnel shall be present at least once in each 24-hour period to supervise and ascertain that the care of animals and maintenance of facilities conform to all of the provisions of Iowa Code chapter 162.

b. A sufficient number of qualified personnel shall be utilized to provide the required care of animals and maintenance of facilities.

67.4(5) *Grooming.* Adequate grooming must be performed as often as necessary to prevent matting, excessive dirt or debris accumulation, overgrown nails, and conditions that may adversely affect the animal's health or welfare.

21—67.5(162) Transportation.

67.5(1) *Primary enclosures for transportation.* Primary enclosures are required within transportation vehicles.

a. Primary enclosures utilized in transportation shall:

(1) Be of sound construction, maintained in good repair to ensure protection of animals from injury, and readily cleaned and sanitized;

(2) Be free of sharp points, jagged edges or protrusions that could injure the animal; and

(3) Securely contain the animal so that the animal cannot injure itself, its handler or any persons or animals nearby.

b. Floors and lower sides shall be constructed or covered on the inner surfaces so as to contain excreta and bedding materials.

c. Adequate space shall be provided so that the animal(s) contained in the primary enclosure may comfortably turn about, stand erect, sit and lie.

d. Openings shall be provided in primary enclosures so that adequate ventilation can be maintained when the primary enclosures are positioned in the transporting vehicle.

e. Primary enclosures shall be cleaned and sanitized before each trip and between animals.

f. The temperature within primary enclosures shall not be allowed to exceed the atmospheric temperature. During transportation, the ambient temperature inside the primary enclosure cannot exceed 85°F for a period of more than four hours, nor may the temperature fall below 45°F for a period of more than four hours. Auxiliary ventilation, such as fans, blowers or air conditioning, must be used in the animal space when the ambient temperature in the space reaches 85°F.

67.5(2) *Vehicles.*

a. Protection shall be afforded to primary enclosures transported in the vehicle, sheltering the animals from drafts and extremes of hot or cold temperatures to which they are not acclimated.

b. Primary enclosures used in transportation shall be securely positioned in the vehicle to protect the animals from injury.

67.5(3) *Care in transit.*

a. Animals in transit shall be provided adequate feed and adequate water as defined in Iowa Code chapter 162.

b. Incompatible animals shall not be placed together during shipment. Females in estrus shall not be placed in the same primary enclosure with a male.

c. Animals shall be inspected at least once in each four-hour period and the primary enclosures cleaned if necessary and the emergency needs of the animals attended to immediately.

d. Animals shall be removed for exercise and their enclosures cleaned if the animals have been en route for a 12-hour period.

21—67.6(162) Purchase, sale, trade and adoption.

67.6(1) Records shall be made and retained for a period of 12 months for any change of ownership of a dog, cat or nonhuman primate, including but not limited to any intake, sale, exchange, transfer, trade, or adoption from any commercial establishment. Records shall be similarly kept on other small vertebrate animals sold or transferred, except that individual identifications shall not be required. Records shall include the following:

a. Date of change of ownership;

b. Identification of animal;

c. Names, mailing addresses, telephone numbers, and email addresses, if available, of seller and purchaser or transferor and recipient;

d. State of Iowa animal welfare license number of the seller or transferor;

e. Source of the animal;

f. Date animal entered the care of and left the care of the commercial establishment;

g. Method and date of euthanasia, if applicable;

h. Transfer of animal within or between commercial establishments;

i. List of prophylactic immunization(s) given, including date(s) administered (if applicable);

j. List of internal parasite medication(s) given and date(s) administered (if applicable); and

k. Description of other medical care provided to the animal, including type of medical care received and date(s) of medical care.

l. For commercial breeders, a written record of dogs and cats in their possession, including identification, date of acquisition and date of departure.

67.6(2) All commercial establishments shall furnish a statement of sale, exchange, transfer, trade, or adoption to each purchaser or recipient of a dog, cat, nonhuman primate, bird, or other vertebrate animal. This statement shall include the following:

a. Names, mailing addresses, telephone numbers, and email addresses, if available, of the seller or transferor and the purchaser or recipient;

b. State of Iowa animal welfare license number of the seller or transferor;

c. Date of sale, transfer, trade, adoption, exchange or any other change of ownership;

d. Description or identification of vertebrate sold;

e. List of prophylactic immunization(s) given, including date(s) administered (if applicable);

f. List of internal parasite medication(s) given and date(s) administered (if applicable); and

g. Description of other medical care provided to the animal, including type of medical care received and date(s) of medical care.

67.6(3) All vertebrate animals regulated under Iowa Code chapter 162 that are known to be exposed to or show symptoms of having infectious, contagious or communicable diseases or that show symptoms of parasitism or malnutrition sufficient to adversely affect the health of the animals are restricted from sale or transfer. The secretary of agriculture may order quarantine on premises or housing facilities in which any of the conditions listed in this subrule exist. Quarantine shall be removed when at the discretion of the secretary or the secretary's designee, the disease conditions for which quarantined are no longer evident and the apparent health of the animals indicates absence of contagion.

67.6(4) Facilities must develop, document, and follow a contingency plan to maintain the required standards of care of their animals in the event of an emergency or disaster.

21—67.7(162) Boarding kennels, commercial kennels, animal shelters, pounds, dealers, guardian homes.

67.7(1) *Boarding kennels and commercial kennels.*

a. Records shall be made and retained for a period of 12 months for each animal boarded, groomed or trained. Records shall include the following:

(1) Owner's name, address, telephone number and email address;

(2) Identification of animal;

(3) Duration of animal's stay;

(4) Service(s) provided;

(5) Any illnesses that have occurred and veterinary treatment the animal received; and

(6) Written documentation of the animal's vaccinations or vaccination exemptions from a veterinarian.

b. Grooming and training utensils and equipment shall be cleaned and sanitized between use on animals owned by different persons.

67.7(2) *Animal shelters and pounds.*

a. Animal shelters and pounds shall develop and implement a plan providing for the surgical sterilization of all dogs and cats released, unless exempted from this provision in accordance with Iowa Code section 162.20(5).

b. Sterilization agreements shall contain the following:

(1) The name, address, email address and signature of the person receiving custody of the dog or cat.

(2) A complete description of the animal, including any identification.

(3) The signature of the representative of the pound or animal shelter.

(4) The date that the agreement is executed and the date by which sterilization must be completed.

(5) A statement that states the following:

1. Sterilization of the animal is required pursuant to Iowa Code section 162.20.

2. Ownership of the dog or cat is conditioned upon the satisfaction of the terms of the agreement.

3. Failure to satisfy the terms of the agreement constitutes a breach of contract, requiring the return of the dog or cat.

4. A person failing to satisfy the sterilization provisions of the agreement is guilty of a simple misdemeanor.

d. In addition to maintaining the records required by subrule 67.6(1), animal shelters and pounds shall maintain, for a period of 12 months, the following records:

(1) Euthanasia records, including date of entry, source of animal, and date of euthanasia.

(2) Sterilization agreements, including confirmation of sterilization in the form of a receipt furnished by the office of the attending veterinarian.

(3) Disposition records of all animals lawfully claimed by owners, research facilities, or Class B federal dealers.

e. A pound or animal shelter may apply in writing for a sterilization enforcement waiver pursuant to Iowa Code section 162.20(5)*"b"* if the pound or animal shelter is subject to an ordinance by a city or county that includes stricter requirements than provided in Iowa Code section 162.20. The application shall include the name, license number, mailing address, email and telephone number of the pound or animal shelter; the specific requirement of Iowa Code section 162.20 for which the application seeks a waiver; a copy of any prior waivers and a certified copy of the ordinance providing the basis for the waiver application. A waiver application fee of $10 shall accompany the application. The waiver will be effective for one year.

f. A pound or animal shelter shall be subject to civil penalties as provided in Iowa Code section 162.20(3)*"c"* for not procuring and maintaining required records documenting compliance with the sterilization agreement, successfully seeking return of the animal from a noncompliant custodian, failing to effect a sterilization agreement when required for an animal that is released, or seeking legal recourse as provided in Iowa Code section 162.20(4). The pound or animal shelter shall be entitled to appeal pursuant to Iowa Code chapter 17A.

67.7(3) *Dealers.*

a. A dealer license is required to operate as a dealer in Iowa. This requirement applies to residents and nonresidents of Iowa, including dealers with foster homes in Iowa.

b. Dogs and cats brought into the state of Iowa must meet the importation requirements stated in rule 21—65.10(163).

c. A dealer with housing facilities must meet the requirements provided for housing facilities and primary enclosures in rule 21—67.3(162) and in-home facilities in rule 21—67.9(162).

d. A dealer must maintain records and statement of sales as provided for in rule 21—67.6(162).

e. A dealer approved by the department to act as a fostering oversight organization must meet the requirements for fostering oversight organizations and foster care homes provided in rule 21—67.11(162). A dealer may not utilize or oversee a foster home without prior written authorization of the department.

67.7(4) *Guardian homes.*

a. A person utilizing guardian homes engaging in the business of selling or exchanging dogs or cats, or both, where the guardian home does not own the breeding dogs or cats as a principal or agent, will only operate pursuant to a state license or a permit issued or renewed by the department as provided in Iowa Code section 162.7.

b. A person utilizing guardian homes engaging in the business of selling or exchanging dogs or cats, or both, where the guardian home does own the breeding dogs or cats, will only operate pursuant to a state license or a permit issued or renewed by the department as provided in Iowa Code section 162.8 unless the guardian home owns or harbors three or fewer breeding males or females.

c. In determining whether a person who is engaged in the business of breeding dogs or cats is a commercial breeder based upon the number of dogs or cats the person owns or harbors, dogs or cats in a guardian home shall be included in the count if the person who is engaged in the business of breeding retains any portion of ownership of the dog or cat in the guardian home.

21—67.8(162) Dog day cares.

67.8(1) *Purpose.* The purpose of a dog day care is to allow dogs participating in the day care to become socialized through interaction in playgroups with other compatible dogs.

67.8(2) *Subclassification of license.* Dog day cares can operate as a subclassification of a commercial kennel license or boarding kennel license by complying with rule 21—67.8(162).

67.8(3) *Approval based on number of dogs.* The department will approve a dog day care for a maximum number of dogs based on but not limited to available space, available staff, and staff's ability to supervise dogs.

67.8(4) *Facility requirements.* A facility licensed to be a dog day care shall meet the housing facility and primary enclosure requirements provided for in rule 21—67.3(162). The dog day care shall also comply with the following facility requirements:

a. Group interaction is permitted for dogs, including dogs owned by different owners, that are compatible with one another. A facility licensed as a dog day care shall comply with all requirements in this rule during all hours of operation.

b. The play area for dogs shall provide for a minimum of 25 square feet per dog. Play areas must have a sign placed at the entry of the play area stating the maximum number of dogs allowed in the play area at any one time.

c. Each dog attending dog day care must have a primary enclosure. When not under direct supervision, dogs at a dog day care must be housed within a primary enclosure at all times. Group housing within a primary enclosure is permitted for dogs from the same household that are compatible with one another.

67.8(5) *Sanitation requirements.* A facility licensed to be a dog day care shall comply with the cleaning and sanitation standards provided for in rule 21—67.4(162) and the following requirements:

a. All areas to which a dog has access shall be cleaned and sanitized a minimum of once in each 24-hour period and more frequently as may be necessary to reduce disease hazards and odors.

b. Used primary enclosures, food and water containers and bedding must be cleaned and sanitized before they can be used for another animal.

67.8(6) *Operations.* A facility licensed to be a dog day care shall comply with the following operational standards:

a. A dog, including a dog owned by the dog day care owner or a dog day care employee, shall be admitted into a dog day care only after the day care has:

(1) Subjected the dog to a pre-entry screening process that adequately evaluates the temperament of the dog, the dog's ability to interact with other dogs in a positive manner, and the dog's ability to interact with humans in a positive manner. A written record of the screening shall be maintained by the facility for the time the dog is enrolled in the dog day care.

(2) Obtained from the dog's owner written documentation of the medical history of the dog, including the dog's current vaccination status against distemper, parvo and rabies. Vaccinations are required as outlined in rule 21—67.4(162).

(3) Obtained written documentation that the dog has been spayed or neutered if the dog is over six months of age.

(4) Obtained a written acknowledgment from the dog's owner that the owner understands the inherent risk of injury or disease when dogs owned by different people are allowed to commingle. This written acknowledgment shall be separately signed or initialed by the dog's owner.

b. The dog day care shall separate dogs in the dog day care into playgroups comprised of compatible dogs. Dogs of incompatible personalities or temperaments shall be maintained separately. The day care shall not admit any dog into the day care if the dog has a predisposition to be possessive of either the facility or a person owning or working in the facility. The day care shall not admit any dog that is known to have a predisposition of aggression toward other dogs or people.

c. The dog day care shall make advance arrangements in writing with a veterinarian to provide emergency veterinary care for dogs at the dog day care. This agreement must be updated every two years.

d. A sick, diseased or injured dog shall be immediately removed from the playgroup and isolated. If circumstances indicate that immediate veterinary care is required, the dog shall be taken to a veterinarian or a veterinarian shall be called to examine the dog. The veterinarian can be either a veterinarian whose services have been contracted for by the dog day care or the veterinarian designated by the dog's owner, if a timely examination by that veterinarian is feasible.

e. The feeding of a dog and giving of snacks to a dog shall only be provided when the dog receiving the food or snack is contained within a primary enclosure. Treats for the purpose of training or managing a group of dogs are permissible.

f. A dog day care shall not establish a playgroup composed of more than 60 dogs.

g. A dog day care shall employ sufficient staffing so that there is a minimum of one person supervising each playgroup with 20 or fewer dogs, two people supervising each playgroup with 21 to 40 dogs, and three people supervising each playgroup with 41 to 60 dogs. The person(s) supervising a playgroup must provide constant direct and immediate visual supervision at all times.

h. At all times, a dog day care must ensure that dogs are safe within the dog day care group.

i. Rest time within a primary enclosure or designated quiet area must be provided for a minimum of two hours per day for dogs in day care for more than four hours per day. Direct supervision is not required while dogs are housed within primary enclosures. Rest time does not have to be consecutive hours and can be broken up into smaller increments based upon the age, temperament, health and activity of the dog.

21—67.9(162) In-home facilities.

67.9(1) *Maximum number of animals.* An in-home facility may not maintain or harbor more than six adult animals, including both breeding dogs or cats and surgically sterilized dogs or cats, in the individual's residence.

67.9(2) *Standards.* Notwithstanding subrules 67.4(1) and 67.4(2), an in-home facility shall comply with the following standards:

a. Food supplies and bedding shall be stored so as to adequately protect them from contamination or infestation by vermin or other factors that would render the food or bedding unclean. Separate storage facilities shall be used to store cleaning and sanitizing equipment and supplies.

b. Adequate lighting shall be provided by natural or artificial means, or both, during sunrise to sunset hours. Animals shall be protected from excessive illumination.

c. The building shall be of adequate structure and maintained in good repair so as to ensure protection of animals from injury.

d. Facilities shall be available to isolate diseased animals to prevent exposure to healthy animals.

e. Outdoor areas shall meet standards provided for in subrule 67.3(l).

f. Group housing is permitted as provided for in paragraph 67.3(2)*"g."*

g. Every animal in an in-home facility must have a designated primary enclosure.

h. Litter boxes containing clean litter shall be provided at all times for kittens and cats. Litter boxes must be maintained as provided for in paragraph 67.3(2)*"i."*

i. Means shall be provided to maintain the temperature, humidity and ventilation as described in subrule 67.3(1).

j. Exercise shall be provided as described in subrule 67.3(2).

k. Housing facilities shall be cleaned as set out in subrule 67.4(2) to reduce disease hazards, and an effective program shall be established and maintained for the control of vermin infestation. All surfaces within the in-home facility must be readily cleaned and maintained in good repair.

21—67.10(162) Rescues.

67.10(1) *Rescue manager.* A rescue must designate a rescue manager to carry out the responsibilities of the rescue. The responsibilities of a rescue manager include but are not limited to the following:

a. Establishing criteria for approving foster homes;

b. Approving foster homes;

c. Supervising dogs and cats taken into the care of the rescue;

d. Monitoring and ensuring all foster homes under the rescue's oversight are providing proper care and compliance with relevant laws and rules; and

e. Maintaining rescue records. Such records shall include but are not limited to the following:

(1) Source of the dog or cat;

(2) Date of placement of the dog or cat into a foster home;

(3) Adoption records;

(4) Disposition of dog or cat (if applicable);

(5) Medical care received by the dog or cat; and

(6) Vaccination and deworming records.

67.10(2) *Records.* Rescue records must be made available to the department upon request. A rescue must maintain records and statement of the sale, exchange, transfer, trade or adoption as provided for in rule 21—67.6(162).

67.10(3) *Vaccine requirements.* All dogs and cats taken in by or in the possession of a rescue shall be vaccinated as provided in rule 21—67.4(163). Rescues must provide vaccine records or written exemptions to the department upon request.

67.10(4) *Importation requirements.* Dogs and cats brought into the state of Iowa must meet the importation requirements stated in rule 21—65.10(163).

67.10(5) *Housing facilities and primary enclosures.* A rescue with housing facilities must meet the requirements for housing facilities and primary enclosures in rule 21—67.3(162). Rescues operating as in-home facilities must meet the requirements in rule 21—67.9(162).

67.10(6) *Foster care homes.* A rescue approved by the department to act as a foster oversight organization must meet the requirements for foster oversight organizations and foster care homes provided in rule 21—67.11(162). A dealer may not utilize or oversee a foster care home without prior written authorization of the department.

67.10(7) *General care and husbandry.* A rescue must meet the general care and husbandry standards provided for in rule 21—67.4(162).

67.10(8) *Transportation.* A rescue transporting animals must meet the requirements provided in rule 21—67.5(162).

21—67.11(162) Foster oversight organizations and foster care homes.

67.11(1) A registered animal shelter, registered pound or licensed dealer shall not operate a foster care home or operate an organization that utilizes a foster care home unless the shelter, pound or dealer is in compliance with this rule and other applicable provisions of this chapter and Iowa Code chapter 162. If an out-of-state organization is utilizing foster care homes in Iowa, that organization must also be licensed or registered in the state of Iowa as an animal shelter, pound or dealer.

67.11(2) A registered animal shelter, registered pound or licensed dealer may apply to the department for a permit authorizing the shelter, pound or dealer to utilize one or more foster care homes in carrying out its mission of providing for the care and maintenance of an animal that has been taken in or entrusted to the animal shelter, pound or dealer. For purposes of this rule, an animal shelter, pound or dealer that has been granted such authorization shall be considered a foster oversight organization. Failure to obtain a permit as a foster oversight organization constitutes a violation of this chapter.

67.11(3) A registered animal shelter, registered pound or licensed dealer seeking to obtain a permit to be a foster oversight organization shall make application to the department on a form prescribed by the department. The application shall be submitted to the department at the same time that the registered animal shelter, registered pound or licensed dealer submits its certificate of registration renewal or license renewal application. The permit application shall provide sufficient information to allow the department to determine the ability of the proposed foster oversight organization to provide adequate screening and oversight of any foster care home operating under the authority of the foster oversight organization.

a. Such application shall include but not be limited to the following information:

(1) The proposed foster oversight organization's plan for providing oversight of the foster care home. The plan shall include the frequency of inspections of the foster care home by the foster oversight organization and the criteria to be used by the foster oversight organization in reviewing the foster care home during periodic inspections. The plan shall also include the actions to be taken by the foster oversight organization in the event that the foster oversight organization determines that the foster care home is not adequately providing for the animals in the foster care home. Foster oversight organizations shall inspect foster care homes annually, at minimum, and an annual written inspection report must be on file with the foster oversight organization. Annual inspection reports shall be retained for a minimum of two years.

(2) The name, mailing address, email address and telephone number of the staff person connected with the proposed foster oversight organization who will have primary responsibility for administering the proposed foster care program.

(3) The name, mailing address, email address and telephone number of a secondary staff person connected with the proposed foster oversight organization who will have responsibility for administering the proposed foster care program in the absence of the primary administrator.

(4) The number of foster care homes the foster oversight organization is applying for and currently oversees. During the first year of application, the foster oversight organization will be limited to a maximum of 20 foster care homes. Upon renewal of the foster oversight organization permit, the foster oversight organization may apply for more than 20 foster care homes, subject to the approval of the department.

(5) Copies of all forms utilized by the foster oversight organization. This includes but is not limited to inspection forms and applications.

(6) The number of paid employees, both full-time and part-time, working for the foster oversight organization, the number of volunteers serving the foster oversight organization, and the number of volunteer hours utilized per week.

(7) The criteria used to determine if a foster care home is capable of caring for an animal.

(8) The actions taken by the foster oversight organization if the foster care home is unable to care for an animal.

b. If the foster oversight organization changes locations, a new application must be submitted.

c. If the primary or secondary contact listed on the application is no longer associated with the foster oversight organization, the department must be notified and provided with the name, mailing address, email address and telephone number of the staff person administering the foster care program.

d. The foster oversight organization must provide documentation to demonstrate that the foster oversight organization has sufficient infrastructure to adequately supervise all foster care homes and the care of the animals within the foster care homes.

67.11(4) The initial approval of a foster oversight organization shall be in effect only until the next expiration date of the registered animal shelter's, registered pound's, or licensed dealer's license. Thereafter, a foster oversight organization permit renewal shall be concurrent with the facility's certificate of registration or license renewal unless circumstances otherwise require.

Foster oversight agreements must be renewed yearly at the same time that the registered animal shelter, registered pound, or licensed dealer submits its license renewal application and fee. The renewal agreement must contain the number of foster care homes for which the animal shelter or pound is requesting approval.

67.11(5) A foster oversight organization shall require that all persons seeking to operate a foster care home under the foster oversight organization submit a written application to the foster oversight organization specifying the proposed foster care home's qualifications, including but not limited to the ability of the foster care home to provide adequate care, exercise, feed, water, shelter, space, and veterinary care.

67.11(6) A foster oversight organization shall not be authorized to approve more than 20 foster care homes during the first year of operation. In granting a permit to a foster oversight organization, the department may further restrict the number of foster care homes a particular foster oversight organization may utilize if the department determines that the foster oversight organization does not have adequate personnel to supervise the number of foster care homes for which authorization was sought or the adequate ability to care for all animals in foster care. The department may authorize the foster oversight organization to approve more than 20 foster care homes only if the department finds that the foster oversight organization has and maintains adequate personnel assigned to provide sufficient oversight of foster care homes.

67.11(7) A foster oversight organization shall not authorize a foster care home to have in its care more than six dogs and cats, including dogs and cats owned by the foster care home, with the exception of a litter of puppies or kittens under 16 weeks of age. A litter of puppies or kittens under 16 weeks of age is considered the equivalent of one dog or cat. The mother of the litter of puppies or kittens is considered one dog or cat. No more than two litters of puppies or kittens under 16 weeks of age may be in a foster home at any given point in time.

67.11(8) A person who has been found to have engaged in or participated in an act constituting animal abandonment, neglect, cruelty, or abuse shall not be authorized to operate a foster care home. In addition, if a person has had a license or permit issued under Iowa Code chapter 162 or under the United States Department of Agriculture's animal care program revoked or has surrendered that person's license in lieu of revocation, then that person shall not be authorized to operate a foster care home.

67.11(9) A foster oversight organization shall not place a sexually intact dog or cat in a foster care home where there is a sexually intact dog or cat of the opposite sex of the same species unless the foster oversight organization determines that the fostered dog or cat is too young to breed. If the foster oversight organization determines that a sexually intact dog or cat may be placed in a foster care home with another sexually intact dog or cat of the opposite sex of the same species because the fostered dog or cat is too young to breed, then the foster oversight organization shall monitor the physical development of the fostered dog or cat to either remove the dog or cat before it is capable of breeding or to neuter or spay the fostered dog or cat.

67.11(10) The foster oversight organization shall retain a copy of all the following documents for a period of 24 months and shall make such documents available for inspection by the department during regular business hours:

a. Applications to operate a foster care home, including any written approvals, conditional approvals, or denials.

b. Inspections or other reports relating to the operation of a foster care home. Inspection forms must be kept on file for each foster home. Inspections of a foster care home must be conducted by the foster oversight organization at minimum yearly.

c. Any written complaints or notes written by staff of the foster oversight organization relating to an oral complaint against a foster care home.

d. Any documents relating to the investigation or other resolution of a complaint regarding a foster care home.

e. Any documents relating to the revocation or suspension of a foster care home's authorization.

f. A current list of animals in foster care homes.

67.11(11) The foster oversight organization shall maintain detailed records as to which animals have been placed in a foster care home, when each animal was placed in a foster care home, and the ultimate disposition of each animal.

67.11(12) All adoptions and euthanasia of animals placed in a foster care home shall be the responsibility of the foster oversight organization and shall not be performed by the foster care home unless an emergency euthanasia must be performed by a licensed veterinarian to prevent the needless suffering of the animal.

67.11(13) All deaths, injuries, or emergency euthanasia occurring within a foster care home shall be reported to the foster oversight organization within 24 hours of the event.

67.11(14) It is the primary responsibility of the foster oversight organization to provide for oversight and regulation of its foster care homes; however, the department may choose to inspect a foster care home if the department determines that it would be in the best interests of the animals being maintained in the foster care home to conduct the inspection or if the department deems an inspection desirable to determine whether a foster oversight organization is properly fulfilling its role of screening and oversight of foster care homes. If the department determines that either serious or chronic problems exist in a foster care home, the department may order the foster oversight organization to suspend or rescind the authorization of the foster care home. The foster oversight organization shall immediately obtain physical examinations of all animals previously placed in the foster care home.

67.11(15) If the department determines that a foster oversight organization is not providing adequate screening or oversight of its foster care homes, the department may suspend or rescind the foster oversight organization's authorization to use foster care homes.

67.11(16) If the department suspends or revokes the license of an animal shelter, pound or dealer that is also a foster oversight organization, then the authorization to operate of the foster oversight organization and that of the foster care homes operating under the foster oversight organization shall immediately cease.

21—67.12(162) Public health.

67.12(1) Animal wardens aiding in the enforcement of the provisions of Iowa Code chapter 162 shall enlist veterinary aid in programming control measures to protect the public from zoonotic diseases that may be suspected to be on the premises of a licensee or registrant.

67.12(2) Animals, housing facilities, or premises may be placed under quarantine by order of the secretary of agriculture when it is deemed necessary to protect the public from zoonotic diseases or to contain the spread of infectious, contagious or communicable disease.

21—67.13(162) Access, seizure and impoundment.

67.13(1) *Access to facilities and records.* The premises, housing facilities and records required by Iowa Code chapter 162 and this chapter shall be open for inspection by authorized personnel of the department during the department's normal business hours. Failure to be available for inspection or refusing to allow inspection constitutes a violation of this chapter.

67.13(2) *Seizure and impoundment.*

a. Failure of any pound, animal shelter, pet shop, boarding kennel, commercial kennel, commercial breeder, public auction or dealer to adequately house, feed, water or care for the animals in the person's or facility's possession or custody may subject the animals to seizure and impoundment. Seizure and

impoundment shall be at the discretion of the secretary of agriculture. Standards to guide discretion shall include but not be limited to the following:

(1) An assessment of the condition of the animals, including but not limited to direct visual examination. Such assessment may include procedures and testing necessary to accurately determine disease, nutritional, and health status.

(2) An assessment as to the likelihood that the condition of the animals will deteriorate if action is not taken.

(3) An assessment as to the degree of failure to provide for the animals. Primary consideration will be based on the general health of the animals and the adequacy with which the animals are being provided with food, water, shelter, sanitary conditions, grooming, or veterinary care.

(4) An assessment as to the history, if any, of the facility's compliance, noncompliance, and willingness to take corrective action. Such an assessment will be based on past inspection reports completed by regulatory personnel from the appropriate licensing agency.

(5) Court determination, if any, as to the existence of cruelty, abuse or neglect under Iowa Code chapter 717B.

(6) The willingness of the facility to allow frequent monitoring and the ability of the department or local law enforcement officers to provide this service.

(7) A determination as to whether adequate impoundment facilities or resources exist and are available for use by the department for the seizure and impoundment of animals.

b. In proceeding under this subrule, the department may either:

(1) Petition the court in the county where the facility is located for an ex parte court order authorizing seizure and impoundment, either separately or as part of an action commenced pursuant to Iowa Code chapter 717B. The petition shall request an expedited hearing within seven days of the order for seizure and impoundment. The expedited hearing shall determine final disposition of the animals seized and impounded.

(2) Issue an administrative order authorizing seizure and impoundment. The order shall state the finding of facts on which issuance of the order was based. The order shall be personally served upon the owner or manager of the facility. If the owner or manager cannot be found after a reasonable effort to locate, the notice shall be posted conspicuously at the facility. The notice shall state the time and place of an administrative hearing to determine the appropriateness of the seizure and impoundment; and if such seizure and impoundment is upheld, then the hearing shall determine final disposition of the animals seized and impounded.

The administrative hearing shall be held within three days of the seizure unless a continuance is agreed upon by the department and the owner. A decision at the administrative hearing will not be stayed by the department for more than 48 hours pending appeal without a court order. However, the department may delay the disposition if the department determines the delay is desirable for the orderly disposition of the animals. Unless otherwise provided in this subrule, the department will follow adopted departmental rules on the conduct of the administrative hearing.

c. The release of animals for final disposition to the department will allow for the sale, adoption or euthanasia of the animals. Determination of the most appropriate option for final disposition of a specific animal shall reside with the department and be based on but not limited to the animal's physical health, the presence of any condition that would necessitate treatment of significant duration or expense, and the appropriateness of the animal as a pet. All due consideration shall be given to the sale or adoption of an animal as the preferable option of disposition.

d. Any moneys generated from the sale or adoption of animals shall be used to provide compensation for the cost of care of the animals while impounded or the cost of disposition. Any residual moneys shall be directed to the owner. If the moneys generated from the sale and adoption of the animals are insufficient to meet the costs incurred in caring for the animals, the difference may be recovered in an action against the owner of the animals.

e. The department may arrange for impoundment services, including final disposition, with any licensed facility able to adequately provide for the care and disposition of the animals. Animals for which an order is issued authorizing seizure and impoundment shall be individually identified and

records maintained relating to their care and final disposition. The department, or its representatives, shall be allowed access during normal business hours to the records and impounded animals.

f. In lieu of seizure and impoundment, the secretary of agriculture may authorize a one-time dispersal of animals, including by sale, as a remedial option. The owner may petition the department in writing for full or partial dispersal. The petition shall address the terms and conditions for dispersal that are being requested. The department may require additional terms and conditions. The terms and conditions governing dispersal will be contingent upon department approval. Such approval shall be in writing.

g. Conditions of this subrule and subrule 67.13(1) and Iowa Code sections 162.13 and 162.14 shall likewise apply to all eligible licensees and registrants, whether or not they have been properly licensed by Iowa Code chapter 162.

21—67.14(162) Loss of license or denial of license.

67.14(1) If the license of a licensee is revoked or is relinquished by the licensee while a revocation action is pending, the licensee shall not be eligible to reapply for a new license for at least five years from the date of the revocation or relinquishment. If a licensee has been found in court to have committed an act of animal mistreatment, the licensee shall not be eligible for a new license for at least five years if the act is a misdemeanor or at least eight years if the act is a felony from the date of the revocation or relinquishment. If an applicant has been found in court to have committed an act of animal mistreatment, the applicant shall not be eligible for a license for at least five years if the act is a misdemeanor or at least eight years if the act is a felony from the date of the conviction or guilty plea. The prohibition against relicensure or licensure in this subrule shall include any partnership, firm, corporation, or other legal entity in which the person has a substantial interest, financial or otherwise, and any person who has been or is an officer, agent or employee of the licensee during the period of time in which the violation upon which the revocation or conviction was based occurred. The department may waive the five-year bar to relicensure arising from a revocation or relinquishment of a license where a revocation action was pending. Such waiver shall be made on a case-by-case basis. Such waiver shall only be given if the department finds that the conditions that resulted in the revocation or revocation action have been addressed and there is little likelihood that they will be replicated.

67.14(2) If the license of a licensee is revoked or if the license is voluntarily relinquished by the licensee, the licensee shall file with the department a written plan detailing the numbers and types of animals in its facilities and how these animals are going to be legally disposed of to ensure that the animals are being humanely handled and to ensure that the remaining animals are being maintained properly. The licensee shall submit this plan to the department no later than ten calendar days from the date of revocation or relinquishment of the license.

21—67.15(162) Applicability to commercial establishments with federal licenses. In addition to obtaining the permit from the department, any person who operates a commercial establishment under a current and valid federal license shall provide care ensuring adequate feed, water, and housing facilities and appropriate sanitary control, grooming practices and veterinary care. The department has the authority to inspect the premises and the required records.

21—67.16(162) Acceptable forms of euthanasia. The euthanasia of all animals kept in facilities regulated under Iowa Code chapter 162 and these rules shall be performed in a manner deemed acceptable by and published in the American Veterinary Medical Association Guidelines for Euthanasia of Animals: 2020 Edition.

21—67.17(162) Research facilities.

67.17(1) *Definitions.* For purposes of this rule, the following definitions are used:

"Animal rescue organization" means a person other than an animal shelter operating on a nonprofit basis to place unwanted, abandoned, abused, or stray dogs or cats in permanent adopted homes.

"Qualified research facility" means the following:

1. A research facility, including but not limited to a regents institution, that conducts experiments on dogs or cats for research, education, testing, or another scientific purpose, and that receives moneys from the state or federal government.

2. A research facility that conducts experiments on dogs or cats for research, education, testing, or another scientific purpose, in collaboration with a research facility described in paragraph "1."

"Retired animal" means a dog or cat confined at a qualified research facility if the dog or cat has been previously used for research, education, testing, or another scientific purpose, and the dog or cat is no longer required to be confined by the qualified research facility for any of those purposes.

67.17(2) *Adoption program required.*

a. A qualified research facility shall enter into a written agreement with an animal shelter or animal rescue organization to facilitate the placement of retired animals. The qualified research facility shall include signed copies of each agreement annually upon renewal of authorization.

b. A retired animal must have no substantial medical condition, and pose no safety risk to the public, that would prevent the dog's or cat's successful integration into a permanent adoptive home.

c. A qualified research facility may offer to transfer ownership and custody of the retired animal to a person for private placement in the person's permanent adoptive home according to an arrangement agreed to by the qualified research facility and the person. The qualified research facility shall keep a record of the transfer, including contact information of the individual taking possession of the retired animal, and shall retain the record for a period of at least 12 months.

67.17(3) *Records required.* Records must be made available to the department upon request. A qualified research facility must maintain records and statement of the sale, exchange, transfer, trade or adoption as provided for in rule 21—67.6(162). Records shall be made and retained for a period of 12 months.

21—67.18(162) Commercial breeders—annual physical examination. Dogs and cats in the care of a commercial breeder must have at least one regular veterinary physical examination from nose to tail not less than once every 12 months. Record of examination must be kept in writing and available for inspection.

These rules are intended to implement Iowa Code chapter 162.

ARC 0674D

PUBLIC SAFETY DEPARTMENT[661]

Notice of Intended Action

Proposing rulemaking related to peace officers' retirement, accident and disability system—governance and administration and providing an opportunity for public comment

The Department of Public Safety hereby proposes to rescind Chapter 400, "Peace Officers' Retirement, Accident, and Disability System—Governance and Administration," Iowa Administrative Code, and to adopt a new Chapter 400 with the same title.

Legal Authority for Rulemaking

This rulemaking is proposed under the authority provided in Iowa Code section 97A.5 and Executive Order 10.

State or Federal Law Implemented

This rulemaking implements, in whole or in part, Iowa Code chapter 97A.

Purpose and Summary

Pursuant to Executive Order 10, the Board of Trustees of the Public Safety Peace Officers' Retirement, Accident, and Disability System (PORS) proposes to rescind Chapter 400 and adopt a

new chapter in lieu thereof. The purpose of this proposed chapter is to outline the governance and administration for the PORS established by Iowa Code chapter 97A.

Regulatory Analysis

A Regulatory Analysis for this rulemaking was published in the Iowa Administrative Bulletin on September 2, 2026. A public hearing was held on the following date(s):

- September 24, 2026

Fiscal Impact

This rulemaking has no fiscal impact to the State of Iowa.

Jobs Impact

After analysis and review of this rulemaking, no impact on jobs has been found.

Waivers

Any person who believes that the application of the discretionary provisions of this rulemaking would result in hardship or injustice to that person may petition the Department for a waiver of the discretionary provisions, if any.

Public Comment

Any interested person may submit written or oral comments concerning this proposed rulemaking, which must be received by the Department no later than 4:30 p.m. on November 18, 2026. Comments should be directed to:

Josie Wagler
Department of Public Safety
Oran Pape State Office Building
215 East 7th Street
Des Moines, Iowa 50319
Phone: 515.725.6185
Email: wagler@dps.state.ia.us

Public Hearing

Public hearings at which persons may present their views orally or in writing will be held as follows:

November 17, 2026 1 to 1:30 p.m.	First Floor Public Conference Room 125 Oran Pape State Office Building Des Moines, Iowa
November 18, 2026 9 to 9:30 a.m.	First Floor Public Conference Room 125 Oran Pape State Office Building Des Moines, Iowa

Persons who wish to make oral comments at a public hearing may be asked to state their names for the record and to confine their remarks to the subject of this proposed rulemaking.

Any persons who intend to attend a public hearing and have special requirements, such as those related to hearing or mobility impairments, should contact the Department and advise of specific needs.

Review by Administrative Rules Review Committee

The Administrative Rules Review Committee, a bipartisan legislative committee which oversees rulemaking by executive branch agencies, may, on its own motion or on written request by any individual or group, review this rulemaking at its regular monthly meeting or at a special meeting. The Committee's meetings are open to the public, and interested persons may be heard as provided in Iowa Code section 17A.8(6).

The following rulemaking action is proposed:

ITEM 1. Rescind 661—Chapter 400 and adopt the following **new** chapter in lieu thereof:

CHAPTER 400
PEACE OFFICERS' RETIREMENT, ACCIDENT, AND DISABILITY SYSTEM—GOVERNANCE AND ADMINISTRATION

661—400.1(97A) Establishment of system. The department of public safety peace officers' retirement, accident, and disability system is established by Iowa Code chapter 97A. The administrative rules governing the system are found in this chapter and in 661—Chapters 401 through 403.

661—400.2(97A) Definitions. The following definitions apply to 661—Chapters 400 through 403.

"Active member," "actively engaged member" or *"member in service"* means a currently employed peace officer of the department of public safety who is not reemployed pursuant to Iowa Code section 97A.3(3).

"Board" means the board of trustees of the system.

"Commissioner" means the commissioner of the department of public safety who also serves as the chairperson of the board of trustees.

"Department" means the Iowa department of public safety.

"Line-of-duty death" means the death of a member in service that was the direct and proximate result of a traumatic personal injury incurred in the line of duty. "Line-of-duty death" does not include the death of a member that resulted from stress; strain; occupational illness; or a chronic, progressive, or congenital illness, including but not limited to a disease of the heart, lungs, or respiratory system, unless a traumatic personal injury was a substantial contributing factor to the member's death. "Line-of-duty death" does not include the death of a member if the death results in eligibility for payment of a line-of-duty death benefit pursuant to Iowa Code section 100B.11 and 661—Chapter 291.

"Medical attention" means services provided by licensed medical personnel including but not limited to office, hospital, in-home nursing care, nursing home care, long-term care and prescriptions for medicine or equipment.

"Medical board" means a board of three physicians appointed by the board of trustees pursuant to Iowa Code section 97A.5(8).

"Retired member" means a person formerly employed as a peace officer of the department who is currently receiving or has received pension benefits from the system.

"Secretary" means an employee of the administrative services division of the department designated by the division director to provide staff support to the board.

"System" or *"peace officers' retirement system"* means the department's peace officers' retirement, accident, and disability system.

661—400.3(97A) Governance. The system is governed by a board of trustees appointed and elected as provided in Iowa Code section 97A.5(1).

400.3(1) *Terms of office.* Terms of office of members of the board of trustees are as follows:

a. The commissioner of public safety shall serve a term that is concurrent with appointment as commissioner of public safety.

b. The treasurer of state shall serve a term that is concurrent with the term of treasurer of state.

c. The actively engaged member of the system shall serve a two-year term commencing on July 1 of an odd-numbered year and terminating on June 30 of the next odd-numbered year.

d. The retired member of the system shall serve a two-year term commencing on July 1 of an even-numbered year and terminating on June 30 of the next even-numbered year.

e. The member appointed by the governor shall serve a two-year term commencing on May 1 of the year of appointment and terminating on April 30 in the year of expiration.

400.3(2) *Election of board members.*

a. The actively engaged member shall be elected by secret ballot of the actively engaged members of the system. The retired member shall be elected by secret ballot of the retired members of the system. The actively engaged member shall be elected in odd-numbered years, and the retired member shall be elected in even-numbered years.

b. At least 90 days prior to the start of the term of office for the actively engaged member or the retired member, the secretary shall distribute a write-in nomination ballot to each member of the system who is eligible to vote. The deadline for return of the ballots shall be established by the secretary at no less than 30 days nor more than 35 days after the date of distribution of the ballots and shall be printed on each ballot. In order to record a nomination, a member shall return the nomination ballot with a postmark or by personal delivery prior to the deadline specified on the ballot, filled in with the name of the member whom the member casting the ballot wishes to nominate.

c. The secretary shall contact each of the nominees who receive the three highest numbers of nominations to determine if each nominee is willing to serve if elected. For each nominee contacted who is unwilling to serve, the secretary shall contact the next nominee in descending order of nominations until three nominees willing to serve are identified.

d. The names of those three eligible members willing to serve if elected who receive the highest number of write-in nominations shall be placed on an election ballot.

e. The secretary shall distribute election ballots to the members of the system who are eligible to vote. The deadline for return of the ballots shall be established by the secretary at no less than 30 days nor more than 35 days after the date of distribution of the ballots and shall be printed on each ballot. Any eligible member who receives a ballot and wishes to vote shall return the ballot to the secretary with a postmark or by personal delivery prior to the deadline printed on the ballot with a choice of one of the three candidates listed indicated. The candidate who receives the highest number of votes shall serve as the actively engaged member or the retired member of the system on the board of trustees.

f. In the event that two of the three candidates tie with the highest number of votes, a new election ballot with the names of the two candidates who tied shall be distributed by regular mail by the secretary to all members who are eligible to vote. The deadline for return of the ballots shall be established by the secretary at no less than 30 days nor more than 35 days after the date of distribution of the ballots and shall be printed on each ballot. Any eligible member who wishes to vote shall return the ballot to the secretary prior to the deadline with the member's preference indicated. The candidate who receives the highest number of votes shall serve as the actively engaged member or the retired member on the board of trustees.

g. In the event that all three candidates receive the same number of votes in the initial election balloting or that the two remaining candidates receive the same number of votes in an election held to break a tie between two candidates, the selection of the board member shall be determined by drawing of lots under the supervision of the commissioner of public safety, acting as chairperson of the board of trustees.

400.3(3) *Vacancies.* A vacancy in a position held by an elected member shall be filled in the same manner as the original election, and the newly elected member shall serve for the balance of the original term for the position filled.

661—400.4(97A) Meetings of board of trustees. The board of trustees shall meet at least quarterly or upon the call of the chairperson. A quorum of the board shall consist of three members. For purposes of a quorum or for voting, a member may participate in person, by audio conference or by videoconference.

661—400.5(97A) Forms and information. Persons who wish to obtain forms or information about the peace officers' retirement, accident, and disability system shall address requests to: Peace Officers' Retirement System, Iowa Department of Public Safety, State Public Safety Headquarters Building, 215 East 7th Street, Des Moines, Iowa 50319, por@dps.state.ia.us

661—400.6(97A) Annual statements.

400.6(1) As soon as practical after the close of each fiscal year, a statement of account shall be furnished to each actively engaged member, which shall include the member's contribution for the year.

400.6(2) As soon as practical after the end of a calendar year, and in any event within any deadlines for this purpose established by the Internal Revenue Service or the Iowa department of revenue, a Form 1099 or an equivalent shall be prepared for and mailed to each person who received benefits during the year. The form shall detail the total pension paid during the year and shall comply with any applicable requirements established by the Internal Revenue Service and the Iowa department of revenue.

661—400.7(97A) Investments. Investments of assets of the system shall be administered through the office of the treasurer of state. The board of trustees has the authority to direct the investment of funds, including but not limited to the execution of contracts with appropriately qualified individuals or firms to provide advice regarding investments.

661—400.8(97A) Medical board.

400.8(1) The medical board shall consist of three physicians, including at least one occupational medicine specialist, with the knowledge and experience to adequately evaluate the fitness for duty of a peace officer.

400.8(2) The board of trustees shall ratify the composition of the medical board and all subsequent changes to the composition of the medical board. The board of trustees may review the composition of the medical board at any time.

These rules are intended to implement Iowa Code chapter 97A.

ARC 0677D

PUBLIC SAFETY DEPARTMENT[661]

Notice of Intended Action

Proposing rulemaking related to peace officers' retirement, accident, and disability system—administrative procedures and providing an opportunity for public comment

The Department of Public Safety hereby proposes to rescind Chapter 401, "Peace Officers' Retirement, Accident, and Disability System—Administrative Procedures," Iowa Administrative Code, and to adopt a new Chapter 401 with the same title.

Legal Authority for Rulemaking

This rulemaking is proposed under the authority provided in Iowa Code section 97A.5 and Executive Order 10.

State or Federal Law Implemented

This rulemaking implements, in whole or in part, Iowa Code chapter 97A.

Purpose and Summary

Pursuant to Executive Order 10, the Board of Trustees of the Public Safety Peace Officers' Retirement, Accident, and Disability System (PORS) proposes to rescind Chapter 401 and adopt a new chapter in lieu thereof. The purpose of this proposed chapter is to outline administrative procedures as it relates to the PORS.

Regulatory Analysis

A Regulatory Analysis for this rulemaking was published in the Iowa Administrative Bulletin on September 2, 2026. A public hearing was held on the following date(s):

- September 24, 2026

Fiscal Impact

This rulemaking has no fiscal impact to the State of Iowa.

Jobs Impact

After analysis and review of this rulemaking, no impact on jobs has been found.

Waivers

Any person who believes that the application of the discretionary provisions of this rulemaking would result in hardship or injustice to that person may petition the Department for a waiver of the discretionary provisions, if any.

Public Comment

Any interested person may submit written or oral comments concerning this proposed rulemaking, which must be received by the Department no later than 4:30 p.m. on November 18, 2026. Comments should be directed to:

Josie Wagler
Department of Public Safety
Oran Pape State Office Building
215 East 7th Street
Des Moines, Iowa 50319
Phone: 515.725.6185
Email: wagler@dps.state.ia.us

Public Hearing

Public hearings at which persons may present their views orally or in writing will be held as follows:

November 17, 2026 1:30 to 2 p.m.	First Floor Public Conference Room 125 Oran Pape State Office Building Des Moines, Iowa
November 18, 2026 9:30 to 10 a.m.	First Floor Public Conference Room 125 Oran Pape State Office Building Des Moines, Iowa

Persons who wish to make oral comments at a public hearing may be asked to state their names for the record and to confine their remarks to the subject of this proposed rulemaking.

Any persons who intend to attend a public hearing and have special requirements, such as those related to hearing or mobility impairments, should contact the Department and advise of specific needs.

Review by Administrative Rules Review Committee

The Administrative Rules Review Committee, a bipartisan legislative committee which oversees rulemaking by executive branch agencies, may, on its own motion or on written request by any individual or group, review this rulemaking at its regular monthly meeting or at a special meeting. The Committee's meetings are open to the public, and interested persons may be heard as provided in Iowa Code section 17A.8(6).

The following rulemaking action is proposed:

ITEM 1. Rescind 661—Chapter 401 and adopt the following **new** chapter in lieu thereof:

CHAPTER 401
PEACE OFFICERS' RETIREMENT, ACCIDENT, AND DISABILITY SYSTEM—ADMINISTRATIVE PROCEDURES

661—401.1(97A) Applications. Applications for benefits under Iowa Code chapter 97A shall be filed with the secretary on forms provided by the secretary. Applications for service retirement shall be made

not more than 90 days nor less than 30 days in advance of the date of retirement. Applications for service retirement, ordinary disability or accidental disability shall be reviewed by the secretary for completeness and then forwarded to the board of trustees.

401.1(1) *Manner of review for ordinary or accidental disability.* The secretary shall compile the following materials, if available and applicable, for the board's review of a claim:

a. The application;

b. Any materials provided by the applicant;

c. Any available medical information in the possession of the board or the state;

d. Any information available through any workers' compensation claims made by the applicant; and

e. Recommendations and reports from the medical board.

NOTE: This subrule does not impose a responsibility on the secretary to discover documents or evidence not in the secretary's possession. It is only intended to outline the types of evidence the secretary should provide to the board if available.

401.1(2) *Commissioner's application.* The commissioner may file an application for ordinary or accidental disability on behalf of a member in service. The secretary shall review such applications in the same manner as those filed by a member. The fact that the commissioner has filed an application on a member's behalf shall not prevent the commissioner or the board from denying the application. All applications for accidental disability benefits shall be deemed cross-filed by the commissioner for the purpose of considering disability benefits. Nothing in this rule prevents the board from denying any application.

661—401.2(97A) Determination on initial review.

401.2(1) *Board approval.* The board may approve or deny the application as presented or may direct the applicant to provide further medical information.

401.2(2) *Denial and appeal.* A decision by the board to deny the application may be appealed by the applicant. Written notice of a denial shall be provided to the applicant by certified mail. The written notice shall disclose the applicant's right to appeal, the procedure for filing an appeal, and the deadline for filing an appeal. An appeal must be filed in writing with the secretary within 30 calendar days after the applicant receives written notice of the decision of the board. The board may extend the deadline for filing an appeal. At a minimum, an appeal shall include a short and concise statement of the basis for the appeal.

661—401.3(97A) Applications for reimbursement for medical attention. Member beneficiaries may make application for reimbursement of the costs of medical attention as defined in rule 661—400.2(97A). This rule provides for the requirements of making application for reimbursement, the process for review and disposition of the application, and payment of approved applications.

401.3(1) *Making application.*

a. An application for reimbursement must be filed on a form provided by the secretary within 12 months of the member beneficiary's receiving treatment or incurring a cost for medical attention.

b. In the event there is a dispute with an insurance company regarding covered expenses, to remain eligible for reimbursement, the member beneficiary must file a request for extension, on a form provided by the secretary, if resolution of the dispute is expected to exceed 12 months.

c. Expenses shall only be reimbursed if the member beneficiary is retired as a result of an injury, illness or exposure occurring while in the performance of duty and is receiving a benefit as provided in Iowa Code section 97A.6(6).

d. Expenses shall be reimbursed only if the member beneficiary received medical attention for a condition with direct correlation to the disabling condition, the costs of which were not covered by insurance.

e. The system shall not reimburse for insurance premiums.

401.3(2) *Processing the application.*

a. Upon receipt of the application and supporting documentation, the secretary shall review the application for timeliness, completeness and validity. This subrule does not impose a responsibility on the secretary to discover documents or evidence not included on the application form.

b. The secretary shall refer the written application to the board for review at the next regularly scheduled meeting.

c. The member beneficiary does not need to be in attendance at the board meeting. In order to comply with Title II of the Health Insurance Portability and Accountability Act of 1996 (HIPAA), specific information pertaining to an application for reimbursement or the member beneficiary's disabling condition will not be discussed in open forum of the board meeting unless the member beneficiary is present and approves discussion in a public meeting.

d. The board may approve or deny all or part of a reimbursement application. The board may request additional information to support the application for reimbursement or to determine the correlation of the expense to the disabling condition. The member beneficiary shall provide the documents to the secretary within a reasonable time period. In no case shall the application remain valid for a period of more than 12 months.

e. If the board denies any part of a request for reimbursement, the member beneficiary may request judicial review in accordance with Iowa Code section 97A.6(13).

f. The system will make reimbursements only to the member beneficiary or to the surviving spouse in the event the member beneficiary is deceased.

401.3(3) *Other provisions.*

a. Reimbursements for claimed expenses shall be reduced by any amount already received by the member beneficiary from workers' compensation or from a third party as a result of subrogation proceedings entered into as a result of the disabling injury.

b. In the event the member beneficiary is restored to active service pursuant to Iowa Code section 97A.6(7)*"b,"* consideration of reimbursement for expenses pursuant to Iowa Code section 97A.14 shall not extend beyond the date of restoration to active service.

c. If the member beneficiary receiving a disability retirement pursuant to Iowa Code section 97A.6(6) becomes employed in a public safety occupation pursuant to Iowa Code section 97A.6(7)*"d,"* consideration of reimbursement for expenses pursuant to Iowa Code section 97A.14 shall not extend beyond the date of employment with the employing jurisdiction.

These rules are intended to implement Iowa Code chapter 97A.

ARC 0675D

PUBLIC SAFETY DEPARTMENT[661]

Notice of Intended Action

Proposing rulemaking related to peace officers' retirement, accident and disability system—eligibility, benefits, and payments and providing an opportunity for public comment

The Department of Public Safety hereby proposes to rescind Chapter 402, "Peace Officers' Retirement, Accident, and Disability System—Eligibility, Benefits, and Payments," Iowa Administrative Code, and to adopt a new Chapter 402 with the same title.

Legal Authority for Rulemaking

This rulemaking is proposed under the authority provided in Iowa Code section 97A.5 and Executive Order 10.

State or Federal Law Implemented

This rulemaking implements, in whole or in part, Iowa Code chapter 97A.

Purpose and Summary

Pursuant to Executive Order 10, the Board of Trustees of the Public Safety Peace Officers' Retirement, Accident, and Disability System (PORS) proposes to rescind Chapter 402 and adopt a new chapter in lieu thereof. The purpose of this proposed chapter is to outline eligibility, benefits, and payments as they relate to the PORS.

Regulatory Analysis

A Regulatory Analysis for this rulemaking was published in the Iowa Administrative Bulletin on September 2, 2026. A public hearing was held on the following date(s):

- September 24, 2026

Fiscal Impact

This rulemaking has no fiscal impact to the State of Iowa.

Jobs Impact

After analysis and review of this rulemaking, no impact on jobs has been found.

Waivers

Any person who believes that the application of the discretionary provisions of this rulemaking would result in hardship or injustice to that person may petition the Department for a waiver of the discretionary provisions, if any.

Public Comment

Any interested person may submit written or oral comments concerning this proposed rulemaking, which must be received by the Department no later than 4:30 p.m. on November 18, 2026. Comments should be directed to:

Josie Wagler
Department of Public Safety
Oran Pape State Office Building
215 East 7th Street
Des Moines, Iowa 50319
Phone: 515.725.6185
Email: wagler@dps.state.ia.us

Public Hearing

Public hearings at which persons may present their views orally or in writing will be held as follows:

November 17, 2026 2 to 2:30 p.m.	First Floor Public Conference Room 125 Oran Pape State Office Building Des Moines, Iowa
November 18, 2026 10 to 10:30 a.m.	First Floor Public Conference Room 125 Oran Pape State Office Building Des Moines, Iowa

Persons who wish to make oral comments at a public hearing may be asked to state their names for the record and to confine their remarks to the subject of this proposed rulemaking.

Any persons who intend to attend a public hearing and have special requirements, such as those related to hearing or mobility impairments, should contact the Department and advise of specific needs.

Review by Administrative Rules Review Committee

The Administrative Rules Review Committee, a bipartisan legislative committee which oversees rulemaking by executive branch agencies, may, on its own motion or on written request by any individual or group, review this rulemaking at its regular monthly meeting or at a special meeting. The Committee's meetings are open to the public, and interested persons may be heard as provided in Iowa Code section 17A.8(6).

The following rulemaking action is proposed:

ITEM 1. Rescind 661—Chapter 402 and adopt the following **new** chapter in lieu thereof:

CHAPTER 402
PEACE OFFICERS' RETIREMENT, ACCIDENT, AND DISABILITY SYSTEM—ELIGIBILITY, BENEFITS, AND PAYMENTS

661—402.1 to **402.99** Reserved.

DIVISION I
ELIGIBILITY

661—402.100(97A) Age of qualification. The age of qualification for benefits under Iowa Code chapter 97A shall mean the age on the member's last birthday.

661—402.101(97A) Date of retirement. Date of retirement shall mean the first day on retirement and not the last day on duty.

661—402.102(97A) Date of death. In the event of the death of a member, the date of death will be considered to be the member's last day on the payroll for earned compensation or on pension and the next day following will be the first day for the spouse's and children's benefits. The start of benefits shall not be delayed by the payout of any other compensation.

661—402.103(97A) Age of spouse. When the spouse of a deceased active member is to receive an annuity payment from the member's contributions, the age of the spouse at the spouse's nearest birthday shall govern. The computation shall be the spouse's birth date subtracted from the first date that spouse's benefits begin to accrue.

661—402.104 to **402.199** Reserved.

DIVISION II
BENEFITS AND PAYMENTS

661—402.200(97A) Errors in payments. If an error in payments already made to a member or beneficiary is discovered, arrangements shall be made to correct the error, either through recovery of overpayments from the member or beneficiary or through additional compensation paid to the member or beneficiary to adjust for underpayments. Schedules referenced in this rule shall commence only after presentation to and approval by the board of trustees.

402.200(1) As soon as practical after being discovered, underpayments shall be corrected through a lump-sum payment to the member or beneficiary in an amount equal to the total amount of underpayments to date and an amount of interest such that the total lump-sum payment is actuarially equivalent to the total amount of underpayments. The member or beneficiary may request a method of

repayment other than a lump-sum payment, in which case a repayment schedule may be mutually agreed upon between the board and the member or beneficiary.

402.200(2) Overpayments other than those that resulted from fraudulent acts on the part of the member or beneficiary receiving the payments shall be recovered from the member or beneficiary. The preferred method of recovery, if the member or beneficiary is continuing to receive payments from the system, shall be withholding monthly an amount equivalent to the monthly average of the amount of overpayments during the period in which the overpayments were made until total repayments equal a sum actuarially equivalent to the total amount of overpayment. If the member or beneficiary is not receiving payments from the system, the board may seek repayment in a lump sum including the amount of overpayments and interest in an amount such that the total repayment is actuarially equivalent to the total amount of overpayments, although the member or beneficiary may request a repayment schedule be established and the board may agree to do so.

402.200(3) An overpayment that resulted in whole or in part from a fraudulent act or acts on the part of the member or beneficiary receiving the payments shall be repaid to the system in an amount that is actuarially equivalent to the amount of the overpayment plus a reasonable assessment of the administrative costs to the system and the department to recover the overpayment. The preferred method of repayment is a lump-sum payment collected as soon as practical after the overpayment and the fraudulent act are discovered, although the board shall accept a repayment schedule established by a court that orders restitution in relation to a conviction stemming from the fraudulent act(s). The board may agree to an alternative payment schedule at the request of the member or beneficiary if there is no applicable order of restitution.

The board may find, on the basis of clear and convincing evidence, that an overpayment resulted from a fraudulent act(s) on the part of a member or beneficiary. A conviction based upon a fraudulent act(s) committed in relation to the receipt of benefits from the system shall be prima facie evidence of fraud for purposes of this subrule.

661—402.201(97A) Computation for partial month. Computation of retirement benefits for a partial month shall be based on the actual number of days in the month (i.e., monthly benefits divided by the number of days in the month multiplied by the number of days due).

661—402.202(97A) Termination prior to retirement.

402.202(1) The interest rate shall be the composite rate of return for the fiscal year as reflected in the investment performance analysis, provided by the investment consultants for the system, as specified in the report for the quarter ending June 30 of the fiscal year, adjusted by the administrative expense of the system for the fiscal year. The administrative expense rate shall be calculated by dividing the actual administrative expense for the fiscal year by the fund balance on June 30 of the fiscal year.

402.202(2) Interest shall be credited to the member's account annually as of June 30. The interest credited to the member shall be calculated by multiplying the annual interest rate by the member's average balance for the fiscal year, with interest credited for each full month of membership.

402.202(3) Members withdrawing contributions under this rule shall submit a written request to the secretary.

661—402.203(97A) Options not reversible once payments begin—exceptions.

402.203(1) The member may change or cancel the member's selected optional benefit until the first monthly benefit payment is made using the selected option. After the first monthly payment to the member or beneficiary, the option shall become permanent and not subject to cancellation or change.

402.203(2) If a member dies without designating a beneficiary prior to receipt in benefits of an amount equal to the total amount in the member's credit at the time of separation from service, the election is void.

402.203(3) If a member who has designated a beneficiary dies and the beneficiary subsequently dies prior to receipt in benefits of an amount equal to the total amount in the member's credit at the time of separation from service, the election remains valid.

661—402.204(97A) Method of calculating annual adjustments when optional retirement benefits are selected. Whenever an optional benefit as provided for in Iowa Code section 97A.6A has been selected by a member, the annual adjustments provided for in Iowa Code section 97A.6(14) shall continue to be provided.

661—402.205(97A) Termination of benefits when optional retirement benefits are selected. Whenever an optional benefit as provided for in Iowa Code section 97A.6A has been selected by a member, benefit payments shall terminate as follows, except as provided in rule 661—402.203(97A):

402.205(1) Straight life annuity. Upon the death of the retired member, all future retirement payments shall cease.

402.205(2) Straight life annuity with five years certain. Upon the death of the retired member, or five years from the member's original retirement date, whichever is later, all future retirement payments shall cease.

402.205(3) Straight life annuity with ten years certain. Upon the death of the retired member, or ten years from the member's original retirement date, whichever is later, all future retirement payments shall cease.

402.205(4) Joint and 50 percent survivor annuity. Upon the death of the retired member, the surviving beneficiary shall have the beneficiary's annual annuity established at 50 percent of the member's amount. Upon the death of both the member and the beneficiary, all future retirement payments shall cease.

402.205(5) Joint and 75 percent survivor annuity. Upon the death of the retired member, the surviving beneficiary shall have the beneficiary's annual annuity established at 75 percent of the member's amount. Upon the death of both the member and the beneficiary, all future retirement payments shall cease.

402.205(6) Joint and 100 percent survivor annuity. Upon the death of the retired member, the surviving beneficiary shall have the annual annuity continue at the member's amount. Upon the death of both the member and the beneficiary, all future retirement payments shall cease.

402.205(7) Single life annuity with a designated lump sum. Upon the death of the retired member, the beneficiary shall receive the single lump-sum payment and all future retirement payments shall cease.

661—402.206(97A) Impact of optional benefit selections on child benefits. The selection of an optional retirement benefit by a member shall not change the benefit that a child of a deceased member would otherwise be eligible to receive.

661—402.207(97A) Method of calculating annual adjustment for members who retire on or after July 1, 2010. For members retiring on or after July 1, 2010, there shall be an adjustment occurring on July 1 for which the following applicable amount shall be added to the member's monthly allowance:

402.207(1) On the first July 1 following the retirement of a member, there shall be added to the monthly allowance the amount of $15. There shall be no other adjustment to the monthly allowance under the provisions of this rule until the adjustment provided in subrule 402.207(2) applies.

402.207(2) An additional $5 shall be added to the member's monthly allowance when the member's retirement date was at least five years, but less than ten years, prior to the effective date of the adjustment, the total adjustment to the member's monthly allowance then being $20. There shall be no other adjustment to the monthly allowance under the provisions of this rule until the adjustment provided in subrule 402.207(3) applies.

402.207(3) An additional $5 shall be added to the member's monthly allowance when the member's retirement date was at least 10 years, but less than 15 years, prior to the effective date of the adjustment, the total adjustment to the member's monthly allowance then being $25. There shall be no other adjustment to the monthly allowance under the provisions of this rule until the adjustment provided in subrule 402.207(4) applies.

402.207(4) An additional $5 shall be added to the member's monthly allowance when the member's retirement date was at least 15 years, but less than 20 years, prior to the effective date of

the adjustment, the total adjustment to the member's monthly allowance then being $30. There shall be no other adjustment to the monthly allowance under the provisions of this rule until the adjustment provided in subrule 402.207(5) applies.

402.207(5) An additional $5 shall be added to the member's monthly allowance when the member's retirement date was at least 20 years prior to the effective date of the adjustment, the total adjustment to the member's monthly allowance then being $35.

661—402.208(97A) Method of calculating annual adjustment for members who retired prior to July 1, 2010. For members having retired before July 1, 2010, there shall be an adjustment occurring on July 1 for which the following applicable amount shall be added to the member's monthly allowance:

402.208(1) For members having retired on or after July 2, 2009, but before July 1, 2010, there shall be added to the monthly pension allowance the amount of $15. There shall be no other adjustment to the monthly allowance under the provisions of this rule until the adjustment provided in subrule 402.212(2) applies.

402.208(2) For members having retired on or after July 2, 2008, but before July 2, 2009, no adjustment to the monthly allowance shall be made until the adjustment provided in subrule 402.212(2) applies.

402.208(3) For members having retired on or after July 2, 2007, but before July 2, 2008, no adjustment to the monthly allowance shall be made until the adjustment provided in subrule 402.212(5) applies.

402.208(4) For those members having retired on or before July 1, 2007, thus having received more than a total of $35 added to the monthly allowance, there shall be no additional adjustments made to monthly allowances. Adjustments having resulted in more than $35 added to the monthly allowance prior to July 1, 2010, shall not be considered overpayments, and the monthly allowances of members so affected shall not be reduced, nor shall members be required to repay any amount to the system.

NOTE: The following table summarizes the adjustments provided for in this rule.

Retirement Date	July 1 Monthly Allowance Adjustment	Adjustment Date
July 2, 2009 – June 30, 2010	$15	July 1, 2010
July 2, 2008 – July 1, 2009	$5	July 1, 2013
July 2, 2007 – July 1, 2008	$5	July 1, 2028
Retired before July 2, 2007	$0	Not applicable

661—402.209(97A) Determination of survivor's pension. For the purposes of determining a survivor's pension, the adjustments to monthly allowance provided in rules 661—402.207(97A) and 661—402.208(97A) shall be reduced in the same manner as is provided for the member's optional retirement benefit election as provided in Iowa Code section 97A.6(12).

661—402.210 to **402.299** Reserved.

DIVISION III
SERVICE PURCHASES

661—402.300(97A) Purchase of service credit for military service.

402.300(1) *Service eligible for purchase.* Permissive service credit shall be calculated in years at the rate of one year of service for six months or more of a year actually worked with no more than one year of service to be credited for all service in one calendar year.

402.300(2) *Application.* A member seeking to purchase service credit under this rule shall file a written application with the system requesting an actuarial determination of the purchase cost of the requested service credit. Applications shall be on forms provided by the secretary. The member shall include with the application:

a. Periods of military service for which credit is requested.

b. Proof of applicable military service. Records that may be acceptable for this purpose include the member's DD Form 214, discharge papers or other records as determined by the system.

c. Any other documentation reasonably requested by the system.

402.300(3) *Determination of cost to member.* Upon receipt of the written application and supporting documentation, the secretary shall review and verify the submitted documents. The secretary shall submit the application and pertinent member information to the actuary contracted by the system to determine the cost to purchase the military service. The cost of actuarial determinations shall be borne by the member, payable upon receipt of the cost quote.

402.300(4) *Application process.*

a. Actuarial cost quote of military service credit. When made available to the secretary by the actuary, the cost quote shall be forwarded to the member promptly. Such delivery may be made through electronic mail, facsimile transmission, regular mail, or personal service. The cost quote for purchase of credit for military service shall remain valid for six months from the date of the cost quote unless replaced by a subsequent cost quote for the same time period of military service.

b. Submission of application to purchase military service credit. The member may submit to the secretary an application to purchase years of military credit in a cumulative amount no greater than five years. Full payment in the form of a check or money order payable to the Peace Officers' Retirement, Accident, and Disability System or certification of intent to pay through a qualified plan, or a combination thereof, shall accompany the application to purchase military service credit.

c. Acceptance of application to purchase military service credit. If the application is accepted, the secretary shall deposit the full payment in the system's account and shall adjust the member's years of service and contributions to reflect the purchase of credit for military service. Prior to the receipt of full payment, the secretary shall make no adjustment to the member's years of service or contributions.

402.300(5) *Revocation.* A member may revoke a service purchase election and receive a refund without interest of the purchase cost paid, provided that the revocation request is in writing and is received by the system no later than 60 days following the date of the receipt of the payment of the purchase cost by the system and prior to the date of the commencement of benefits to the member under Iowa Code section 97A.6.

402.300(6) *Refund when required by Internal Revenue Code.* This rule shall not be construed to limit the system's ability to refund service credit purchase amounts when required in order to meet the provisions of the Internal Revenue Code.

402.300(7) *Rejection of application to purchase military service credit.* If the application is rejected, the secretary shall refer the rejected application to the board for review at the next regularly scheduled meeting.

402.300(8) *Board review.* The board shall review any rejected application for purchase of military service credit. If the board overrules the action, the secretary shall process the application. If the board sustains the rejection, the secretary shall return the payment to the member. The member may appeal the action pursuant to 661—subrule 401.2(2).

402.300(9) *Average final compensation.* The average final compensation of the member shall not be affected by the purchase of credit for military service.

These rules are intended to implement Iowa Code chapter 97A and 2010 Iowa Acts, House File 2518.

ARC 0676D

PUBLIC SAFETY DEPARTMENT[661]

Notice of Intended Action

Proposing rulemaking related to peace officers' retirement, accident, and disability system—line-of-duty death benefit and providing an opportunity for public comment

The Department of Public Safety hereby proposes to rescind Chapter 403, "Peace Officers' Retirement, Accident, and Disability System—Line-of-Duty Death Benefit," Iowa Administrative Code, and to adopt a new Chapter 403 with the same title.

Legal Authority for Rulemaking

This rulemaking is proposed under the authority provided in Iowa Code section 97A.5 and Executive Order 10.

State or Federal Law Implemented

This rulemaking implements, in whole or in part, Iowa Code chapter 97A.

Purpose and Summary

Pursuant to Executive Order 10, the Board of Trustees of the Public Safety Peace Officers' Retirement, Accident, and Disability System (PORS) proposes to rescind Chapter 403 and adopt a new chapter in lieu thereof. The purpose of this proposed chapter is to outline the administration and payment for line-of-duty death benefits to beneficiaries of members who die in the line of duty.

Regulatory Analysis

A Regulatory Analysis for this rulemaking was published in the Iowa Administrative Bulletin on September 2, 2026. A public hearing was held on the following date(s):

- September 24, 2026

Fiscal Impact

This rulemaking has no fiscal impact to the State of Iowa.

Jobs Impact

After analysis and review of this rulemaking, no impact on jobs has been found.

Waivers

Any person who believes that the application of the discretionary provisions of this rulemaking would result in hardship or injustice to that person may petition the Department for a waiver of the discretionary provisions, if any.

Public Comment

Any interested person may submit written or oral comments concerning this proposed rulemaking, which must be received by the Department no later than 4:30 p.m. on November 18, 2026. Comments should be directed to:

Josie Wagler
Department of Public Safety
Oran Pape State Office Building
215 East 7th Street
Des Moines, Iowa 50319
Phone: 515.725.6185
Email: wagler@dps.state.ia.us

Public Hearing

Public hearings at which persons may present their views orally or in writing will be held as follows:

November 17, 2026 2:30 to 3 p.m.	First Floor Public Conference Room 125 Oran Pape State Office Building Des Moines, Iowa
November 18, 2026 10:30 to 11 a.m.	First Floor Public Conference Room 125 Oran Pape State Office Building Des Moines, Iowa

Persons who wish to make oral comments at a public hearing may be asked to state their names for the record and to confine their remarks to the subject of this proposed rulemaking.

Any persons who intend to attend a public hearing and have special requirements, such as those related to hearing or mobility impairments, should contact the Department and advise of specific needs.

Review by Administrative Rules Review Committee

The Administrative Rules Review Committee, a bipartisan legislative committee which oversees rulemaking by executive branch agencies, may, on its own motion or on written request by any individual or group, review this rulemaking at its regular monthly meeting or at a special meeting. The Committee's meetings are open to the public, and interested persons may be heard as provided in Iowa Code section 17A.8(6).

The following rulemaking action is proposed:

ITEM 1. Rescind 661—Chapter 403 and adopt the following **new** chapter in lieu thereof:

CHAPTER 403
PEACE OFFICERS' RETIREMENT, ACCIDENT, AND DISABILITY SYSTEM—
LINE-OF-DUTY DEATH BENEFIT

661—403.1(97A) Member death benefit program.

403.1(1) As provided in Iowa Code section 97A.6(16), the board will administer the payment of line-of-duty death benefits to beneficiaries of members who die in the line of duty.

403.1(2) Information about the program may be obtained by mail from the Secretary of the Board of Trustees, Iowa Department of Public Safety, Peace Officers' Retirement System, State Public Safety Headquarters Building, 215 East 7th Street, Des Moines, Iowa 50319; by telephone at 515.725.6248; or by email to asdinfo@dps.state.ia.us.

661—403.2(97A) Application. Application forms for the line-of-duty death benefit program may be obtained on request from the secretary. The board may accept a legible copy of a completed application for the federal Public Safety Officer Benefits Program as an application for payment of benefits from the member death benefit program. Completed application forms shall be mailed or delivered to the address in subrule 403.1(2).

661—403.3(97A) Determination. After receiving a completed application for benefits from the member death benefit program, the board shall make a determination as to whether the application meets the requirements for payment of benefits. Prior to making a determination, the board may require the beneficiary or responsible supervisory official who has certified that the death is a line-of-duty death to submit any additional information that the board deems material to making the determination. If the determination is that the requirements for payment of benefits have been met, the board shall so notify the beneficiary or cobeneficiaries and shall instruct the secretary to prepare documents to cause the department of administrative services to issue a warrant payable to the beneficiary in the amount of the lump-sum payment provided or, if there are cobeneficiaries, to issue warrants in equal shares of the lump-sum amount payable to each of the cobeneficiaries. Payments pursuant to this rule shall come from the system's funds.

403.3(1) *Denial and notification.* If the board determines that the eligibility criteria have not been met, the board shall notify in writing the beneficiary or cobeneficiaries, and the responsible supervisory official who certified that the death occurred in the line of duty, of the determination and of the reason(s) for the denial.

403.3(2) *Appeals.* If an application for benefits is denied, the beneficiary or any cobeneficiary may appeal that decision to the board by filing an appeal in writing to the secretary within 30 days of the date of the denial of the application by the board. Appeals shall be processed in accordance with contested case procedures in 7—Chapter 2506.

These rules are intended to implement Iowa Code section 97A.6(16).

USURY

In accordance with the provisions of Iowa Code section 535.2(3)"a," the Superintendent of Banking has determined that the maximum lawful rate of interest shall be:

November 1, 2025 — November 30, 2025	6.00%
December 1, 2025 — December 31, 2025	6.00%
January 1, 2026 — January 31, 2026	6.00%
February 1, 2026 — February 28, 2026	6.25%
March 1, 2026 — March 31, 2026	6.25%
April 1, 2026 — April 30, 2026	6.25%
May 1, 2026 — May 31, 2026	6.25%
June 1, 2026 — June 30, 2026	6.25%
July 1, 2026 — July 31, 2026	6.50%
August 1, 2026 — August 31, 2026	6.50%
September 1, 2026 — September 30, 2026	6.50%
October 1, 2026 — October 31, 2026	6.75%
November 1, 2026 — November 30, 2026	7.00%

ARC 0680D

COMMUNICATIONS NETWORK, IOWA[751]

Adopted and Filed

Rulemaking related to description of organization

The Iowa Communications Network (ICN) hereby rescinds Chapter 1, "Description of Organization," Iowa Administrative Code, and adopts a new Chapter 1 with the same title.

Legal Authority for Rulemaking

This rulemaking is adopted under the authority provided in Iowa Code chapter 8D.

State or Federal Law Implemented

This rulemaking implements, in whole or in part, Iowa Code chapter 8D and Executive Order 10.

Purpose and Summary

This rulemaking describes the purpose and organization of the Iowa Telecommunications and Technology Commission and the ICN, including the location of offices and business hours. As a result, the ICN removed redundant and obsolete language in accordance with the goals and directives of Executive Order 10.

Public Comment and Changes to Rulemaking

Notice of Intended Action for this rulemaking was published in the Iowa Administrative Bulletin on September 2, 2026, as **ARC 0503D**. A public hearing was held on the following date(s):

- September 30, 2026
- October 1, 2026

No one attended the public hearings. No public comments were received. No changes from the Notice have been made.

Adoption of Rulemaking

This rulemaking was adopted by the ICN Executive Director on October 7, 2026.

Fiscal Impact

This rulemaking has no fiscal impact to the State of Iowa.

Jobs Impact

After analysis and review of this rulemaking, no impact on jobs has been found.

Waivers

Any person who believes that the application of the discretionary provisions of this rulemaking would result in hardship or injustice to that person may petition the ICN for a waiver of the discretionary provisions, if any, pursuant to 751—Chapter 2504.

Review by Administrative Rules Review Committee

The Administrative Rules Review Committee, a bipartisan legislative committee which oversees rulemaking by executive branch agencies, may, on its own motion or on written request by any individual or group, review this rulemaking at its regular monthly meeting or at a special meeting. The Committee's meetings are open to the public, and interested persons may be heard as provided in Iowa Code section 17A.8(6).

Effective Date

This rulemaking will become effective on December 2, 2026.

The following rulemaking action is adopted:

ITEM 1. Rescind 751—Chapter 1 and adopt the following **new** chapter in lieu thereof:

CHAPTER 1
DESCRIPTION OF ORGANIZATION

751—1.1(17A,8D) Purpose. The Iowa telecommunications and technology commission and Iowa communications network manage, develop, operate, and ensure compatibility of the state communications network (network) as established by Iowa Code chapter 8D.

751—1.2(17A,8D) Organization. The commission's structure consists of five commissioners and the state auditor and the chief information officer as ex officio members. The commission has the sole authority to manage, develop, operate, and ensure compatibility of the network. The network is supervised by the commission and operated by the executive director or the director's designee.

751—1.3(17A,8D) Location of offices.

1.3(1) *Main office.* The main office is located in the Grimes State Office Building, 400 East 14th Street, Des Moines, Iowa 50319.

1.3(2) *Network hub.* The hub for the network is located in the Joint Forces Headquarters (JFHQ) Armory, 6100 NW 78th Avenue, Johnston, Iowa 50131.

751—1.4(17A,8D) Business hours. The business hours of the main office are 8 a.m. to 4:30 p.m., Monday through Friday, excluding holidays.

These rules are intended to implement Iowa Code sections 8D.1, 8D.3, and 8D.4.

[Filed 10/7/26, effective 12/2/26]
[Published 10/28/26]
EDITOR'S NOTE: For replacement pages for IAC, see IAC Supplement 10/28/26.

ARC 0681D

COMMUNICATIONS NETWORK, IOWA[751]

Adopted and Filed

Rulemaking related to fair information practices

The Iowa Communications Network (ICN) hereby rescinds Chapter 2, "Public Records and Fair Information Practices," and adopts a new Chapter 2505, "Fair Information Practices," Iowa Administrative Code.

Legal Authority for Rulemaking

This rulemaking is adopted under the authority provided in Iowa Code chapter 8D.

State or Federal Law Implemented

This rulemaking implements, in whole or in part, Iowa Code chapter 8D and Executive Order 10.

Purpose and Summary

Pursuant to Executive Order 10, the ICN is rescinding Chapter 2 and moving the content to a new Chapter 2505. The chapter describes the public records and fair information practices (in addition to 7—Chapter 2505) and personally identifiable information (PII) guidelines. Iowa Code section 22.11 imposes an obligation on each agency to adopt rules that provide the nature of PII collected by the agency and to indicate which records contain PII and if they are public or confidential. Since the Uniform Rules on Agency Procedure are not specific to each agency, this rulemaking is necessary to comply with the statute directive regarding PII. As a result, the ICN removed redundant and obsolete language in accordance with the goals and directives of Executive Order 10.

Public Comment and Changes to Rulemaking

Notice of Intended Action for this rulemaking was published in the Iowa Administrative Bulletin on September 2, 2026, as **ARC 0505D**. A public hearing was held on the following date(s):

- September 30, 2026
- October 1, 2026

No one attended the public hearings. No public comments were received. No changes from the Notice have been made.

Adoption of Rulemaking

This rulemaking was adopted by the ICN Executive Director on October 7, 2026.

Fiscal Impact

This rulemaking has no fiscal impact to the State of Iowa.

Jobs Impact

After analysis and review of this rulemaking, no impact on jobs has been found.

Waivers

Any person who believes that the application of the discretionary provisions of this rulemaking would result in hardship or injustice to that person may petition the ICN for a waiver of the discretionary provisions, if any, pursuant to 751—Chapter 2504.

Review by Administrative Rules Review Committee

The Administrative Rules Review Committee, a bipartisan legislative committee which oversees rulemaking by executive branch agencies, may, on its own motion or on written request by any individual or group, review this rulemaking at its regular monthly meeting or at a special meeting. The Committee's meetings are open to the public, and interested persons may be heard as provided in Iowa Code section 17A.8(6).

Effective Date

This rulemaking will become effective on December 2, 2026.

The following rulemaking action is adopted:

ITEM 1. Rescind and reserve **751—Chapter 2**.

ITEM 2. Adopt the following **new** 751—Chapter 2505:

CHAPTER 2505
FAIR INFORMATION PRACTICES

The Uniform Rules on Agency Procedure, 7—Chapters 2500 through 2506, are rules generally applicable to agencies pursuant to Iowa Code section 17A.24. Additions, exceptions, or amendments to the corresponding chapter are below.

751—2505.9(8D) Additional definitions. As used in this chapter:

"Customer proprietary network information" or *"CPNI"* means information that relates to the quantity, technical configuration, type, destination, location, and amount of use of a telecommunications service subscribed to by any customer of a telecommunications carrier, as defined in 47 U.S.C. §222(h)(1).

"Personally identifiable information" or *"PII"* means information about or pertaining to an individual in a record that identifies the individual and that is contained in a record system.

751—2505.10(8D) Personally identifiable information and customer proprietary network information. This rule describes the nature and extent of personally identifiable information and CPNI that is collected, maintained, and retrieved by the agency. The commission maintains the following primary records in systems:

2505.10(1) Personnel and payroll records. The agency maintains files containing information about employees, applicants, and dependents. The files include payroll records, biographical information, medical information, and performance reviews. These records are generally confidential pursuant to Iowa Code section 22.7(11).

2505.10(2) Commission and advisory board records. These records contain information about commission and board members, including biographical and contact information. Portions of these records may be confidential.

2505.10(3) Vendor, contractor, and authorized user files. These files contain information about individuals who do business with the agency or represent authorized users, including contact information, billing records, and related correspondence.

2505.10(4) Telecommunications and network data. The agency collects and maintains CPNI to route traffic, bill for services, and manage network operations. Consistent with federal law, CPNI is strictly confidential and shall not be disclosed to the public under Iowa Code chapter 22, except as expressly authorized by the customer or required by law enforcement.

2505.10(5) Litigation, contested case, and administrative files. These files contain information regarding litigation, rate disputes, vendor appeals, or administrative claims involving the agency. These records may contain confidential information protected by attorney-client privilege or Iowa Code section 22.7.

These rules are intended to implement Iowa Code sections 8D.3 and 17A.24.

[Filed 10/7/26, effective 12/2/26]
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ARC 0682D

COMMUNICATIONS NETWORK, IOWA[751]

Adopted and Filed

Rulemaking related to purchasing

The Iowa Communications Network (ICN) hereby rescinds Chapter 5, "Purchasing," Iowa Administrative Code, and adopts a new Chapter 5 with the same title.

Legal Authority for Rulemaking

This rulemaking is adopted under the authority provided in Iowa Code chapter 8D.

State or Federal Law Implemented

This rulemaking implements, in whole or in part, Iowa Code chapter 8D and Executive Order 10.

Purpose and Summary

The chapter describes the purchasing structure and guidelines in which the statewide network is administered throughout the State. This chapter was reviewed pursuant to Executive Order 10. As a result, the ICN removed redundant and obsolete language.

Public Comment and Changes to Rulemaking

Notice of Intended Action for this rulemaking was published in the Iowa Administrative Bulletin on September 2, 2026, as **ARC 0508D**. A public hearing was held on the following date(s):

- September 30, 2026
- October 1, 2026

No one attended the public hearings. No public comments were received. No changes from the Notice have been made.

Adoption of Rulemaking

This rulemaking was adopted by the ICN Executive Director on October 7, 2026.

Fiscal Impact

This rulemaking has no fiscal impact to the State of Iowa.

Jobs Impact

After analysis and review of this rulemaking, no impact on jobs has been found.

Waivers

Any person who believes that the application of the discretionary provisions of this rulemaking would result in hardship or injustice to that person may petition the ICN for a waiver of the discretionary provisions, if any, pursuant to 751—Chapter 2504.

Review by Administrative Rules Review Committee

The Administrative Rules Review Committee, a bipartisan legislative committee which oversees rulemaking by executive branch agencies, may, on its own motion or on written request by any individual or group, review this rulemaking at its regular monthly meeting or at a special meeting. The Committee's meetings are open to the public, and interested persons may be heard as provided in Iowa Code section 17A.8(6).

Effective Date

This rulemaking will become effective on December 2, 2026.

The following rulemaking action is adopted:

ITEM 1. Rescind 751—Chapter 5 and adopt the following **new** chapter in lieu thereof:

CHAPTER 5
PURCHASING

751—5.1(8D) Applicability of competitive bidding.

5.1(1) *Thresholds.* The commission shall use the following competitive bidding thresholds for the purchase of goods and services:

a. Direct purchasing, tier 1. The commission may purchase goods and services costing less than $15,000 without competitive bidding, using reasonable efforts to obtain the best price and value.

b. Informal competition, tier 2. The commission shall use informal competition, soliciting quotes from at least three vendors, for purchases where:

(1) The estimated cost is between $15,000 and $50,000; or

(2) The estimated value of a multiyear contract in the aggregate, including renewals, does not exceed $150,000.

c. Formal competition, tier 3. The commission shall use formal competitive bidding for purchases where:

(1) The estimated cost exceeds $50,000; or

(2) The estimated value of a multiyear contract in the aggregate, including renewals, exceeds $150,000.

5.1(2) *Determination of cost.* The estimated total cost of a purchase shall be the aggregate cost of the purchase, including freight and installation but excluding the cost of any existing hardware or software maintenance renewals if such renewals are sole-source by nature. Contracts shall not be artificially divided to avoid competitive bidding thresholds.

5.1(3) *Exemptions.* Competitive bidding is not required for:

a. Sole source, when the executive director or designee determines that:

(1) The goods or services are available from only a single source;

(2) Immediate action is required to prevent a service outage; protect network security; or avoid immediate threat to public health, safety, or welfare;

(3) The procurement is for the network and must be compatible with existing systems and compatibility is the overriding consideration;

(4) The procurement is for the upgrade, maintenance, or renewal of existing software or hardware;

(5) The goods or services involve work of such a specialized nature or related to a specific geographic location that only a single source, by virtue of experience, expertise, proximity to the project, or ownership of intellectual property rights, could satisfactorily provide the service;

(6) The commission is purchasing directly from the original equipment manufacturer (OEM); or

(7) The commission is hiring legal counsel, expert witnesses, or consultants to assist in legal proceedings, including testifying or assisting in the preparation of quasijudicial or judicial proceedings.

b. Shared contracts, when the commission purchases from contracts let by the department of administrative services, the department of management, the federal government, or other governmental entities.

751—5.2(8D) Methods of procurement.

5.2(1) *Informal competition.* For procurements requiring informal competition under paragraph 5.1(1)*"b"*:

a. The commission shall attempt to solicit quotes or proposals from at least three qualified vendors.

b. The solicitation may be conducted via electronic mail or telephone.

c. Public notice is not required.

5.2(2) *Formal competition.* For procurements requiring formal competition under paragraph 5.1(1)*"c"*:

a. Notice. The commission shall also comply with legal requirements for notifying targeted small businesses. Notice of the solicitation shall be posted on the state's centralized bidding website or the commission's website not less than ten days prior to the submission deadline.

b. Evaluation.

(1) When an Invitation to Bid is used, the contract shall be awarded to the lowest cost responsible bidder who meets the specifications.

(2) When a Request for Proposals is used, the contract shall be awarded to the vendor offering the best value based on the evaluation criteria identified in the solicitation.

c. *Negotiation.* The commission reserves the right to negotiate with the highest-ranked vendor or request a best and final offer (BAFO) from finalists.

5.2(3) *Auctions.* The commission may purchase goods or services through:

a. Electronic auctions, including reverse auctions where vendors bid down the price in real time.

b. Standard auctions, when purchasing new or used equipment or materials, provided the auction is conducted by a reputable organization.

5.2(4) *Purchasing cooperatives and consortiums.* The commission may join public or private purchasing cooperatives or consortiums to reduce costs for the network and authorized users. The commission may purchase goods and services through these entities without conducting a separate competitive bidding process, provided the cooperative or consortium utilized a competitive procurement procedure.

751—5.3(8D) Master agreements.

5.3(1) *Purpose.* To reduce administrative costs and improve efficiency, the commission may enter into master agreements (blanket purchase agreements) for goods or services that are purchased repeatedly.

5.3(2) *Competition.* A master agreement shall be established through any manner deemed appropriate by the commission, using the methods of procurement identified within rule 751—5.2(8D) or sole source as allowed by subrule 5.1(3).

5.3(3) *Ordering.* Once a master agreement is established, individual purchase orders may be issued to the contracted vendor without further competition for the duration of the agreement.

751—5.4(8D) Agency rights and vendor performance.

5.4(1) *Rejection of bids.* The commission reserves the right to reject any or all bids or proposals at any time prior to the execution of a contract. The commission may reject a bid for any reason, including but not limited to:

a. The financial insecurity of the vendor.

b. Failure to meet the specifications or terms of the solicitation.

c. Evidence of unfair bidding procedures or collusion.

d. Cancellation of the project or insufficient funds.

e. When the best interests of the commission will be served by rejection.

5.4(2) *Suspension and debarment.* The commission may suspend or debar a vendor from participating in future solicitations if the vendor has demonstrated a failure to perform or other serious misconduct.

a. *Causes.* Causes for suspension or debarment include:

(1) Material failure to perform in accordance with the terms of a previous contract;

(2) Failure to deliver goods or services on time;

(3) Attempts to influence the decision of any commission employee involved in the procurement process;

(4) Debarment by the federal government or another state agency;

b. *Process.* The commission shall notify the vendor of the intent to suspend or debar and provide an opportunity to respond. The suspension or debarment shall be for a specific period of time commensurate with the severity of the offense.

751—5.5(8D) Vendor appeals. 7—Chapter 2506 applies to contested case proceedings conducted by the agency, including vendor appeals.

These rules are intended to implement Iowa Code sections 8D.3(3)*"b"* and 8D.11.

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ARC 0683D

COMMUNICATIONS NETWORK, IOWA[751]

Adopted and Filed

Rulemaking related to authorized use and users

The Iowa Communications Network (ICN) hereby rescinds Chapter 7, "Authorized Use and Users," Iowa Administrative Code, and adopts a new Chapter 7 with the same title.

Legal Authority for Rulemaking

This rulemaking is adopted under the authority provided in Iowa Code chapter 8D.

State or Federal Law Implemented

This rulemaking implements, in whole or in part, Iowa Code chapter 8D and Executive Order 10.

Purpose and Summary

The chapter describes the authorized use and users of the statewide network, ensuring network use is mission-based. This chapter was reviewed pursuant to Executive Order 10. As a result, the ICN removed redundant and obsolete language.

Public Comment and Changes to Rulemaking

Notice of Intended Action for this rulemaking was published in the Iowa Administrative Bulletin on September 2, 2026, as **ARC 0507D**. A public hearing was held on the following date(s):

- September 30, 2026
- October 1, 2026

No one attended the public hearings. No public comments were received. No changes from the Notice have been made.

Adoption of Rulemaking

This rulemaking was adopted by the ICN Executive Director on October 7, 2026.

Fiscal Impact

This rulemaking has no fiscal impact to the State of Iowa.

Jobs Impact

After analysis and review of this rulemaking, no impact on jobs has been found.

Waivers

Any person who believes that the application of the discretionary provisions of this rulemaking would result in hardship or injustice to that person may petition the ICN for a waiver of the discretionary provisions, if any, pursuant to 751—Chapter 2504.

Review by Administrative Rules Review Committee

The Administrative Rules Review Committee, a bipartisan legislative committee which oversees rulemaking by executive branch agencies, may, on its own motion or on written request by any individual or group, review this rulemaking at its regular monthly meeting or at a special meeting. The Committee's meetings are open to the public, and interested persons may be heard as provided in Iowa Code section 17A.8(6).

Effective Date

This rulemaking will become effective on December 2, 2026.

The following rulemaking action is adopted:

ITEM 1. Rescind 751—Chapter 7 and adopt the following **new** chapter in lieu thereof:

CHAPTER 7
AUTHORIZED USE AND USERS

751—7.1(8D) Definitions. For the purposes of interpreting these rules, the following definitions are applicable.

"Authorized facility" means a site operated by an authorized user that is consistent with the written mission of the authorized user.

"Authorized use" means use of the network by an authorized user or by persons acting on behalf of an authorized user as provided in this chapter for the following purposes of the authorized user: (1) state or federal communications as defined in this chapter; (2) education or educational purposes as defined in this chapter; (3) training programs provided under state law and training programs developed by authorized users; (4) telemedicine or related purposes as defined in this chapter; (5) official governmental use by a state agency or a federal agency as defined in this chapter consistent with authorized purposes under applicable state or federal law; (6) establishing and operating a shared data only network for law enforcement, emergency management, disaster services, emergency warning and other emergency information dissemination services to federal, state and local law enforcement agencies and local emergency management offices; or (7) city of Des Moines.

"Authorized user" means a private or public agency as defined in Iowa Code section 8D.2.

"Private agency" means an accredited nonpublic school, a nonprofit institution of higher education eligible for tuition grants, a hospital licensed pursuant to Iowa Code chapter 135B, or a physician clinic to the extent provided in Iowa Code section 8D.13(13).

"Public agency" means a state agency, an institution under the control of the board of regents, the judicial branch as provided in Iowa Code section 8D.13(14), a school corporation, a city library, a regional library as provided in Iowa Code chapter 256, a county library as provided in Iowa Code chapter 336, or an agency of the federal government.

751—7.2(8D) Eligibility.

7.2(1) *Mission-based use.* Use of the network must be consistent with the written mission of the authorized user.

7.2(2) *Unauthorized use.* The network shall not be used for personal, commercial, or political purposes, except as specifically authorized by law.

751—7.3(8D) Authorized facility connectivity.

7.3(1) *Education.* Public and private K-12 schools, area education agencies, and higher education institutions may connect directly to the network.

7.3(2) *State agencies.* State boards, commissions or departments; the Iowa national guard; and the executive, legislative, and judicial branches may connect directly to the network.

7.3(3) *Telemedicine.* Hospitals and physician clinics (as defined in Iowa Code section 8D.13(13)) may connect for telemedicine and educational purposes.

7.3(4) *Federal.* A board, commission, department, or agency of the federal government may connect to the network as provided in Iowa Code section 8D.13(13).

These rules are intended to implement Iowa Code sections 8D.2, 8D.3(1), 8D.3(3)*"b,"* and 8D.13(14) through 8D.13(17).

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ARC 0684D

COMMUNICATIONS NETWORK, IOWA[751]

Adopted and Filed

Rulemaking related to certification of use and waivers

The Iowa Communications Network (ICN) hereby rescinds Chapter 9, "Requests for Waiver of Network Use by Certified Users," and adopts a new Chapter 9, "Certification of Use and Waivers," Iowa Administrative Code.

Legal Authority for Rulemaking

This rulemaking is adopted under the authority provided in Iowa Code chapter 8D.

State or Federal Law Implemented

This rulemaking implements, in whole or in part, Iowa Code chapter 8D and Executive Order 10.

Purpose and Summary

The chapter describes the certification of use and waivers for use of the statewide network. This chapter was reviewed pursuant to Executive Order 10. As a result, the ICN removed redundant and obsolete language.

Public Comment and Changes to Rulemaking

Notice of Intended Action for this rulemaking was published in the Iowa Administrative Bulletin on September 2, 2026, as **ARC 0506D**. A public hearing was held on the following date(s):

- September 30, 2026
- October 1, 2026

No one attended the public hearings. No public comments were received. No changes from the Notice have been made.

Adoption of Rulemaking

This rulemaking was adopted by the ICN Executive Director on October 7, 2026.

Fiscal Impact

This rulemaking has no fiscal impact to the State of Iowa.

Jobs Impact

After analysis and review of this rulemaking, no impact on jobs has been found.

Waivers

Any person who believes that the application of the discretionary provisions of this rulemaking would result in hardship or injustice to that person may petition the ICN for a waiver of the discretionary provisions, if any, pursuant to 751—Chapter 2504.

Review by Administrative Rules Review Committee

The Administrative Rules Review Committee, a bipartisan legislative committee which oversees rulemaking by executive branch agencies, may, on its own motion or on written request by any individual or group, review this rulemaking at its regular monthly meeting or at a special meeting. The Committee's meetings are open to the public, and interested persons may be heard as provided in Iowa Code section 17A.8(6).

Effective Date

This rulemaking will become effective on December 2, 2026.

The following rulemaking action is adopted:

ITEM 1. Rescind 751—Chapter 9 and adopt the following **new** chapter in lieu thereof:

CHAPTER 9
CERTIFICATION OF USE AND WAIVERS

751—9.1(8D) Purpose. This chapter establishes the process for a certifying user, as defined in Iowa Code section 8D.9, to request a waiver to use a telecommunications provider other than the network.

751—9.2(8D) Waiver request process.

9.2(1) *Submission.* A certifying user seeking a waiver from the use of the network shall submit a written request to the commission 15 days prior to a regularly scheduled meeting.

9.2(2) *Content.* The request must include a brief explanation of why the alternative telecommunications service is more cost-effective, is more operationally efficient, or better meets the specific technical needs of the user compared to the services available via the network.

751—9.3(8D) Review and approval.

9.3(1) The commission shall review the waiver request at a regularly scheduled meeting.

9.3(2) If the request demonstrates that the alternative service is in the best operational or financial interest of the certifying user, the commission shall grant the waiver.

9.3(3) A written determination shall be issued to the user following the commission's decision.

These rules are intended to implement Iowa Code sections 8D.3(3)*"b"* and 8D.9(2)*"b."*

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ARC 0685D

COMMUNICATIONS NETWORK, IOWA[751]

Adopted and Filed

Rulemaking related to acceptable use and enforcement

The Iowa Communications Network (ICN) hereby rescinds Chapter 10, "Use of the Network—Not a Vested Right and Written Warning, Suspension, Probation, Decertification, and Revocation of Use of the Network," and adopts a new Chapter 10, "Acceptable Use and Enforcement," Iowa Administrative Code.

Legal Authority for Rulemaking

This rulemaking is adopted under the authority provided in Iowa Code chapter 8D.

State or Federal Law Implemented

This rulemaking implements, in whole or in part, Iowa Code chapter 8D and Executive Order 10.

Purpose and Summary

The chapter describes the acceptable use policies and enforcement procedures for authorized users of the statewide network. This chapter was reviewed pursuant to Executive Order 10. As a result, the ICN removed redundant and obsolete language.

Public Comment and Changes to Rulemaking

Notice of Intended Action for this rulemaking was published in the Iowa Administrative Bulletin on September 2, 2026, as **ARC 0510D**. A public hearing was held on the following date(s):

- September 30, 2026
- October 1, 2026

No one attended the public hearings. No public comments were received. No changes from the Notice have been made.

Adoption of Rulemaking

This rulemaking was adopted by the ICN Executive Director on October 7, 2026.

Fiscal Impact

This rulemaking has no fiscal impact to the State of Iowa.

Jobs Impact

After analysis and review of this rulemaking, no impact on jobs has been found.

Waivers

Any person who believes that the application of the discretionary provisions of this rulemaking would result in hardship or injustice to that person may petition the ICN for a waiver of the discretionary provisions, if any, pursuant to 751—Chapter 2504.

Review by Administrative Rules Review Committee

The Administrative Rules Review Committee, a bipartisan legislative committee which oversees rulemaking by executive branch agencies, may, on its own motion or on written request by any individual or group, review this rulemaking at its regular monthly meeting or at a special meeting. The Committee's meetings are open to the public, and interested persons may be heard as provided in Iowa Code section 17A.8(6).

Effective Date

This rulemaking will become effective on December 2, 2026.

The following rulemaking action is adopted:

ITEM 1. Rescind 751—Chapter 10 and adopt the following **new** chapter in lieu thereof:

CHAPTER 10
ACCEPTABLE USE AND ENFORCEMENT

751—10.1(8D) Policy and authorized use.

10.1(1) *Privilege, not a right.* The ability to use the network is a privilege conferred by law to authorized users. It is not a vested property right. The commission may suspend or revoke access for violation of these rules or applicable law.

10.1(2) *Acceptable use.* Authorized users shall ensure that their use of the network complies with all applicable state and federal laws, the written mission of the authorized user, and the commission's acceptable use policies.

751—10.2(8D) Violations. The commission may suspend, revoke, or limit services to an authorized user for any of the following reasons:

10.2(1) Failure to pay for services rendered.

10.2(2) Use of the network for personal, commercial, or political purposes not authorized by law.

10.2(3) Allowing an unauthorized user to access the network.

10.2(4) Violation of the commission's technical standards or security protocols.

10.2(5) Any conduct prejudicial to the security or operation of the network.

751—10.3(8D) Enforcement procedure.

10.3(1) *Notice.* In the event of a violation, the executive director shall provide written notice to the authorized user describing the violation and requesting a remedy.

10.3(2) *Immediate suspension.* The commission may immediately suspend service without prior notice if the violation poses an immediate threat to the security or stability of the network.

10.3(3) *Decertification.* If a violation is not remedied or is habitual, the commission may revoke the user's authorization to connect to the network.

751—10.4(8D) Appeals. An authorized user aggrieved by a suspension or revocation may appeal the decision in accordance with the contested case procedures in 7—Chapter 2506.

751—10.5(8D) Privacy and content monitoring. The commission and its staff shall not monitor the content of transmissions on the network. Monitoring may only occur when necessary to effect trouble isolation and correction or to investigate a security violation or threat to the integrity of the network. Any such monitoring shall be kept to the absolute minimum necessary to resolve the issue.

These rules are intended to implement Iowa Code sections 8D.2, 8D.3(3)*"b,"* 8D.9 and 8D.13(14) through 8D.13(17).

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ARC 0686D

COMMUNICATIONS NETWORK, IOWA[751]

Adopted and Filed

Rulemaking related to asset ownership and demarcation

The Iowa Communications Network (ICN) hereby rescinds Chapter 11, "Asset Allocation and Ownership," and adopts a new Chapter 11, "Asset Ownership and Demarcation," Iowa Administrative Code.

Legal Authority for Rulemaking

This rulemaking is adopted under the authority provided in Iowa Code chapter 8D.

State or Federal Law Implemented

This rulemaking implements, in whole or in part, Iowa Code chapter 8D and Executive Order 10.

Purpose and Summary

The chapter describes legal clarity regarding State-owned infrastructure versus leased or user-owned last-mile connections, explicitly defines the physical demarcation point where State responsibility ends and authorized user responsibility begins, and identifies necessary protections for State-owned equipment residing on user premises. This chapter was reviewed pursuant to Executive Order 10. As a result, the ICN removed redundant and obsolete language.

Public Comment and Changes to Rulemaking

Notice of Intended Action for this rulemaking was published in the Iowa Administrative Bulletin on September 2, 2026, as **ARC 0511D**. A public hearing was held on the following date(s):

- September 30, 2026
- October 1, 2026

No one attended the public hearings. No public comments were received. No changes from the Notice have been made.

Adoption of Rulemaking

This rulemaking was adopted by the ICN Executive Director on October 7, 2026.

Fiscal Impact

This rulemaking has no fiscal impact to the State of Iowa.

Jobs Impact

After analysis and review of this rulemaking, no impact on jobs has been found.

Waivers

Any person who believes that the application of the discretionary provisions of this rulemaking would result in hardship or injustice to that person may petition the ICN for a waiver of the discretionary provisions, if any, pursuant to 751—Chapter 2504.

Review by Administrative Rules Review Committee

The Administrative Rules Review Committee, a bipartisan legislative committee which oversees rulemaking by executive branch agencies, may, on its own motion or on written request by any individual or group, review this rulemaking at its regular monthly meeting or at a special meeting. The Committee's meetings are open to the public, and interested persons may be heard as provided in Iowa Code section 17A.8(6).

Effective Date

This rulemaking will become effective on December 2, 2026.

The following rulemaking action is adopted:

ITEM 1. Rescind 751—Chapter 11 and adopt the following **new** chapter in lieu thereof:

CHAPTER 11
ASSET OWNERSHIP AND DEMARCATION

751—11.1(8D) Asset ownership.

11.1(1) *Network backbone.* The network backbone (Part I) and the regional aggregation points (Part II) are the property of the state of Iowa and are managed and maintained by the commission.

11.1(2) *Last mile connections.* Part III connections (the "last mile" to the authorized user) may be owned by the state, leased from private telecommunications providers, or owned by the authorized user.

a. State-owned. Where the commission has constructed and owns the Part III connection, the commission is responsible for maintenance up to the demarcation point.

b. Leased. Where the commission leases the Part III connection from a third-party provider, maintenance and repair responsibilities are governed by the terms of the lease agreement between the commission and the provider.

c. User-owned. Where the authorized user owns the connection (e.g., fiber installed by a school district), the authorized user is solely responsible for maintenance and repair.

751—11.2(8D) Demarcation point.

11.2(1) *Definition.* The demarcation point (demarc) is the physical point where the commission's responsibility for the network ends and the authorized user's responsibility begins.

11.2(2) *Location.* Unless otherwise specified in a service agreement:

a. Fiber connections. The demarc is the termination panel or optical network terminal (ONT) installed by the commission at the authorized user's facility.

b. Equipment. The commission retains ownership and maintenance responsibility for the electronics (routers, switches) provided by the commission to deliver service up to the hand-off port on that device.

11.2(3) *Internal wiring.* The authorized user is responsible for all internal building wiring, cabling, cross-connects, and power beyond the demarcation point.

751—11.3(8D) Equipment return and liability.

11.3(1) *Access.* Upon the termination of service, the authorized user shall permit the commission reasonable access to the premises to remove state-owned equipment.

11.3(2) *Liability.* The authorized user constitutes a bailee of state property located on the user's premises. The authorized user shall be liable for the cost of repair or replacement of any state-owned equipment that is lost, stolen, or damaged due to the negligence or willful misconduct of the user or its agents.

751—11.4(8D) Surplus property. The commission shall dispose of obsolete or excess network assets in accordance with rule 751—17.3(8D).

These rules are intended to implement Iowa Code section 8D.3.

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ARC 0687D

COMMUNICATIONS NETWORK, IOWA[751]

Adopted and Filed

Rulemaking related to rates and rate disputes

The Iowa Communications Network (ICN) hereby rescinds Chapter 12, "Rates and Rate Disputes," Iowa Administrative Code, and adopts a new Chapter 12 with the same title.

Legal Authority for Rulemaking

This rulemaking is adopted under the authority provided in Iowa Code chapter 8D.

State or Federal Law Implemented

This rulemaking implements, in whole or in part, Iowa Code chapter 8D and Executive Order 10.

Purpose and Summary

The chapter describes the methodology for establishing self-sustaining rates for services on the statewide network, outlines notification procedures for rate adjustments, and provides a clear process for resolving billing disputes. This chapter was reviewed pursuant to Executive Order 10. As a result, the ICN removed redundant and obsolete language and provides transparent guidance on rates and rate disputes.

Public Comment and Changes to Rulemaking

Notice of Intended Action for this rulemaking was published in the Iowa Administrative Bulletin on September 2, 2026, as **ARC 0512D**. A public hearing was held on the following date(s):

- September 30, 2026
- October 1, 2026

No one attended the public hearings.

John Richardson of the Iowa Hospital Association submitted a written comment at the Notice of Intended Action stage recommending 90 days' advance notice for a rate increase.

A change from the Notice has been made to increase the notice period from 30 days to 90 days, giving authorized users more notice of an established rate increase.

Adoption of Rulemaking

This rulemaking was adopted by the ICN Executive Director on October 7, 2026.

Fiscal Impact

This rulemaking has no fiscal impact to the State of Iowa.

Jobs Impact

After analysis and review of this rulemaking, no impact on jobs has been found.

Waivers

Any person who believes that the application of the discretionary provisions of this rulemaking would result in hardship or injustice to that person may petition the ICN for a waiver of the discretionary provisions, if any, pursuant to 751—Chapter 2504.

Review by Administrative Rules Review Committee

The Administrative Rules Review Committee, a bipartisan legislative committee which oversees rulemaking by executive branch agencies, may, on its own motion or on written request by any individual or group, review this rulemaking at its regular monthly meeting or at a special meeting. The Committee's meetings are open to the public, and interested persons may be heard as provided in Iowa Code section 17A.8(6).

Effective Date

This rulemaking will become effective on December 2, 2026.

The following rulemaking action is adopted:

ITEM 1. Rescind 751—Chapter 12 and adopt the following **new** chapter in lieu thereof:

CHAPTER 12
RATES AND RATE DISPUTES

751—12.1(8D) Rate methodology.

12.1(1) *Cost recovery.* The commission shall establish rates for all services based on the actual cost of operation, maintenance, administration, and capital investment required to provide the service. Rates shall be designed to be self-sustaining and consistent with the state's financial capacity.

12.1(2) *Educational priority.* In establishing rates for educational users, the commission shall ensure that rural communities have access to services comparable to those provided in urban areas, consistent with Iowa Code section 8D.3(1)*"a."*

12.1(3) *Federal and health users.* Rates for federal agencies, hospitals, and physician clinics shall be established at a level that ensures, at a minimum, there is no state subsidy related to the cost of the connection or use of the network, consistent with Iowa Code section 8D.3(3)*"i."*

751—12.2(8D) Rate increase notice. The commission shall provide notice to authorized users of any general rate increase at least 90 days prior to the effective date of the increase.

751—12.3(8D) Rate dispute resolution.

12.3(1) *Review.* An authorized user who believes the user has been billed an incorrect rate or charge may request a review by the executive director. The request must be in writing and include the specific invoice and the basis for the dispute.

12.3(2) *Determination.* The executive director or designee shall review the dispute and issue a written decision to the authorized user.

12.3(3) *Appeal.* If the authorized user is dissatisfied with the executive director's decision, the user may file a notice of appeal in accordance with the contested case procedures in 7—Chapter 2506.

These rules are intended to implement Iowa Code section 8D.3.

[Filed 10/7/26, effective 12/2/26]
[Published 10/28/26]

EDITOR'S NOTE: For replacement pages for IAC, see IAC Supplement 10/28/26.

ARC 0688D

COMMUNICATIONS NETWORK, IOWA[751]

Adopted and Filed

Rulemaking related to rescission of chapters

The Iowa Communications Network (ICN) hereby rescinds Chapter 13, "Site Charges and Other Fees," and Chapter 15, "Advisory Councils, Committees and Groups," Iowa Administrative Code.

Legal Authority for Rulemaking

This rulemaking is adopted under the authority provided in Iowa Code chapter 8D.

State or Federal Law Implemented

This rulemaking implements, in whole or in part, Iowa Code chapter 8D and Executive Order 10.

Purpose and Summary

This rulemaking is the result of the Red Tape Review process outlined in Executive Order 10. As a result of the review, the ICN determined that the content in both chapters is obsolete and no longer reflects current agency operations.

Public Comment and Changes to Rulemaking

Notice of Intended Action for this rulemaking was published in the Iowa Administrative Bulletin on September 2, 2026, as **ARC 0504D**. A public hearing was held on the following date(s):

- September 30, 2026
- October 1, 2026

No one attended the public hearings. No public comments were received. No changes from the Notice have been made.

Adoption of Rulemaking

This rulemaking was adopted by the ICN Executive Director on October 7, 2026.

Fiscal Impact

This rulemaking has no fiscal impact to the State of Iowa.

Jobs Impact

After analysis and review of this rulemaking, no impact on jobs has been found.

Waivers

Any person who believes that the application of the discretionary provisions of this rulemaking would result in hardship or injustice to that person may petition the ICN for a waiver of the discretionary provisions, if any, pursuant to 751—Chapter 2504.

Review by Administrative Rules Review Committee

The Administrative Rules Review Committee, a bipartisan legislative committee which oversees rulemaking by executive branch agencies, may, on its own motion or on written request by any individual or group, review this rulemaking at its regular monthly meeting or at a special meeting. The Committee's meetings are open to the public, and interested persons may be heard as provided in Iowa Code section 17A.8(6).

Effective Date

This rulemaking will become effective on December 2, 2026.

The following rulemaking action is adopted:

ITEM 1. Rescind and reserve **751—Chapter 13**.

ITEM 2. Rescind and reserve **751—Chapter 15**.

[Filed 10/7/26, effective 12/2/26]
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ARC 0689D

COMMUNICATIONS NETWORK, IOWA[751]

Adopted and Filed

Rulemaking related to access to facilities

The Iowa Communications Network (ICN) hereby rescinds Chapter 14, "Access to Facilities," Iowa Administrative Code, and adopts a new Chapter 14 with the same title.

Legal Authority for Rulemaking

This rulemaking is adopted under the authority provided in Iowa Code chapter 8D.

State or Federal Law Implemented

This rulemaking implements, in whole or in part, Iowa Code chapter 8D and Executive Order 10.

Purpose and Summary

The chapter describes the integrity, security, and reliability of the network by regulating access to network infrastructure or operated facilities, including network hubs, regeneration sites, and equipment rooms. This chapter was reviewed pursuant to Executive Order 10. As a result, the ICN removed redundant and obsolete language and provides clearer guidance on access to facilities.

Public Comment and Changes to Rulemaking

Notice of Intended Action for this rulemaking was published in the Iowa Administrative Bulletin on September 2, 2026, as **ARC 0509D**. A public hearing was held on the following date(s):

- September 30, 2026
- October 1, 2026

No one attended the public hearings. No public comments were received. No changes from the Notice have been made.

Adoption of Rulemaking

This rulemaking was adopted by the ICN Executive Director on October 7, 2026.

Fiscal Impact

This rulemaking has no fiscal impact to the State of Iowa.

Jobs Impact

After analysis and review of this rulemaking, no impact on jobs has been found.

Waivers

Any person who believes that the application of the discretionary provisions of this rulemaking would result in hardship or injustice to that person may petition the ICN for a waiver of the discretionary provisions, if any, pursuant to 751—Chapter 2504.

Review by Administrative Rules Review Committee

The Administrative Rules Review Committee, a bipartisan legislative committee which oversees rulemaking by executive branch agencies, may, on its own motion or on written request by any individual or group, review this rulemaking at its regular monthly meeting or at a special meeting. The Committee's meetings are open to the public, and interested persons may be heard as provided in Iowa Code section 17A.8(6).

Effective Date

This rulemaking will become effective on December 2, 2026.

The following rulemaking action is adopted:

ITEM 1. Rescind 751—Chapter 14 and adopt the following **new** chapter in lieu thereof:

CHAPTER 14
ACCESS TO FACILITIES

751—14.1(8D) Purpose and scope. The purpose of this chapter is to protect the integrity, security, and reliability of the network by regulating access to commission-owned or operated facilities, including network hubs, regeneration sites, and equipment rooms.

751—14.2(8D) Authorized access. Access to commission facilities is restricted to:

14.2(1) Commission employees and agents acting within the scope of their employment.

14.2(2) Authorized vendors and contractors who have a valid contract or service agreement with the commission.

14.2(3) Colocation partners as defined in a written colocation agreement.

14.2(4) Emergency response personnel.

751—14.3(8D) Security procedures.

14.3(1) *Credentials.* All individuals entering a commission facility must possess valid identification and commission-issued credentials (key card, key, or access code). Credentials are nontransferable and shall not be shared or loaned.

14.3(2) *Background checks.* The commission reserves the right to require criminal history background checks for any nonemployee requesting access to critical infrastructure.

14.3(3) *Logs.* All entry and exit from commission facilities shall be logged. Use of a monitored electronic access control system satisfies this requirement.

751—14.4(8D) Vendor and colocation access.

14.4(1) *Authorization.* In support of the commission, third-party vendors and colocation partners may be granted access to specific facilities for the installation, maintenance, or removal of their equipment.

14.4(2) *Liability.* Any vendor or colocation partner entering a commission facility assumes full liability for any damage caused to the network, the facility, or the equipment of other tenants by the vendor's or colocation partner's employees or agents.

14.4(3) *Revocation.* The commission may immediately revoke access privileges for any individual who violates security protocols or endangers the network.

These rules are intended to implement Iowa Code section 8D.3.

[Filed 10/7/26, effective 12/2/26]
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EDITOR'S NOTE: For replacement pages for IAC, see IAC Supplement 10/28/26.

ARC 0690D

COMMUNICATIONS NETWORK, IOWA[751]

Adopted and Filed

Rulemaking related to miscellaneous

The Iowa Communications Network (ICN) hereby rescinds Chapter 17, "Miscellaneous," Iowa Administrative Code, and adopts a new Chapter 17 with the same title.

Legal Authority for Rulemaking

This rulemaking is adopted under the authority provided in Iowa Code chapter 8D.

State or Federal Law Implemented

This rulemaking implements, in whole or in part, Iowa Code chapter 8D and Executive Order 10.

Purpose and Summary

The chapter describes specific administrative, operational, and financial functions of the agency, including asset disposal, network topology definitions, shared use agreements, and billing services. This chapter was reviewed pursuant to Executive Order 10. As a result, the ICN removed redundant and obsolete language.

Public Comment and Changes to Rulemaking

Notice of Intended Action for this rulemaking was published in the Iowa Administrative Bulletin on September 2, 2026, as **ARC 0513D**. A public hearing was held on the following date(s):

- September 30, 2026
- October 1, 2026

No one attended the public hearings. No public comments were received. No changes from the Notice have been made.

Adoption of Rulemaking

This rulemaking was adopted by the ICN Executive Director on October 7, 2026.

Fiscal Impact

This rulemaking has no fiscal impact to the State of Iowa.

Jobs Impact

After analysis and review of this rulemaking, no impact on jobs has been found.

Waivers

Any person who believes that the application of the discretionary provisions of this rulemaking would result in hardship or injustice to that person may petition the ICN for a waiver of the discretionary provisions, if any, pursuant to 751—Chapter 2504.

Review by Administrative Rules Review Committee

The Administrative Rules Review Committee, a bipartisan legislative committee which oversees rulemaking by executive branch agencies, may, on its own motion or on written request by any individual or group, review this rulemaking at its regular monthly meeting or at a special meeting. The Committee's meetings are open to the public, and interested persons may be heard as provided in Iowa Code section 17A.8(6).

Effective Date

This rulemaking will become effective on December 2, 2026.

The following rulemaking action is adopted:

ITEM 1. Rescind 751—Chapter 17 and adopt the following **new** chapter in lieu thereof:

CHAPTER 17
MISCELLANEOUS

751—17.1(8D) Purpose. This chapter outlines specific administrative, operational, and financial functions of the agency, including asset disposal, network topology definitions, shared use agreements, and billing services.

751—17.2(8D) Network parts and right-of-way. The agency shall manage and operate the state communications network, which consists of Part I, Part II, and Part III fiber optic infrastructure as

defined in Iowa Code section 8D.13. To facilitate the maintenance and expansion of these network parts, the executive director may negotiate and enter into necessary space and right-of-way agreements.

751—17.3(8D) Transfer and disposal of assets.

17.3(1) The executive director may dispose of property or equipment under the agency's ownership or control when the property or equipment becomes unnecessary, obsolete, or unfit for further use.

17.3(2) The agency may dispose of unnecessary or unfit property by sale, auction, broker, trade, consignment, or any other manner that maximizes the value to the state and fairly disposes of the property. Proceeds from the disposition of the property shall be retained by the agency.

751—17.4(8D) Partnerships and shared use agreements.

17.4(1) The executive director may enter into shared use agreements or partnerships with public or private entities, including cities, municipalities, and other nonauthorized users, to maximize the operational efficiency of the network.

17.4(2) Such partnerships shall be established to facilitate shared data connectivity, emergency management interoperability, or public safety services, provided such agreements do not violate statutory prohibitions against the provision of retail commercial services.

751—17.5(8D) Billing services.

17.5(1) *Billing on behalf of an authorized user.* The agency may invoice and collect fees on behalf of an authorized user for services provided across the network.

17.5(2) *Billing for shared use and space agreements.* The agency shall possess the authority to generate invoices, collect payments, and manage financial accounts for nonauthorized users operating under a valid shared use agreement, right-of-way agreement, or space collocation agreement.

These rules are intended to implement Iowa Code sections 23A.2, 8D.3 and 8D.11.

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ARC 0691D

HUMAN SERVICES DEPARTMENT[441]

Adopted and Filed

Rulemaking related to child development homes and child care homes

The Department of Health and Human Services hereby rescinds Chapter 110, "Child Development Homes," and adopts a new Chapter 10, "Child Development Homes and Child Care Homes with a Child Care Assistance Provider Agreement," Iowa Administrative Code.

Legal Authority for Rulemaking

This rulemaking is adopted under the authority provided in Iowa Code chapter 237A and section 234.6.

State or Federal Law Implemented

This rulemaking implements, in whole or in part, Iowa Code chapter 237A and section 234.6.

Purpose and Summary

This chapter was reviewed pursuant to Executive Order 10. During that review, it was determined that because there are many similarities between registered child development homes and child care homes with a child care provider agreement, the rules in 441—Chapter 120 could be integrated into

Chapter 110, with specific rules for each category of child care home. By combining these rules into one chapter, the Department removed duplicative content and organized the new chapter in a way that the public can still find the information based on the type of child care home in question. This chapter establishes registration procedures for child development homes. Included are application and renewal procedures, standards for providers, and procedures for compliance checks and complaint investigations. The chapter also establishes procedures for child care homes that have a child care assistance provider agreement to receive child care assistance funds.

Public Comment and Changes to Rulemaking

Notice of Intended Action for this rulemaking was published in the Iowa Administrative Bulletin on September 2, 2026, as **ARC 0540D**. Public hearings were held on the following date:

- September 23, 2026

No one attended the public hearings.

Public comments were received from the Health and Safety Institute (HSI). HSI is the successor organization to the American Safety and Health Institute and MEDIC First Aid. As such, HSI requested that the Department update subparagraph 110.10(1)"c"(1) to reflect the successor organization's name. A change from the Notice has been made to update that subparagraph.

Adoption of Rulemaking

This rulemaking was adopted by the Department on October 7, 2026.

Fiscal Impact

This rulemaking has no fiscal impact to the State of Iowa.

Jobs Impact

After analysis and review of this rulemaking, no impact on jobs has been found.

Waivers

Any person who believes that the application of the discretionary provisions of this rulemaking would result in hardship or injustice to that person may petition the Department for a waiver of the discretionary provisions, if any, pursuant to 441—Chapter 2504.

Review by Administrative Rules Review Committee

The Administrative Rules Review Committee, a bipartisan legislative committee which oversees rulemaking by executive branch agencies, may, on its own motion or on written request by any individual or group, review this rulemaking at its regular monthly meeting or at a special meeting. The Committee's meetings are open to the public, and interested persons may be heard as provided in Iowa Code section 17A.8(6).

Effective Date

This rulemaking will become effective on January 1, 2027.

The following rulemaking action is adopted:

ITEM 1. Rescind 441—Chapter 110 and adopt the following **new** chapter in lieu thereof:

CHAPTER 110
CHILD DEVELOPMENT HOMES AND CHILD CARE HOMES WITH A CHILD CARE ASSISTANCE PROVIDER AGREEMENT

441—110.1(237A) Definitions.

"Adult" means a person 18 years of age or older.

"Assistant" means a responsible person 14 years of age or older employed by the child care provider. The assistant may never be left alone with children. Ultimate responsibility for supervision is with the child care provider.

"Category," when referring to category A, B, or C, means one of the three categories of standards for child development homes established by Iowa Code section 237A.3A(3)*"a."*

"Child" means the same as defined in Iowa Code section 237A.1.

"Child care" means the same as defined in Iowa Code section 237A.1.

"Child care assistance provider agreement" means the approved form to receive payment under the child care assistance program.

"Child care facility" or *"facility"* means the same as defined in Iowa Code section 237A.1.

"Child care home" means the same as defined in Iowa Code section 237A.1.

"Child development home" means the same as defined in Iowa Code section 237A.1.

"Child support services" means the same as defined in Iowa Code section 252J.1(2).

"Coaching" means a relationship-based process led by an expert to build capacity for specific professional dispositions, skills, and behaviors and is focused on performance-based outcomes.

"Education" means formal coursework offered through a state-approved accredited secondary school, college, or university.

"Infant" means the same as defined in Iowa Code section 237A.1.

"Involvement with child care" means the same as defined in Iowa Code section 237A.1.

"Nonregistered child care home" means a child care home that has an approved payment application and a current child care assistance provider agreement with the department. Nonregistered child care homes are required to meet minimum health and safety standards under the child care and development block grant under 45 CFR 98.41 as amended to August 1, 2026.

"Parent" means parent or legal guardian.

"Person subject to an evaluation" means the same as defined in Iowa Code section 237A.5.

"Professional development" means a continuum of learning activities designed to prepare and support individuals for work with children and families, including coaching, education, and training.

"Provider" means the person or program that applies for registration to provide child care and is approved as a child development home or a nonregistered child care home.

"Registration" means the process by which child care providers certify that they comply with rules adopted by the department.

"Registration certificate" means the written document issued by the department to publicly state that the provider has certified in writing compliance with the minimum requirements for registration of a child development home.

"Relative" means grandparents, great-grandparents, aunts, uncles, and siblings living in a separate residence.

"School" means the same as defined in Iowa Code section 237A.1.

"Training" means a learning experience that addresses a specific topic of professional relevance that builds or enhances knowledge.

"Transgression" means the same as defined in Iowa Code section 237A.1.

441—110.2(237A) Application for registration as a child development home or payment as a nonregistered child care home.

110.2(1) A child development home provider shall apply for registration on the Application for Child Development Home Registration form.

110.2(2) A nonregistered provider shall apply for payment as a nonregistered child care home on the Payment Application for Nonregistered Provider form.

441—110.3(237A) Renewal of registration or payment application. Renewal of registration or payment application shall be completed every 24 months. To request renewal, a provider shall submit a renewal application on the department-approved form and supply to the department all training

completion evidence either through certificates or as updated in Iowa's early childhood and school age professional workforce registry (i-PoWeR).

441—110.4(237A) Compliance checks. Prior to child development home registration, a site visit to inspect for compliance with health, safety, and fire standards will be completed. An unannounced compliance visit will be conducted not less than annually to each child development home and nonregistered child care home.

441—110.5(237A) Parental access. Parents shall be afforded unlimited access to their children and to the people caring for their children during the normal hours of operation or whenever their children are in the care of the child development home or nonregistered child care home unless parental contact is prohibited by court order.

441—110.6(237A) Number of children.

110.6(1) *Standards.* The number of children in a child development home or nonregistered child care home shall conform to the following standards.

a. Registered child development home limits. Except as provided in subrule 110.6(3), no greater number of children shall be received for care at any one time than the number authorized on the registration certificate.

b. Nonregistered child care home limits. No more than six children shall receive care at any one time if at least one child is school-aged.

110.6(2) *Children counted.* The number of children counted is as stated in Iowa Code section 237A.3A(4).

110.6(3) *Exception for emergency school closing.* On days when schools start late, are dismissed early, or are canceled or closed due to emergencies such as inclement weather, physical plant failure, structural damage, or public health emergency, a child development home may have additional children present in accordance with the authorization for the registration category of the home and subject to all of the following conditions:

a. One or more of the following conditions are applicable to each of the additional children present in the child development home:

(1) The home provides care to the child on a regular basis for periods of less than two hours.

(2) If the child were not present in the child development home, the child would be unattended.

(3) The home regularly provides care to a sibling of the child.

b. The provider shall maintain a written record, including the date of the emergency school closing, the reason for the closing, and the number of children in care on that date.

441—110.7(237A) Provider requirements.

110.7(1) *Provider.* The provider shall:

a. Give careful supervision at all times.

b. Exchange information with the parent of each child frequently to enhance the quality of care.

c. Give consistent, dependable care and be capable of handling emergencies.

d. Be present at all times, except when emergencies occur or an absence is planned, at which time care shall be provided by a department-approved substitute as permitted for a child development home under subrule 110.7(2).

e. Be free of the use of illegal drugs and not under the influence of alcohol or any prescription or nonprescription drug that could impair the provider's ability to give careful supervision.

110.7(2) *Substitutes in child development homes.* Any designated substitute shall have the same responsibility for providing adequate and appropriate supervision. Ultimate responsibility for supervision shall be with the provider.

a. All standards in this chapter regarding supervision and care of children shall apply to substitutes.

b. Except in emergency situations, the provider shall inform parents in advance of the planned use of a substitute.

c. The substitute must be 18 years of age or older.

d. Use of a substitute shall be limited to:

(1) No more than 25 hours per month.

(2) An additional period of up to two weeks in a 12-month period.

e. The provider shall maintain a written record of the number of hours care is provided by a substitute, including the date of the care and the name of the substitute.

441—110.8(237A) Standards. Conditions in the home shall be safe, sanitary, and free of hazards.

110.8(1) *Facility requirements.*

a. The home shall have a telephone with emergency numbers for police, fire, ambulance, and the poison information center accessible.

b. The phone number for each child's parent, and for a responsible person who can be reached when the parent is not available, shall be accessible.

c. All travel vehicles must have a copy of emergency parent contact information in the vehicle.

d. Electrical wiring shall be maintained, and all accessible electrical outlets shall be tamper-resistant outlets or shall be safely capped. Electrical cords shall be properly used and in the manner for which they were designed.

e. Combustible materials shall be kept a minimum of three feet away from furnaces, stoves, water heaters, and gas dryers.

f. Approved safety gates at stairways and doors shall be provided and used as needed.

g. Annual laboratory analysis of a private water supply shall be conducted to show satisfactory bacteriological quality. When children under the age of two are to be cared for, the analysis shall include a nitrate analysis. When private water supplies are determined unsuitable for drinking, commercially bottled water or water treated through a process approved by the department shall be provided.

h. A safety barrier shall surround any heating stove or heating element.

i. The home shall have at least one 2A 10BC-rated fire extinguisher located in a visible and readily accessible place on each child-occupied floor.

j. The home shall have at least one single-station, battery-operated, UL-approved smoke detector in each child-occupied room and at the top of every stairway. The provider shall test each smoke detector monthly and keep a record of testing for inspection purposes.

k. Smoking and the use of tobacco products shall be prohibited at all times in the home and in every vehicle in which children receiving care in the home are transported. Smoking and the use of tobacco products shall be prohibited in the outdoor play area during the home's hours of operation. "No smoking" signs shall be posted at every entrance of the child care home and in every vehicle used to transport children. All signs shall include:

(1) The telephone number for reporting complaints, and

(2) The internet address of the department where complaints can be filed.

l. Homes served by a private sewage disposal system shall be operated and maintained to ensure the system is properly treating the wastewater and not creating an unsanitary condition in the environment. Discharge of untreated wastewater from private sewage disposal systems is prohibited.

m. A provider operating in a facility built before 1978 shall assess and control lead hazards. To comply with this provision, the provider shall:

(1) Determine whether painted surfaces on the interior or exterior of the facility are chipping, peeling, cracking, or in need of repair. Painted surfaces include walls, ceilings, windows, doors, stairs, and woodwork; and

(2) If painted surfaces are in need of repair, the home shall hire an Iowa certified lead-safe renovator to make repairs. Iowa lead-safe renovators shall apply interim controls on any chipping, peeling, or cracking paint found, using lead-safe work methods in accordance with and as defined by department as set forth in 481—Chapters 469 and 470.

n. The child development home or nonregistered child care home shall be located in a single-family residence that is owned, rented, or leased by the person or, for dual registrations, at least one of the persons named on the child development home's certificate of registration.

o. Any driver who transports children for any purpose shall have a valid driver's license and adequate motor vehicle insurance that authorizes the driver to operate the type of vehicle being driven. Child restraint devices shall be utilized in compliance with Iowa Code section 321.446.

p. Providers shall inform parents of the presence of any pet in the home.

(1) Each dog or cat in the household shall undergo an annual health examination by a licensed veterinarian. Veterinary examinations shall be documented on a veterinary health certificate or record of standard veterinary preventative care. This examination shall verify the animal's routine immunizations are current and there is no evidence of endoparasites and ectoparasites.

(2) Aquariums shall be well maintained and installed in a manner that prevents children from accessing the water or pulling over a tank.

(3) All animal waste shall be immediately removed from the children's areas and properly disposed of. Children cannot perform any feeding or care of pets or cleanup of pet waste.

(4) No animals shall be allowed in the food preparation, food storage, or serving areas during food preparation and serving times.

q. Using an injury report form, the provider shall document all injuries needing first aid or medical care. The form shall be completed on the date of occurrence, shared with the parent, and maintained in the child's file.

r. The provider shall have written policies regarding the care of mildly ill children and the exclusion of children due to illness and shall inform parents of these policies.

s. The provider shall have written policy and procedures for responding to health-related emergencies.

t. The certificate of registration shall be displayed in a conspicuous place.

u. Serious injuries, as defined in Iowa Code section 702.18, that occur in a child care facility or when a child is in the care of child care facility staff shall be reported to the department within 24 hours of the incident. Serious injuries shall be documented and information maintained in the child's file.

110.8(2) *Use of outdoor space.*

a. A safe outdoor play area shall be maintained in good condition throughout the year. The play area shall:

(1) Be fenced off when located on a busy thoroughfare or near a hazard that could be injurious to a child.

(2) Have both sunshine and shade areas.

(3) Be kept free from litter, rubbish, and flammable materials.

(4) Be free from contamination by the drainage or ponding of sewage, household waste, or storm water.

b. When there is a swimming or wading pool on the premises:

(1) The wading pool shall be drained daily and shall be inaccessible to children when it is not in use.

(2) An aboveground or in-ground swimming pool that is not fenced shall be covered whenever the pool is not in use. The cover shall meet or exceed the standards set forth by ASTM International intended to reduce the risk of drowning by inhibiting access to the water by children under five years of age.

(3) An uncovered aboveground swimming pool shall be enclosed with an approved fence that is nonclimbable and is at least four feet high.

(4) An uncovered in-ground swimming pool shall be enclosed with an approved fence that is nonclimbable and is at least four feet high and flush with the ground.

c. If children are allowed to use an aboveground or in-ground swimming pool:

(1) Written permission from parents shall be available for review.

(2) Equipment needed to rescue a child or adult shall be readily accessible.

(3) The child care provider shall accompany the children and provide constant supervision while the children use the pool.

(4) The child care provider shall complete training in cardiopulmonary resuscitation (CPR) for infants, toddlers, and children, according to the criteria of the American Red Cross or the American Heart Association.

110.8(3) *Medications and hazardous materials.*

a. All medicines and poisonous, toxic, or otherwise unsafe materials shall be secured from access by a child.

b. A first aid kit shall be available and easily accessible whenever children are in the child development home or nonregistered child care home, in the outdoor play area, in vehicles used to transport children, and on field trips. The kit shall be sufficient to address first aid related to minor injury or trauma and shall be stored in an area inaccessible to children. The kit shall at a minimum include adhesive bandages, bottled water, tweezers, and disposable plastic gloves.

c. Medications shall be given only with the parent's or doctor's written authorization. Each prescribed medication shall be accompanied by a physician's or pharmacist's direction. Both nonprescription and prescription medications shall be in the original container with directions intact and labeled with the child's name. All medications shall be stored properly and, when refrigeration is required, stored in a separate, covered container to prevent contamination of food or other medications. All medications shall be stored so they are inaccessible to children. Any medication administered to a child shall be recorded, including the name of the medication, the date and time of administration, and the amount administered.

d. The provider shall establish procedures related to infectious disease control and handling of any bodily excrement or discharge or blood. Soiled diapers shall be stored in containers separate from other waste.

110.8(4) *Emergency plans.* Emergency plans in case of human-made or natural disaster shall be written and posted by the primary and secondary exits. The plans shall clearly map building evacuation routes and tornado and flood shelter areas.

a. Fire and tornado drills shall be practiced monthly, and the provider shall keep documentation evidencing compliance with monthly practice on file for the current year and the previous year.

b. The provider must have procedures in place for the following:

(1) Evacuation to safely leave the facility.

(2) Relocation to a common, safe location after evacuation.

(3) Shelter-in-place to take immediate shelter where the child is when it is unsafe to leave that location due to the emergent issue.

(4) Lockdown to protect children and providers from an external situation.

(5) Communication and plans for reunification with families.

(6) Continuity of operations.

(7) To address the needs of individual children, including those with functional or physical access needs.

110.8(5) *Safe sleep.*

a. The provider shall follow safe sleep practices as recommended by the American Academy of Pediatrics for infants under the age of one. Infant sleep shall conform to the following standards:

(1) Infants shall always be placed on their backs for sleep.

(2) Infants shall be placed on a firm mattress with a tight-fitted sheet that meets U.S. Consumer Product Safety Commission standards.

(3) Infants cannot be allowed to sleep on a bed, sofa, air mattress, or other soft surface.

(4) No toys, soft objects, stuffed animals, pillows, bumper pads, blankets, or loose bedding shall be allowed in the sleeping area with the infant.

(5) No co-sleeping shall be allowed.

(6) Sleeping infants shall be actively observed by sight and sound.

(7) If an alternate sleeping position is needed, a signed physician or physician associate authorization with statement of medical reason is required.

b. No child shall be allowed to sleep in any item not designed for sleeping, such as an infant seat, car seat, swing, or bouncy seat.

c. A crib or criblike furniture that has a waterproof mattress covering and sufficient bedding to enable a child to rest comfortably and that meets the current standards or recommendations from the U.S. Consumer Product Safety Commission or ASTM International for juvenile products shall be provided for each child under two years of age if developmentally appropriate. Crib railings shall be fully raised and secured when the child is in the crib. A crib or criblike furniture shall be provided for the number of children present at any one time. The home shall maintain all cribs or criblike furniture and bedding in a clean and sanitary manner. There shall be no restraining devices of any type used in cribs.

d. All items used for sleeping must be used in compliance with manufacturer standards for the age and weight of the child.

110.8(6) *Discipline.* Discipline shall conform to the following standards:

a. Corporal punishment, including spanking, shaking, and slapping, shall not be used.

b. Punishment that is humiliating or frightening or that causes pain or discomfort to the child shall not be used.

c. Punishment cannot be administered because of a child's illness, or progress or lack of progress in toilet training, nor shall punishment or threat of punishment be associated with food or rest.

d. No child shall be subjected to verbal abuse, threats, or derogatory remarks about the child or the child's family.

e. Discipline shall emphasize prevention by having clear and consistent rules and by teaching children self-control, self-esteem, and respect for the rights of others.

110.8(7) *Meals and snacks.*

a. Registered child development homes shall provide regular meals, midmorning snacks, and midafternoon snacks.

(1) The meals and snacks shall be well-balanced, nourishing, and in appropriate amounts as defined by the United States Department of Agriculture (USDA) Child and Adult Care Food Program.

(2) Nonregistered child care homes do not have to meet the USDA Child and Adult Care Food Program.

b. Children may bring food to the child development home or nonregistered child care home for their own consumption but cannot be required to provide their own food.

c. Clean, sanitary drinking water shall be readily available to children in indoor and outdoor areas throughout the day.

110.8(8) *Activity program.* There shall be an activity program that promotes self-esteem and exploration and includes:

a. Active play.

b. Quiet play.

c. Activities for large-muscle development.

d. Activities for small-muscle development.

e. Play equipment and materials in a safe condition, for both indoor and outdoor activities that are developmentally appropriate for the ages and number of children present.

441—110.9(237A) Files.

110.9(1) The child development home provider shall maintain a file that contains the following:

a. A physical examination report within six months of becoming registered. Acceptable physical examinations shall be documented on the Child Care Provider Physical Examination Report form. All children residing in the household must have the medical documentation outlined in paragraphs 110.9(4)*"d," "f,"* and *"g."*

b. i-PoWeR records or certificates verifying required training completion.

110.9(2) An individual file for each staff assistant in a child development home shall be maintained and contain the following:

a. Documentation from the department that confirms the required record checks have been completed and authorizes or conditionally limits the person's involvement with child care.

b. A completed Child Care Provider Physical Examination Report form.

c. Certification of a minimum of two hours of approved training relating to the identification and reporting of child abuse as required by Iowa Code section 232.69.

110.9(3) An individual file for each substitute in a child development home shall be maintained and shall contain the following:

a. Documentation from the department that confirms the required record checks have been completed and authorizes or conditionally limits the person's involvement with child care.

b. A completed Child Care Provider Physical Examination Report form.

c. Certification of a minimum of two hours of approved training relating to the identification and reporting of child abuse as required by Iowa Code section 232.69.

d. Certification in first aid and CPR.

e. Certification or other documentation that minimum health and safety training has been completed.

110.9(4) Children's files. An individual file for each child shall be maintained and updated annually or when the provider becomes aware of changes. If the child meets the definition of homelessness as defined by Section 725(2) of the McKinney-Vento Homeless Education Assistance Act as amended to August 1, 2026, the family shall receive a 60-day grace period to obtain medical documentation. The file shall contain:

a. Identifying information including at a minimum the child's name, birth date, and address.

b. Parent/guardian contact information.

c. Emergency contacts and persons who can pick up the child as authorized by the parent.

d. Contact information and authorization of emergency medical and dental services.

e. An admission physical examination report signed by a licensed medical doctor, doctor of osteopathy, chiropractor, physician associate, or advanced registered nurse practitioner.

(1) The date of the physical examination cannot be more than 12 months before the child's first day of attendance at the child development home or non-regulated child care home.

(2) The written report shall include the child's past health history; status of the child's present health, allergies, and restrictive conditions; and recommendations for continued care when necessary.

(3) For a child who is five years of age or older and enrolled in school, a statement of health status signed by the parent or legal guardian may be substituted for the physical examination report.

(4) The examination report or statement of health status shall be on file before the child's first day of care.

f. For children under the age of six, a statement of health condition signed by a licensed medical doctor, doctor of osteopathy, chiropractor, physician associate, or advanced registered nurse practitioner and submitted annually from the date of the admission physical examination. For a child who is enrolled in school, a statement of health status signed by the parent or legal guardian may be substituted for the statement of health.

g. For each school-age child, on the first day of attendance, documentation of a physical examination that was completed at the time of school enrollment or since.

h. A signed and dated immunization certificate provided by the department. For the school-age child, a copy of the most recent immunization record shall be acceptable. Documentation of a valid certificate of immunization exemption (religious or medical) or provisional certificate of immunization may be submitted in lieu of a certificate of immunization.

i. For any child with allergies, a written emergency care plan in case of an allergic reaction. A copy of this information shall accompany the child if the child leaves the premises.

j. Documentation that is signed by the parent and names of persons authorized to pick up the child. The authorization shall include the name, telephone number, and relationship of the authorized person to the child.

k. Written permission from the parent for the child to attend activities away from the child development home or nonregistered child care home.

l. Injury report forms documenting injuries requiring first aid or medical care.

441—110.10(237A) Professional development.

110.10(1) *Required training.*

a. Prior to registration or approval as a nonregistered child care home, the provider shall complete minimum health and safety trainings, approved by the department, in all of the following areas:

(1) Prevention and control of infectious disease, including immunizations.

(2) Prevention of sudden infant death syndrome and use of safe sleep practices.

(3) Administration of medication, consistent with standards for parental consent.

(4) Prevention of and response to emergencies due to food and allergic reactions.

(5) Building and physical-premises safety, including identification of and protection from hazards that can cause bodily injury, such as electrical hazards, bodies of water, and vehicular traffic.

(6) Prevention of shaken baby syndrome and abusive head trauma.

(7) Emergency preparedness and response planning for emergencies resulting from a natural disaster or a human-caused event.

(8) Handling and storage of hazardous materials and the appropriate disposal of biocontaminants.

(9) Precautions in transporting children.

(10) Child development.

b. Prior to registration or approval as a nonregistered child care home, the provider shall complete two hours of Iowa's training for mandatory reporting of child abuse as required by Iowa Code section 232.69. The provider shall maintain a valid certificate indicating expiration date.

c. Prior to registration or approval as a nonregistered child care home, the provider shall complete pediatric first aid and pediatric CPR training that meets the following requirements:

(1) Training shall be provided by a nationally-recognized training organization, such as the American Red Cross, American Heart Association, National Safety Council, Health and Safety Institute (HSI), or by an equivalent trainer using curriculum approved by the department.

(2) The provider shall maintain a valid certificate indicating the date of first aid training and the expiration date.

(3) The provider shall maintain a valid certificate indicating the date of CPR training and the expiration date.

d. The provider must earn 12 contact hours of training each calendar year from approved subject areas from the Council for Professional Recognition or approved content areas from the National Afterschool Association.

e. During each calendar year, the nonregistered child care home provider shall receive a minimum of three hours of training from approved content areas. If course content overlaps between calendar years, hours may still count toward professional development requirements.

f. Minimum health and safety training may be required if content has significant changes that the department warrants that the training be renewed.

g. A child development home provider who has completed training through a child care resource and referral agency or community college within six months prior to initial registration shall be permitted to count the training toward the provider's total training required during the initial registration.

110.10(2) *Approved trainings.*

a. Professional development contact hours can be coaching, education, or training provided by a department-approved entity.

b. Coaching contact hours may only be used to meet up to half of an individual's annual professional development requirement.

c. The department may randomly monitor any state-approved professional development for quality control purposes.

d. Professional development conducted with staff during the hours of operation of the facility, during staff lunch hours, or while children are resting cannot diminish supervision provided to children. The provider cannot be actively engaged in care and supervision while simultaneously participating in training.

e. A professional development organization not approved by the department may submit for review to the department a request for child care training approval. All approvals unless otherwise

specified shall be valid for five years. The department will issue its decision within 30 business days of receipt of a complete request.

f. Department-approved entities must provide participants a professional development certificate for approved professional development contact hours.

441—110.11(237A) Child development home registration; child care assistance provider agreement and payment application for nonregistered providers.

110.11(1) Child development home registration.

a. The department will issue a Certificate of Registration form when an applicant meets all requirements for registration.

b. Registration will be denied or revoked if the department finds a hazard to the safety and well-being of a child and the provider cannot correct or refuses to correct the hazard, even though the hazard may not have been specifically listed under the health and safety rules. Registration may also be denied or revoked if the department determines that the provider has failed to comply with standards imposed by law and these rules.

110.11(2) Child care assistance provider agreement and payment application for nonregistered providers decision.

a. The department will approve a payment agreement application when an applicant meets the requirements.

b. The child care assistance provider agreement will be denied or revoked if the department finds a hazard to the safety and well-being of a child and the provider cannot correct or refuses to correct the hazard, even though the hazard may not have been specifically listed under the health and safety rules. The child care assistance provider agreement may also be denied or revoked if the department determines that the provider has failed to comply with standards imposed by law and these rules.

110.11(3) Record checks.

a. State and national record checks. The department will conduct Iowa criminal history record and child abuse record checks for each registrant, substitute or staff member, anyone living in the home who is 14 years of age or older, and anyone having access to a child when the child is alone. The department will conduct national criminal history record checks, based on fingerprints, for each registrant, substitute or staff member, anyone living in the home who is 18 years of age or older, and anyone 18 years of age or older having access to a child when the child is alone. In accordance with Iowa Code section 726.23, minors under the age of 18 will not be subject to the fingerprint requirement.

(1) The purpose of these record checks is to determine whether a person has committed a transgression that prohibits or limits the person's involvement with child care.

(2) The department may also conduct criminal history record and child abuse record checks in other states and may conduct dependent adult abuse, sex offender registry, and other public or civil offense record checks in Iowa or other states.

b. Authorization. The person subject to record checks shall complete the Record Check Authorization form, Waiver Agreement form, federal fingerprint card, and any other forms required by the department of public safety to authorize the release of records.

c. Iowa records checks. Checks and evaluations of Iowa child abuse and criminal history records will be completed before the person's involvement with child care. Iowa records checks will be repeated at a minimum of every two years and when the department or the registrant becomes aware of any possible transgressions committed by that person. The department is responsible for the cost of conducting the Iowa records checks.

d. National criminal history record checks. Fingerprint-based checks of national criminal history records will also be completed before a person's involvement with child care. This requirement will be for an initial application for registration or a renewal application for registration. The national criminal history record check will be repeated for each person subject to the check every four years and when the department or registrant becomes aware of any new transgressions committed by that person in another state. The department is responsible for the cost of conducting the national criminal history record check.

(1) The registrant/provider is responsible for any costs associated with the taking of fingerprints of all persons subject to record checks and for submitting the fingerprints to the department so that the national criminal history record check can be completed. Fingerprints may be taken (rolled) by law enforcement agencies or by agencies or companies that specialize in taking fingerprints and are approved by the department.

(2) The department will provide fingerprints to the department of public safety no later than ten business days after receipt of the fingerprint cards. The department will submit the fingerprints on forms or in a manner prescribed by the department of public safety.

(3) The department may rely on the results of previously conducted national criminal history record checks when a person subject to a record check in one child development home or child care home submits a request for involvement with child care in another child development home or child care home, so long as the person's national criminal history record check is within the allowable four-year time frame. All initial or new applications shall require a new national criminal history record check.

e. Mandatory and mandatory time-limited prohibition. A person with any convictions or founded abuse reports as defined in Iowa Code section 237A.5(2)*"i"* is prohibited from involvement with child care.

f. Evaluation required. For all other transgressions, and as requested, the department will evaluate the transgression and make a decision about the person's involvement with child care.

(1) The person with the transgression shall complete and return the Record Check Evaluation form within ten calendar days of the date on the form. The department will use the information the person with the transgression provides on this form to assist in the evaluation. Failure of the person with the transgression to complete and return this form within ten calendar days of the date on the form shall result in denial or revocation of the registration certificate.

(2) The department may use information from the department's case records in performing the evaluation.

(3) When a person subject to a record check has a transgression that has been determined in a previous evaluation not to warrant prohibition of the person's involvement with child care and the person has no subsequent transgressions, an exemption from reevaluation of the latest record check is authorized. The person may commence employment with another child care facility in accordance with the department's previous evaluation. The exemption is subject to all of the following conditions:

1. The position with the subsequent employer is substantially the same or has the same job responsibilities as the position for which the previous evaluation was performed.

2. Any restrictions placed on the person's employment by the department in the previous evaluation shall remain applicable in the person's subsequent employment.

3. The person subject to the record check has maintained a copy of the previous evaluation and provides the evaluation to the subsequent employer or the previous employer provides to the subsequent employer the previous evaluation from the person's personnel file pursuant to the person's authorization. If a physical copy of the previous evaluation is not provided to the subsequent employer, the record check shall be reevaluated.

4. The subsequent employer may request a reevaluation of the record check and may employ the person while the reevaluation is being performed.

g. Evaluation decision. The department has final authority in determining whether prohibition of the person's involvement with child care is warranted and in developing any conditional requirements or corrective action plan.

(1) Within 30 calendar days of receipt of a completed record check evaluation, the department will make a decision on the person's involvement with child care.

(2) Within 30 calendar days of receipt of a completed record check evaluation, the department will mail to the person subject to an evaluation a record check decision that explains the decision reached regarding the evaluation of the transgression and a notice of decision.

(3) The department will issue a notice of decision prohibiting involvement with child care when the person subject to an evaluation fails to complete the record check evaluation within the ten-calendar-day time frame.

(4) If the department determines, through the record check evaluation process, that the person's prohibition of involvement with child care is warranted, the person shall be prohibited from involvement with child care. The department may identify a period of time after which the person may request that another record check and evaluation be performed.

(5) The department may permit a person who is evaluated to maintain involvement with child care if the person complies with the department's conditions relating to the person's involvement with child care, which may include completion of additional training or an individually designed corrective action plan, or both. For an employee of a registrant, these conditional requirements shall be developed with the registrant. All conditions placed on a person's involvement with child care shall be communicated, in writing, to both the person subject to the evaluation and the registrant.

(6) The department will reevaluate any transgressions where a state or federal law change requires different considerations of the transgression than had been previously applied.

h. Notice to parents of abuse in care. If there has been founded child abuse committed by an owner, director, or staff member of the child care facility or child care home, the department's administrator shall notify the parents, guardians, and legal custodians of each child for whom the facility or child care home provides care.

(1) The child care facility or child care home shall cooperate with the department in providing the names and addresses of the parent, guardian, or custodian of each child for whom the facility provides child care.

(2) This information shall be provided to the department within ten calendar days from the date of the initial request.

(3) Failure or refusal to provide the requested information may result in cancellation of the provider agreement.

110.11(4) If the department has denied or revoked a registration or child care assistance provider agreement because the provider has continually or repeatedly failed to operate in compliance with Iowa Code chapter 237A and this chapter, the person cannot own or operate a registered facility for a period of 12 months from the date of denial or revocation. The department will not act on an application for registration submitted by the applicant or provider during the 12-month period. The applicant shall be prohibited from involvement with child care unless the department specifically permits the involvement.

110.11(5) If a certificate of registration or child care assistance provider agreement is revoked, the department will notify the parent, guardian, or legal custodian of each child for whom the facility provides care. The provider shall cooperate with the department in providing the name and address of the parent, guardian, or legal custodian of each child for whom the facility provides child care.

110.11(6) Required notifications to the department. The provider shall, within ten days, notify the department of any of the following:

a. Changes in assistants or substitutes;

b. Changes in household membership;

c. Address changes; and

d. Criminal convictions.

110.11(7) No assistant, substitute, or co-provider shall be utilized in the care of children and no person shall be permitted to reside in the household until approved by the department.

110.11(8) If the provider does not notify the department of changes within ten days, the provider may be subject to revocation of registration or to recoupment of child care assistance provided, or both.

110.11(9) Notice of child development home revocation. A notice received by an owner or operator of a child development home initiating action to deny or revoke the home's registration shall be conspicuously posted where it can be read by parents or any member of the public. The letter shall remain posted until resolution of the action to deny or revoke an owner's or operator's certificate of registration.

441—110.12(237A) Complaints. The department will conduct a visit when a complaint is received.

110.12(1) After each complaint visit, the department will document whether the child development home or nonregistered child care home was in compliance with health and safety requirements.

110.12(2) The written documentation of the department's conclusion as to whether the child development home or nonregistered child care home was in compliance with requirements will be available to the public. However, the identity of all complainants will be confidential unless expressly waived by the complainant.

441—110.13(237A) Additional requirements for child development home category A. In addition to the requirements in rule 441—110.8(237A), a provider requesting registration in child development home category A shall meet the following standards.

110.13(1) *Limits on number of children in care.*

a. No more than six children not attending kindergarten or a higher grade level shall be present at any one time.

b. Of these six children, no more than four children who are 24 months of age or younger shall be present at any one time. Of these four children, no more than three can be 12 months of age or younger.

c. In addition to the six children not in school, no more than two children who attend school can be present.

d. No more than eight children shall be present at any one time when an emergency school closing is in effect.

110.13(2) *Provider qualifications.*

a. The provider shall be at least 18 years old.

b. The provider shall have three written references that attest to character and ability to provide child care.

441—110.14(237A) Additional requirements for child development home category B. In addition to the requirements in rule 441—110.8(237A), a provider requesting registration in child development home category B shall meet the following standards.

110.14(1) *Limits on number of children in care.*

a. No more than eight children not attending kindergarten or a higher grade level shall be present at any one time.

b. Of these eight children, no more than four children who are 24 months of age or younger shall be present at any one time. Of these four children, no more than three can be 12 months of age or younger.

c. In addition to the eight children not in school, no more than four children who attend school can be present.

d. No more than 12 children shall be present at any one time when an emergency school closing is in effect.

e. If more than eight children are present at any one time for a period of more than two hours, the provider shall be assisted by a department-approved assistant unless extra children are present as a result of an emergency school closing.

110.14(2) *Provider qualifications.*

a. The provider shall be at least 20 years old.

b. The provider shall have a high school diploma, a GED, or documentation of current or previous enrollment in credit-based coursework from a postsecondary educational institution that is an accredited college or university.

c. The provider shall have either:

(1) Two years of experience as a registered or nonregistered child care provider or a child care center experience, or

(2) A child development associate credential or any two-year or four-year degree in a child care-related field and one year of experience as a registered or nonregistered child care home provider or child care center experience.

110.14(3) *Facility requirements.*

a. The home shall have a minimum of 35 square feet of child-use floor space for each child in care indoors and a minimum of 50 square feet per child in care outdoors.

b. The home shall have a separate quiet area for sick children.

c. The home shall have a minimum of two direct exits to the outside from the main floor.

(1) If the second level or the basement of the home is used for the provision of child care, other than the use of a restroom, each additional child-occupied floor shall have at least one direct exit to the outside in addition to one inside stairway.

(2) All exits shall terminate at grade level with permanent steps.

(3) A basement window may be used as an exit if the window can be opened from the inside without the use of tools and it provides a clear opening of not less than 20 inches in width, 24 inches in height, and 5.7 square feet in area. The bottom of the opening shall be not more than 44 inches above the floor, with permanent steps inside leading up to the window.

(4) Occupancy above the second floor cannot be permitted for child care.

441—110.15(237A) Additional requirements for child development home category C without a co-provider. In addition to the requirements in rule 441—110.8(237A), a provider requesting registration in child development home category C without a co-provider shall meet the following standards.

110.15(1) *Limits on number of children in care.*

a. No more than eight children not attending kindergarten or a higher grade level shall be present at any one time.

b. Of these eight children, no more than four children who are 24 months of age or younger shall be present at any one time. Of these four children, no more than three can be 12 months of age or younger.

c. In addition to the eight children not in school, no more than four children who attend school can be present.

d. No more than 12 children shall be present at any one time when an emergency school closing is in effect.

e. If more than eight children are present at any one time for a period of more than two hours, the provider shall be assisted by a department-approved assistant unless extra children are present as a result of an emergency school closing.

110.15(2) *Provider qualifications.*

a. The provider shall be at least 21 years old.

b. The provider shall have a high school diploma, a GED, or documentation of current or previous enrollment in credit-based coursework from a postsecondary educational institution that is an accredited college or university.

c. The provider shall have either:

(1) Four years of experience as a registered, nonregistered child care provider, child care center experience, or

(2) A child development associate credential or any two-year or four-year degree in a child care-related field and four years of experience as a registered or nonregistered child care home provider.

110.15(3) *Facility requirements.*

a. The home shall have a minimum of 35 square feet of child-use floor space for each child in care indoors and a minimum of 50 square feet per child in care outdoors.

b. The home shall have a separate quiet area for sick children.

c. The home shall have a minimum of two direct exits to the outside from the main floor.

(1) If the second level or the basement of the home is used for the provision of child care, other than the use of a restroom, each additional child-occupied floor shall have at least one direct exit to the outside in addition to one inside stairway.

(2) All exits shall terminate at grade level with permanent steps.

(3) A basement window may be used as an exit if the window can be opened from the inside without the use of tools and it provides a clear opening of not less than 20 inches in width, 24 inches in height, and 5.7 square feet in area. The bottom of the opening shall be not more than 44 inches above the floor, with permanent steps inside leading up to the window.

(4) Occupancy above the second floor cannot be permitted for child care.

441—110.16(237A) Additional requirements for child development home category C with co-provider. In addition to the requirements in rule 441—110.8(237A), a provider requesting registration in child development home category C with a co-provider shall meet the following standards.

110.16(1) *Limits on number of children in care.*

a. No more than 14 children not attending kindergarten or a higher grade level shall be present at any one time.

b. Of these 14 children, no more than 6 children who are 24 months of age or younger shall be present at any one time. Whenever four children who are under the age of 12 months are in care, both providers shall be present.

c. In addition to the 14 children not in school, no more than 2 children who attend school can be present.

d. No more than 16 children shall be present at any one time when an emergency school closing is in effect.

e. If more than eight children are present, both providers shall be present.

110.16(2) *Provider qualifications.*

a. The provider shall be at least 21 years old.

b. The provider shall have a high school diploma, a GED, or documentation of current or previous enrollment in credit-based coursework from a postsecondary educational institution that is an accredited college or university.

c. The provider shall have either:

(1) Four years of experience as a registered or nonregistered child care provider or a child care center experience, or

(2) A child development associate credential or any two-year or four-year degree in a child care-related field and four years of experience as a registered or nonregistered child care home provider.

d. The co-provider shall meet the requirements of subrule 110.14(2).

e. No more than two named providers shall be allowed on a registration certificate.

110.16(3) *Facility requirements.*

a. The home shall have a minimum of 35 square feet of child-use floor space for each child in care indoors, and a minimum of 50 square feet per child in care outdoors.

b. The home shall have a separate quiet area for sick children.

c. The home shall have a minimum of two direct exits to the outside from the main floor.

(1) If the second level or the basement of the home is used for the provision of child care, other than the use of a restroom, each additional child-occupied floor shall have at least one direct exit to the outside in addition to one inside stairway.

(2) All exits shall terminate at grade level with permanent steps.

(3) A basement window may be used as an exit if the window can be opened from the inside without the use of tools and it provides a clear opening of not less than 20 inches in width, 24 inches in height, and 5.7 square feet in area. The bottom of the opening shall be not more than 44 inches above the floor, with permanent steps inside leading up to the window.

(4) Occupancy above the second floor cannot be permitted for child care.

441—110.17(237A) Relative care exemptions. Relatives who are providing care for relative children as a nonregistered child care home are required to meet minimal health and safety standards as contained in the child care and development block grant under 45 CFR 98.41 as amended to August 1, 2026, and this chapter, with the following exemptions:

110.17(1) Facility requirements as set forth in subrule 110.8(1).

110.17(2) Emergency plans as set forth in subrule 110.8(4).

110.17(3) Children's files as set forth in subrule 110.9(4).

110.17(4) Required training as set forth in subrule 110.10(1).

441—110.18(237A) Registration actions for nonpayment of child support. The department will revoke or deny the issuance or renewal of a child development home registration upon the receipt of

a certificate of noncompliance from child support services according to the procedures in Iowa Code chapter 252J. In addition to the procedures set forth in Iowa Code chapter 252J, the rules in this chapter apply.

110.18(1) *Service of notice.* The notice required by Iowa Code section 252J.8 will be served upon the applicant or registrant in writing. Alternatively, the applicant or registrant may accept notice personally or through authorized counsel.

110.18(2) *Effective date.* The effective date of the revocation or denial of the registration as specified in the notice required by Iowa Code section 252J.8 will be 60 days following service of the notice upon the applicant or licensee.

110.18(3) *Preparation of notice.* The department is authorized to prepare and serve the notice as required by Iowa Code section 252J.8.

110.18(4) *Responsibilities of registrants and applicants.* Registrants and registrant applicants shall keep the department informed of all court actions, and all child support services actions taken under or in connection with Iowa Code chapter 252J, and shall provide the department copies, within seven days of filing or issuance, of all applications filed with the district court pursuant to Iowa Code section 252J.9, all court orders entered in the actions, and withdrawals of certificates of noncompliance by the child support services.

110.18(5) *District court.* A registrant or applicant may file an application with the district court within 30 days of service of a department notice pursuant to Iowa Code sections 252J.8 and 252J.9.

a. The filing of the application shall stay the department action until the department receives a court order lifting the stay, dismissing the action, or otherwise directing the department to proceed.

b. For purposes of determining the effective date of the revocation, or denial of the issuance or renewal of a registration, the department will count the number of days before the action was filed and the number of days after the action was disposed of by the court.

110.18(6) *Procedure for notification.* The department will notify the applicant or registrant in writing within ten days of the effective date of the revocation of a registration or the denial of the issuance or renewal of a registration and will similarly notify the applicant or registrant when the registration is issued, renewed, or reinstated following the department's receipt of a withdrawal of the certificate of noncompliance.

110.18(7) *Appeal rights.* Notwithstanding Iowa Code section 17A.18, the registrant does not have the right to a hearing regarding this issue but may request a court hearing pursuant to Iowa Code section 252J.9.

441—110.19(237A) Prohibition from involvement with child care. If the department has prohibited a person or program from involvement with child care, that person or program cannot provide child care as a nonregistered child care home provider.

These rules are intended to implement Iowa Code section 234.6 and chapter 237A.

[Filed 10/7/26, effective 1/1/27]
[Published 10/28/26]

EDITOR'S NOTE: For replacement pages for IAC, see IAC Supplement 10/28/26.

ARC 0692D

HUMAN SERVICES DEPARTMENT[441]

Adopted and Filed

Rulemaking related to child care homes

The Department of Health and Human Services hereby rescinds Chapter 120, "Child Care Homes," Iowa Administrative Code.

Legal Authority for Rulemaking

This rulemaking is adopted under the authority provided in Iowa Code section 237A.12.

State or Federal Law Implemented

This rulemaking implements, in whole or in part, Iowa Code section 237A.12.

Purpose and Summary

This chapter establishes procedures for child care homes that have a child care assistance provider agreement to receive child care assistance funds. Pursuant to Executive Order 10, this chapter underwent a Red Tape Review. During that analysis, it was determined that the content of Chapter 120 could be combined into a new 441—Chapter 110 (**ARC 0691D**, IAB 10/28/26) because there are many similarities between registered child development homes and child care homes with a child care provider agreement. As such, Chapter 120 is being rescinded.

Public Comment and Changes to Rulemaking

Notice of Intended Action for this rulemaking was published in the Iowa Administrative Bulletin on September 2, 2026, as **ARC 0541D**. Public hearings were held on the following date:

- September 23, 2026

No one attended the public hearings. No public comments were received. No changes from the Notice have been made.

Adoption of Rulemaking

This rulemaking was adopted by the Department on October 7, 2026.

Fiscal Impact

This rulemaking has no fiscal impact to the State of Iowa.

Jobs Impact

After analysis and review of this rulemaking, no impact on jobs has been found.

Waivers

Any person who believes that the application of the discretionary provisions of this rulemaking would result in hardship or injustice to that person may petition the Department for a waiver of the discretionary provisions, if any, pursuant to 441—Chapter 2504.

Review by Administrative Rules Review Committee

The Administrative Rules Review Committee, a bipartisan legislative committee which oversees rulemaking by executive branch agencies, may, on its own motion or on written request by any individual or group, review this rulemaking at its regular monthly meeting or at a special meeting. The Committee's meetings are open to the public, and interested persons may be heard as provided in Iowa Code section 17A.8(6).

Effective Date

This rulemaking will become effective on January 1, 2027.

The following rulemaking action is adopted:

ITEM 1. Rescind and reserve **441—Chapter 120**.

[Filed 10/7/26, effective 1/1/27]
[Published 10/28/26]
EDITOR'S NOTE: For replacement pages for IAC, see IAC Supplement 10/28/26.

ARC 0693D

IOWA FINANCE AUTHORITY[265]

Adopted and Filed

Rulemaking related to the natural hazard mitigation financing program

The Iowa Finance Authority hereby adopts new Chapter 25, "Natural Hazard Mitigation Financing Program," Iowa Administrative Code.

Legal Authority for Rulemaking

This rulemaking is adopted under the authority provided in Iowa Code sections 16.5 and 16.17.

State or Federal Law Implemented

This rulemaking implements, in whole or in part, Iowa Code chapter 29D and sections 16.230 through 16.233.

Purpose and Summary

The Authority is adopting Chapter 25 to implement Iowa Code sections 16.230 through 16.233 and chapter 29D as enacted by 2025 Iowa Acts, Senate File 619. Chapter 25 describes the policies and procedures applicable to the Authority's responsibilities relating to the Natural Hazard Mitigation Financing Program. The program provides loans for projects that mitigate the impact of natural hazards and is a joint and cooperative undertaking of the Authority and the Department of Homeland Security and Emergency Management.

Public Comment and Changes to Rulemaking

Notice of Intended Action for this rulemaking was published in the Iowa Administrative Bulletin on July 22, 2026, as **ARC 0445D**. No public comments were received.

A change from the Notice has been made to simplify the fee collected from loan participants. In lieu of a loan initiation fee of 0.5 percent and an annual servicing fee of 0.25 percent of the outstanding principal balance, a one-time fee will be collected at the time of closing of the loan in an amount equal to 2 percent of the amount of the loan.

Adoption of Rulemaking

This rulemaking was adopted by the Authority Board on September 8, 2026.

Fiscal Impact

This rulemaking has no fiscal impact to the State of Iowa beyond that of the legislation it is intended to implement.

Jobs Impact

After analysis and review of this rulemaking, no impact on jobs has been found.

Waivers

Any person who believes that the application of the discretionary provisions of this rulemaking would result in hardship or injustice to that person may petition the Authority for a waiver of the discretionary provisions, if any, pursuant to 7—Chapter 2504.

Review by Administrative Rules Review Committee

The Administrative Rules Review Committee, a bipartisan legislative committee which oversees rulemaking by executive branch agencies, may, on its own motion or on written request by any individual or group, review this rulemaking at its regular monthly meeting or at a special meeting. The Committee's meetings are open to the public, and interested persons may be heard as provided in Iowa Code section 17A.8(6).

Effective Date

This rulemaking will become effective on December 2, 2026.

The following rulemaking action is adopted:

ITEM 1. Adopt the following **new** 265—Chapter 25:

CHAPTER 25
NATURAL HAZARD MITIGATION FINANCING PROGRAM

265—25.1(16) Purpose and authority responsibilities. The program is established pursuant to Iowa Code chapter 29D. The authority is primarily responsible for the financial management of the program pursuant to Iowa Code chapter 29D and chapter 16, subchapter X, part 11; the STORM Act; the rules promulgated under Iowa Code chapter 17A by the department or the authority; and any other applicable federal or state laws. The authority's financial management responsibilities include but are not limited to the following:

1. Managing the financial assets of the program, including investments and audits;
2. Receiving, reviewing and approving loan applications;
3. Executing loan agreements, including establishing loan terms; and
4. Disbursing loan funds and monitoring loan repayments.

265—25.2(16) Definitions.

"Authority" means the Iowa finance authority created in Iowa Code section 16.1.

"Cost" means the same as defined in Iowa Code section 29D.2.

"Department" means the Iowa department of homeland security and emergency management.

"Director" means the director of the authority.

"Eligible costs" means all costs related to the completion of a project as approved by the department.

"Eligible entity" means the same as defined in Iowa Code section 29D.2.

"FEMA" means the Federal Emergency Management Agency.

"Fiscal year" means the state fiscal year starting July 1 and ending June 30.

"Intended use plan" or *"IUP"* means a plan developed by the department identifying the intended uses of funds available through the program.

"Loan recipient" means the same as defined in Iowa Code section 16.230.

"Net revenues" means the same as defined in Iowa Code section 384.80.

"Private entity" means the same as defined in Iowa Code section 29D.2.

"Program" means the same as defined in Iowa Code section 16.230.

"Project" means the same as defined in Iowa Code section 16.230.

"State project proposal list" means a priority-ranked list of mitigation projects the department may fund using STRLF funds.

"Safeguarding tomorrow revolving loan fund" or *"STRLF"* means the natural hazard mitigation revolving loan fund created in Iowa Code section 29D.4.

"Safeguarding tomorrow through ongoing risk mitigation Act" or *"STORM Act"* means the same as defined in Iowa Code section 29D.2.

265—25.3(16) Eligibility, application, and approval.

25.3(1) Only projects included in the state project proposal list and compliant with the IUP are eligible for the program.

25.3(2) Moneys in the fund shall not be used to provide a loan to a private entity for the acquisition of real property.

25.3(3) The authority will consider the following when determining whether to provide a loan to an eligible entity:

a. Loan recipient's financial capability;

b. Loan recipient's willingness to accept all loan terms, conditions, and covenants;

c. The priority of the project on the state proposed project list;

d. Funds available; and

e. Whether the loan recipient has a record of violations of the law that over a period of time tends to show a consistent pattern or that establishes intentional, criminal, or reckless conduct in violation of such laws.

25.3(4) Applications for loans shall be submitted to the authority in the form and content established by the authority. The application will include:

a. A description of the project, project budget, and estimated project timeline;

b. The requested loan amount and loan term;

c. The proposed security for the loan and documentation that approval processes have been initiated;

d. The tax status of the loan;

e. The other sources of funds for the project;

f. A pro forma cash flow analysis in a form acceptable to the authority that demonstrates that the net revenues of the borrower are sufficient pursuant to paragraph 25.4(2)*"c"*;

g. Documentation that technical and environmental review has been completed; and

h. Any other information reasonably requested by the authority.

25.3(5) Subsequent segments of a project that have been previously awarded financial assistance will receive priority over new projects. Loans made for separate segments of a project will be administered separately.

25.3(6) Requested loan amounts may be adjusted to reflect eligible costs.

25.3(7) Complete and eligible loan applications that are recommended for approval based on the criteria in these rules will be considered by the authority board. The board may approve, deny, or defer an application for a loan.

265—25.4(16) Loans.

25.4(1) *Loan agreements.* The authority will prepare a loan agreement after an application has been approved by the authority board.

25.4(2) *Loan terms.*

a. Interest rates. The authority shall determine loan interest rates in cooperation with the department to be established in the IUP.

b. Fees. Recipients shall pay a one-time fee at the time of closing of the loan in an amount equal to 2 percent of the amount of the loan.

c. Revenue pledge. The loan recipient shall establish sufficient revenue sources for the repayment of the loan, as determined by the authority. To ensure repayment of obligations according to the terms of the loan agreement, the loan recipient shall agree to impose, collect, and increase, if necessary, user charges, taxes, or other dedicated revenue sources identified for the loan repayment in order to maintain annual net revenues at a level equal to at least 110 percent of the amount necessary to pay debt service

on all revenue obligations during the next fiscal year. At the discretion of the director or director's designee, the authority may allow other revenue sources and coverage of less than 110 percent. At the discretion of the director or director's designee, the authority may require revenue sources and coverage in excess of 110 percent of the amount necessary to pay all revenue obligations if the loan recipient has a history of default on its revenue obligations or insufficient credit history, as determined by the authority. The loan agreement shall authorize the authority to require revenue adjustment to collect delinquent loan payments.

d. Security.

(1) A loan may be secured by a first lien upon the loan recipient's net revenues. Loans secured by net revenues may rank on a parity basis with other outstanding obligations, or, with the approval of the director or director's designee, those loans may be subordinate in right of payment to the loan recipient's other outstanding revenue obligations.

(2) A loan may be secured by a general obligation of the loan recipient, and the loan recipient may achieve this through the provision for a levy of taxes to repay the loan.

e. Construction payment schedules. The loan agreement shall include an estimated construction drawdown schedule provided by the loan recipient.

25.4(3) *Loan commitments.* Loan funds are considered a binding commitment at the time a loan agreement is executed.

25.4(4) *Costs.* The loan recipient shall use the program loan proceeds solely for the purpose of eligible costs of the approved project. The loan recipient must document all eligible costs to the satisfaction of the authority and the department before loan proceeds are disbursed.

25.4(5) *Loan amount and repayment period.* All loans shall be made contingent on the availability of funds. The maximum loan term will be 30 years. Repayment of the loan must begin no later than one year after the project is substantially complete.

25.4(6) *Prepayment.* A loan recipient may prepay a loan, in whole or in part, on any date with the prior written consent of the authority.

25.4(7) *Disbursement of funds.* Funds shall be disbursed in accordance with the loan agreement. The loan agreement may allow for periodic disbursement of funds.

265—25.5(16) Administration.

25.5(1) The loan recipient shall maintain records that document all costs associated with the project. The loan recipient shall provide access to these records to the authority, the department, the auditor of the state of Iowa, FEMA, the Office of the Inspector General at FEMA, or their agents or designees upon request. The loan recipient shall retain such records and documents for inspection and audit purposes for a period of three years from the date of the final loan payment.

25.5(2) The loan recipient shall provide the authority, the department, or their agents or designees access to the project site on request for the duration of the loan to verify that the funds are being used for the purpose intended, that the construction work meets applicable state and federal requirements, and that the project is being operated and maintained as designed.

25.5(3) The loan recipient's accounting procedures shall conform to generally accepted government accounting standards.

25.5(4) The authority may, for cause, find that a loan recipient is not in compliance with the requirements of the program. Remedies for noncompliance may include penalties up to and including withholding of loan funds not yet disbursed or return of loan funds already disbursed. Findings of noncompliance may include but are not limited to the use of loan funds for activities not described in the application; failure to begin construction within one year of execution of a loan agreement; or failure to comply with any applicable state or federal rules, regulations, or laws.

265—25.6(16) References. References to the STORM Act are as in effect on December 2, 2026.

These rules are intended to implement Iowa Code chapter 29D and sections 16.230 through 16.233.

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ARC 0694D

IOWA FINANCE AUTHORITY[265]

Adopted and Filed

Rulemaking related to military service member home ownership assistance program

The Iowa Finance Authority hereby amends Chapter 27, "Military Service Member Home Ownership Assistance Program," Iowa Administrative Code.

Legal Authority for Rulemaking

This rulemaking is adopted under the authority provided in Iowa Code sections 16.54 and 17A.4A.

State or Federal Law Implemented

This rulemaking implements, in whole or in part, Iowa Code sections 16.5(1)"r" and 16.54.

Purpose and Summary

The Authority is amending rule 265—27.2(16) to clarify existing policy regarding the definition of "eligible service member."

Public Comment and Changes to Rulemaking

Notice of Intended Action for this rulemaking was published in the Iowa Administrative Bulletin on September 2, 2026, as **ARC 0543D**. No public comments were received. No changes from the Notice have been made.

Adoption of Rulemaking

This rulemaking was adopted by the Authority Board on October 7, 2026.

Fiscal Impact

This rulemaking has no fiscal impact to the State of Iowa.

Jobs Impact

After analysis and review of this rulemaking, no impact on jobs has been found.

Waivers

Any person who believes that the application of the discretionary provisions of this rulemaking would result in hardship or injustice to that person may petition the Authority for a waiver of the discretionary provisions, if any, pursuant to 7—Chapter 2504.

Review by Administrative Rules Review Committee

The Administrative Rules Review Committee, a bipartisan legislative committee which oversees rulemaking by executive branch agencies, may, on its own motion or on written request by any individual or group, review this rulemaking at its regular monthly meeting or at a special meeting. The Committee's meetings are open to the public, and interested persons may be heard as provided in Iowa Code section 17A.8(6).

Effective Date

This rulemaking will become effective on December 2, 2026.

The following rulemaking action is adopted:

ITEM 1. Amend rule **265—27.2(16)**, definition of "Eligible service member," as follows:

"Eligible service member" means the same as defined in Iowa Code section 16.54. For the purposes of this definition, "active duty" means service, other than training, under Title 10 or Title 32 of the United States Code as in effect on December 2, 2026.

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ARC 0695D

IOWA FINANCE AUTHORITY[265]

Adopted and Filed

Rulemaking related to disaster recovery housing assistance

The Iowa Finance Authority hereby rescinds Chapter 29, "Disaster Recovery Housing Assistance," Iowa Administrative Code, and adopts a new Chapter 29 with the same title.

Legal Authority for Rulemaking

This rulemaking is adopted under the authority provided in Iowa Code sections 16.5(1)"r," 16.57B and 16.57D.

State or Federal Law Implemented

This rulemaking implements, in whole or in part, Iowa Code sections 16.57B and 16.57D.

Purpose and Summary

The Authority is rescinding Chapter 29 and adopting a new chapter in lieu thereof. The chapter describes the policies and procedures applicable to disaster recovery housing assistance administered by the Authority pursuant to Iowa Code chapter 16, subchapter VII, part 6. The program provides financial assistance for homeowners and renters whose primary residences are destroyed or damaged by a natural disaster.

The updated chapter incorporates updates to the program in 2025 Iowa Acts, Senate File 619, to clarify and streamline program administration and to make other clarifying changes.

Public Comment and Changes to Rulemaking

Notice of Intended Action for this rulemaking was published in the Iowa Administrative Bulletin on September 2, 2026, as **ARC 0542D**. No public comments were received. No changes from the Notice have been made.

Adoption of Rulemaking

This rulemaking was adopted by the Authority Board on October 7, 2026.

Fiscal Impact

This rulemaking has no fiscal impact to the State of Iowa.

Jobs Impact

After analysis and review of this rulemaking, no impact on jobs has been found.

Waivers

Any person who believes that the application of the discretionary provisions of this rulemaking would result in hardship or injustice to that person may petition the Authority for a waiver of the discretionary provisions, if any, pursuant to 7—Chapter 2504.

Review by Administrative Rules Review Committee

The Administrative Rules Review Committee, a bipartisan legislative committee which oversees rulemaking by executive branch agencies, may, on its own motion or on written request by any individual or group, review this rulemaking at its regular monthly meeting or at a special meeting. The Committee's meetings are open to the public, and interested persons may be heard as provided in Iowa Code section 17A.8(6).

Effective Date

This rulemaking will become effective on December 2, 2026.

The following rulemaking action is adopted:

ITEM 1. Rescind 265—Chapter 29 and adopt the following **new** chapter in lieu thereof:

CHAPTER 29
DISASTER RECOVERY HOUSING ASSISTANCE

265—29.1(16) Definitions. For purposes of this chapter, unless the context otherwise requires:

"Authority" means the Iowa finance authority created in Iowa Code section 16.1A.

"Disaster-affected home" means the same as defined in Iowa Code section 16.57B.

"Eviction prevention partner" means a local program administrator.

"Financial assistance" means the same as defined in Iowa Code section 16.57B.

"Fund" means the disaster recovery housing assistance fund created in Iowa Code section 16.57B.

"Local program administrator" means the same as defined in Iowa Code section 16.57B.

"Nonprofit organization" means a nonprofit entity organized pursuant to Iowa law.

"Program" means the disaster recovery housing assistance program, except for where the term "program" is used in rule 265—29.8(16).

"Replacement housing" means the same as defined in Iowa Code section 16.57B.

"Retention agreement" means an agreement as described in subrule 29.5(6).

"Retention period" means a period of time during which a retention agreement will remain in place. The retention period will begin on the date of a loan closing or the date repairs are completed and will end five years after the beginning of the retention period.

"State of disaster emergency" means the same as described in Iowa Code section 29C.6(1).

265—29.2(16) Local program administrators.

29.2(1) *Additional qualified organizations.* In addition to the organizations identified in Iowa Code section 16.57B(1)*"d,"* nonprofit organizations or government entities that provide the following disaster recovery or housing stability services may serve as local program administrators:

a. Housing counseling;

b. Legal services related to eviction proceedings and maintaining housing stability; or

c. Housing navigation services.

29.2(2) *Agreements with local government administrators.* The authority may enter into agreements with local program administrators working in disaster-affected counties for the purpose of implementing the program at the local level.

29.2(3) *Review of requests for assistance.* Homeowners and renters will submit applications in the manner prescribed by the authority, including homeowners and renters who are referred by disaster case advocates as described in Iowa Code section 16.57B(4). Local program administrators or the authority shall accept and review each application. The authority may award financial assistance after a local program administrator or the authority has determined the following:

a. Whether the applicant is eligible for assistance.

b. Whether the requested funds are being requested for a use permitted under the program, including verification that disaster-affected homes to be repaired or rehabilitated or replacement housing to be purchased with financial assistance are not located in a 100-year floodplain.

c. The amount of financial assistance to be awarded to the homeowner or renter.

29.2(4) *Administrative fees.* The authority may share all or a portion of the moneys reserved for its administrative costs pursuant to Iowa Code section 16.57B(2)*"c"* with local program administrators to reimburse their administrative costs. Interest credited to the fund pursuant to Iowa Code section 16.57B(2)*"a"*(2) may be used by the authority for additional unreimbursed administrative costs related to the program or administrative costs incurred by the Iowa economic development authority to assist in administering the program.

29.2(5) *Proceeds of repayments.* All loan amounts repaid to the authority by an eligible homeowner pursuant to this chapter shall be returned to the fund.

265—29.3(16) Eligibility.

29.3(1) *Eligible homeowners.* To be eligible for financial assistance under the program, all of the requirements identified in Iowa Code section 16.57B(5) shall apply. For the purposes of determining whether a disaster-affected home meets the requirement established in Iowa Code section 16.57B(5)*"a"* (1), only other state or federal disaster-related financial assistance that the homeowner receives for repair or rehabilitation of the disaster-affected home or for a replacement housing purchase will be considered.

29.3(2) *Eligible renters.* To be eligible for financial assistance under the program, all of the requirements in Iowa Code section 16.57B(6) shall apply. The following additional requirements shall also apply:

a. A renter must be a party to a written lease.

b. The landlord must not reside at the same address as the eligible renter.

29.3(3) *Registration.* If the disaster-affected home is located in a county declared a presidential disaster area eligible for individual assistance, the homeowner or renter must have registered with the Federal Emergency Management Agency (FEMA) and been awarded some form of FEMA housing assistance, which may include assistance for home repairs or temporary housing.

29.3(4) *Good standing.* A homeowner or renter must be in good standing with the department of revenue to be eligible for the program.

265—29.4(16) Eligible uses of funds.

29.4(1) *Homeowner assistance.* The authority may award financial assistance in an amount not to exceed $50,000 to an eligible homeowner for any of the purposes identified in Iowa Code section 16.57B(5)*"b."*

a. Repair or rehabilitation. A disaster-affected home for which a homeowner receives financial assistance must continue to be used as the eligible homeowner's primary residence throughout the retention period following the repair or rehabilitation.

b. Down payment assistance. The amount of down payment assistance that may be awarded to an eligible homeowner must not exceed 25 percent of the purchase price of the home being purchased plus any amount allowed for repairs, or $50,000, whichever is less.

(1) For purposes of calculating the amount of down payment assistance available to the eligible homeowner, the amount of the down payment assistance will be reduced by the amount of any disaster compensation received by the eligible homeowner in excess of any amount necessary to pay off a mortgage or real estate purchase contract on the disaster-affected home.

(2) As a condition of receiving down payment assistance, the eligible homeowner must agree that any disaster compensation received subsequent to receiving financial assistance, if not applied toward repayment of a mortgage on the disaster-affected home, shall be used by the eligible homeowner to pay down the balance of any repayable financial assistance outstanding at the time the eligible homeowner receives such disaster compensation.

(3) An eligible homeowner shall not use the financial assistance allowed under this paragraph for the purchase of more than one home.

(4) Replacement housing must be used as the eligible homeowner's primary residence throughout the retention period.

29.4(2) *Rental assistance.* The authority may award financial assistance to an eligible renter for the payment of rent for replacement housing pursuant to the limitations set forth in subrule 29.6(1).

265—29.5(16) Loan terms. Loans or forgivable loans made under the program shall, at a minimum, contain the following terms.

29.5(1) *Five-year term.* The duration of the loan will be for a term of five years.

29.5(2) *Amount.* The maximum amount of a loan made under this program shall be $50,000.

29.5(3) *Interest.* Loans made pursuant to the program shall bear no interest.

29.5(4) *Forgivability.* Loans made pursuant to the program may be forgiven according to the terms of the retention agreement.

29.5(5) *Repayment due upon sale of home.* If a homeowner who has been awarded a loan or forgivable loan sells a disaster-affected home or replacement housing for which the homeowner received the loan or forgivable loan prior to the end of the loan term, the remaining principal on the loan or forgivable loan shall be due and payable upon the sale of the home.

29.5(6) *Retention agreement.* Each loan or forgivable loan made pursuant to this program shall be secured by a retention agreement that shall constitute a lien on the title of the real property for which the loan or forgivable loan is made until such time as the loan or forgivable loan has either been fully forgiven or paid in full. However, if an eligible homeowner receives a buyout of the disaster-affected home from the hazard mitigation grant program established in Iowa Code chapter 29C or any other funding source, the receipt of the buyout will not trigger a repayment of assistance received under subrule 29.4(1).

29.5(7) *General conditions of assistance.*

a. If an eligible homeowner receives other disaster compensation after financial assistance is awarded, the authority may require repayment of some or all of the financial assistance based on the amount of disaster compensation received and review for any duplication of benefits.

b. Any home to be purchased, repaired or rehabilitated using assistance under the program must be in compliance with all applicable state and local laws, rules and ordinances. To be eligible for assistance, the home must be in compliance as of the time of closing in the case of purchases, and as of the date of the final disbursement of financial assistance in the case of repair or rehabilitation.

265—29.6(16) Rental assistance terms. Rental assistance made under the program shall be subject to the following terms.

29.6(1) *Award calculation and maximum award.*

a. An eligible renter may be awarded up to six months of rental assistance.

b. An eligible renter may be awarded retroactive rental assistance.

c. An eligible renter may be awarded rental assistance to pay late fees provided that the late fees are permissible under Iowa Code chapter 562A or 562B.

d. Rental assistance will be calculated by first multiplying the monthly rent amount stated on the eligible renter's lease by the number of months for which assistance is needed, and then adding any eligible retroactive rental assistance and late fees.

e. The amount of monthly rental assistance used in calculating the award must not exceed the amount stated on the eligible renter's lease.

f. The maximum allowable rental assistance that may be awarded must not exceed the lesser of:

(1) The sum of the amount stated on the eligible renter's lease multiplied by six months, plus late fees; or

(2) $5,000.

29.6(2) *Priority of awards.* The local program administrator or the authority may prioritize awards of rental assistance to eligible renters earning 80 percent or less of the area median income for the county where the replacement housing is located.

29.6(3) *Disbursement.* The local program administrator or the authority will disburse rental assistance only after a complete application has been received, an award has been approved by the local program administrator or the authority, and all applicable conditions for disbursement have been met, including the submission of documentation pertaining to the eligible expenses. Disbursements will be paid directly to the eligible renter's landlord unless the authority determines that payment to the landlord is not feasible. If the authority determines it is not feasible to pay the eligible renter's landlord directly, the local program administrator authority may disburse payment directly to the eligible renter, subject to terms established by the authority.

265—29.7(16) Reporting. A local program administrator working with the authority to administer financial assistance will submit any information reasonably requested by the authority in sufficient detail to permit the authority to prepare any reports required by the authority, the general assembly or the governor's office.

265—29.8(16) Eviction prevention program.

29.8(1) *Rental assistance.*

a. To receive rental assistance through the eviction prevention program established in Iowa Code section 16.57C, eligible renters must meet all of the following criteria:

(1) A renter's household income must not exceed 80 percent of the area median income as published annually by the U.S. Department of Housing and Urban Development (HUD) for the county in which the rental unit is located.

(2) A renter must be a party to a written lease.

(3) The landlord must not reside at the same address as the eligible renter.

b. An eligible renter may receive rental assistance subject to the following limitations:

(1) An eligible renter may be awarded up to six months of rental assistance.

(2) An eligible renter may be awarded retroactive rental assistance.

(3) An eligible renter may be awarded rental assistance to pay late fees provided that the late fees are permissible under Iowa Code chapter 562A or 562B.

(4) Rental assistance will be calculated by first multiplying the monthly rent amount stated on the eligible renter's lease by the number of months for which assistance is needed and then adding any eligible retroactive rental assistance and late fees.

(5) The amount of monthly rental assistance used in calculating the award must not exceed the amount stated on the eligible renter's lease.

(6) The maximum allowable rental assistance that may be awarded must not exceed the lesser of the sum of the amount stated on the eligible renter's lease multiplied by six months plus late fees or $5,000.

c. A renter will apply for assistance under this rule in the form and manner required by the authority.

d. The eviction prevention partner or the authority will disburse rental assistance under this paragraph only after a complete application has been received, an award has been approved by the eviction prevention partner or the authority, and all applicable conditions for disbursement have been met, including the submission of documentation pertaining to the eligible expenses. Disbursements will be paid directly to the eligible renter's landlord unless the authority determines that payment to the landlord is not feasible. If the authority determines it is not feasible to pay the eligible renter's landlord directly, the eviction prevention partner or the authority may disburse payment directly to the eligible renter, subject to terms to be established by the authority.

29.8(2) *Eviction prevention partners.*

a. Financial assistance awarded to eviction prevention partners pursuant to this rule shall be used to pay for rent or housing stability services provided to eligible renters for the purpose of preventing the eviction of eligible renters.

b. The authority may enter into an agreement with one or more eviction prevention partners to administer the program. The authority will prepare an agreement for each award to an eviction prevention partner. The agreement will reflect the terms of the award and may include other terms and conditions reasonably necessary for implementation of the program pursuant to this rule.

c. An eviction prevention partner receiving an award under this rule shall submit any information reasonably requested by the authority in sufficient detail to permit the authority to prepare any reports required by the authority, the general assembly or the governor's office.

265—29.9(16) Financial assistance subject to availability of funding. All financial assistance awarded pursuant to this chapter shall be subject to funds being made available to the authority for the purpose of awarding financial assistance.

These rules are intended to implement Iowa Code chapter 16, subchapter VII, part 6.

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ARC 0696D

NATURAL RESOURCE COMMISSION[571]

Adopted and Filed

Rulemaking related to small game hunting

The Natural Resource Commission (Commission) hereby amends Chapter 96, "Small Game Hunting," Iowa Administrative Code.

Legal Authority for Rulemaking

This rulemaking is adopted under the authority provided in Iowa Code sections 481A.38, 481A.39 and 481A.48.

State or Federal Law Implemented

This rulemaking implements, in whole or in part, Iowa Code sections 481A.38, 481A.39 and 481A.48.

Purpose and Summary

Chapter 96 governs small game hunting by residents and nonresidents in Iowa. Specifically, this chapter regulates small game hunting and sets forth season dates, bag limits, possession limits, shooting hours, areas open to hunting, and transportation requirements.

The rule defines annual nonresident small game hunting license parameters and designates resident-only hunting periods on public lands. In more detail, the rule designates a few blocks of time as resident-only for public lands, namely the opening week of the pheasant season and a four-week block in late fall for rabbit, squirrel, and grouse. Importantly, nonresidents visiting Iowa to hunt small game on private land by themselves or with family or friends will not be impacted by this change. The resident-only portions of the rule will only apply on public lands.

The rule will more evenly distribute small game hunting pressure on public land providing for a safer and more enjoyable experience for resident and nonresident hunters alike. Additionally, a typical nonresident hunter spends five days or fewer hunting small game in Iowa annually. The rule provides for up to 14 days of hunting on an annual nonresident license, with the option to purchase multiple annual

licenses. In other words, this change allows nonresident small game hunters to visit and hunt in Iowa for more days than they have historically chosen to. Finally, and importantly, the rule does not change the fees for small game hunting licenses for either residents or nonresidents.

Public Comment and Changes to Rulemaking

Notice of Intended Action for this rulemaking was published in the Iowa Administrative Bulletin on September 2, 2026, as **ARC 0548D**. A public hearing was held on the following date(s):

- September 22, 2026

Two people attended the public hearing.

Two hundred and thirty-seven public comments were received. Of the comments received, 131 supported the amendments, 75 opposed, and 31 supported varying parts, but not all, of the changes. Nearly all of the 75 comments opposing the changes came from nonresidents who live a short distance from one of Iowa's borders. These hunters regularly make day trips to hunt in Iowa and expressed frustration at a perceived loss of flexibility. Adopting the changes will temporally spread out the hunters that choose not to purchase additional licenses.

No changes from the Notice have been made.

Adoption of Rulemaking

This rulemaking was adopted by the Commission on October 8, 2026.

Fiscal Impact

This rulemaking has no fiscal impact to the State of Iowa. As noted above, the rule does not change the fees for small game hunting licenses. No change in license sales is expected from this rulemaking. As noted above, this change allows nonresident small game hunters to visit and hunt in Iowa for more days than they have historically chosen to.

Jobs Impact

After analysis and review of this rulemaking, no impact on jobs has been found.

Waivers

Any person who believes that the application of the discretionary provisions of this rulemaking would result in hardship or injustice to that person may petition the Commission for a waiver of the discretionary provisions, if any, pursuant to 7—Chapter 2504.

Review by Administrative Rules Review Committee

The Administrative Rules Review Committee, a bipartisan legislative committee which oversees rulemaking by executive branch agencies, may, on its own motion or on written request by any individual or group, review this rulemaking at its regular monthly meeting or at a special meeting. The Committee's meetings are open to the public, and interested persons may be heard as provided in Iowa Code section 17A.8(6).

Effective Date

This rulemaking will become effective on January 1, 2027.

The following rulemaking action is adopted:

ITEM 1. Adopt the following **new** rule 571—96.10(481A):

571—96.10(481A) Small game hunting by nonresidents.

96.10(1) Small game species for nonresident hunting include pheasant, quail, partridge, grouse, dove, rabbit, and squirrel.

96.10(2) Nonresident small game hunters purchasing a nonresident annual hunting license shall be limited to two 7-day periods totaling not more than 14 days per annual license purchased. Multiple nonresident annual hunting licenses may be purchased.

96.10(3) The two seven-day periods must be designated at the time the annual license is purchased and may be consecutive. The seven-day periods must fall within the season dates defined in rules 571—96.1(481A) through 571—96.4(481A) and this rule, except:

a. Small game hunting by nonresidents is not allowed on public land during the first seven days of the pheasant season as defined in subrule 96.1(1).

b. Rabbit, squirrel, and grouse hunting by nonresidents is not allowed on public land from the third Saturday in October through the third Saturday in November.

96.10(4) A designated period may be changed prior to the beginning date of the period by contacting the department.

96.10(5) The nonresident five-day hunting license may be purchased independently or in conjunction with a nonresident annual hunting license.

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ARC 0697D

PUBLIC SAFETY DEPARTMENT[661]

Adopted and Filed

Rulemaking related to public records and fair information practices

The Public Safety Department hereby rescinds Chapter 80, "Public Records and Fair Information Practices," Iowa Administrative Code.

Legal Authority for Rulemaking

This rulemaking is adopted under the authority provided in Iowa Code chapters 22 and 80F.

State or Federal Law Implemented

This rulemaking implements, in whole or in part, Iowa Code chapters 22 and 80F.

Purpose and Summary

Pursuant to Executive Order 10, the Department hereby rescinds Chapter 80 in its entirety. The chapter outlines fair information practices and the handling of public records. As a result of 2026 Iowa Acts, Senate File 2463, 13 of the 15 rules contained in the chapter were rescinded. The remaining two rules are unnecessary and obsolete.

Public Comment and Changes to Rulemaking

Notice of Intended Action for this rulemaking was published in the Iowa Administrative Bulletin on September 2, 2026, as **ARC 0531D**. A public hearing was held on the following date(s):

- September 22, 2026
- September 23, 2026

No one attended the public hearings. No public comments were received. No changes from the Notice have been made.

Adoption of Rulemaking

This rulemaking was adopted by the Department on October 7, 2026.

Fiscal Impact

This rulemaking has no fiscal impact to the State of Iowa.

Jobs Impact

After analysis and review of this rulemaking, no impact on jobs has been found.

Waivers

Any person who believes that the application of the discretionary provisions of this rulemaking would result in hardship or injustice to that person may petition the Department for a waiver of the discretionary provisions, if any, pursuant to 7—Chapter 2504.

Review by Administrative Rules Review Committee

The Administrative Rules Review Committee, a bipartisan legislative committee which oversees rulemaking by executive branch agencies, may, on its own motion or on written request by any individual or group, review this rulemaking at its regular monthly meeting or at a special meeting. The Committee's meetings are open to the public, and interested persons may be heard as provided in Iowa Code section 17A.8(6).

Effective Date

This rulemaking will become effective on December 2, 2026.

The following rulemaking action is adopted:

ITEM 1. Rescind and reserve **661—Chapter 80**.

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ARC 0698D

PUBLIC SAFETY DEPARTMENT[661]

Adopted and Filed

Rulemaking related to disposition of seized and forfeited weapons and ammunition

The Public Safety Department hereby rescinds Chapter 95, "Disposition of Seized and Forfeited Weapons and Ammunition," Iowa Administrative Code, and adopts a new Chapter 95 with the same title.

Legal Authority for Rulemaking

This rulemaking is adopted under the authority provided in Iowa Code section 809A.17.

State or Federal Law Implemented

This rulemaking implements, in whole or in part, Iowa Code sections 809.21 and 809A.17.

Purpose and Summary

Pursuant to Executive Order 10, the Department hereby rescinds Chapter 95 and adopts a new chapter in lieu thereof. The chapter outlines the disposition of seized and forfeited weapons and ammunition that are deposited with the Department.

Public Comment and Changes to Rulemaking

Notice of Intended Action for this rulemaking was published in the Iowa Administrative Bulletin on September 2, 2026, as **ARC 0533D**. A public hearing was held on the following date(s):

- September 22, 2026
- September 23, 2026

No one attended the public hearings.

Two comments were received via electronic mail opposing the destruction of handguns. Nearly all handguns used in crimes are test-fired and the spent shell casings are then entered into the National Integrated Ballistics Information Network (NIBIN). Reselling handguns whose spent shell casings have been entered into NIBIN could cause investigative confusion should they later be used in the commission of a new crime. NIBIN does not include the entry of shell casings from long guns. As a result, no changes from the Notice have been made.

Adoption of Rulemaking

This rulemaking was adopted by the Department on October 7, 2026.

Fiscal Impact

This rulemaking has no fiscal impact to the State of Iowa.

Jobs Impact

After analysis and review of this rulemaking, no impact on jobs has been found.

Waivers

Any person who believes that the application of the discretionary provisions of this rulemaking would result in hardship or injustice to that person may petition the Department for a waiver of the discretionary provisions, if any, pursuant to 7—Chapter 2504.

Review by Administrative Rules Review Committee

The Administrative Rules Review Committee, a bipartisan legislative committee which oversees rulemaking by executive branch agencies, may, on its own motion or on written request by any individual or group, review this rulemaking at its regular monthly meeting or at a special meeting. The Committee's meetings are open to the public, and interested persons may be heard as provided in Iowa Code section 17A.8(6).

Effective Date

This rulemaking will become effective on December 2, 2026.

The following rulemaking action is adopted:

ITEM 1. Rescind 661—Chapter 95 and adopt the following **new** chapter in lieu thereof:

CHAPTER 95
DISPOSITION OF SEIZED AND FORFEITED WEAPONS AND AMMUNITION

661—95.1(809,809A) Definitions. The following definitions apply to the rules in this chapter:

"Ammunition reference file" means the physical collection of ammunition received, collected and maintained by the division of criminal investigation criminalistics laboratory for testing and evaluation purposes.

"Firearms inventory" means a listing of firearms received, collected, maintained, and disposed of by the division of criminal investigation criminalistics laboratory and of transactions regarding

firearms completed by the laboratory. Firearms in the temporary custody of the laboratory for evidentiary examination are not included in the firearms inventory.

"Firearms reference file" means the physical collection of firearms received, collected and maintained by the division of criminal investigation criminalistics laboratory for comparison and identification purposes.

661—95.2(809,809A) Ammunition and firearms. The division of criminal investigation criminalistics laboratory shall examine and evaluate all firearms and ammunition submitted to the laboratory pursuant to Iowa Code section 809A.17. All firearms submitted to the laboratory shall be evaluated and disposed of as provided in Iowa Code sections 809.21 and 809A.17 and these rules. Any ammunition submitted to the laboratory may be entered into the laboratory's ammunition reference file and may be utilized by the laboratory for testing and evaluation purposes.

661—95.3(809,809A) Firearms inventory. There is established a continuous firearms inventory in the division of criminal investigation criminalistics laboratory. All firearms transactions covered by any of the provisions noted herein, other than receipts and returns of weapons for evidentiary examination, shall be recorded as and made a part of the continuous firearms inventory. Each individual entry in the inventory shall be maintained for a period of no less than 20 years. Inventory entries that refer to firearms retained in the firearms reference file shall be maintained permanently.

661—95.4(809,809A) Deposit of firearms in the firearms reference file. There is established a division of criminal investigation criminalistics laboratory firearms reference file. Firearms submitted to the laboratory, other than firearms submitted solely for evidentiary examination, shall be evaluated as to their possible worth for testing and evaluation purposes. Any firearms deemed useful for such purposes shall be deposited in the firearms reference file.

661—95.5(809,809A) Disposition of firearms (interstate). Any firearm in the possession of the division of criminal investigation criminalistics laboratory pursuant to Iowa Code section 809A.17 that is not entered into the firearms reference file pursuant to the provisions of rule 661—95.4(809,809A) and that the commissioner of public safety deems appropriate for distribution to other crime laboratories may be offered to them.

661—95.6(809A) Transfer of rifles and shotguns to the department of natural resources. Any rifle or shotgun in the possession of the division of criminal investigation criminalistics laboratory pursuant to Iowa Code section 809A.17 that is not entered in the firearms reference file pursuant to rule 661—95.4(809,809A) or distributed to another crime laboratory pursuant to rule 661—95.5(809,809A) may be transferred to the department of natural resources for disposition pursuant to the rules of that department.

661—95.7(809,809A) Disposition of firearms (intrastate). Any firearm not entered in the firearms reference file pursuant to rule 661—95.4(809,809A) and still in the possession of the division of criminal investigation criminalistics laboratory pursuant to Iowa Code section 809A.17, subsequent to the procedures set out in rules 661—95.5(809,809A) and 661—95.6(809A), shall be evaluated for usefulness to Iowa law enforcement agencies. Any firearm that is deemed suitable for law enforcement purposes may be distributed to an Iowa law enforcement agency that has made a request for such firearm. This distribution shall be made in accordance with the reasonable needs of the requesting agency as determined by the commissioner of public safety. Any firearm received by a law enforcement agency pursuant to this rule is for the internal use of the receiving agency and cannot be resold or otherwise distributed outside of the receiving agency, other than to be returned to the division of criminal investigation criminalistics laboratory.

661—95.8(809,809A) Final disposition and destruction of firearms. All firearms in the possession of the division of criminal investigation criminalistics laboratory pursuant to Iowa Code section

809A.17 that are not disposed of by the procedures provided in rules 661—95.2(809,809A) through 661—95.7(809,809A) shall be destroyed and documented as such. Destruction shall be accomplished by grinding and chopping at a scrap metal facility or meltdown at a suitable foundry operation. All destruction shall be supervised and conducted by the staff of the division of criminal investigation criminalistics laboratory.

661—95.9(809,809A) Disposition of explosives. Any law enforcement agency in possession of forfeited explosives shall contact the arson and explosives bureau of the fire marshal division for instructions and shall follow the instructions received from the fire marshal division for the disposition of the forfeited explosives.

661—95.10(809,809A) Disposition of weapons other than firearms and explosives. Any law enforcement agency in the possession of a forfeited weapon other than a firearm, ammunition, or explosives may contact the division of criminal investigation criminalistics laboratory for instructions regarding the disposition of the forfeited weapons.

These rules are intended to implement Iowa Code sections 809.21 and 809A.17.

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