

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:

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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 77.2727, 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 22.7273, which was arrived at by subtracting the Iowa income percentage of 77.2727 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 ($\$1,262 \times 0.272727$).

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 ($\$30,000 \div \$50,000$) 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 ($\$817 \times .60$). 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 ($\$1,000 \times .50$). 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 ($\$15,000 \div \$25,000$). Taxpayer B’s net Iowa tax on total gross income was \$1,094, which results in a maximum out-of-state credit of \$656 ($\$1,094 \times .60$). 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)

$PTI/CTI \times GT$ = 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 ($\$35,000 \times 0.75$).

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 $\div$ 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 ($\$500 \times 1,400$) 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 ($\$700,000 \div .75$) 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.

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 ($\$12,000 \div \$25,000$). The Iowa earned income tax credit therefore equals \$202 ($\$420 \times .48$).

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,422.11F) 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.