

**701—301.9(422) Special tax computation for all low-income taxpayers except single taxpayers.** For tax years beginning on or after January 1, 1987, a special tax computation is available for determining the state income tax liability for all low-income taxpayers except single taxpayers described in subrule 301.4(1). Under this provision, the taxpayer multiplies the net income for the tax year in excess of \$13,500 for tax years beginning on or after January 1, 1993, by the maximum individual income tax rate. The tax amount computed by this procedure is then compared to the tax amount on the individual's taxable income from the tax tables or the tax-rate schedule. The taxpayer is subject to the lesser of the two tax amounts. In the case of married taxpayers electing to file separate returns or separately on the combined return form, the incomes of both spouses must be considered for purposes of determining the tax liability from the special tax computation. For purposes of this rule, the partial exclusion of pension and other retirement benefits described in rule 701—302.47(422) and the phase-out exclusion for social security benefits described in 701—subrule 302.23(3) must be included in the net income amounts when determining the tax liability from the special tax computation. The tax liability calculated from the special tax computation is allocated between the spouses in the ratio of each spouse's net income to the combined net income of both spouses. In determining the special tax computation for taxpayers who are 65 years of age or older for tax years beginning on or after January 1, 2007, see rule 701—301.15(422).

For example, a married couple's net income in 1987 was \$8,200. The taxpayers elected to file separately on the combined return form for 1987. One spouse had a net income of \$6,000, the second spouse had a net income of \$2,200. There was no federal income tax withheld on the wages earned by either of the taxpayers. The spouse with the net income of \$6,000 had a regular income tax liability of \$105. The spouse with the net income of \$2,200 had a regular income tax liability of \$4. The special tax computation of these taxpayers is shown below:

	Taxpayers' combined net income	\$8,200
	(\$6,000 + \$2,200)	
Less:	Income not subject to special tax	<u>7,500</u>
	Income subject to special tax	700
		<u>× 9.98%</u>
	Special tax liability for 1987	\$ 70

The taxpayers' special tax liability for 1987 was \$70. The special tax is imposed since it is less than the taxpayers' regular tax liability of \$109. This special tax liability is allocated to each spouse on the following basis:

Spouse 1	Spouse 2
$\frac{\$6,000}{\$8,200} \times 70 = \$51$	$\frac{\$2,200}{\$8,200} \times 70 = \$19$

The special tax computation for low-income taxpayers is not available to married taxpayers filing separate state returns or to married taxpayers filing separately on the combined return form in instances where one of the spouses has a net operating loss described in Iowa Code section 422.9, subsection 3, and the spouse elects to carry back or carry forward the net operating loss. Also, the special tax computation for low-income taxpayers is not available if the taxpayer is required to annualize the taxpayer's income as described in rule 701—303.9(422).

This rule is intended to implement Iowa Code section 422.5.

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