

CHAPTER 10 INDIVIDUAL DEVELOPMENT ACCOUNTS

PREAMBLE

Iowa Code chapter 541A creates an investment account called the individual development account (IDA). These rules establish the policies and procedures governing IDAs.

The IDA is a tax-benefited means for an individual whose annual household income does not exceed 200 percent of the federal poverty level to accumulate assets and earnings on assets for long-term purposes. Withdrawal of funds from an individual's IDA is intended to be used for any or all of the following purposes: educational costs at an institution of higher learning, job training costs, purchase of a primary residence, capitalization of a small business start-up, an improvement to a primary residence which increases the tax basis of the property, and emergency medical costs for the account holder or for a member of the account holder's family which is limited to a single withdrawal during the life of the account in an amount not to exceed 10 percent of the account balance at the time of the withdrawal.

Contributions up to \$2,000 made to an account by the individual are eligible for a state savings refund of 15 to 25 percent, based on income status. The refunds are paid by the department of revenue and are deposited directly into the IDA. Individuals and nonprofit organizations may contribute to IDAs. Income earned on assets in an account are not subject to state income taxes.

Adults may transfer account assets to another individual's account without tax or penalty. Transfer of funds from a child's account is prohibited, and withdrawals must be for purposes approved by the operating organization.

During the initial five-year period beginning January 1, 1995, the number of accounts permitted is limited to 10,000.

The department of human services shall administer the IDA program in partnership with local community organizations. The department will issue requests for proposals (RFP) for organizations to design local pilot IDA projects and to assist with the operations of the accounts on behalf of target populations. Within the constraints of these rules and the enabling legislation, the local organizations shall have maximum flexibility to design an IDA project which best suits the needs of their local communities. Review criteria used to select local IDA operating organizations will include: safety and security of the investment mechanism, ability to link individual deposits with other services, performance requirements, matching funding for accounts, innovation and creativity in planning and implementation, reporting, and evaluation plans. The department shall approve the establishment of the local IDA pilot programs through an agreement with the selected operating organizations.

441—10.1(541A) Definitions.

"Account holder" means an individual who is the owner of an individual development account.

"Charitable contributor" means an individual, company or organization which makes a contribution through a nonprofit association described in Section 501(c)(3) of the Internal Revenue Code which makes a deposit to an individual development account and which organization is exempt from taxation under Section 501(a) of the Internal Revenue Code.

"Department" means the Iowa department of human services.

"Federal poverty level" means the poverty income guidelines established annually for a calendar year and published in the Federal Register by the United States Department of Health and Human Services.

"Financial institution" means a financial institution including, but not limited to, banks, savings and loans, or credit unions approved by the department to accept IDAs.

"Household" means the adults related by blood, marriage or adoption, or who are unrelated but have maintained a stable family relationship together over a period of time, and individuals under 18 years of age related to the above adults by marriage, blood or adoption, who are living together. Living together refers to domicile as evidenced by the parties' intent to maintain a home for their family and does not include a temporary visit.

“Individual contributor” means an individual who makes a deposit to an individual development account and is not the account holder or a charitable contributor.

“Individual development account” or *“IDA”* means an investment account which has the characteristics described in Iowa Code section 541A.2 and is operated by the operating organization.

“Operating organization” means an entity selected by the department for involvement in operating individual development accounts directed to the eligible target population.

“Reserve pool” means the state human investment reserve pool under the authority of the department into which are deposited funds for administrative costs to implement the individual development account program.

“Source of principal” means any of the following sources of a deposit:

1. Deposits made by the account holder.
2. Deposits of a savings refund.
3. Deposits of individual development account moneys which are transferred from another individual account holder. The moneys transferred from another individual development account shall be considered to be a deposit of principal made by the account holder.
4. Deposits made on behalf of the account holder by an individual contributor or a charitable contributor.

441—10.2(541A) Establishment of individual development accounts. An investment account qualifies as an individual development account (IDA) when it is established and operates in accordance with the following:

10.2(1) *Operating organization.* The investment account shall be established through an operating organization.

10.2(2) *Account.* The account is opened at a financial institution and kept in the name of an individual account holder.

10.2(3) *Deposits.* Deposits made to an individual development account are also known as sources of principal and shall be made in any of the manners indicated in the definition of “sources of principal” in rule 441—10.1(541A).

10.2(4) *Investment of funds.* The funds deposited in the individual development account may be invested in any investment that the financial institution is authorized to offer to the public.

10.2(5) *Income.* The account earns income.

10.2(6) *Maximum deposits of principal.* The total of all sources of principal in an individual development account may not exceed \$50,000.

10.2(7) *Trusts.* Rescinded IAB 6/3/98, effective 8/1/98.

441—10.3(541A) Reserve pool. A state human investment reserve pool is created in the state treasury under the authority of the department, the administrator of the individual development account (IDA) program. Funds in the reserve pool shall be used by the department for administrative costs in implementing the IDA program. Interest on moneys in the reserve pool shall remain in the reserve pool, and moneys in the reserve pool are not subject to reversion or transfer to the general fund.

441—10.4(541A) Eligibility, savings refunds and state tax provisions.

10.4(1) *Eligibility based on household income level.* Eligibility shall be based on the account holder’s household income for the calendar year preceding the calendar year in which the account will open. The household income shall not exceed 200 percent of the federal poverty level as published in the year for which the household income is based. If an account holder’s household income should exceed 200 percent of the federal poverty level in any subsequent year following the year that the account holder established the account, the account shall remain open, but the account holder shall not be eligible to receive deposits of charitable contributions, the state savings refund, or make a deposit in the account during the year following the year when the household income exceeds 200 percent of the federal poverty level. If the prospective account holder files an income tax return on a fiscal-year basis, the household income must be computed on a calendar-year basis.

10.4(2) Countable income. The household's countable income shall include the Iowa net income as defined in Iowa Code section 422.7 with the following inclusions and exclusions:

- a.* Inclusions to the extent not already included in Iowa net income, as follows:
- (1) Capital gains.
 - (2) Alimony.
 - (3) Child support money.
 - (4) Cash public assistance and relief except property tax relief under Iowa Code chapter 425, property tax relief division.
 - (5) The gross payment amount of any pension or annuity including, but not limited to, railroad retirement benefits.
 - (6) Military retirement and veterans' disability pensions.
 - (7) Interest which is received from local, state or federal government securities.
 - (8) Workers' compensation.
 - (9) The gross amount of disability income or "loss of time" insurance.
- b.* Exclusions, as follows:
- (1) Gifts from nongovernmental sources.
 - (2) Surplus foods, including food stamps.
 - (3) Payments received by an individual under the age of 18 under the federal Social Security Act.
 - (4) Other in-kind relief supplied by a governmental agency.
- c.* In determining income, income shall not be reduced by either a net operating loss carryover or by a capital loss carryover.

10.4(3) Determination of income status and eligibility.

a. In lieu of applying the standards of the definition of "income" in subrule 10.4(2) to determine income status and eligibility of individuals to hold an IDA, the operating organization, at its discretion, may use evidence of the individual's eligibility in the calendar year preceding the calendar year in which the account will open, if applicable, for programs such as the family investment program, food stamps, public housing or rental assistance programs, or the low-income heating and energy assistance program as sufficient for determining initial eligibility to hold an IDA.

b. In order to determine the amount of countable household income of the individual seeking to open an IDA and to maintain household income records on an annual basis, the operating organization shall use any of the following methods or other methods deemed appropriate by the operating organization to obtain accurate income information:

(1) The operating organization shall ask both the individual who wishes to establish an IDA and other members of the individual's household who have filed federal or state income tax returns to furnish a copy of the returns with attached W-2 statements, or to sign a release of information form permitting the operating organization to receive from the Iowa department of revenue summary information indicating the Iowa net income, or to receive a copy of the state income tax return for the specific calendar year used to establish income eligibility to participate in the IDA program and for specified successive calendar years during which the IDA account is open. The operating organization shall protect the confidentiality of this information.

(2) If the individual and members of the individual's household have not filed federal or state income tax returns for the calendar year used to determine eligibility, the operating organization shall ask the individual to provide copies of available financial records of the household to determine the amount of countable income for the calendar year used to determine eligibility.

(3) The operating organization may also ask the individual seeking to hold an IDA to sign a release of information form allowing the operating organization to obtain individual and household income records held by agencies administering the programs mentioned above. The operating organization shall use this information to verify and maintain household income records of individuals seeking to hold an IDA, thereby facilitating the administration of the IDA program. The operating organization shall maintain the confidentiality of this information. Income determinations shall include the amount of the cash assistance provided through the programs referred to above.

(4) If an individual has minimal or no financial records and the operating organization determines that the totality of the individual's circumstances corroborates a credible explanation for the absence of said records, the operating organization may accept a written self-declaration from the individual as sufficient to document initial income eligibility to hold an IDA.

c. The operating organization shall obtain and maintain income information records from the account holder and all members of the account holder's family on a yearly basis to determine continued IDA eligibility.

10.4(4) *Income tax exempt on income earned on principal in an IDA.* Income earned on principal in an individual development account shall be exempt from state income tax even if the account holder's household income is greater than 200 percent of the federal poverty level for the tax year.

10.4(5) *State savings refunds.* The operating organization shall determine the account holder's household income and account deposits on an annual basis for the purpose of computing the state savings refund. On behalf of the account holder, the operating organization shall file a claim by April 30 of the year following the year in which the account holder made deposits into the individual development account with the department for a state savings refund. The claim shall be filed on Form 470-3482, Certification for State Savings Refunds, provided by the department. Based on the claim which the department shall transmit to the department of revenue, the department of revenue shall make a payment of a savings refund on amounts of up to \$2,000 per calendar year that an account holder deposits in the account holder's account. Moneys transferred to an individual development account from another account shall not be considered an account holder deposit for purposes of determining a savings refund. Payment shall be made directly to the account in the most appropriate manner as determined by the department. The state savings refund shall be the indicated percentage of the amount deposited in the calendar year as follows:

a. For an account holder with a household income which is 150 percent or less of the federal poverty level, 25 percent.

b. For an account holder with a household income which is more than 150 percent but less than 175 percent of the federal poverty level, 20 percent.

c. For an account holder with a household income which is 175 percent or more but not more than 200 percent of the federal poverty level, 15 percent.

d. For an account holder with a household income which is more than 200 percent of the federal poverty level, 0 percent.

10.4(6) *Tax implications.* Individual development accounts shall be subject to department of revenue rule 701—40.44(422,541A).

441—10.5(541A) Administration of the initial period.

10.5(1) *Scope of initial period.* During the initial five-year period beginning January 1, 1995, the total number of IDAs shall be limited to 10,000 accounts to Iowans whose household income does not exceed 200 percent of the federal poverty level. Not more than 5,000 new accounts shall be opened in any one calendar year of the period.

10.5(2) *Duties of the department.* The department shall perform, contract out, or delegate to an appropriate entity all of the duties in the administration of IDAs as indicated below. The department shall:

a. Issue requests for proposals (RFP) for operating organizations to be involved with the operation of IDAs on behalf of specific target populations or eligible account holders generally. The RFP shall include Form 470-3483, Memorandum of Agreement, between the department and the operating organization, describing the responsibilities of both parties. The Memorandum of Agreement shall be signed, dated, and enclosed with other application materials by the operating organization when submitting its proposal in response to the RFP. The RFP may include an application for financial grants to provide funding to operating organizations for the administration and growth of IDAs. The application shall be submitted on Form 470-3481, Application Form for Individual Development Accounts (IDA) Incentive Grants. The department shall determine the review criteria used to select

operating organizations based upon criteria indicated in rule 441—10.6(541A) and on any other criteria included in the RFP.

b. Contract for an independent evaluation of the implementation of the individual development accounts. The evaluation shall consider the following: implementation and process used for the implementation, program impact, and financial effectiveness.

441—10.6(541A) Requests for proposals—operation of IDAs.

10.6(1) *Review criteria used to evaluate and select proposals responding to the requests for proposals (RFP).* The department shall evaluate and select proposals submitted by operating organizations in response to the RFP based upon, but not limited to, the following criteria which shall be ongoing responsibilities of the operating organizations:

a. The project shall provide for a safe and secure investment mechanism for the individual development accounts utilizing a financial institution approved by the department.

This provision shall include assurances to contributors that a process is in place to ensure that contributions will be used for approved purposes as indicated in rule 441—10.7(541A).

In addition, upon compliance by the operating organization and financial institution with the requirements of rule 441—10.7(541A), IDA account holders who have transferred funds into another individual's IDA account and any beneficiaries of an IDA account shall sign a waiver of liability form releasing the operating organization and the financial institution from civil liability and responsibility for the wrongful withdrawals of funds by the account holder due to the account holder's false representation of the purpose of the withdrawal, resulting in the loss to the account balance of deposited principal funds, including individual and charitable contributions, transferred funds, and the state savings refund.

b. The proposed project shall have a strong relationship to goals established by other initiatives deemed a priority by the department. These goals include postsecondary education and job training leading to self-sufficiency through employment, small business entrepreneurship, safe and decent housing, and strong and healthy families.

c. The proposed project shall link the making of an account holder's contributions to an individual development account with other services provided by or outcomes identified by the operating organization in the proposal. The proposed project shall include mechanisms for the operating organizations to monitor and enforce the identified outcomes and services.

d. The operating organization shall be capable of performing the project as proposed. Minimum capabilities shall include: an ability to provide financial counseling, familiarity and ability to work with the proposed target population, and a strong record of successful management.

e. The operating organization proposal shall include a commitment to provide a significant amount of matching funds for individual development accounts.

f. The proposal shall include a monitoring and evaluation plan for certifying the proposed project's outcomes.

g. The proposal shall include acceptance by the operating organization that it shall have ongoing responsibility for:

(1) Certifying that an investment account is an individual development account based on its having the characteristics described in Iowa Code section 541A.2.

(2) Certifying annually the income status of individual development account holders for purposes of establishing eligibility to hold an IDA and the amount of contributions to each individual development account by an account holder during the tax year which is eligible for the state savings refund, as provided for in subrule 10.4(5).

(3) Recording annually the contribution amounts made by the account holder, individual and charitable contributors, and the state.

(4) Submitting information regarding individual development accounts and account holders to the department and the department of revenue as requested.

10.6(2) *Additional review criteria in the request for proposals.* The department may issue additional review criteria in the requests for proposals used to evaluate and select proposals by operating organizations for the IDA project, including, but not limited to: ability to network with other agencies

or to form a communitywide consortium of agencies, if desirable, to operate IDAs; ability to form an effective working relationship with banks or other financial institutions; and ability to fund-raise.

10.6(3) Other considerations and guidelines. Other considerations and guidelines in implementing IDAs during the initial period are:

a. The department shall have authority to designate and limit the number of locations where IDA projects shall be implemented, taking into account demographic characteristics and geographic considerations.

b. All eligible IDA account holders are members of the target population. An account holder shall open an IDA only through the auspices of an operating organization.

c. The department may establish criteria for and offer financial grants through an application process to operating organizations previously selected through an IDA RFP process. The application shall be submitted on Form 470-3481, Application Form for Individual Development Accounts (IDA) Incentive Grants.

d. All deposits of funds to and withdrawals of funds from IDA accounts shall be made with the knowledge of the operating organization. A clear and precise audit trail on the movement of funds shall be maintained. All withdrawals of principal shall require a signature of approval from the operating organization.

e. Upon the termination of an operating organization's relationship with the IDA program, the IDA accounts under the management of that operating organization shall terminate, unless, through an agreement between that operating organization and a successor organization, the IDA accounts are managed by a successor operating organization operating in the same geographic area or operating in proximity to that geographic area. The department shall have authority to review and approve the agreement between the two operating organizations.

f. Upon the termination of an operating organization's relationship with the financial institution holding the IDA accounts, the operating organization managing the accounts shall enter into a new agreement with a successor financial institution to hold the accounts and shall arrange for the transfer of the accounts to the new financial institution. The new agreement shall be subject to the department's review and approval.

g. If an account holder moves to another location in the state, which location is not served by the operating organization under whose management the IDA account was established but is served by a different operating organization managing IDA accounts, the original operating organization shall arrange for the transfer of the account to a financial institution which has an agreement with the operating organization serving in the new location where the account holder will reside. If there is no operating organization in the new location where the account holder has moved, the IDA account shall be closed, with funds in the account distributed to the account holder, or the operating organization and the account holder may jointly agree to maintain the account under the management of the existing operating organization and financial institution. The operating organization shall provide a written notification to the department of all transfers of IDA accounts to the management of a new operating organization.

441—10.7(541A) Authorized withdrawals of principal and income.

10.7(1) Approved purposes for withdrawal of funds from an IDA. An account holder shall withdraw principal and income earned on principal from an individual development account with the written approval of the operating organization only for the following approved purposes:

a. Educational costs at an accredited institution of higher education, which costs include, but are not limited to, tuition, laboratory fees or other fees for use of facilities, books and other supplies.

b. Training costs for an accredited or licensed training program, or training program approved by the department, which costs include, but are not limited to, tuition, laboratory fees or other fees for use of facilities, books and other supplies.

c. Purchase of a primary residence.

d. Capitalization of a small business start-up.

e. An improvement to a primary residence which increases the tax basis of the property.

f. Emergency medical costs for the account holder or for a member of the account holder's family. However, a withdrawal for this purpose is limited to once during the life of the account and the amount of the withdrawal shall not exceed 10 percent of the account balance at the time of the withdrawal.

10.7(2) Conditions on withdrawals of principal and income. An account holder may withdraw from the account holder's account the following sums under the following conditions:

a. Any amount of principal or income earned on principal, provided the sum is authorized under subrule 10.7(1) and in accordance with the procedure for authorized withdrawals set forth under subrule 10.7(3).

b. If the account holder is at least 59½ years of age, any amount of principal or income earned on principal, without obtaining the approval of the operating organization.

c. and *d.* Rescinded IAB 6/3/98, effective 8/1/98.

10.7(3) Procedure for deposits by account holders and procedure for authorized withdrawals. All authorized withdrawals shall operate under the following procedure or another procedure agreed upon by the operating organization and financial institution to facilitate authorized withdrawals:

a. The account holder shall fill out and sign a deposit form, provided by the operating organization, indicating the amount and date of a deposit by the account holder into the IDA. The form shall be signed by the financial institution, with copies provided to the account holder and to the operating organization.

b. The account holder shall fill out and sign a withdrawal form, provided by the operating organization, indicating the amount, date, and the purpose of the withdrawal. The form shall then be submitted to the operating organization or its designated agent for approval and signature. The operating organization shall retain a copy.

The withdrawal form shall be presented to the financial institution to implement the electronic transfer of the funds, or issuance of a check, payable to the account of the vendor as payment for an approved purpose for the withdrawal; or, if neither electronic transfer nor check issuance is possible or cost-effective, then the financial institution shall issue a two-party payee check made out to the account holder and to the vendor on behalf of the approved purpose for the withdrawal. If the approved purpose is for capitalization of a small business, the check shall be payable to the account holder's business account at a financial institution and to the vendor requiring payment for providing the service or product relative to the account holder's business.

c. If the operating organization and the financial institution agree to procedures which vary from those indicated in the preceding paragraphs "a" and "b," the agreed-upon procedures shall, at a minimum, meet the following criteria:

(1) All deposits of funds to and withdrawals of funds from IDA accounts shall be made with the knowledge of the operating organization.

(2) A clear and precise audit trail on the movement of funds shall be maintained.

(3) All withdrawals of funds shall require a signature of approval from the operating organization.

d. If withdrawals of funds are made by mistake, the financial institution shall notify the operating organization within five calendar days.

441—10.8(541A) Notice of nonapproved withdrawals and closure of the account.

10.8(1) Nonapproved withdrawals and attempted withdrawals for nonapproved purposes. The financial institution shall notify the operating organization of any withdrawals or attempted withdrawals which appear to be nonapproved. The financial institution shall refuse to release any funds which do not have the written authorization of approval from the operating organization. The operating organization shall review all withdrawals or attempted withdrawals and determine if any particular withdrawal or attempted withdrawal is authorized or not authorized as an approved purpose.

10.8(2) Closure of the individual development account. The operating organization may close an individual development account for any of the following reasons:

a. The account's operating organization determines that the account holder has withdrawn moneys from the account for a purpose not authorized by rule 441—10.7(541A) or that moneys have been withdrawn under false pretenses and have been used for purposes other than for the approved purposes indicated at the time of the withdrawal as stated in rule 441—10.7(541A).

b. The account's operating organization determines there has been no activity in the account during the preceding 12 months.

c. The account's operating organization determines that the account holder has not complied with terms of an IDA participation agreement between the account holder and the operating organization after being provided opportunities to comply with the agreement.

441—10.9(541A) Transfers of assets of an account holder's individual development account.

10.9(1) *Transfers by an adult account holder.* An adult account holder may transfer all or part of the assets in the account to any other account holder's individual development account.

10.9(2) *No transfers of assets owned by an account holder who is not an adult.* An account holder who is less than 18 years of age shall not transfer assets of the account to any other account holder's individual development account. The account holder's guardian or parent shall not transfer assets of the individual development account to any other account holder's individual development account.

10.9(3) *Transfers when the owner of the account dies.* In the event of an account holder's death, the account may be transferred to the ownership of a contingent beneficiary or to the individual development account of another account holder. An account holder shall name contingent beneficiaries or transferees at the time the account is established. A named beneficiary or transferee may be changed at the discretion of the account holder. If the named beneficiary or transferee is deceased or otherwise does not accept the transfer, the moneys shall be transferred to the reserve pool.

These rules are intended to implement Iowa Code chapter 541A.

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