

**422.7 “Net income” — how computed.**

The term “*net income*” means the adjusted gross income before the net operating loss deduction as properly computed for federal income tax purposes under the Internal Revenue Code, with the following adjustments:

1. Subtract interest and dividends from federal securities.
2. Add interest and dividends from foreign securities and from securities of state and other political subdivisions exempt from federal income tax under the Internal Revenue Code, except for those securities the interest and dividends from which are exempt from taxation by the state of Iowa as otherwise provided by law, including:
  - a. Vision Iowa program bonds pursuant to [section 12.71, subsection 8](#).
  - b. School infrastructure program bonds pursuant to [section 12.81, subsection 8](#).
  - c. Iowa jobs program revenue bonds pursuant to [section 12.87, subsection 8](#).
  - d. Iowa utility board and Iowa consumer advocate building project bonds pursuant to [section 12.91, subsection 9](#).
  - e. Iowa finance authority beginning farmer loan program bonds pursuant to [section 16.64, subsection 2](#).
  - f. Water pollution control works and drinking facilities financing program bonds pursuant to [section 16.131, subsection 5](#).
  - g. Iowa prison infrastructure revenue bonds pursuant to [section 12.80, subsection 3](#), and [section 16.177, subsection 8](#).
  - h. Quad cities interstate metropolitan authority bonds pursuant to [section 28A.24](#).
  - i. Iowa finance authority E911 program bonds pursuant to [section 34A.20, subsection 6](#).
  - j. Soil and water conservation subdistrict bonds pursuant to [section 161A.22](#).
  - k. Community college residence hall and dormitory bonds pursuant to [section 260C.61](#).
  - l. Community college bond program bonds pursuant to [section 260C.71, subsection 6](#).
  - m. Higher education loan authority bonds pursuant to [section 261A.27](#).
  - n. State board of regents bonds pursuant to [sections 262.41, 262.51, 262.60, 262A.8, and 263A.6](#).
  - o. Interstate bridges bonds pursuant to [section 313A.36](#).
  - p. Aviation authority bonds pursuant to [section 330A.16](#).
  - q. County health center bonds pursuant to [section 331.441, subsection 2](#), paragraph “c”, subparagraph (7).
  - r. Rural water district bonds pursuant to [section 357A.15](#).
  - s. Urban renewal bonds pursuant to [section 403.9, subsection 2](#).
  - t. Municipal housing project bonds pursuant to [section 403A.12](#).
  - u. Comprehensive petroleum underground storage tank fund bonds pursuant to [section 455G.6, subsection 14](#).
  - v. Honey creek premier destination park bonds pursuant to [section 463C.12, subsection 8](#).
3. Where the adjusted gross income includes capital gains or losses, or gains or losses from property other than capital assets, and such gains or losses have been determined by using a basis established prior to January 1, 1934, an adjustment may be made, under rules prescribed by the director, to reflect the difference resulting from the use of a basis of cost or January 1, 1934, fair market value, less depreciation allowed or allowable, whichever is higher. Provided that the basis shall be fair market value as of January 1, 1955, less depreciation allowed or allowable, in the case of property acquired prior to that date if use of a prior basis is declared to be invalid.
4. Reserved.
5. Individual taxpayers and married taxpayers who file a joint federal income tax return and who elect to file a joint return, separate returns, or separate filing on a combined return for Iowa income tax purposes, may avail themselves of the disability income exclusion and shall compute the amount of the disability income exclusion subject to the limitations for joint federal income tax return filers provided by section 105(d) of the Internal Revenue Code. The disability income exclusion provided in section 105(d) of the Internal Revenue Code, as amended up to and including December 31, 1982, continues to apply for state income tax purposes for tax years beginning on or after January 1, 1984.

6. Reserved.

7. Married taxpayers who file a joint federal income tax return and who elect to file separate returns or separate filing on a combined return for Iowa income tax purposes, may avail themselves of the expensing of business assets and capital loss provisions of sections 179(a) and 1211(b) respectively of the Internal Revenue Code and shall compute the amount of expensing of business assets and capital loss subject to the limitations for joint federal income tax return filers provided by sections 179(b) and 1211(b) respectively of the Internal Revenue Code.

8. Subtract the amount of the work opportunity tax credit allowable for the tax year under section 51 of the Internal Revenue Code to the extent that the credit increased federal adjusted gross income.

9. Subtract the amount of the alcohol and cellulosic biofuel fuels credit allowable for the tax year under section 40 of the Internal Revenue Code to the extent that the credit increased federal adjusted gross income.

10. Notwithstanding the method for computing the amount of travel expenses that may be deducted under section 162(h) of the Internal Revenue Code, for tax years beginning on or after January 1, 1987, a member of the general assembly whose place of residence within the legislative district is greater than fifty miles from the capitol building of the state may deduct the total amount per day determined under section 162(h)(1)(B) of the Internal Revenue Code and a member of the general assembly whose place of residence within the legislative district is fifty or fewer miles from the capitol building of the state may deduct fifty dollars per day. [This subsection](#) does not apply to a member of the general assembly who elects to itemize for state tax purposes the member's travel expenses.

11. Add the amounts deducted and subtract the amounts included as income as a result of the treatment provided sale-leaseback agreements under section 168(f)(8) of the Internal Revenue Code for property placed in service by the transferee prior to January 1, 1986, to the extent that the amounts deducted and the amounts included in income are not otherwise deductible or included in income under the Internal Revenue Code as amended to and including December 31, 1985. Entitlement to depreciation on any property included in a sale-leaseback agreement which is placed in service by the transferee prior to January 1, 1986, shall be determined under the Internal Revenue Code as amended to and including December 31, 1985, excluding section 168(f)(8) in making the determination.

12. *a.* If the adjusted gross income includes income or loss from a small business operated by the taxpayer, an additional deduction shall be allowed in computing the income or loss from the small business if the small business hired for employment in the state during its annual accounting period ending with or during the taxpayer's tax year any of the following:

(1) An individual with a disability domiciled in this state at the time of the hiring who meets any of the following conditions:

(a) Has a physical or mental impairment which substantially limits one or more major life activities.

(b) Has a record of that impairment.

(c) Is regarded as having that impairment.

(2) An individual domiciled in this state at the time of the hiring who meets any of the following conditions:

(a) Has been convicted of a felony in this or any other state or the District of Columbia.

(b) Is on parole pursuant to [chapter 906](#).

(c) Is on probation pursuant to [chapter 907](#), for an offense other than a simple misdemeanor.

(d) Is in a work release program pursuant to [chapter 904, subchapter IX](#).

(3) An individual, whether or not domiciled in this state at the time of the hiring, who is on parole or probation and to whom the interstate probation and parole compact under [section 907A.1](#), Code 2001, applies, or to whom the interstate compact for adult offender supervision under [chapter 907B](#) applies.

*b.* (1) The amount of the additional deduction is equal to sixty-five percent of the wages paid to individuals, but shall not exceed twenty thousand dollars per individual, named in paragraph "a", subparagraphs (1), (2), and (3) who were hired for the first time by that

business during the annual accounting period for work done in the state. This additional deduction is allowed for the wages paid to those individuals successfully completing a probationary period during the twelve months following the date of first employment by the business and shall be deducted at the close of the annual accounting period.

(2) The additional deduction shall not be allowed for wages paid to an individual who was hired to replace an individual whose employment was terminated within the twelve-month period preceding the date of first employment. However, if the individual being replaced left employment voluntarily without good cause attributable to the employer or if the individual was discharged for misconduct in connection with the individual's employment as determined by the department of workforce development, the additional deduction shall be allowed.

(3) A taxpayer who is a partner of a partnership or a shareholder of a subchapter S corporation, may deduct that portion of wages qualified under [this subsection](#) paid by the partnership or subchapter S corporation based on the taxpayer's pro rata share of the profits or losses from the partnership or subchapter S corporation.

c. For purposes of [this subsection](#):

(1) "Physical or mental impairment" means any physiological disorder or condition, cosmetic disfigurement, or anatomical loss affecting one or more of the body systems or any mental or psychological disorder, including intellectual disability, organic brain syndrome, emotional or mental illness, and specific learning disabilities.

(2) (a) "Small business" means a profit or nonprofit business, including but not limited to an individual, partnership, corporation, joint venture, association, or cooperative, to which the following apply:

(i) It is not an affiliate or subsidiary of a business dominant in its field of operation.

(ii) It has twenty or fewer full-time equivalent positions and not more than the equivalent of three million dollars in annual gross revenues as computed for the preceding fiscal year or as the average of the three preceding fiscal years.

(iii) It does not include the practice of a profession.

(b) "Small business" includes an employee-owned business which has been an employee-owned business for less than three years or which meets the conditions of subparagraph division (a), subparagraph subdivisions (i) through (iii).

(c) For purposes of this definition, "dominant in its field of operation" means having more than twenty full-time equivalent positions and more than three million dollars in annual gross revenues, and "affiliate or subsidiary of a business dominant in its field of operation" means a business which is at least twenty percent owned by a business dominant in its field of operation, or by partners, officers, directors, majority stockholders, or their equivalents, of a business dominant in that field of operation.

12A. a. If the adjusted gross income includes income or loss from a business operated by the taxpayer, and if the business does not qualify for the adjustment under [subsection 12](#), an additional deduction shall be allowed in computing the income or loss from the business if the business hired for employment in the state during its annual accounting period ending with or during the taxpayer's tax year either of the following:

(1) An individual domiciled in this state at the time of the hiring who meets any of the following conditions:

(a) Has been convicted of a felony in this or any other state or the District of Columbia.

(b) Is on parole pursuant to [chapter 906](#).

(c) Is on probation pursuant to [chapter 907](#), for an offense other than a simple misdemeanor.

(d) Is in a work release program pursuant to [chapter 904, subchapter IX](#).

(2) An individual, whether or not domiciled in this state at the time of the hiring, who is on parole or probation and to whom the interstate probation and parole compact under [section 907A.1, Code 2001](#), applies, or to whom the interstate compact for adult offender supervision under [chapter 907B](#) applies.

b. The amount of the additional deduction is equal to sixty-five percent of the wages paid to individuals, but shall not exceed twenty thousand dollars per individual, named in paragraph "a", subparagraphs (1) and (2) who were hired for the first time by that business during the annual accounting period for work done in the state. This additional deduction

is allowed for the wages paid to those individuals successfully completing a probationary period during the twelve months following the date of first employment by the business and shall be deducted at the close of the annual accounting period.

c. The additional deduction shall not be allowed for wages paid to an individual who was hired to replace an individual whose employment was terminated within the twelve-month period preceding the date of first employment. However, if the individual being replaced left employment voluntarily without good cause attributable to the employer or if the individual was discharged for misconduct in connection with the individual's employment as determined by the department of workforce development, the additional deduction shall be allowed.

d. A taxpayer who is a partner of a partnership or a shareholder of a subchapter S corporation, may deduct that portion of wages qualified under [this subsection](#) paid by the partnership or subchapter S corporation based on the taxpayer's pro rata share of the profits or losses from the partnership or subchapter S corporation.

e. The department shall develop and distribute information concerning the deduction available for businesses employing persons named in paragraph "a", subparagraphs (1) and (2).

13. a. Subtract, to the extent included, the amount of additional social security benefits taxable under the Internal Revenue Code for tax years beginning on or after January 1, 1994, but before January 1, 2014. The amount of social security benefits taxable as provided in section 86 of the Internal Revenue Code, as amended up to and including January 1, 1993, continues to apply for state income tax purposes for tax years beginning on or after January 1, 1994, but before January 1, 2014.

b. (1) For tax years beginning in the 2007 calendar year, subtract, to the extent included, thirty-two percent of taxable social security benefits remaining after the subtraction in paragraph "a".

(2) For tax years beginning in the 2008 calendar year, subtract, to the extent included, thirty-two percent of taxable social security benefits remaining after the subtraction in paragraph "a".

(3) For tax years beginning in the 2009 calendar year, subtract, to the extent included, forty-three percent of taxable social security benefits remaining after the subtraction in paragraph "a".

(4) For tax years beginning in the 2010 calendar year, subtract, to the extent included, fifty-five percent of taxable social security benefits remaining after the subtraction in paragraph "a".

(5) For tax years beginning in the 2011 calendar year, subtract, to the extent included, sixty-seven percent of taxable social security benefits remaining after the subtraction in paragraph "a".

(6) For tax years beginning in the 2012 calendar year, subtract, to the extent included, seventy-seven percent of taxable social security benefits remaining after the subtraction in paragraph "a".

(7) For tax years beginning in the 2013 calendar year, subtract, to the extent included, eighty-nine percent of taxable social security benefits remaining after the subtraction in paragraph "a".

c. Married taxpayers, who file a joint federal income tax return and who elect to file separate returns or who elect separate filing on a combined return for state income tax purposes, shall allocate between the spouses the amount of benefits subtracted under paragraphs "a" and "b" from net income in the ratio of the social security benefits received by each spouse to the total of these benefits received by both spouses.

d. For tax years beginning on or after January 1, 2014, subtract, to the extent included, the amount of social security benefits taxable under section 86 of the Internal Revenue Code.

14. Add the amount of intangible drilling and development costs optionally deducted in the year paid or incurred as described in section 57(a)(2) of the Internal Revenue Code. This amount may be recovered through cost depletion or depreciation, as appropriate under rules prescribed by the director.

15. Add the percentage depletion amount determined with respect to an oil, gas, or geothermal well as described in section 57(a)(1) of the Internal Revenue Code.

16. Subtract the income resulting from the forfeiture of an installment real estate contract, the transfer of real or personal property securing a debt to a creditor in cancellation of that debt, or from the sale or exchange of property as a result of actual notice of foreclosure if all of the following conditions are met:

a. The forfeiture, transfer, or sale or exchange was done for the purpose of establishing a positive cash flow.

b. Immediately before the forfeiture, transfer, or sale or exchange, the taxpayer's debt to asset ratio exceeded ninety percent as computed under generally accepted accounting practices.

c. The taxpayer's net worth at the end of the tax year is less than seventy-five thousand dollars. In determining a taxpayer's net worth at the end of the tax year a taxpayer shall include any asset transferred within one hundred twenty days prior to the end of the tax year without adequate and full consideration in money or money's worth. In determining the taxpayer's debt to asset ratio, the taxpayer shall include any asset transferred within one hundred twenty days prior to such forfeiture, transfer, or sale or exchange without adequate and full consideration in money or money's worth. For purposes of [this subsection](#), actual notice of foreclosure includes, but is not limited to, bankruptcy or written notice from a creditor of the creditor's intent to foreclose where there is a reasonable belief that the creditor can force a sale of the asset. For purposes of [this subsection](#), in the case of married taxpayers, except in the case of a husband and wife who live apart at all times during the tax year, the assets and liabilities of both spouses shall be considered for purposes of determining the taxpayer's net worth or the taxpayer's debt to asset ratio.

17. Add interest and dividends from regulated investment companies exempt from federal income tax under the Internal Revenue Code and subtract the loss on the sale or exchange of a share of a regulated investment company held for six months or less to the extent the loss was disallowed under section 852(b)(4)(B) of the Internal Revenue Code.

18. Reserved.

19. Reserved.

20. a. Subtract, to the extent included, the proceeds received pursuant to a judgment in or settlement of a lawsuit against the manufacturer or distributor of a Vietnam herbicide for damages resulting from exposure to the herbicide. [This subsection](#) applies to proceeds received by a taxpayer who is a disabled veteran or who is a beneficiary of a disabled veteran.

b. For purposes of [this subsection](#):

(1) "*Vietnam herbicide*" means a herbicide, defoliant or other causative agent containing dioxin, including, but not limited to, Agent Orange, used in the Vietnam Conflict beginning December 22, 1961, and ending May 7, 1975, inclusive.

(2) "*Agent Orange*" means the herbicide composed of trichlorophenoxyacetic acid and dichlorophenoxyacetic acid and the contaminant dioxin (TCDD).

21. Subtract the net capital gain from the following:

a. (1) Net capital gain from the sale of real property used in a business, in which the taxpayer materially participated for ten years, as defined in section 469(h) of the Internal Revenue Code, and which has been held for a minimum of ten years, or from the sale of a business, as defined in [section 423.1](#), in which the taxpayer materially participated for ten years, as defined in section 469(h) of the Internal Revenue Code, and which has been held for a minimum of ten years. The sale of a business means the sale of all or substantially all of the tangible personal property or service of the business.

However, where the business is sold to individuals who are all lineal descendants of the taxpayer, the taxpayer does not have to have materially participated in the business in order for the net capital gain from the sale to be excluded from taxation.

However, in lieu of the net capital gain deduction in this paragraph and paragraphs "b", "c", and "d", where the business is sold to individuals who are all lineal descendants of the taxpayer, the amount of capital gain from each capital asset may be subtracted in determining net income.

(2) For purposes of this paragraph, "*lineal descendant*" means children of the taxpayer, including legally adopted children and biological children, stepchildren, grandchildren, great-grandchildren, and any other lineal descendants of the taxpayer.

b. Net capital gain from the sale of cattle or horses held by the taxpayer for breeding, draft, dairy, or sporting purposes for a period of twenty-four months or more from the date of acquisition; but only if the taxpayer received more than one-half of the taxpayer's gross income from farming or ranching operations during the tax year.

c. Net capital gain from the sale of breeding livestock, other than cattle or horses, if the livestock is held by the taxpayer for a period of twelve months or more from the date of acquisition; but only if the taxpayer received more than one-half of the taxpayer's gross income from farming or ranching operations during the tax year.

d. Net capital gain from the sale of timber as defined in section 631(a) of the Internal Revenue Code.

However, to the extent otherwise allowed, the deduction provided in [this subsection](#) is not allowed for purposes of computation of a net operating loss in [section 422.9, subsection 3](#), and in computing the income for the taxable year or years for which a net operating loss is deducted.

For purposes of [this subsection](#), the term "held" shall be determined with reference to the holding period provisions of section 1223 of the Internal Revenue Code and the federal regulations adopted pursuant thereto.

e. (1) To the extent not already excluded, fifty percent of the net capital gain from the sale or exchange of employer securities of an Iowa corporation to a qualified Iowa employee stock ownership plan when, upon completion of the transaction, the qualified Iowa employee stock ownership plan owns at least thirty percent of all outstanding employer securities issued by the Iowa corporation.

(2) For purposes of this paragraph:

(a) "Employer securities" means the same as defined in section 409(l) of the Internal Revenue Code.

(b) "Iowa corporation" means a corporation whose commercial domicile, as defined in [section 422.32](#), is in this state.

(c) "Qualified Iowa employee stock ownership plan" means an employee stock ownership plan, as defined in section 4975(e)(7) of the Internal Revenue Code, and trust that are established by an Iowa corporation for the benefit of the employees of the corporation.

22. Subtract, to the extent included, the amounts paid to an eligible individual under section 105 of the Civil Liberties Act of 1988, Pub. L. No. 100-383, Tit. I, as satisfaction for a claim against the United States arising out of the confinement, holding in custody, relocation, or other deprivation of liberty or property of an individual of Japanese ancestry.

23. Subtract, to the extent included, the amount of federal Segal AmeriCorps education award payments.

24. Subtract, to the extent included, active duty pay received by a person in the national guard or armed forces military reserve for services performed on or after August 2, 1990, pursuant to military orders related to the Persian Gulf Conflict.

25. Subtract, to the extent included, active duty pay received by a person in the national guard or armed forces military reserve for service performed on or after November 21, 1995, pursuant to military orders related to peacekeeping in Bosnia-Herzegovina.

26. Add depreciation taken for federal income tax purposes on a speculative shell building defined in [section 427.1, subsection 27](#), which is owned by a for-profit entity and the for-profit entity is receiving the proper tax exemption. Subtract depreciation computed as if the speculative shell building were classified as fifteen-year property under the accelerated cost recovery system of the Internal Revenue Code during the period during which it is owned by the for-profit entity and is receiving the property tax exemption. However, [this subsection](#) does not apply to a speculative shell building which is used by the for-profit entity, subsidiary of the for-profit entity, or majority owners of the for-profit entity, for other than as a speculative shell building, as defined in [section 427.1, subsection 27](#).

27. Subtract, to the extent included, payments received by an individual providing unskilled in-home health-related care services pursuant to [section 249.3, subsection 2](#), paragraph "a", subparagraph (2), to a member of the individual caregiver's family. For purposes of [this subsection](#), a member of the individual caregiver's family includes a spouse, parent, stepparent, child, stepchild, brother, stepbrother, sister, stepsister, lineal ancestor, or

lineal descendant, and such persons by marriage or adoption. A health care professional licensed by an examination board designated in [section 147.13, subsections 1 through 10](#), is not eligible for the exemption authorized in [this subsection](#).

28. If the taxpayer is owner of an individual development account certified under [chapter 541A](#) at any time during the tax year, deductions of all of the following shall be allowed:

a. Contributions made to the account by persons and entities, other than the taxpayer, as authorized in [chapter 541A](#).

b. The amount of any state match payments authorized under [section 541A.3, subsection 1](#).

c. Earnings from the account.

29. Subtract, to the extent not otherwise deducted in computing adjusted gross income, the amounts paid by the taxpayer for the purchase of health benefits coverage or insurance for the taxpayer or taxpayer's spouse or dependent.

30. Subtract the amount of the employer social security credit allowable for the tax year under section 45B of the Internal Revenue Code to the extent that the credit increases federal adjusted gross income.

31. For a person who is disabled, or is fifty-five years of age or older, or is the surviving spouse of an individual or a survivor having an insurable interest in an individual who would have qualified for the exemption under [this subsection](#) for the tax year, subtract, to the extent included, the total amount of a governmental or other pension or retirement pay, including, but not limited to, defined benefit or defined contribution plans, annuities, individual retirement accounts, plans maintained or contributed to by an employer, or maintained or contributed to by a self-employed person as an employer, and deferred compensation plans or any earnings attributable to the deferred compensation plans, up to a maximum of six thousand dollars for a person, other than a husband or wife, who files a separate state income tax return and up to a maximum of twelve thousand dollars for a husband and wife who file a joint state income tax return. However, a surviving spouse who is not disabled or fifty-five years of age or older can only exclude the amount of pension or retirement pay received as a result of the death of the other spouse. A husband and wife filing separate state income tax returns or separately on a combined state return are allowed a combined maximum exclusion under [this subsection](#) of up to twelve thousand dollars. The twelve thousand dollar exclusion shall be allocated to the husband or wife in the proportion that each spouse's respective pension and retirement pay received bears to total combined pension and retirement pay received.

31A. a. Subtract, to the extent included, retirement pay received by a taxpayer from the federal government for military service performed in the armed forces, the armed forces military reserve, or national guard.

b. The exclusion of retirement pay under [this subsection](#) is in addition to any exclusion provided under [subsection 31](#).

31B. a. Subtract, to the extent included, amounts received as survivor benefits by a taxpayer from the federal government pursuant to 10 U.S.C. §1447, et seq.

b. The exclusion of survivor benefits under [this subsection](#) is in addition to any exclusion provided under [subsection 31](#).

32. a. Subtract the maximum contribution that may be deducted for Iowa income tax purposes as a participant in the Iowa educational savings plan trust pursuant to [section 12D.3, subsection 1](#), paragraph "a". For purposes of this paragraph, a participant who makes a contribution on or before the date prescribed in [section 422.21](#) for making and filing an individual income tax return, excluding extensions, may elect to be deemed to have made the contribution on the last day of the preceding calendar year. The director, after consultation with the treasurer of state, shall prescribe by rule the manner and method by which a participant may make an election authorized by the preceding sentence.

b. Add the amount resulting from the cancellation of a participation agreement refunded to the taxpayer as a participant in the Iowa educational savings plan trust to the extent previously deducted as a contribution to the trust.

c. Add the amount resulting from a withdrawal made by a taxpayer from the Iowa

educational savings plan trust for purposes other than the payment of qualified education expenses to the extent previously deducted as a contribution to the trust.

33. Subtract, to the extent included, income from interest and earnings received from the Iowa educational savings plan trust created in [chapter 12D](#).

34. *a.* Subtract the amount contributed during the tax year on behalf of a designated beneficiary that is a resident of this state to the Iowa ABLE savings plan trust or to the qualified ABLE program with which the state has contracted pursuant to [section 12I.10](#), not to exceed the maximum contribution level established in [section 12I.3, subsection 1](#), paragraph “*d*”, or [section 12I.10, subsection 2](#), paragraph “*a*”, as applicable.

*b.* Add the amount resulting from the cancellation of a participation agreement refunded to the taxpayer as an account owner in the Iowa ABLE savings plan trust or the qualified ABLE program with which the state has contracted pursuant to [section 12I.10](#) to the extent previously deducted pursuant to [this subsection](#) by the taxpayer or any other person as a contribution to the trust or qualified ABLE program.

*c.* Add the amount resulting from a withdrawal made by a taxpayer from the Iowa ABLE savings plan trust or the qualified ABLE program with which the state has contracted pursuant to [section 12I.10](#) for purposes other than the payment of qualified disability expenses to the extent previously deducted pursuant to [this subsection](#) by the taxpayer or any other person as a contribution to the trust or qualified ABLE program.

34A. Subtract, to the extent included, income from interest and earnings received from the Iowa ABLE savings plan trust created in [chapter 12I](#), or received by a resident account owner from a qualified ABLE program with which the state has contracted pursuant to [section 12I.10](#).

35. Subtract, to the extent included, the following:

*a.* Payments made to the taxpayer because of the taxpayer’s status as a victim of persecution for racial, ethnic, or religious reasons by Nazi Germany or any other Axis regime or as an heir of such victim.

*b.* Items of income attributable to, derived from, or in any way related to assets stolen from, hidden from, or otherwise lost to a victim of persecution for racial, ethnic, or religious reasons by Nazi Germany or any other Axis regime immediately prior to, during, and immediately after World War II, including, but not limited to, interest on the proceeds receivable as insurance under policies issued to a victim of persecution for racial, ethnic, or religious reasons by Nazi Germany or any other Axis regime by European insurance companies immediately prior to and during World War II. However, income from assets acquired with such assets or with the proceeds from the sale of such assets shall not be subtracted. This paragraph shall only apply to a taxpayer who was the first recipient of such assets after recovery of the assets and who is a victim of persecution for racial, ethnic, or religious reasons by Nazi Germany or any other Axis regime or is an heir of such victim.

36. Add, to the extent not already included, income from the sale of obligations of the state and its political subdivisions. Income from the sale of these obligations is exempt from the taxes imposed by [this division](#) only if the law authorizing these obligations specifically exempts the income from the sale from the state individual income tax.

37. *a.* Notwithstanding the method for computing income from an installment sale under section 453 of the Internal Revenue Code, as defined in [section 422.3](#), the method to be used in computing income from an installment sale shall be the method under section 453 of the Internal Revenue Code, as amended up to and including January 1, 2000. A taxpayer affected by [this subsection](#) shall make adjustments in the adjusted gross income pursuant to rules adopted by the director.

*b.* The adjustment to net income provided in [this subsection](#) is repealed for tax years beginning on or after January 1, 2002. However, to the extent that a taxpayer using the accrual method of accounting reported the entire capital gain from the sale or exchange of property on the Iowa return for the tax year beginning in the 2001 calendar year and the capital gain was reported on the installment method on the federal income tax return, any additional installment from the capital gain reported for federal income tax purposes is not to be included in net income in tax years beginning on or after January 1, 2002.

38. Subtract, to the extent not otherwise excluded, the amount of withdrawals from



qualified retirement plan accounts made during the tax year if the taxpayer or taxpayer's spouse is a member of the Iowa national guard or reserve forces of the United States who is ordered to national guard duty or federal active duty. In addition, a penalty for such withdrawals shall not be assessed by the state.

39. *a.* The additional first-year depreciation allowance authorized in section 168(k) of the Internal Revenue Code, as enacted by Pub. L. No. 107-147, §101, does not apply in computing net income for state tax purposes. If the taxpayer has taken such deduction in computing federal adjusted gross income, the following adjustments shall be made:

(1) Add the total amount of depreciation taken on all property for which the election under section 168(k) of the Internal Revenue Code was made for the tax year.

(2) Subtract an amount equal to depreciation allowed on such property for the tax year using the modified accelerated cost recovery system depreciation method applicable under section 168 of the Internal Revenue Code without regard to section 168(k).

(3) Any other adjustments to gains or losses to reflect the adjustments made in subparagraphs (1) and (2) pursuant to rules adopted by the director.

*b.* A taxpayer may elect to apply the additional first-year depreciation allowance authorized in section 168(k)(4) of the Internal Revenue Code, as enacted by Pub. L. No. 108-27, in computing net income for state tax purposes, for qualified property acquired after May 5, 2003, and before January 1, 2005. If the taxpayer elects to take the additional first-year depreciation allowance authorized in section 168(k)(4) of the Internal Revenue Code for state tax purposes, the deduction may be taken on amended state tax returns, if necessary. If the taxpayer does not elect to take the additional first-year depreciation allowance authorized in section 168(k)(4) of the Internal Revenue Code for state tax purposes, the following adjustment shall be made:

(1) Add the total amount of depreciation taken on all property for which the election under section 168(k)(4) of the Internal Revenue Code was made for the tax year.

(2) Subtract an amount equal to depreciation allowed on such property for the tax year using the modified accelerated cost recovery system depreciation method applicable under section 168 of the Internal Revenue Code without regard to section 168(k)(4).

(3) Any other adjustments to gains or losses to reflect the adjustments made in subparagraphs (1) and (2) pursuant to rules adopted by the director.

39A. The additional first-year depreciation allowance authorized in section 168(k) of the Internal Revenue Code, as enacted by Pub. L. No. 110-185, §103, Pub. L. No. 111-5, §1201, Pub. L. No. 111-240, §2022, Pub. L. No. 111-312, §401, Pub. L. No. 112-240, §331, and Pub. L. No. 113-295, §125, does not apply in computing net income for state tax purposes. If the taxpayer has taken the additional first-year depreciation allowance for purposes of computing federal adjusted gross income, then the taxpayer shall make the following adjustments to federal adjusted gross income when computing net income for state tax purposes:

*a.* Add the total amount of depreciation taken under section 168(k) of the Internal Revenue Code for the tax year.

*b.* Subtract the amount of depreciation allowable under the modified accelerated cost recovery system described in section 168 of the Internal Revenue Code and calculated without regard to section 168(k).

*c.* Any other adjustments to gains or losses necessary to reflect the adjustments made in paragraphs "a" and "b". The director shall adopt rules for the administration of this paragraph.

39B. The additional first-year depreciation allowance authorized in section 168(n) of the Internal Revenue Code, as enacted by Pub. L. No. 110-343, §710, does not apply in computing net income for state tax purposes. If the taxpayer has taken the additional first-year depreciation allowance for purposes of computing federal adjusted gross income, then the taxpayer shall make the following adjustments to federal adjusted gross income when computing net income for state tax purposes:

*a.* Add the total amount of depreciation taken under section 168(n) of the Internal Revenue Code for the tax year.

*b.* Subtract the amount of depreciation allowable under the modified accelerated cost

recovery system described in section 168 of the Internal Revenue Code and calculated without regard to section 168(n).

c. Any other adjustments to gains or losses necessary to reflect the adjustments made in paragraphs “a” and “b”. The director shall adopt rules for the administration of this paragraph.

40. Subtract, to the extent included, active duty pay received by a person in the national guard or armed forces military reserve for service performed on or after January 1, 2003, pursuant to military orders related to Operation Iraqi Freedom, Operation New Dawn, Operation Noble Eagle, and Operation Enduring Freedom.

41. a. Subject to the restrictions in paragraph “b”, subtract the sum of the following amounts:

(1) The amount of contributions made by (1) an account holder during the tax year to the account holder’s first-time homebuyer savings accounts, not to exceed the following annual limit:

(a) (i) For married taxpayers who file a joint return and maintain a joint first-time homebuyer savings account, four thousand dollars.

(ii) For any other account holder, two thousand dollars.

(b) For the tax year beginning in the 2018 calendar year and for each subsequent tax year, the director shall multiply each dollar amount set forth in subparagraph division (a), subparagraph subdivisions (i) and (ii), by the latest cumulative inflation factor, shall round off the resulting product to the nearest one dollar, and shall incorporate the result into the income tax forms and instructions for each tax year. For purposes of this subparagraph division, “*cumulative inflation factor*” means the product of the annual inflation factor for the 2018 calendar year and all annual inflation factors for subsequent calendar years as determined by [section 422.4, subsection 1](#), paragraph “a”. The cumulative inflation factor applies to all tax years beginning on or after January 1 of the calendar year for which the latest annual inflation factor has been determined. Notwithstanding any other provision, the annual inflation factor for the 2018 calendar year is one hundred percent.

(2) To the extent included, income from interest received from the account holder’s first-time homebuyer savings accounts.

b. (1) The subtraction in paragraph “a” shall not exceed the following aggregate lifetime limit:

(a) For married taxpayers who file a joint return and maintain a joint first-time homebuyer savings account, an amount equal to the product of the deductible amount determined for the year in paragraph “a”, subparagraph (1), subparagraph division (a), subparagraph subdivision (i), multiplied by ten.

(b) For any other account holder, an amount equal to the product of the deductible amount determined for the year in paragraph “a”, subparagraph (1), subparagraph division (a), subparagraph subdivision (ii), multiplied by ten.

(2) The subtraction in paragraph “a” shall not be allowed to an account holder upon one of the following dates, whichever occurs first:

(a) January 1 of the tenth calendar year after the calendar year during which the account holder first opened a first-time homebuyer savings account.

(b) The date on which funds within an account holder’s first-time homebuyer savings account are withdrawn for purposes other than the payment or reimbursement of the designated beneficiary’s eligible home costs in connection with a qualified home purchase. Any amount transferred between different first-time homebuyer savings accounts of the same account holder by a person other than the account holder shall not be considered a withdrawal for purposes of this subparagraph division (b).

c. (1) Add, to the extent previously deducted under paragraph “a”, subparagraph (1), the amount withdrawn during the tax year from an account holder’s first-time homebuyer savings account for purposes other than the payment or reimbursement of the designated beneficiary’s eligible home costs in connection with a qualified home purchase.

(2) For purposes of this paragraph “c”, any amount remaining in an account holder’s first-time homebuyer savings account on January 1 of the tenth calendar year after the

calendar year during which the account holder first opened a first-time homebuyer savings account shall be considered immediately withdrawn under subparagraph (1).

(3) For purposes of this paragraph “c”, the transfer of amounts between different first-time homebuyer accounts of the same account holder by a person other than the account holder shall not cause such transfer to be considered a withdrawal under subparagraph (1).

d. For any amount considered a withdrawal required to be added to net income pursuant to paragraph “c”, the account holder shall be assessed a penalty equal to ten percent of the amount of the withdrawal. The penalty shall not apply to withdrawals made by reason of the death of the account holder, or to withdrawals made pursuant to a garnishment, levy, or other order, including but not limited to an order in bankruptcy following a filing for protection under the federal bankruptcy code, 11 U.S.C. §101 et seq.

e. For purposes of [this subsection](#), “*account holder*”, “*designated beneficiary*”, “*eligible home costs*”, “*first-time homebuyer savings account*”, and “*qualified home purchase*” mean the same as defined in [section 541B.2](#).

42. Subtract, to the extent included, military student loan repayments received by the taxpayer serving on active duty in the national guard or armed forces military reserve or on active duty status in the armed forces.

42A. Subtract, to the extent included, all pay received by the taxpayer from the federal government for military service performed while on active duty status in the armed forces, the armed forces military reserve, or the national guard.

43. A taxpayer may elect not to take the increased expensing allowance under section 179 of the Internal Revenue Code, as amended by Pub. L. No. 108-27, §202, in computing adjusted gross income for state tax purposes. If the taxpayer does not take the increased expensing allowance under section 179 of the Internal Revenue Code for state tax purposes, the following adjustments shall be made:

a. Add the total amount of expense deduction taken on section 179 property for federal tax purposes under section 179 of the Internal Revenue Code.

b. Subtract the amount of expense deduction on section 179 property allowable for federal tax purposes under section 179 of the Internal Revenue Code prior to enactment of Pub. L. No. 108-27, §202.

c. Any other adjustments to gains and losses to the adjustments made in paragraphs “a” and “b” pursuant to rules adopted by the director.

44. a. If the taxpayer, while living, donates one or more of the taxpayer’s human organs to another human being for immediate human organ transplantation during the tax year, subtract, to the extent not otherwise excluded, the following unreimbursed expenses incurred by the taxpayer and related to the taxpayer’s organ donation:

- (1) Travel expenses.
- (2) Lodging expenses.
- (3) Lost wages.

b. The maximum amount that may be deducted under paragraph “a” is ten thousand dollars. A taxpayer shall only take the deduction under [this subsection](#) once. If a deduction is taken under [this subsection](#), the amount of expenses shall not be considered medical care expenses under section 213 of the Internal Revenue Code for state tax purposes.

c. For purposes of [this subsection](#), “*human organ*” means all or part of a liver, pancreas, kidney, intestine, lung, or bone marrow.

45. Subtract, to the extent not otherwise deducted, the amount of two thousand dollars for the cost of a clean fuel motor vehicle if the taxpayer was eligible for the alternative motor vehicle credit under section 30B of the Internal Revenue Code for such motor vehicle.

46. Subtract, to the extent included, the amount of any grant provided pursuant to the injured veterans grant program pursuant to [section 35A.14](#).

46A. Subtract, to the extent included, amounts received from the veterans trust fund for any of the following items:

- a. Travel expenses pursuant to [section 35A.13, subsection 6](#), paragraph “a”.
- b. Unemployment assistance pursuant to [section 35A.13, subsection 6](#), paragraph “c”.

47. Subtract, to the extent not otherwise deducted in computing adjusted gross income, the amounts paid by the taxpayer to the department of veterans affairs for the purpose of

providing grants under the injured veterans grant program established in [section 35A.14](#). Amounts subtracted under [this subsection](#) shall not be used by the taxpayer in computing the amount of charitable contributions as defined by section 170 of the Internal Revenue Code.

48. Reserved.

49. Subtract, to the extent included, the amount of ordinary or capital gain realized by the taxpayer as a result of the involuntary conversion of property due to eminent domain. However, if the total amount of such realized ordinary or capital gain is not recognized because the converted property is replaced with property that is similar to, or related in use to, the converted property, the amount of such realized ordinary or capital gain shall not be subtracted under [this subsection](#) until the remaining realized ordinary or capital gain is subject to federal taxation or until the time of disposition of the replacement property as provided under rules of the director. The subtraction allowed under [this subsection](#) shall not alter the basis as established for federal tax purposes of any property owned by the taxpayer.

50. Subtract, to the extent included, the amount of victim compensation awards paid under the victim compensation program, victim restitution payments received pursuant to [chapter 910](#) or [915](#), and any damages awarded by a court, and received by the taxpayer, in a civil action filed by the victim against the offender, during the tax year.

51. Reserved.

52. Reserved.

53. A taxpayer is not allowed to take the increased expensing allowance under section 179 of the Internal Revenue Code, as amended by Pub. L. No. 111-5, §1202, in computing adjusted gross income for state tax purposes.

54. Subtract, to the extent included, the amount of any biodiesel production refund provided pursuant to [section 423.4](#).

55. A taxpayer is allowed to take the deduction for certain expenses of elementary and secondary school teachers allowed under section 62(a)(2)(D) of the Internal Revenue Code, as amended by the federal Emergency Economic Stabilization Act of 2008, Pub. L. No. 110-343, in computing net income for state tax purposes.

56. A taxpayer is allowed to take the deduction for qualified tuition and related expenses allowed under section 222 of the Internal Revenue Code, as amended by the federal Emergency Economic Stabilization Act of 2008, Pub. L. No. 110-343, in computing net income for state tax purposes.

57. a. Subtract, to the extent included, payments received by an individual from an electric utility for the following:

(1) Emergency response work performed in this state for the electric utility pursuant to a mutual aid agreement between this state and any other state if such emergency response work is performed while the individual is a nonresident.

(2) Training received in this state from the electric utility if such training is received while the individual is a nonresident.

b. For purposes of [this subsection](#), “*electric utility*” means the same as defined in [section 476.22](#).

58. On the Iowa fiduciary income tax return, subtract the amount of administrative expenses that were not taken or allowed as a deduction in calculating net income for federal fiduciary income tax purposes.

[C35, §6943-f7; C39, **§6943.039**; C46, 50, 54, 58, 62, 66, 71, 73, 75, 77, 79, 81, §422.7; 81 Acts, ch 132, §4 – 6, 9 – 11; 82 Acts, ch 1023, §3 – 8, 25, 30, 31, ch 1203, §2]

83 Acts, ch 174, §1, 3; 83 Acts, ch 179, §5, 6, 21, 24; 84 Acts, ch 1305, §29, 30; 85 Acts, ch 230, §4; 86 Acts, ch 1232, §2; 86 Acts, ch 1236, §5; 86 Acts, ch 1238, §18; 86 Acts, ch 1241, §14; 86 Acts, ch 1243, §33; 87 Acts, 1st Ex, ch 1, §3; 87 Acts, 2nd Ex, ch 1, §4 – 6; 88 Acts, ch 1028, §13 – 15; 89 Acts, ch 175, §2; 89 Acts, ch 225, §18, 19; 89 Acts, ch 228, §6, 7, 11; 89 Acts, ch 249, §2; 89 Acts, ch 251, §13; 89 Acts, ch 268, §4; 89 Acts, ch 285, §3; 90 Acts, ch 1171, §2; 90 Acts, ch 1195, §1; 90 Acts, ch 1251, §52; 90 Acts, ch 1271, §1901, 1903; 91 Acts, ch 196, §2; 91 Acts, ch 210, §1; 92 Acts, ch 1225, §1, 5; 92 Acts, ch 1247, §30, 31, 39; 93 Acts, ch 97, §14, 20; 94 Acts, ch 1165, §12, 46; 94 Acts, ch 1166, §2, 3, 12; 94 Acts, ch 1183, §77 – 79, 97; 95 Acts, ch 5, §1, 14; 95 Acts, ch 152, §3, 7; 95 Acts, ch 206, §1, 4; 96 Acts, ch 1106, §7; 96 Acts, ch 1129, §113; 96 Acts, ch 1186, §23; 97 Acts, ch 133, §1; 97 Acts, ch 135, §4, 9; 98 Acts, ch 1100,

§57; 98 Acts, ch 1172, §12, 14; 98 Acts, ch 1174, §5, 6; 98 Acts, ch 1177, §1 – 6; 2000 Acts, ch 1103, §2, 3; 2000 Acts, ch 1163, §5, 6; 2000 Acts, ch 1194, §8, 21; 2001 Acts, ch 15, §1, 2; 2001 Acts, ch 116, §6, 28; 2001 Acts, ch 127, §4, 5, 9, 10; 2001 Acts, 2nd Ex, ch 6, §21, 22, 25, 26, 37; 2002 Acts, ch 1069, §4, 11, 14; 2002 Acts, ch 1150, §4; 2002 Acts, ch 1151, §5, 36; 2003 Acts, ch 139, §5, 11, 12; 2003 Acts, ch 142, §5, 6, 11; 2003 Acts, 1st Ex, ch 2, §184, 205; 2004 Acts, ch 1086, §66; 2004 Acts, 1st Ex, ch 1001, §38, 41, 42; 2005 Acts, ch 2, §1, 2, 6; 2005 Acts, ch 19, §53; 2005 Acts, ch 24, §4, 10, 11; 2005 Acts, ch 127, §1, 2; 2006 Acts, ch 1013, §1, 2; 2006 Acts, ch 1106, §2, 4; 2006 Acts, ch 1112, §4, 5; 2006 Acts, ch 1140, §4, 10, 11; 2006 Acts, ch 1158, §12; 2006 Acts, ch 1179, §71; 2006 Acts, 1st Ex, ch 1001, §41, 49; 2007 Acts, ch 27, §2, 11; 2007 Acts, ch 54, §35; 2007 Acts, ch 162, §4, 13; 2007 Acts, ch 176, §2, 4; 2007 Acts, ch 186, §8; 2008 Acts, ch 1011, §4, 9; 2008 Acts, ch 1131, §2 – 4; 2008 Acts, ch 1178, §8, 17; 2009 Acts, ch 118, §6, 12; 2009 Acts, ch 133, §136 – 139; 2009 Acts, ch 161, §3, 4; 2010 Acts, ch 1107, §1, 2; 2011 Acts, ch 41, §2, 5, 7, 18, 19, 23 – 25; 2011 Acts, ch 105, §1 – 3; 2011 Acts, ch 113, §57, 60; 2011 Acts, ch 131, §137, 139, 140, 142; 2012 Acts, ch 1019, §129; 2012 Acts, ch 1021, §73; 2012 Acts, ch 1059, §12; 2012 Acts, ch 1072, §37; 2012 Acts, ch 1110, §7; 2012 Acts, ch 1123, §1, 32; 2012 Acts, ch 1136, §33, 39 – 41; 2012 Acts, ch 1138, §133, 134; 2013 Acts, ch 1, §9, 11, 12; 2013 Acts, ch 70, §1, 2; 2013 Acts, ch 100, §23, 27; 2014 Acts, ch 1080, §85, 98; 2014 Acts, ch 1093, §19, 21; 2014 Acts, ch 1116, §3 – 5; 2015 Acts, ch 1, §9, 11, 12; 2015 Acts, ch 116, §27, 29, 30; 2015 Acts, ch 125, §1, 7; 2015 Acts, ch 137, §87, 91, 162; 2015 Acts, ch 138, §72, 73, 161; 2016 Acts, ch 1011, §68; 2017 Acts, ch 116, §1, 10; 2017 Acts, ch 170, §37, 45

Referred to in §12D.9, §12I.8, §12I.10, §217.39, §422.4, §422.5, §422.8, §422.9, §422.16, §422.35, §425.17, §541A.2, §541A.3, §541B.6

2012 amendment striking subsection 4 applies to estates of decedents dying on or after July 1, 2012; 2012 Acts, ch 1123, §32

2013 amendment to subsection 39A takes effect February 14, 2013, and applies retroactively to January 1, 2013, for tax years ending on or after that date; 2013 Acts, ch 1, §11, 12

2014 amendment striking subsection 2, former paragraph i applies retroactively to January 1, 2014, for tax years beginning on or after that date; 2014 Acts, ch 1093, §21

Subsections 31A and 31B apply retroactively to January 1, 2014, for tax years beginning on or after that date; 2014 Acts, ch 1116, §5

2015 amendment to subsection 32, paragraph a, takes effect July 2, 2015, and applies retroactively to January 1, 2015, for tax years beginning on or after that date; 2015 Acts, ch 138, §73, 161

Subsections 34 and 34A apply to tax years beginning on or after January 1, 2016; 2015 Acts, ch 137, §91

2015 amendment to subsection 39A takes effect February 17, 2015, and applies retroactively to January 1, 2014, for tax years ending on or after that date; 2015 Acts, ch 1, §11, 12

Subsection 57 takes effect June 18, 2015, and applies retroactively to January 1, 2015, for tax years beginning on or after that date; 2015 Acts, ch 116, §29, 30

Subsection 58 applies to Iowa fiduciary income tax returns filed for tax years ending on or after July 1, 2015; 2015 Acts, ch 125, §7

For provisions relating to the disallowance of additional first-year depreciation under §168(k) of the Internal Revenue Code for tax years ending on or after January 1, 2015, see 2016 Acts, ch 1007, §3 – 5; 2017 Acts, ch 157, §11 – 13

Subsection 41 applies to tax years beginning on or after January 1, 2018; 2017 Acts, ch 116, §10; 2017 Acts, ch 170, §45

NEW subsection 41