

422.5 Tax imposed — exclusions — alternate tax rate.

1. *a.* A tax is imposed upon every resident and nonresident of the state which tax shall be levied, collected, and paid annually upon and with respect to the entire taxable income as defined in [this subchapter](#) at a rate of three and eight-tenths percent.

b. (1) The tax imposed upon the taxable income of a nonresident shall be computed by reducing the amount determined pursuant to paragraph “*a*” by the amounts of nonrefundable credits under [this subchapter](#) and by multiplying this resulting amount by a fraction of which the nonresident’s net income allocated to Iowa, as determined in [section 422.8, subsection 2](#), paragraph “*a*”, is the numerator and the nonresident’s total net income computed under [section 422.7](#) is the denominator. This subparagraph also applies to individuals who are residents of Iowa for less than the entire tax year.

(2) (a) The tax imposed upon the taxable income of a resident shareholder in an S corporation or of an estate or trust with a situs in Iowa that is a shareholder in an S corporation, which S corporation has in effect for the tax year an election under subchapter S of the Internal Revenue Code and carries on business within and without the state, may be computed by reducing the amount determined pursuant to paragraph “*a*” by the amounts of nonrefundable credits under [this subchapter](#) and by multiplying this resulting amount by a fraction of which the resident’s or estate’s or trust’s net income allocated to Iowa, as determined in [section 422.8, subsection 2](#), paragraph “*b*”, is the numerator and the resident’s or estate’s or trust’s total net income computed under [section 422.7](#) is the denominator. If a resident shareholder, or an estate or trust with a situs in Iowa that is a shareholder, has elected to take advantage of this subparagraph (2), and for the next tax year elects not to take advantage of this subparagraph, the resident or estate or trust shareholder shall not reelect to take advantage of this subparagraph for the three tax years immediately following the first tax year for which the shareholder elected not to take advantage of this subparagraph, unless the director consents to the reelection. This subparagraph also applies to individuals who are residents of Iowa for less than the entire tax year.

(b) This subparagraph (2) shall not affect the amount of the taxpayer’s checkoffs under [this subchapter](#), the credits from tax provided under [this subchapter](#), and the allocation of these credits between spouses if the taxpayers filed separate returns.

2. *a.* The tax shall not be imposed on a resident or nonresident whose net income, as defined in [section 422.7](#), is thirteen thousand five hundred dollars or less in the case of married persons filing jointly, heads of household, and surviving spouses or nine thousand dollars or less in the case of all other persons; but in the event that the payment of tax under [this subchapter](#) would reduce the net income to less than thirteen thousand five hundred dollars or nine thousand dollars as applicable, then the tax shall be reduced to that amount which would result in allowing the taxpayer to retain a net income of thirteen thousand five hundred dollars or nine thousand dollars as applicable. The preceding sentence does not apply to estates or trusts. For the purpose of [this subsection](#), the entire net income, including any part of the net income not allocated to Iowa, shall be taken into account. In calculating net income for purposes of [this subsection](#), any amount of itemized or standard deduction, personal exemption deduction, or qualified business income deduction that was allowed as a deduction in computing federal taxable income under the Internal Revenue Code shall be added back. If the combined net income of a husband and wife exceeds thirteen thousand five hundred dollars, neither of them shall receive the benefit of [this subsection](#), and it is immaterial whether they file a joint return or separate returns. However, if a husband and wife file separate returns and have a combined net income of thirteen thousand five hundred dollars or less, neither spouse shall receive the benefit of this paragraph, if one spouse has a net operating loss and elects to carry back or carry forward the loss as provided under the Internal Revenue Code or in [section 422.9](#). A person who is claimed as a dependent by another person as defined in [section 422.12](#) shall not receive the benefit of [this subsection](#) if the person claiming the dependent has net income exceeding thirteen thousand five hundred dollars or nine thousand dollars as applicable or the person claiming the dependent and the person’s spouse have combined net income exceeding thirteen thousand five hundred dollars or nine thousand dollars as applicable.

b. In lieu of the computation in [subsection 1](#), or in paragraph “a” of [this subsection](#), if the married persons’ filing jointly, head of household’s, or surviving spouse’s net income exceeds thirteen thousand five hundred dollars, the regular tax imposed under [this subchapter](#) shall be the lesser of the alternate state individual income tax rate of four and three-tenths percent times the portion of the net income in excess of thirteen thousand five hundred dollars or the regular tax liability computed without regard to this sentence. Taxpayers electing to file separately shall compute the alternate tax described in this paragraph using the total net income of the spouses. The alternate tax described in this paragraph does not apply if one spouse elects to carry back or carry forward a net operating loss as provided under the Internal Revenue Code or in [section 422.9](#).

3. a. The tax shall not be imposed on a resident or nonresident who is at least sixty-five years old on December 31 of the tax year and whose net income, as defined in [section 422.7](#), is thirty-two thousand dollars or less in the case of married persons filing jointly, heads of household, and surviving spouses or twenty-four thousand dollars or less in the case of all other persons; but in the event that the payment of tax under [this subchapter](#) would reduce the net income to less than thirty-two thousand dollars or twenty-four thousand dollars as applicable, then the tax shall be reduced to that amount which would result in allowing the taxpayer to retain a net income of thirty-two thousand dollars or twenty-four thousand dollars as applicable. The preceding sentence does not apply to estates or trusts. For the purpose of [this subsection](#), the entire net income, including any part of the net income not allocated to Iowa, shall be taken into account. In calculating net income for purposes of [this subsection](#), any amount of itemized or standard deduction, personal exemption deduction, or qualified business income deduction that was allowed as a deduction in computing federal taxable income under the Internal Revenue Code shall be added back. If the combined net income of a husband and wife exceeds thirty-two thousand dollars, neither of them shall receive the benefit of [this subsection](#), and it is immaterial whether they file a joint return or separate returns. However, if a husband and wife file separate returns and have a combined net income of thirty-two thousand dollars or less, neither spouse shall receive the benefit of this paragraph, if one spouse has a net operating loss and elects to carry back or carry forward the loss as provided under the Internal Revenue Code or in [section 422.9](#). A person who is claimed as a dependent by another person as defined in [section 422.12](#) shall not receive the benefit of [this subsection](#) if the person claiming the dependent has net income exceeding thirty-two thousand dollars or twenty-four thousand dollars as applicable or the person claiming the dependent and the person’s spouse have combined net income exceeding thirty-two thousand dollars or twenty-four thousand dollars as applicable.

b. In lieu of the computation in [subsection 1 or 2](#), if the married persons’ filing jointly, head of household’s, or surviving spouse’s net income exceeds thirty-two thousand dollars, the regular tax imposed under [this subchapter](#) shall be the lesser of the alternate state individual income tax rate of four and three-tenths percent times the portion of the net income in excess of thirty-two thousand dollars or the regular tax liability computed without regard to this sentence. Taxpayers electing to file separately shall compute the alternate tax described in this paragraph using the total net income of the spouses. The alternate tax described in this paragraph does not apply if one spouse elects to carry back or carry forward a net operating loss as provided under the Internal Revenue Code or in [section 422.9](#).

c. [This subsection](#) applies even though one spouse has not attained the age of sixty-five, if the other spouse is at least sixty-five at the end of the tax year.

4. The tax levied under [this section](#) shall be computed and collected as provided in [this subchapter](#).

5. The provisions of [this subchapter](#) shall apply to all salaries received by federal officials or employees of the United States government as provided for herein.

6. The state income tax of a taxpayer whose net income includes the gain or loss 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 where the fair market value of the taxpayer’s assets exceeds the taxpayer’s liabilities immediately before such forfeiture, transfer, or sale or exchange shall not be greater than such excess, including any asset

transferred within one hundred twenty days prior to such forfeiture, transfer, or sale or exchange. 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 in determining if the fair market value of the taxpayer's assets exceed the taxpayer's liabilities.

7. In addition to the other taxes imposed by [this section](#), a tax is imposed on the amount of a lump sum distribution for which the taxpayer has elected under section 402(e) of the Internal Revenue Code to be separately taxed for federal income tax purposes for the tax year. The rate of tax is equal to twenty-five percent of the separate federal tax imposed on the amount of the lump sum distribution. A nonresident is liable for this tax only on that portion of the lump sum distribution allocable to Iowa. The total amount of the lump sum distribution subject to separate federal tax shall be included in net income for purposes of determining eligibility under [subsections 2 and 3](#), as applicable.

8. In the case of income derived from the sale or exchange of livestock which qualifies under section 451(e) of the Internal Revenue Code because of drought, the taxpayer may elect to include the income in the taxpayer's net income in the tax year following the year of the sale or exchange in accordance with rules prescribed by the director.

9. If an individual's federal income tax was forgiven for a tax year under section 692 of the Internal Revenue Code, because the individual was killed while serving in an area designated by the president of the United States or the United States Congress as a combat zone, the individual was missing in action and presumed dead, or the individual was killed outside the United States in a terroristic or military action while the individual was a military or civilian employee of the United States, the individual's Iowa income tax is also forgiven for the same tax year.

10. If a taxpayer repays in the current tax year certain amounts of income that were subject to tax under [this subchapter](#) in a prior year and a tax benefit would be allowed under similar circumstances under section 1341 of the Internal Revenue Code, a tax benefit shall be allowed on the Iowa return. The tax benefit shall be the reduced tax for the current tax year due to the deduction for the repaid income or the reduction in tax for the prior year or years due to exclusion of the repaid income. The reduction in tax shall qualify as a refundable tax credit on the return for the current year pursuant to rules prescribed by the director.

11. For tax years beginning on or after January 1, 2023, a taxpayer shall use the same filing status for Iowa income tax purposes as the taxpayer used for federal income tax purposes.

[C35, §6943-f5; C39, **§6943.037**; C46, 50, 54, 58, 62, 66, 71, 73, 75, 77, 79, 81, §422.5; [81 Acts, ch 132, §3](#); [82 Acts, ch 1023, §2, 31, ch 1064, §1, 2, ch 1226, §1, 2, 6](#)]

[83 Acts, ch 101, §86](#); [83 Acts, ch 179, §3, 20, 22](#); [85 Acts, ch 243, §1, 2](#); [86 Acts, ch 1213, §9](#); [86 Acts, ch 1232, §1](#); [86 Acts, ch 1236, §3, 4](#); [87 Acts, ch 214, §2](#); [87 Acts, 1st Ex, ch 1, §2](#); [87 Acts, 2nd Ex, ch 1, §2, 3](#); [88 Acts, ch 1028, §5 – 11](#); [89 Acts, ch 228, §4, 5](#); [89 Acts, ch 251, §11](#); [89 Acts, ch 268, §2, 3](#); [89 Acts, ch 296, §41](#); [91 Acts, ch 159, §7](#); [91 Acts, ch 196, §1](#); [92 Acts, 2nd Ex, ch 1001, §217, 218, 224](#); [96 Acts, ch 1166, §3, 4](#); [96 Acts, ch 1197, §14, 15, 18](#); [96 Acts, ch 1219, §27](#); [97 Acts, ch 8, §1, 2](#); [97 Acts, ch 111, §2 – 4, 7, 8](#); [97 Acts, ch 158, §11, 49](#); [99 Acts, ch 151, §4, 89](#); [2003 Acts, ch 139, §4](#); [2006 Acts, ch 1112, §1 – 3, 5](#); [2006 Acts, ch 1158, §8 – 10](#); [2007 Acts, ch 126, §65, 112, 116](#); [2009 Acts, ch 41, §263](#); [2009 Acts, ch 133, §135](#); [2011 Acts, ch 41, §17, 23, 24](#); [2012 Acts, ch 1021, §72](#); [2013 Acts, ch 140, §120, 123, 124](#); [2014 Acts, ch 1116, §1, 2, 5](#); [2017 Acts, ch 157, §4](#); [2018 Acts, ch 1161, §71, 72, 74, 97, 98, 104 – 106, 133, 134](#); [2020 Acts, ch 1062, §94](#); [2021 Acts, ch 80, §257, 258](#); [2021 Acts, ch 177, §1](#); [2022 Acts, ch 1002, §12 – 14, 17, 18, 25, 26, 28, 29](#); [2023 Acts, ch 115, §7, 12](#); [2024 Acts, ch 1094, §2 – 5, 16, 17](#)

Referred to in [§2.48, 257.21, 421.27, 422.6, 422.7\(5\)\(b\), 422.8, 422.10, 422.13, 422.16, 422.16B, 422.16C, 422.21, 422.25A, 422D.2](#)

2018 amendments to subsection 1, paragraph b, subparagraph (2), subparagraph division (b), and to subsections 2 and 3, and striking former subsection 2, are effective January 1, 2023, and apply to tax years beginning on or after that date; [2018 Acts, ch 1161, §133, 134](#); [2021 Acts, ch 177, §1](#)

2022 amendments to subsection 2, paragraphs a and b effective January 1, 2023, and apply to tax years beginning on or after that date; [2022 Acts, ch 1002, §12, 17, 18, 25, 28, 29](#)

2022 amendments to subsection 3, paragraphs a and b effective January 1, 2023, and apply to tax years beginning on or after that date; [2022 Acts, ch 1002, §13, 17, 18, 26, 28, 29](#)

2024 amendment to subsection 1, paragraph a applies to tax years beginning on or after January 1, 2025; [2024 Acts, ch 1094, §17](#)

2024 amendment to subsection 2, paragraph b applies to tax years beginning on or after January 1, 2025; [2024 Acts, ch 1094, §17](#)

2024 amendment to subsection 3, paragraph b applies to tax years beginning on or after January 1, 2025; [2024 Acts, ch 1094, §17](#)

2024 strike of former subsection 6 applies to tax years beginning on or after January 1, 2025; [2024 Acts, ch 1094, §17](#)

2024 amendments to subsection 1, paragraph a, subsection 2, paragraph b, and subsection 3, paragraph b, effective January 1, 2025;
2024 Acts, ch 1094, §16

2024 strike of former subsection 6 effective January 1, 2025; [2024 Acts, ch 1094, §16](#)

Subsection 1, paragraph a amended

Subsection 2, paragraph b amended

Subsection 3, paragraph b amended

Subsection 6 stricken and former subsections 7 – 11 renumbered as 6 – 10