

REVENUE DEPARTMENT[701]

Adopted and Filed

Rule making related to corporate income tax rate adjustments

The Revenue Department hereby amends Chapter 51, “Administration,” Iowa Administrative Code.

Legal Authority for Rule Making

This rule making is adopted under the authority provided in Iowa Code section 421.14.

State or Federal Law Implemented

This rule making implements, in whole or in part, Iowa Code section 422.33 as amended by 2022 Iowa Acts, House File 2317, section 56.

Purpose and Summary

This rule making implements the statutory changes to the corporate income tax rates contained in 2022 Iowa Acts, House File 2317. In the event that net corporate income tax receipts for the preceding fiscal year exceed \$700 million, the statute requires the Department to calculate the corporate tax rates that would have generated \$700 million in net corporate income tax receipts in the preceding fiscal year. This rule making describes the method the Department will use to determine the rates.

Public Comment and Changes to Rule Making

Notice of Intended Action for this rule making was published in the Iowa Administrative Bulletin on August 10, 2022, as **ARC 6451C**. The Department received one comment, which concurred that the rule was consistent with the statute it is intended to implement.

The Legislative Services Agency (LSA) found that “[t]he proposed rules contain a provision that allows the Department to base the tax rate change calculation on an amount that is in a range that is 3.0% above or below the \$700 million target that is contained in the new law.” While this was not the Department’s intention in including the language in question, the Department recognizes the possibility that the provision, as written, could be abused in the manner described by the LSA. Therefore, the language in question (formerly paragraph 51.10(1)“d”) has been removed from the rule. Additionally, Administrative Rules Review Committee (ARRC) members expressed confusion about the meaning of the introductory paragraph of subrule 51.10(1). In response to these concerns, a portion of that paragraph was moved to new lettered paragraph 51.10(1)“a,” and both the introductory paragraph and new paragraph 51.10(1)“a” were reworded slightly to provide clarity. The paragraphs of subrule 51.10(1) have been relettered due to the deletion of former paragraph 51.10(1)“d” and the addition of new paragraph 51.10(1)“a.”

Adoption of Rule Making

This rule making was adopted by the Department on September 14, 2022.

Fiscal Impact

This rule making has no fiscal impact to the State of Iowa beyond that of the legislation it implements. The Fiscal Note for 2022 Iowa Acts, House File 2317, section 56, projected that State General Fund revenue will decrease by \$19.6 million in fiscal year 2023, \$79.6 million in fiscal year 2024, \$109.8 million in fiscal year 2025, \$135.3 million in fiscal year 2026, \$182.1 million in fiscal year 2027, and \$229.4 million in fiscal year 2028.

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 November 9, 2022.

The following rule-making action is adopted:

Adopt the following **new** rule 701—51.10(422):

701—51.10(422) Corporate income tax rate adjustments. By November 1, 2022, and by November 1 of each subsequent year, the department of management shall determine the net corporate income tax receipts for the preceding fiscal year and provide the amount determined to the department of revenue. If the net corporate income tax receipts for the preceding fiscal year exceed \$700 million, the department of revenue will adjust the corporate income tax rates to the rates that would have generated \$700 million in net corporate income tax receipts in the preceding fiscal year.

51.10(1) Method for determination of the tax rates. When the net corporate income tax receipts in the preceding fiscal year are sufficient to trigger a rate reduction, the department of revenue will adjust the corporate income tax rates according to the following method.

a. The department will use data from corporate tax returns for the most recent tax years for which the department has sufficient data available to calculate corporate income tax receipts for the applicable fiscal year as described in paragraphs 51.10(1)“*b*” and “*c*.”

b. The department will first estimate what the corporate tax revenue would be for the current tax year and the two preceding tax years corresponding to the fiscal year in question using the applicable corporate income tax rates.

c. The department will then apply lower marginal tax rates for those tax years to determine what marginal tax rates would have generated \$700 million in net corporate income tax receipts in the preceding fiscal year.

d. In reducing the marginal tax rates, the department will first reduce the highest marginal rate until it is equal to the next highest rate, then reduce the two highest rates by equal amounts, until there is a single rate of 5.5 percent.

e. The tax rates will be rounded down to the nearest one-tenth of 1 percent.

51.10(2) Effective date of tax rates. The tax rates determined by the calculation in subrule 51.10(1) will apply for tax years beginning on or after the next January 1 following the determination date. The department will publish the new corporate income tax rates in the Iowa Administrative Bulletin and on the department's website by the first December 31 following the determination date.

51.10(3) *Automatic repeal.* This rule is repealed effective January 1 of the first year in which the corporate income tax rate is reduced to a single rate of 5.5 percent.
This rule is intended to implement Iowa Code section 422.33.

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