

REVENUE DEPARTMENT[701]

Adopted and Filed

Rule making related to nonresident and part-year resident credit

The Revenue Department hereby amends Chapter 42, “Adjustments to Computed Tax and Tax Credits,” Iowa Administrative Code.

Legal Authority for Rule Making

This rule making is adopted under the authority provided in Iowa Code section 422.68.

State or Federal Law Implemented

This rule making implements, in whole or in part, Iowa Code section 422.5.

Purpose and Summary

This rule making relates to the Iowa individual income tax credit used to apportion a nonresident’s or part-year resident’s income among Iowa and other jurisdictions. The primary objective of these amendments is to modify the Iowa income percentage used to calculate the credit so that the percentage is computed to the nearest ten-thousandth of a percent (i.e., four digits to the right of the decimal point) for tax years beginning on or after January 1, 2022. The Iowa income percentage was previously computed to the nearest tenth of a percent (i.e., one digit to the right of the decimal point). This change will result in more accurate credit calculations and will create more uniformity under the Iowa income tax because corporations and other business entities apportion their income using a business activity ratio that is calculated to the nearest ten-thousandth of a percent. These amendments also make a number of changes to improve clarity and readability of the rules and to update or remove outdated language or outdated year or form references.

Public Comment and Changes to Rule Making

Notice of Intended Action for this rule making was published in the Iowa Administrative Bulletin on September 8, 2021, as **ARC 5884C**. No public comments were received. No changes from the Notice have been made.

Adoption of Rule Making

This rule making was adopted by the Department on October 15, 2021.

Fiscal Impact

The change to the credit calculation is expected to result in a minimal increase or decrease to General Fund revenues. The total impact is expected to be less than \$100,000 each year.

Jobs Impact

After analysis and review of this rule making, no impact on jobs has been found.

Waivers

Any person who believes that the application of the discretionary provisions of this rule making would result in hardship or injustice to that person may petition the Department for a waiver of the discretionary provisions, if any, pursuant to rule 701—7.28(17A).

Review by Administrative Rules Review Committee

The Administrative Rules Review Committee, a bipartisan legislative committee which oversees rule making by executive branch agencies, may, on its own motion or on written request by any individual or group, review this rule making 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 rule making will become effective on December 8, 2021.

The following rule-making action is adopted:

Amend rule 701—42.5(422) as follows:

701—42.5(422) Nonresident and part-year resident credit. ~~For tax years beginning on or after January 1, 1982, an~~ 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 which was earned outside Iowa while the person was a nonresident of Iowa. This credit is computed on Schedule IA 126, ~~which is included in the Iowa individual income tax booklet.~~ The following subrules clarify explain how the ~~nonresident and part-year resident credit is computed for taxpayers who are nonresidents of Iowa and taxpayers who are part-year residents of Iowa during the tax year.~~

42.5(1) *Nonresident/part-year resident credit Credit calculation for nonresidents of Iowa.*

a. ~~A~~ Prior to the calculation of the nonresident credit, a nonresident of Iowa shall complete the Iowa individual return in the same way an Iowa resident completes the form by reporting the individual's total net income, including income earned outside Iowa, on the front of the IA 1040 return form. A nonresident individual is allowed the same deduction for federal income tax and the same itemized deductions as an Iowa resident taxpayer with identical deductions for these expenditures compute taxable income in the same manner as a full-year Iowa resident. Thus, a nonresident with a taxable income of \$40,000 would have the same initial Iowa income tax liability as a full-year Iowa resident taxpayer with a taxable income of \$40,000 with the same taxable income before the nonresident/part-year resident credit is computed.

b. ~~The nonresident/part-year resident credit is computed on Schedule IA 126. The lines referred to in this subrule are from Schedule IA 126 and Form IA 1040 for the 2008 tax year. Similar lines on the schedule and form may apply for subsequent tax years. The individual's Iowa source net income from lines 1 through 25 of the schedule is totaled on line 26 of the schedule. If the nonresident's Iowa source net income is less than \$1,000, the taxpayer is not subject to Iowa income tax and is not required to file an Iowa income tax return for the tax year. However, if the Iowa source net income amount is \$1,000 or more, the Iowa source net income is then divided by the person's all source net income on line 27 of Schedule IA 126 to determine the percentage of the Iowa net income to all source net income by dividing the taxpayer's Iowa source net income by the taxpayer's total net income. See 701—Chapter 40 to determine a nonresident's Iowa source net income and total net income. This Iowa income percentage, which is rounded to the nearest tenth of a percent, is inserted on line 28 of the schedule, and this (e.g., 1.2 percent) for tax years beginning before January 1, 2022, and to the nearest ten-thousandth of a percent (e.g., 1.2345 percent) for tax years beginning on or after January 1, 2022. The Iowa income percentage is then subtracted from 100 percent to arrive at the nonresident/part-year resident credit percentage or the, which represents the percentage of the individual's total income which was earned outside Iowa. The nonresident/part-year resident credit percentage is entered on line 29 of Schedule IA 126. The Iowa income tax on total income from line 43 of the IA 1040 is entered on line 30 of Schedule IA 126. The total of nonrefundable credits from line 49 of the IA 1040 is then shown on line 31 of Schedule IA 126. The amount on line 31 is subtracted from the amount on line 30, which results in the Iowa total tax after nonrefundable credits, which is entered on line 32. This Iowa tax after credits amount is~~

multiplied by the ~~nonresident/part-year resident credit percentage from line 29~~ net Iowa tax to compute the nonresident/part-year resident credit. ~~The amount of the credit is inserted on line 33 of Schedule IA 126 and on line 51 of the IA 1040.~~ For purposes of this subrule, “net Iowa tax” means the Iowa regular income tax after reduction for the nonrefundable credits provided in Iowa Code section 422.12.

~~EXAMPLE A. 1:~~ A single resident of Nebraska had Iowa source net income of \$15,000 in 2008 2022 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 an all source a total net income of \$40,000 and a taxable income of \$30,000 due to a federal tax deduction of \$7,000 and itemized deductions of \$3,000 allowable deductions. The Iowa income percentage is computed by dividing the Iowa source net income of \$15,000 by the taxpayer’s ~~all source total~~ total net income of \$40,000, which results in a percentage of ~~37.5~~ 37.5000. This percentage is subtracted from 100 percent, which leaves a nonresident/part-year resident credit percentage of ~~62.5~~ 62.5000.

The Iowa tax ~~from line 43 of the IA 1040~~ before reduction for the nonrefundable credits under Iowa Code section 422.12 is \$1,508. ~~The total nonrefundable credit from line 49 is~~ The individual is allowed an exemption credit under Iowa Code section 422.12 of \$40, which leaves a tax amount of \$1,468 when the credit is subtracted from \$1,508 (\$1,508 - \$40). When \$1,468 is multiplied by the nonresident/part-year resident credit percentage of ~~62.5~~ 62.5000, a nonresident credit of \$918 is computed ~~which is entered on line 33 of Schedule IA 126 as well as on line 51 of the IA 1040 for 2008.~~

~~EXAMPLE B. 2:~~ A California resident, who was married, had \$20,000 of Iowa source net income in 2008 2022 from an Iowa farm. This individual had an additional \$80,000 in net income that was attributable to sources outside Iowa, but the individual’s spouse had no income. The taxpayers had paid \$18,000 in federal income tax in 2008 and had itemized deductions of \$12,000 in 2008 a total net income of \$100,000 and a taxable income of \$70,000 due to allowable deductions.

~~The taxpayers’ taxable income on their joint Iowa return was \$70,000.~~ The taxpayers had an Iowa income tax liability of \$4,583 after application of the personal exemption credits of \$80 under Iowa Code section 422.12. The taxpayers had an Iowa source net income of \$20,000 and ~~an all source a~~ total net income of \$100,000. Therefore, the Iowa income percentage was ~~20~~ 20.0000. Subtracting the Iowa income percentage of 20 percent from 100 percent leaves a nonresident/part-year resident credit percentage of ~~80~~ 80.0000.

When the Iowa income tax liability of \$4,583 is multiplied by 80 percent, this results in a nonresident/part-year resident credit of \$3,666. ~~This credit amount is entered on line 33 of the Schedule IA 126 and on line 51 of Form IA 1040.~~

42.5(2) Nonresident/part-year resident credit *Credit calculation for part-year residents of Iowa.*

a. ~~An~~ 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 complete the front of the IA 1040 income tax return form as a resident taxpayer by showing the taxpayer’s total income, including income earned outside Iowa, on the front of the IA 1040 return form. A part-year resident of Iowa is allowed the same federal tax deduction and itemized deductions as a resident taxpayer who has paid the same amount of federal income tax and has paid for the same deductions that can be claimed on Schedule A in the tax year 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 an a full-year Iowa resident with the same taxable income before computation of the nonresident/part-year resident credit.

b. ~~The nonresident/part-year resident credit for a part-year resident is computed on Schedule IA 126. The lines referred to in this subrule are from the IA 1040 income tax return form and the Schedule IA 126 for 2008. Similar lines may apply for tax years after 2008. The individual’s Iowa source income is totaled on line 26 of Schedule IA 126 and includes 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 resident of a state other than Iowa. Iowa source income includes, but is not limited to, wages earned in Iowa while a resident of another state as well as income from Iowa farms and other Iowa businesses that was earned during the portion of the year that the taxpayer was a nonresident of Iowa. In the case of interest from a part-year resident’s account at an Iowa financial institution, only interest earned during the period of the individual’s Iowa residence is~~

Iowa source income unless the account is for an Iowa business. If the part-year resident's account at a financial institution is for an Iowa business, all interest earned in the year by the part-year resident from the account is taxable to Iowa.

Income earned outside Iowa by the part-year resident during the portion of the year the individual was an Iowa resident is taxable to Iowa and is part of the individual's Iowa source income. To compute the nonresident/part-year resident credit for a part-year resident, the taxpayer's Iowa source income on Schedule IA 126 is totaled. If the Iowa source income is less than \$1,000, the taxpayer is not subject to Iowa income tax and is not required to file an Iowa return. If the Iowa source income is \$1,000 or more, it is divided by the taxpayer's all-source net income on line 27 of Schedule IA 126 nonresident of Iowa, and dividing that sum by the taxpayer's total net income. See 701—Chapter 40 to determine a part-year resident's Iowa source net income and total net income. The percentage computed by this procedure is the Iowa income percentage and is entered on line 28 of the Schedule IA 126. The This Iowa income percentage, which is rounded to the nearest tenth of a percent; (e.g., 1.2 percent) for tax years beginning before January 1, 2022, and to the nearest ten-thousandth of a percent (e.g., 1.2345 percent) for tax years beginning on or after January 1, 2022. The Iowa income percentage is then subtracted from 100 percent to arrive at the nonresident/part-year resident credit percentage, which is entered on line 29 of Schedule IA 126. The Iowa tax from line 43 of the IA 1040 is then shown on line 30 of Schedule IA 126. The total of the Iowa nonrefundable credits from line 49 of the IA 1040 is entered on line 31 of Schedule IA 126 and is subtracted from the Iowa tax amount on line 30. The tax after credits amount on line 32 is next multiplied by the nonresident/part-year resident credit percentage from line 28. The amount calculated from this procedure is the nonresident/part-year resident credit, which is shown on line 33 of Schedule IA 126 and on line 51 of Form IA 1040 represents the percentage of the individual's total income which was earned outside of Iowa while a nonresident. The part-year resident credit percentage is multiplied by the net Iowa tax to compute the part-year resident credit. For purposes of this subrule, "net Iowa tax" means the Iowa regular income tax after reduction for the nonrefundable credits provided in Iowa Code section 422.12.

EXAMPLE A- 3: A single individual was a resident of Nebraska for the first half of ~~2008~~ 2022 and moved to Iowa on July 1, ~~2008~~ 2022, to accept a job in Des Moines. This individual earned \$20,000 from wages, \$200 from interest, and \$4,000 from a ranch in Nebraska from January 1, ~~2008~~ 2022, through June 30, ~~2008~~ 2022. In the last second half of ~~2008~~ 2022, this person had wages of \$30,000, interest income of \$300, and \$4,000 from the Nebraska ranch. This part-year resident had ~~federal income tax paid in 2008 of \$11,000 and had itemized deductions of \$3,000~~ \$14,000 of allowable deductions.

The part-year resident's all-source total net income was \$58,500 and the 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, as well as the interest income of \$300 earned during that time of the tax year. The Iowa taxable income for the part-year resident for ~~2008~~ 2022 was \$44,500, ~~which included the federal income tax deduction of \$11,000 and itemized deductions of \$3,000 due to allowable deductions of \$14,000 (\$58,500 - \$14,000).~~ The individual's Iowa income percentage was ~~58.6~~ 58.6325, which was determined by dividing the Iowa source income of \$34,300 by the all-source total income of \$58,500. Subtracting the Iowa income percentage of ~~58.6~~ 58.6325 from 100 percent results in a nonresident/part-year resident credit percentage of 41.4 41.3675. The Iowa tax on total income was \$2,529, which was reduced to \$2,489 after subtraction of the personal exemption credit of \$40 under Iowa Code section 422.12.

When \$2,489 is multiplied by the nonresident/part-year resident percentage of 41.4 41.3675, a nonresident/part-year resident credit of \$1,030 is computed for this part-year resident.

EXAMPLE B- 4: A single individual moved from Minnesota to Iowa on July 1, ~~2008~~ 2022. This person ~~had received~~ earned \$5,000 in income from an Iowa farm in ~~March~~ the first half of the tax year and another \$10,000 from this farm in ~~September of 2008~~ 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 ~~last second~~ the tax year. This person had \$2,000 in interest from a Minnesota bank in the first half of the year and \$2,000 in interest from ~~an Iowa~~ a bank in the ~~last six months of 2008~~ second half of the tax year. This taxpayer had \$8,000 in federal income tax

~~withheld from wages in 2008 and claimed the standard deduction on both the Iowa and federal income tax returns.~~

The part-year resident's ~~all-source total net~~ 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, ~~the all farm income received in the first half of 2008, including the income received while the individual was not a resident of Iowa, was taxable to Iowa as well as the farm income received while the individual was an Iowa resident.~~ The individual's Iowa taxable income was \$34,250, which was computed after subtracting ~~the federal income tax deduction of \$8,000 and a standard deduction of \$1,750~~ \$9,750 in allowable deductions (\$44,000 - \$9,750). The taxpayer's Iowa income tax liability was \$1,757 after subtraction of a personal exemption credit of \$40 under Iowa Code section 422.12.

The taxpayer's Iowa income percentage was ~~72.7~~ 72.7273, which was computed by dividing the Iowa source net income of \$32,000 by the ~~all-source total net~~ net income of \$44,000. The ~~nonresident/part-year resident credit percentage was 27.3~~ 27.2727, which was arrived at by subtracting the Iowa income percentage of ~~72.7~~ 72.7273 from 100 percent. The taxpayer's ~~nonresident/part-year resident credit is \$480~~ \$479. This was determined by multiplying the Iowa income tax liability after personal exemption credit amount of \$1,757 by the ~~nonresident/part-year resident percentage of 27.3~~ 27.2727.

This rule is intended to implement Iowa Code section 422.5.

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