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LEGISLATIVE GUIDE

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About the Author:

This Guide was written by Michael Mertens, J.D., University of Tulsa College of Law, 2006. Mr. Mertens has been a Legal Counsel with the Legislative Services Agency since 2011. He staffs the Ways and Means and Economic Growth Committees and drafts legislation in the areas of income, sales and use, and miscellaneous taxation and economic development related to taxation. Mr. Mertens can be reached by telephone at (515) 281-3444 or by e-mail at: michael.mertens@legis.iowa.gov

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STATE TAXATION — INDIVIDUAL INCOME TAX

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I. Purpose

This Legislative Guide endeavors to familiarize the reader with the Iowa individual income tax and serve as a detailed supplement to other Legislative Guides that more generally discuss this tax. As such, this information is intended to update and enhance, but not necessarily supersede, the individual income tax information contained in other Legislative Guides published by the Legal Services Division of the Legislative Services Agency.

Unless otherwise indicated, references in this Legislative Guide to the Iowa Code are to the 2016 Iowa Code. References to the Iowa Administrative Code are current through November 2015.

II. Introduction and Scope of Guide

The Iowa individual income tax is the subject of this Guide. Iowa also has other related taxes measured by income that are outside the purview of this Guide, including the corporate income tax (Iowa Code chapter 422, division III), the franchise tax (Iowa Code chapter 422, division V), and the local government income surtaxes (Iowa Code sections 257.18 through 257.29, 298.2, 298.3, 298.14, and Iowa Code chapter 422D). Information relating to these and other taxes may be found in other Legislative Guides published by the Legal Services Division of the Legislative Services Agency.

A. A Note on the Constitutional Limitations on State Taxation

Like all other state taxes, the individual income tax is shaped and limited by the U.S. Constitution. The Due Process Clause, Commerce Clause, Equal Protection Clause, Privileges and Immunities Clause, Import-Export Clause, Duty-of-Tonnage Clause, Supremacy Clause, Establishment Clause, and the First Amendment all limit the state's power to impose individual income tax. Some of these may be discussed briefly in this Guide, but a detailed discussion of these constitutional limitations may be found in the Legislative Guide entitled *State Taxation: An Overview*.¹

B. A Note on the Taxation of Business Income

A significant portion of the business income earned in Iowa is taxed under the individual income tax. For this reason, it is helpful to understand business entities and the different methods by which they are taxed by the United States and Iowa. For a discussion of these see Part II, Section B of the Legislative Guide entitled *State Taxation: Corporate Income Tax and Franchise Tax*.²

C. A Note on Individual Income Tax Revenues

The individual income tax is a significant source of state revenue. The revenue fluctuates along with the economy. For the most recently completed fiscal year ending June 30, 2015, of the \$7.82 billion in total state net tax revenues, individual income tax net

¹ Available at <https://www.legis.iowa.gov/publications/legalPubs/legisGuides> (last visited October 10, 2015).

² Available at <https://www.legis.iowa.gov/publications/legalPubs/legisGuides> (last visited October 10, 2015).



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revenues were \$3.45 billion or approximately 44 percent of total state net tax revenue. Revenues collected are deposited into the State General Fund.³

III. History and Structure

The Iowa individual income tax was enacted in 1934 and is located in division II of chapter 422 of the Iowa Code.

Section 422.4 of division II sets out the definitions applicable to the division.

Sections 422.5 and 422.6 of division II impose and calculate the individual income tax, and provide for certain exemptions.

Section 422.7 of division II provides for the computation of net income for purposes of the individual income tax.

Section 422.8 of division II provides for the apportionment of net income between Iowa and other states.

Section 422.9 of division II provides for deductions from net income for individuals.

Sections 422.10 through 422.12C of division II provide for tax credits.

Sections 422.12D through 422.12L of division II provide for income tax checkoffs.

Sections 422.12M through 422.31 provide for the administration of the individual income tax.

IV. The Individual Income Tax

A. Application

1. In General

The Iowa individual income tax is imposed on the taxable income of individuals, estates, and trusts (fiduciaries).⁴ The tax applies to every individual or fiduciary with income above a certain threshold amount. A fiduciary is subject to the tax if taxable income is \$600 or more.⁵ Individuals who are under 65 years of age are generally subject to the tax if their combined income exceeds \$13,500 (\$9,000 for a single individual).⁶ Individuals who are at least 65 years of age are generally subject to the

³ Jeff Robinson, Fiscal Services Division, Legislative Services Agency, Twelve-Month Total Net Tax Receipts Through June 30, 2015, available at <https://www.legis.iowa.gov/docs/publications/TT/680552.pdf> (last visited November 5, 2015).

⁴ Iowa Code §§422.5(1)(u1), 422.6. "Individual" means a natural person. Iowa Code §422.4(9). Qualified preneed funeral trusts under IRC §685 are exempt from the income tax. Iowa Code §422.6.

⁵ Iowa Code §422.14. For an explanation of taxable income of a fiduciary, see Part IV, Section B of this Guide.

⁶ Iowa Code §§422.5(3), 422.13(1)(d). An individual being claimed as a dependent by another taxpayer cannot claim this low-income tax exemption if the taxpayers claiming the dependent do not also meet the requirements for the exemption. Iowa Code §422.5(3), (3B). In addition, a dependent is subject to the income tax if that dependent's net income is \$5,000 or more. Iowa Code §422.13(1)(a). It should also be noted that a married couple filing separate returns are subject to the individual income tax even if their combined income does not exceed \$13,500 if one spouse has a net operating loss and elects to carry back or carry forward the loss. Iowa Code §422.5(3). For a discussion of net operating loss, see Part IV, Section B, Subsection 2, of this Guide.



tax if their combined income exceeds \$32,000 (\$24,000 for a single individual).⁷ The income used to determine these threshold amounts for individuals includes the individual's total net income plus any pension or other retirement income otherwise exempt from tax under state law, but excludes military retirement pay.⁸ However, a nonresident or part-year resident whose income exceeds these levels is nonetheless exempt from the tax if his or her net income apportioned to Iowa is less than \$1,000, unless the person is subject to the alternative minimum tax (AMT).⁹

For purposes of calculating, filing, and paying the individual income tax, all taxpayers are classified by their residency status, and individuals are further classified by their filing status.

2. Residency Status

a. Individuals. An individual is classified as a resident, part-year resident, or nonresident. A “resident” is any individual domiciled in Iowa, or any other individual who maintains a permanent place of abode within Iowa.¹⁰ An individual can only have one domicile, and its location is largely a matter of the individual's intention.¹¹ An individual is domiciled in Iowa if he or she intends to permanently reside in Iowa and intends to return to Iowa whenever absent from Iowa.¹² Domicile can be changed by abandoning one's former domicile, actual removal to and physical presence in the new domicile, and a bona fide intention to change and remain in the new domicile permanently and indefinitely.¹³ The Department of Revenue maintains nonexhaustive lists of factors that create a rebuttable presumption for and against being domiciled in Iowa.¹⁴ Maintaining a permanent place of abode in Iowa generally involves spending more than 183 days in Iowa and maintaining some sort of dwelling place in Iowa.¹⁵

A part-year resident is any individual who does not maintain a permanent place of abode in Iowa but was domiciled in Iowa for less than the entire tax year.¹⁶

Any individual who does not meet the resident or part-year resident requirements is classified as a “nonresident.”¹⁷

⁷ Iowa Code §§422.5(3B), 422.13(1)(d). It should be noted that a married couple who both are at least 65 years old and filing separate returns is subject to the individual income tax even if their combined income exceeds \$32,000 if one spouse has a net operating loss and elects to carry back or carry forward the loss. Iowa Code §422.5(3B).

⁸ Iowa Code §422.5(3), (3B), (8).

⁹ Iowa Code §422.13(1)(b), (c); Iowa Admin. Code 701-39.1. For a discussion of the apportionment of income for nonresidents and part-year residents, see Part IV, Section B, Subsection 4, of this Guide. For a discussion of the AMT, see Part IV, Section B, Subsection 3, of this Guide.

¹⁰ Iowa Code §422.4(15).

¹¹ Iowa Admin. Code 701-38.17(2).

¹² Iowa Admin. Code 701-38.17(2).

¹³ Iowa Admin. Code 701-38.17(2). See also *Schmitz v. Iowa Dept. of Revenue*, 822 N.W.2d 744 (Iowa Ct. App. 2012), *Julson v. Julson*, 122 N.W.2d 329 (Iowa 1963).

¹⁴ Iowa Admin. Code 701-38.17(2)(a)-(c).

¹⁵ Iowa Admin. Code 701-38.17(1). Satisfying the 183-day test creates a rebuttable presumption in favor of residency. Other factors considered in determining whether an individual maintains a permanent place of abode in Iowa include the nature of the individual's place of abode, the individual's activities in Iowa, and the individual's intentions with regard to the length and nature of the individual's stay. Iowa Admin. Code 701-38.17(1).

¹⁶ Iowa Admin. Code 701-38.17(2).

¹⁷ Iowa Code §422.4(10).



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b. Fiduciaries. Estates and trusts are categorized according to their situs.¹⁸ The situs of an estate generally follows the residency of its decedent. The situs of a trust varies depending on the type and facts of the trust involved. The situs of a trust created during one's lifetime (inter vivos trust) depends on many circumstances, including but not limited to the residence of the owner or trustees, the location of the trust's principal office or assets, or the location of a court having jurisdiction over the trust.¹⁹ A trust created because of the death of a person (testamentary trust) has a situs in the state of the decedent's residence at the time of death, but can change situs once the jurisdiction of the court in which such trust proceedings are pending is terminated. If the trust remains open after termination, inter vivos trust rules apply.²⁰

An estate or trust with a situs in Iowa is treated similarly to a resident, and an estate or trust with a situs outside of Iowa is treated similarly to a nonresident. A trust that has its situs in Iowa for only part of the year is treated similarly to a part-year resident.²¹

3. Filing Status

Six filing statuses are created under Iowa law for individuals, many of which mirror filing statuses existing under the Internal Revenue Code (IRC):

- **Single** – An individual is considered single if the individual is either unmarried or legally separated under a decree of divorce or separate maintenance, and does not meet the requirements for any other filing status.²²
- **Married couples** – A taxpayer is considered married for tax purposes if on the last day of the tax year the taxpayer is married (unless that person is living apart from his or her spouse and legally separated under a decree of divorce or separate maintenance), widowed but the spouse died during the year, or living together with the spouse in a common law marriage that is recognized by the state where the common law marriage exists. A married couple may choose to file as married filing jointly, married filing separately, or married filing separately on a combined return.²³
 - **Married filing jointly** – A married couple choosing this filing status reports their combined incomes, deductions, exemptions, and credits on one tax return.²⁴
 - **Married filing separately** – A married couple choosing this filing status each report their respective incomes, deductions, exemptions, and credits separately on different tax forms.²⁵

¹⁸ For purposes of taxation, "situs" generally refers to the place where a thing is located which gives rise to sufficient contact with a state to justify in fairness the particular tax. See Black's Law Dictionary 1387 (6th ed. 1990).

¹⁹ Iowa Admin. Code 701-89.3(2).

²⁰ Iowa Admin. Code 701-89.3(1).

²¹ Iowa Admin. Code 701-89.3(3).

²² Iowa Admin. Code 701-39.4(1).

²³ Iowa Admin. Code 701-39.4(2). See Iowa Admin. Code 701-39.4(3) for discussion of common law marriage.

²⁴ Iowa Admin. Code 701-39.4(4).

²⁵ Iowa Admin. Code 701-39.4(6).

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- **Married filing separately on a combined return** – A married couple choosing this filing status each report their respective incomes, deductions, exemptions, and credits separately on the same tax form.²⁶
- **Head of household** – An unmarried individual may choose to file as a head of household if that individual maintains a household that for more than one-half of the tax year is the principal place of abode of a qualifying individual who is a member of the household.²⁷
- **Surviving spouse** – An unmarried individual may choose to file as a surviving spouse if that individual’s spouse died within the last two taxable years and if the individual maintains for the entire tax year a household that is the principal place of abode for a child, adopted child, or stepchild who qualifies as a dependent.²⁸

B. Calculation of Tax

1. Net Income Calculation

The first step in determining the individual income tax is to properly calculate Iowa net income for the tax year. Iowa, like many other states, uses as the basis for the individual income tax the federal adjusted gross income in the case of an individual, and the federal taxable income (without the personal exemption deduction) in the case of a fiduciary.²⁹ Federal adjusted gross income and federal taxable income are essentially an individual’s or fiduciary’s total gross income less certain deductions and exemptions allowed under the Internal Revenue Code (IRC).³⁰ Thus, Iowa conforms to federal definitions of income and adjustments made to income. Iowa continues to follow federal law changes to the IRC by passage of an “IRC update bill.” However, if Iowa does not wish to conform to any particular IRC provision, the General Assembly may enact legislation to decouple from federal law.

a. Subtractions. After determining federal adjusted gross income or federal taxable income, as the case may be, a number of adjustments are made in order to compute Iowa net income by subtracting the following amounts:

- Interest and dividends from federal securities.³¹
- A portion of certain disability income received.³²

²⁶ Iowa Admin. Code 701-39.4(5).

²⁷ Iowa Admin. Code 701-39.4(7); I.R.C. §2(b).

²⁸ Iowa Admin Code 701-39.4(8); I.R.C. §2(a).

²⁹ Iowa Code §§422.4(16), 422.7(u1).

³⁰ These federal deductions and exemptions include but are not limited to certain educator, business, and moving expenses, health savings account contributions, IRA and other qualified plan contributions, alimony, student loan interest, certain tuition and fees, and the domestic production activities deduction.

³¹ Iowa Code §422.7(1). With a few exceptions, states are prohibited from taxing federal securities. 31 U.S.C. §3124. See Iowa Admin. Code 701-40.2 for additional discussion of exemption status relating to federal securities and other government obligations.

³² Iowa Code §422.7(5); Iowa Admin. Code 701-40.22.



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- The increased expensing allowance under IRC §179 that was taken for federal tax purposes for tax years beginning on or after January 1, 2003, but before January 1, 2006, if the taxpayer so elects.³³
- The federal work opportunity credit, alcohol fuel credit, and employer social security credit to the extent these credits increased federal taxable income.³⁴
- For those members of the Iowa General Assembly who do not itemize travel expenses, the per diem amount allowed under the IRC if the legislator lives more than 50 miles away from the State Capitol, or \$50 per day if the legislator lives within 50 miles of the State Capitol.³⁵
- Income included as a result of a sale-leaseback agreement entered into prior to January 1, 1986.³⁶
- Sixty-five percent of wages paid to individuals who were hired for the first time by the taxpayer and who had been convicted of a felony or who were on parole, probation, or work release or, in the case of a small business, who are individuals with a mental or physical disability.³⁷
- Income from certain distressed sales involving the forfeiture of an installment real estate contract, transfer of property in cancellation of a debt, or the exchange of property as a result of actual notice of foreclosure if the taxpayer's debt-to-asset ratio exceeds 90 percent prior to the transaction and net worth at the end of the tax year is less than \$75,000.³⁸
- The loss on the sale or exchange of a regulated investment company held for six months or less to the extent the loss was disallowed for federal tax purposes.³⁹
- Agent Orange settlement proceeds received by a disabled veteran or the beneficiary of a disabled veteran.⁴⁰
- The following net capital gain amounts:
 - Net capital gain from the sale of real property used in a business or from the sale of all or substantially all of the tangible personal property or service of a business. The taxpayer must have held the property or business for at least 10 years, and must have materially participated in the business for at least 10 years unless the qualifying sale is to lineal descendants.⁴¹

³³ Iowa Code §422.7(43); Iowa Admin. Code 701-40.65.

³⁴ Iowa Code §422.7(8), (9), (30).

³⁵ Iowa Code §422.7(10); Iowa Admin. Code 701-40.31.

³⁶ Iowa Code §422.7(11); Iowa Admin. Code 701-53.7. Also referred to as "safe harbor" leases.

³⁷ Iowa Code §422.7(12), (12A); Iowa Admin. Code 701-40.21.

³⁸ Iowa Code §422.7(16); Iowa Admin. Code 701-40.27.

³⁹ Iowa Code §422.7(17); Iowa Admin. Code 701-40.32.

⁴⁰ Iowa Code §422.7(20); Iowa Admin. Code 701-40.35.

⁴¹ Iowa Code §422.7(21)(a); Iowa Admin. Code 701-40.38. It should be noted that the sale of capital stock of a corporation, or of an ownership interest in a partnership, limited liability company, or other entity, is not eligible for this

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- Net capital gain from the sale of breeding, draft, dairy, or sport cattle or horses held for at least 24 months, or from the sale of breeding livestock held for at least 12 months, so long as more than half of the taxpayer's gross income came from farming or ranching.⁴²
- Net capital gain from the sale of timber.⁴³
- Fifty percent of the net capital gain from the sale of certain stock in an Iowa corporation to a qualified Iowa employee stock ownership plan (ESOP) if, upon completion of the transaction, the ESOP owns at least 30 percent of the Iowa corporation.⁴⁴
- Amounts paid by the United States as restitution to Japanese Americans who had been interned by the United States government during World War II.⁴⁵
- Federal Segal AmeriCorps education award payments.⁴⁶
- Pay received from the federal government for military service performed while on active duty status in the armed forces, armed forces military reserve, or the National Guard.⁴⁷
- Payments received for providing unskilled in-home health care services to a relative.⁴⁸
- Contributions, state match payments, and earnings from an individual development account established under Iowa Code chapter 541A by low-income taxpayers.⁴⁹
- Amounts paid for the purchase of health benefits coverage or insurance for the taxpayer or taxpayer's spouse or dependent.⁵⁰
- The sum of the following retirement income:
 - All social security benefits.⁵¹
 - All retirement pay received from the federal government for military service performed in the armed forces, the armed forces military reserve, or

capital gain deduction. See Iowa Admin. Code 701-40.38(3)(i); *Ranniger v. Iowa Dept. of Revenue and Finance*, 746 N.W.2d 267 (Iowa 2008). See also *Lance v. Iowa State Board of Tax Review*, Iowa Ct. of Appeals No. 14-1144 (September 10, 2015) (10-year holding period means 10 years immediately preceding sale).

⁴² Iowa Code §422.7(21)(b), (c); Iowa Admin. Code 701-40.38(4), (5).

⁴³ Iowa Code §422.7(21)(d); Iowa Admin. Code 701-40.38(6).

⁴⁴ Iowa Code §422.7(21)(e); Iowa Admin. Code 701-40.38(10).

⁴⁵ Iowa Code §422.7(22); Iowa Admin. Code 701-40.34.

⁴⁶ Iowa Code §422.7(23); Iowa Admin. Code 701-40.74.

⁴⁷ Iowa Code §422.7(24), (25), (40), (42A); Iowa Admin. Code 701-40.40, 701-40.51, 701-40.61, 701-40.76.

⁴⁸ Iowa Code §422.7(27); Iowa Admin. Code 701-40.43.

⁴⁹ Iowa Code §422.7(28); Iowa Admin. Code 701-40.44.

⁵⁰ Iowa Code §422.7(29); Iowa Admin. Code 701-40.48.

⁵¹ Iowa Code §422.7(13); Iowa Admin. Code 701-40.23.



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- National Guard, including amounts received as survivor benefits pursuant to 10 U.S.C. §1447, et seq.⁵²
- A maximum of \$6,000 (\$12,000 for a married couple) of other retirement income for an individual who is disabled, at least 55 years old, or a surviving spouse or certain other survivor of an eligible individual.⁵³ It is important to note that retirement income related to employment or self-employment in Iowa and received by a nonresident of Iowa is exempt from Iowa income tax to the extent the pay is directly related to the documented retirement of the retiree.⁵⁴
- To the extent not already excluded, the amount of withdrawals from a qualified retirement plan made during the tax year if the individual or individual's spouse is a member of the Iowa National Guard or military reserve and is ordered to active duty.⁵⁵
- Certain contributions to an Iowa Educational Savings Plan Trust or an Iowa ABLE Savings Plan Trust, and any interest and earnings received from such trust.⁵⁶
- Payments received by victims of persecution for racial, ethnic, or religious reasons by Nazi Germany or other Axis powers, including those for labor performed and assets stolen or confiscated.⁵⁷
- The additional first-year depreciation subtraction allowed under IRC §168(k)(4) for qualified property acquired after May 5, 2003, and before January 1, 2005, if the taxpayer so elects.⁵⁸
- Student loan repayments received by a taxpayer serving on active duty in the National Guard, armed forces, or armed forces military reserve.⁵⁹
- Up to \$10,000 of unreimbursed travel expenses, lodging expenses, and lost wages of a living taxpayer who donates one or more human organs to another human being for transplantation.⁶⁰
- Up to \$2,000 for the cost of a clean fuel motor vehicle if the taxpayer was eligible for the alternative motor vehicle credit under IRC §30B.⁶¹

⁵² Iowa Code §422.7(31A), (31B); Iowa Admin. Code 701-40.80.

⁵³ Iowa Code §422.7(31); Iowa Admin. Code 701-40.47. Retirement income includes income from defined benefit or defined contribution plans, annuities, individual retirement accounts (IRAs), plans maintained or contributed to by an employer or by a self-employed person as an employer, and deferred compensation plans.

⁵⁴ Iowa Code §422.8(2)(a); Iowa Admin. Code 701-40.45. States are prohibited from imposing an income tax on retirement income of nonresidents. 4 U.S.C. §114.

⁵⁵ Iowa Code §422.7(38); Iowa Admin. Code 701-40.58. In addition, a penalty for such withdrawals shall not be assessed by the state.

⁵⁶ Iowa Code §422.7(32), (33), (34)(a), (34A); Iowa Admin. Code 701-40.53 (Iowa Educational Savings Plan Trust).

⁵⁷ Iowa Code §422.7(35); Iowa Admin. Code 701-40.55.

⁵⁸ Iowa Code §422.7(39)(b); Iowa Admin. Code 701-40.60.

⁵⁹ Iowa Code §422.7(42); Iowa Admin. Code 701-40.63.

⁶⁰ Iowa Code §422.7(44); Iowa Admin. Code 701-40.66.

⁶¹ Iowa Code §422.7(45); Iowa Admin. Code 701-40.67.

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- The amount of any grant from, or contribution to, the Injured Veterans Grant Program under Iowa Code section 35A.14.⁶²
- Unemployment assistance and travel expenses received from the Veterans Trust Fund.⁶³
- Ordinary or capital gain realized from the involuntary conversion of property due to eminent domain. If the gain is not recognized because the converted property is replaced, then the deduction does not occur until the amount of the gain is subsequently realized.⁶⁴
- Victim compensation awards paid under the Victim Compensation Program, any victim restitution payments received, and any damages awarded by a court, and received by the taxpayer, in a civil action filed by the victim against the offender.⁶⁵
- The amount of any biodiesel production refund provided pursuant to Iowa Code section 423.4, to the extent it was included in federal adjusted gross income.⁶⁶
- Certain payments made to nonresident electric utility workers for emergency response work performed in Iowa or for training received in Iowa.⁶⁷
- For a fiduciary, the amount of administrative expenses not taken or allowed as a deduction in calculating income for federal fiduciary income tax purposes.⁶⁸

b. Additions. Additional adjustments are made in order to compute Iowa net income by adding the following amounts:

- Interest and dividends from securities of foreign, state, and political subdivisions and regulated investment companies to the extent they are exempt from federal income tax and not otherwise exempt from state income tax.⁶⁹
- The gain from the sale of obligations of the state of Iowa and its political subdivisions to the extent they are exempt from federal income tax and not otherwise exempt from state income tax.⁷⁰
- For a fiduciary, any personal exemption deduction taken for federal income tax purposes.⁷¹

⁶² Iowa Code §422.7(46), (47); Iowa Admin. Code 701-40.68. Contributions to the Injured Veterans Grant Program deducted under this provision are not considered charitable contributions deductible as an itemized deduction under Iowa Code section 422.9(2). Iowa Code §422.7(47); Iowa Admin. Code 701-40.68(2).

⁶³ Iowa Code §422.7(46A); Iowa Admin. Code 701-40.75.

⁶⁴ Iowa Code §422.7(49); Iowa Admin. Code 701-40.69.

⁶⁵ Iowa Code §422.7(50); Iowa Admin. Code 701-40.71.

⁶⁶ Iowa Code §422.7(54); Iowa Admin. Code 701-40.77.

⁶⁷ Iowa Code §422.7(57).

⁶⁸ Iowa Code §422.7(58).

⁶⁹ Iowa Code §422.7(2), (17); Iowa Admin. Code 701-40.3, 701-40.32.

⁷⁰ Iowa Code §422.7(36); Iowa Admin. Code 701-40.56.

⁷¹ Individuals, as well as fiduciaries, are allowed certain personal exemption deductions when computing federal income tax. See I.R.C. §§151, 642(b). Iowa disallows these exemption deductions because the state instead provides its own



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- The increased expensing allowance under IRC §179 that was authorized in Public Law No. 111-5, §1202, taken for federal tax purposes for tax years beginning on or after January 1, 2009, but before January 1, 2010.⁷²
- Certain adjustments to gain or loss for property with a basis established prior to January 1, 1934.⁷³
- Certain intangible drilling and development costs described in IRC §57(a)(2).⁷⁴
- The percentage depletion amount with respect to certain oil, gas, or geothermal wells described in IRC §57(a)(1).⁷⁵
- The depreciation taken on a speculative shell building, defined in Iowa Code section 427.1(27), that is owned by a for-profit entity receiving the proper tax exemption, unless the taxpayer is not using the building as a speculative shell building. For state income tax purposes, depreciation is computed and subtracted from federal adjusted gross income as if the building was classified as 15-year property.⁷⁶
- Amounts resulting from a nonqualified withdrawal from, or cancellation of, an Iowa Educational Savings Plan Trust or an Iowa ABLE Savings Plan Trust, to the extent it was previously deducted as a contribution to such plan.⁷⁷
- Additional first-year depreciation subtraction allowed under IRC §168(k) (except for the additional first-year depreciation subtraction allowed under IRC §168(k)(4) for qualified property acquired after May 5, 2003, and before January 1, 2005).⁷⁸

2. Taxable Income Calculation (Deductions)

A number of deductions from net income are provided in order to calculate taxable income. These deductions are very similar to the subtractions provided in calculating net income because they both reduce the amount of income subject to tax. But there are differences between the two. Although the net income subtractions (often called above-the-line deductions) are generally available to all taxpayers, most itemized deductions (often called below-the-line deductions) may only be taken to the extent they exceed, in the aggregate, the standard deduction. Also, several itemized deductions are reduced for certain high-income taxpayers.⁷⁹ Finally, net income subtractions can affect a taxpayer's

personal exemption credit in Iowa Code section 422.12(2)(a). Because the federal personal exemption deduction is used to calculate federal taxable income (the starting point for the Iowa income tax calculation of fiduciaries) it must be added back for Iowa tax purposes.

⁷² Iowa Code §422.7(53); Iowa Admin. Code 701-40.65.

⁷³ Iowa Code §422.7(3).

⁷⁴ Iowa Code §422.7(14); Iowa Admin. Code 701-40.29.

⁷⁵ Iowa Code §422.7(15); Iowa Admin. Code 701-40.30.

⁷⁶ Iowa Code §422.7(26); Iowa Admin. Code 701-40.42.

⁷⁷ Iowa Code §422.7(32)(b), (c), (34)(b), (c); Iowa Admin. Code 701-40.53 (Iowa Educational Savings Plan Trust).

⁷⁸ Iowa Code §422.7(39)(a), (39A), (39B); Iowa Admin. Code 701-40.60.

⁷⁹ Iowa Code §422.9; Iowa Admin. Code 701-41.11.

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tax return filing requirement and alternate tax calculation, whereas standard and itemized deductions generally do not.⁸⁰

a. Taxable Income of an Individual. Individuals may deduct federal income tax paid during the year or, for accrual-basis taxpayers, the amount of federal income tax liability for the tax year, reduced by any refund received.⁸¹ Following this deduction, individuals choose the standard deduction or itemized deductions.⁸²

i. Standard Deduction. The optional statutory standard deduction is \$1,230 for single individuals and married individuals filing separately, and \$3,030 for married couples filing jointly, surviving spouses, and heads of household. Since 1990, the standard deduction amount has been annually increased, or indexed, using the cumulative standard deduction factor computed by the Department of Revenue based upon an inflation indicator.⁸³ This cumulative standard deduction factor cannot cause the standard deduction amount to fall below the statutory deduction amounts.⁸⁴ For tax year 2016, the Iowa standard deduction is \$1,970 for single individuals and married individuals filing separately, and \$4,680 for married couples filing jointly, surviving spouses, and heads of household.⁸⁵

ii. Itemized Deductions. In lieu of the standard deduction, taxpayers may choose itemized deductions. Iowa itemized deductions are generally the same as those allowed under federal law except that no deduction is allowed for Iowa income tax payments,⁸⁶ and the following additional items may be deducted:

- Adoption expenses to the extent they exceed 3 percent of the taxpayer's net income and are not used to calculate the adoption tax credit under Iowa Code section 422.12A.⁸⁷
- Travel expenses for mileage incurred by the taxpayer in voluntary work for a charitable organization, consisting of the amount the state

⁸⁰ The tax return filing requirements and alternate tax are determined using net income, not taxable income. See Part IV, Section A of this Guide for a discussion of tax return filing requirements. See Part IV, Section B, Subsection 3, Subparagraph "c", of this Guide for a discussion of the alternate tax calculation. However, itemized and standard deductions can indirectly affect the filing requirements for nonresidents subject to the AMT because the AMT is calculated using taxable income, which includes such deductions. Iowa Code §§422.5(2), 422.13(1)(c).

⁸¹ Iowa Code §422.9(1), (2)(b); Iowa Admin. Code 701-41.3.

⁸² Where married persons file separately, both must use the optional standard deduction if either elects to use it and both must claim itemized deductions if either elects to claim itemized deductions. Iowa Code §422.9(4).

⁸³ Iowa Code §§422.4(2), 422.9(1), 422.21(5). To calculate the cumulative standard deduction factor, the Department of Revenue uses the annual percentage change in the gross domestic product price deflator computed by the Bureau of Economic Analysis of the United States Department of Commerce.

⁸⁴ Iowa Code §422.4(2).

⁸⁵ Available at <https://tax.iowa.gov/press-release/iowa-department-revenue-announces-interest-rates-standard-deduction-amounts-and-tax> (last visited October 28, 2015).

⁸⁶ Iowa Code §422.9(2)(u1), (a). The list of allowable itemized expenses for federal income tax purposes is long, but the most common types are medical expenses, state and local taxes, mortgage and investment interest, charitable contributions, casualty and theft losses, and unreimbursed business expenses. It is important to note that if a taxpayer subtracts health insurance premium payments from the calculation of Iowa net income as provided in Iowa Code section 422.7(29), the taxpayer is required to recompute the itemized deduction for medical expenses in order to avoid the double deduction of such payments on the Iowa income tax return.

⁸⁷ Iowa Code §422.9(2)(c).



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employee mileage reimbursement exceeds the amount that was deductible for federal income tax purposes.⁸⁸

- Certain dependent care expenses incurred in the taxpayer's home, not to exceed \$5,000.⁸⁹
- The mortgage interest credit under IRC §25 to the extent the credit decreased the amount of mortgage interest deductible on the federal income tax return.⁹⁰
- The state sales and use tax paid during certain tax years if the individual elected to deduct state sales and use taxes in lieu of state income taxes for federal tax purposes.⁹¹

b. Taxable Income of a Fiduciary. Fiduciaries may deduct federal income tax paid during the year, reduced by any federal refund received, and are required to add back any Iowa income tax deducted in computing federal taxable income.⁹² Fiduciaries are not allowed the standard or itemized deductions allowed to individuals under Iowa law, but several deductions are provided under federal law for purposes of calculating a fiduciary's federal taxable income.

c. Net Operating Loss. If a taxpayer's Iowa taxable income is a negative amount, the taxpayer has a net operating loss. This loss may be carried back two tax years or forward for up to 20 years.⁹³ However, the carryback period for net operating losses from farming businesses is five years.⁹⁴ The carryback period is three years if the taxpayer suffers a casualty or theft property loss or if the taxpayer operates a small business or farm in a presidentially declared disaster area.⁹⁵

3. Calculation of Tax

a. Regular Tax. To calculate the regular income tax, multiply Iowa taxable income by the nine statutory regular rates.⁹⁶ The amount of income subject to each of these rates is subject to change each tax year because the amounts are annually increased, or indexed, using the cumulative inflation factor computed by the Department of Revenue based upon an inflation indicator.⁹⁷ This cumulative inflation factor cannot cause the amount of taxable income subject to each rate to fall below the

⁸⁸ Iowa Code §422.9(2)(d).

⁸⁹ Iowa Code §422.9(2)(e).

⁹⁰ Iowa Code §422.9(2)(f).

⁹¹ Iowa Code §422.9(2)(i). At the time of this Guide's publication, this deduction was not available for tax years beginning on or after January 1, 2015. However, the deduction is frequently extended through federal legislation and through the Iowa General Assembly's annual I.R.C. update bill.

⁹² Iowa Code §§422.4(16), 422.9(2)(b).

⁹³ Iowa Code §422.9(3)(a)-(c).

⁹⁴ Iowa Code §422.9(3)(d).

⁹⁵ Iowa Code §422.9(3)(a).

⁹⁶ Iowa Code §422.5(1)(a)-(i).

⁹⁷ Iowa Code §§422.4(1), 422.5(1), 422.21(5). To calculate the cumulative inflation factor, the Department of Revenue uses the annual percentage change in the gross domestic product price deflator computed by the Bureau of Economic Analysis of the United States Department of Commerce.

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statutory amount.⁹⁸ For tax year 2016, the tax rate and income brackets are as follows:⁹⁹

- (1) 0.36 percent on the first \$1,554 of taxable income;
- (2) 0.72 percent on the next \$1,554 of taxable income;
- (3) 2.43 percent on the next \$3,108 of taxable income;
- (4) 4.50 percent on the next \$7,770 of taxable income;
- (5) 6.12 percent on the next \$9,324 of taxable income;
- (6) 6.48 percent on the next \$7,770 of taxable income;
- (7) 6.80 percent on the next \$15,540 of taxable income;
- (8) 7.92 percent on the next \$23,310 of taxable income;
- (9) 8.98 percent on taxable income over \$69,930.

b. Alternative Minimum Tax. The alternative minimum tax (AMT) is devised to ensure that at least a minimum amount of income tax is paid by taxpayers who reap large savings by making use of certain tax deductions and exemptions. In essence, the AMT functions as a recapture mechanism, reclaiming some of the tax breaks primarily available to high-income taxpayers. The AMT is computed using a taxpayer's alternative minimum taxable income (AMTI), which is calculated using a somewhat complex procedure that first adds back certain federal deductions and preference items to taxable income and then subtracts a certain exemption amount depending on the taxpayer's filing status, which exemption amount is reduced by 25 percent of the amount that AMTI exceeds a certain amount depending on the taxpayer's filing status.¹⁰⁰ The AMT is imposed only to the extent that it exceeds the taxpayer's regular tax liability and is computed by multiplying AMTI by a rate of 75 percent of the highest individual tax rate, i.e., 6.70 percent.¹⁰¹ It is important to note that AMT paid in a prior year can be claimed as a tax credit in a later year in which the individual's regular tax exceeds the AMT.¹⁰²

c. Alternate Tax Calculation. In lieu of the regular tax and the AMT, Iowa provides an alternate way of calculating income tax liability for married couples, heads of household, and surviving spouses. This alternate tax calculation involves multiplying the amount of the taxpayer's combined income in excess of \$13,500 (\$32,000 for taxpayers 65 years of age or older) by the highest tax rate, i.e., 8.98

⁹⁸ Iowa Code §422.4(1).

⁹⁹ Available at <https://tax.iowa.gov/press-release/iowa-department-revenue-announces-interest-rates-standard-deduction-amounts-and-tax> (last visited October 28, 2015).

¹⁰⁰ Iowa Code §422.5(2). These deductions and adjustments relate to items like medical and dental expenses, investment interest, certain miscellaneous itemized deductions, state and local taxes, depreciation and amortization, incentive stock options, mining exploration and development costs, long-term contracts, pollution control facilities, adjusted basis, alcohol fuel credit, merchant marine capital construction funds, farming and passive activity losses, and net operating losses. See also I.R.C. §§56-58.

¹⁰¹ Iowa Code §422.5(2)(a).

¹⁰² Iowa Code §422.11B. For more information relating to the minimum tax credit, see Part IV, Section B, Subsection 5, of this Guide.



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percent. The income amount used in this alternate calculation includes the taxpayer's total net income plus any pension or other retirement income otherwise exempt from tax under state law, but excludes military retirement pay.¹⁰³

d. Lump-Sum Distribution Tax. An individual who receives a lump-sum distribution that is separately taxed under an election in IRC §402(e) is subject to an additional Iowa tax equal to 25 percent of the amount of the federal tax.¹⁰⁴ A lump-sum distribution involves the entire distribution of an individual's retirement account as a result of death, the attainment of age 59-1/2, a separation from service, or disability.¹⁰⁵

e. Local Government Income Surtaxes. Local governments may impose a school district income surtax and an emergency medical services income surtax. These surtaxes are imposed on individuals residing within the school district or county, respectively, as a percentage of the individual's income tax liability, and are collected with the individual income tax return.¹⁰⁶ The cumulative surtax rate for a district may not exceed 20 percent of any individual's state income tax liability.¹⁰⁷ For more information regarding the local government surtaxes, see the Legislative Guide entitled *State Taxation — An Overview*, available at <https://www.legis.iowa.gov/publications/legalPubs/legisGuides>.

4. Apportionment of Income

If a taxpayer earns income outside of Iowa, then taxable income must be apportioned between Iowa and the other jurisdictions. Individuals and fiduciaries apportion income in the same manner.¹⁰⁸ Resident and nonresident individuals have historically been treated differently with regard to the apportionment of income because while the state's authority to tax a nonresident's income arises from a connection to specific income-producing activity within the state,¹⁰⁹ the state's authority to tax its residents' income arises from domicile within the state.¹¹⁰ Nevertheless, states may not tax either nonresidents or residents in a way that

¹⁰³ Iowa Code §422.5(3)(b), (3B)(b), (8).

¹⁰⁴ Iowa Code §422.5(8).

¹⁰⁵ See I.R.C. §402(e)(4)(D)(i).

¹⁰⁶ Iowa Code §§257.21, 257.29, 298.2, 422D.2. For purposes of the local government income surtaxes, state tax liability is equal to the individual's income tax less all nonrefundable income tax credits except the Iowa Taxpayers Trust Fund tax credit (discussed in Part IV, Section B, Subsection 5, of this Guide). In light of the U.S. Supreme Court's ruling in *Comptroller of Treasury of Maryland v. Wynne*, 135 S.Ct. 1787 (2015), the Department of Revenue will allow the out-of-state tax credit (discussed in Part IV, Section B, Subsection 4, of this Guide) to be claimed against the local government surtaxes. Prior to that ruling, it was the department's practice to calculate the surtax prior to applying the out-of-state tax credit. See <https://tax.iowa.gov/wynne-decision> (last visited October 29, 2015).

¹⁰⁷ Iowa Code §298.14.

¹⁰⁸ Iowa Code §422.8(3).

¹⁰⁹ See *Shaffer v. Carter*, 252 U.S. 37, 52 (1920), in which the Supreme Court reiterated that a state has the power to levy a tax upon nonresidents "from their property or business within the state, or their occupations carried on therein..."

¹¹⁰ *Oklahoma Tax Comm. v. Chickasaw Nation*, 515 U.S. 450, 463 (1995) (quoting *New York ex. rel. Cohn v. Graves*, 300 U.S. 308, 312-313 (1937)).



discriminates against interstate commerce or leads to double taxation.¹¹¹ Thus, some sort of apportionment of income is required for both types of taxpayers.

a. Residents. Residents are subject to the income tax on their total net income, but are allowed an “out-of-state” tax credit for the amount of income tax paid to another state or foreign country on income derived from sources outside of Iowa.¹¹² In light of the U.S. Supreme Court’s ruling in *Comptroller of Treasury of Maryland v. Wynne*, 135 S.Ct. 1787 (2015), the Department of Revenue will allow residents to also claim this tax credit for income taxes paid to local jurisdictions in other states.¹¹³

The out-of-state tax credit cannot exceed what the amount of Iowa tax would have been on the income that was earned outside of Iowa.¹¹⁴ Also, the amount of out-of-state credit that represents alternative minimum tax paid to another state or foreign country cannot exceed what the amount of Iowa alternative minimum tax would have been on the preference items that were earned outside of Iowa.¹¹⁵

Iowa also allows residents who are owners of an S corporation carrying on business in Iowa and other states to elect to allocate and apportion their S corporation income.¹¹⁶ If such an election is made, the amount subject to Iowa tax is the greater of: 1) the amount of S corporation income allocated and apportioned to Iowa in accordance with the rules for corporate income taxation; or 2) the amount of distributions made from the S corporation’s income for purposes other than the payment of federal income tax upon that income, and upon which Iowa income tax has not previously been paid.¹¹⁷ The S corporation allocation and apportionment is accomplished by the Department of Revenue in the form of an “S corporation apportionment” tax credit calculated on the resident’s income tax return.¹¹⁸ A resident who claims the S corporation apportionment tax credit may not claim an out-of-state

¹¹¹ This was most recently addressed in *Comptroller of Treasury of Maryland v. Wynne*, 135 S.Ct. 1787 (2015), which held that the Commerce Clause applies to resident individuals who are subject to personal income taxes in their state of residence. While the Court acknowledged that the Due Process Clause allows a state to tax all the income of its residents, that taxation may nonetheless violate the Commerce Clause. *Id.* at 1798. In *Wynne*, Maryland counties imposed an income tax on all the income of Maryland residents, but did not provide a tax credit for income taxes paid to other states on income earned in those states. The Court held the Maryland tax scheme violated the Commerce Clause because it caused individuals to pay more total income tax solely because income was earned from interstate activity, and subjected interstate income to the risk of double taxation. *Wynne*, 135 S.Ct. at 1803. Prior to this case it was widely believed that the provision of tax credits to residents for income tax paid in other jurisdictions was a matter of legislative grace, not a constitutional requirement. Additional information on the Due Process Clause and the Commerce Clause may be found in Part II of the Legislative Guide entitled State Taxation — An Overview, available at <https://www.legis.iowa.gov/publications/legalPubs/legisGuides>.

¹¹² Iowa Code §422.8(1); Iowa Admin. Code 701-42.6.

¹¹³ <https://tax.iowa.gov/wynne-decision> (last visited October 29, 2015).

¹¹⁴ Iowa Code §422.8(1).

¹¹⁵ Iowa Code §422.8(4); Iowa Admin. Code 701-42.7(2).

¹¹⁶ Iowa Code §§422.5(1)(j)(2), (2)(d), 422.8(2)(b); Iowa Admin. Code 701-50.1. For a discussion about S corporations, what constitutes carrying on business in multiple states, and the allocation and apportionment of corporation income, see the Legislative Guide entitled State Taxation: Corporate Income Tax and Franchise Tax, available at <https://www.legis.iowa.gov/publications/legalPubs/legisGuides> (last visited October 10, 2014).

¹¹⁷ Iowa Code §422.8(2)(b); Iowa Admin. Code 701-50.3. For the calculation of the amount of an individual’s federal income tax that relates to an S corporation, see Iowa Admin. Code 701-50.5.

¹¹⁸ For more information on how the Department of Revenue calculates this credit, see Iowa tax form IA 134, available at https://tax.iowa.gov/sites/files/idr/forms/1/1241134_0.pdf (last visited October 13, 2014).



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tax credit for the income taxes paid to another state or foreign country on the S corporation income.¹¹⁹ If in a later tax year the resident elects not to claim the S corporation apportionment tax credit, the resident may not claim such tax credit for three additional tax years, unless the Director of Revenue consents to the reelection.¹²⁰

b. Nonresidents. Nonresidents are only subject to the income tax on the amount of net income which is derived from a business, trade, profession, or occupation carried on within Iowa, and on net income from any property, trust, estate, or other source within Iowa.¹²¹ To determine the share that is taxable in Iowa, net income is allocated and apportioned between Iowa and the other jurisdictions.¹²²

Wages and other compensation for personal services rendered in Iowa are usually allocated to Iowa,¹²³ as is income from the sale of real and tangible property located or having a situs in Iowa.¹²⁴ Business income is generally apportioned in the same manner as corporations under the corporate income tax.¹²⁵ Income from annuities, interest on bank deposits and interest-bearing obligations, dividends, and income from other intangible assets is generally not allocated to Iowa unless the income is derived from the use of such intangible asset in Iowa or from a business carried on in Iowa.¹²⁶

Nonresidents are provided a “nonresident/part-year resident” tax credit equal to the percentage of Iowa income tax attributable to the net income not allocated and apportioned to Iowa.¹²⁷ The tax credit is computed by multiplying the tax calculated on the nonresident’s taxable income by the percentage of the taxpayer’s net income not allocated and apportioned to Iowa.¹²⁸

c. Part-Year Residents. Part-year residents are allowed the same “nonresident/part-year resident” tax credit, except that net income is allocated and apportioned differently for purposes of computing the credit.¹²⁹ For the portion of the tax year

¹¹⁹ Iowa Code §422.8(6); Iowa Admin. Code 701-50.7.

¹²⁰ Iowa Code §422.5(1)(j)(2)(a).

¹²¹ Iowa Code §422.8(2)(a).

¹²² Iowa Code §422.8(2).

¹²³ Iowa Admin. Code 701-40.16(2). Special rules exist for apportioning compensation earned by traveling salespersons and certain transportation employees. Iowa Admin. Code 701-40.16(2).

¹²⁴ Iowa Admin. Code 701-40.16(u1), (8).

¹²⁵ See Iowa Admin. Code 701-40.16(3), (4), (5), (7), (10). In addition, for nonresident members of a partnership that derives income from sources in Iowa, such members are taxable only on that portion of their distributive share of the partnership income which derived from sources within Iowa. Iowa Admin. Code 701-40.16(6). For a detailed discussion of the allocation and apportionment of corporation income, see the Legislative Guide entitled *State Taxation: Corporate Income Tax and Franchise Tax*, available at <https://www.legis.iowa.gov/publications/legalPubs/legisGuides> (last visited October 10, 2015).

¹²⁶ Iowa Code §422.8(2)(a); Iowa Admin. Code 701-40.16(5), (7), (9). However, the allocation and apportionment of income from the sale of intangible stock or other ownership interests in business entities can be complex and depends on the type of business entity involved, the use of the ownership interest by the taxpayer, and the business entity’s activities in Iowa. Iowa Admin. Code 701-40.16(9).

¹²⁷ Iowa Code §422.5(1)(j); Iowa Admin. Code 701-42.5.

¹²⁸ Iowa Code §422.5(1)(j)(1). It should be noted that the amount of income tax used to calculate the nonresident/part-year resident tax credit is reduced by the nonrefundable individual exemption tax credits, tuition and textbook tax credits, and the volunteer fire fighter/EMS tax credit.

¹²⁹ Iowa Code §422.5(1)(j); Iowa Admin. Code 701-42.5(2).



during which the individual was an Iowa resident, all income earned or received from any source is allocated to Iowa.¹³⁰ Thus, the percentage of the part-year resident's net income that is not considered Iowa income is usually lower, which results in a smaller tax credit. However, the resident "out-of-state" tax credit may also be claimed by the part-year resident, but only to the extent the income was derived from sources outside of Iowa during the period of the tax year the individual was an Iowa resident.¹³¹

d. Reciprocal Agreements. The Director of Revenue has authority to enter into reciprocal agreements with tax agencies of other states which would exempt income earned by nonresidents from personal services in Iowa if that state exempted Iowa residents from that state's income tax on the same type of income.¹³² Since 2002, the General Assembly and Governor must both approve any new reciprocal agreement. Likewise, approval of the General Assembly and Governor is needed to terminate a reciprocal agreement.¹³³ As of 2014, the only state with which Iowa has a reciprocal agreement is Illinois. Residents of Iowa who earn compensation in Illinois are exempt from Illinois income tax on that income, and residents of Illinois who earn compensation in Iowa are exempt from Iowa income tax on that compensation.¹³⁴

5. Credits

In addition to the apportionment credits discussed above, Iowa law provides several other credits against the individual income tax. Unlike a deduction or exemption, which reduces the amount of income subject to tax, a credit is a direct, dollar-for-dollar reduction in tax. Tax credits can be nonrefundable or refundable, and nontransferable or transferable.

A nonrefundable tax credit reduces tax liability in the tax year for which it is claimed. If the tax credit amount exceeds the taxpayer's tax liability, the remaining tax credit amount is lost or, in some cases, may be carried forward to subsequent tax years and used to reduce tax liability in those years.

A refundable tax credit also reduces tax liability in the tax year for which it is claimed. However, if the tax credit amount exceeds the taxpayer's tax liability, the remaining tax credit amount is not lost, but instead is issued to the taxpayer in the form of a tax refund. In lieu of receiving a refund, a taxpayer frequently has the option to carry forward any remaining tax credit balance to the following tax year.

A nontransferable tax credit may only be claimed by the taxpayer who qualifies for the credit. A transferable tax credit may be claimed by the taxpayer or transferred to another person. Transferable tax credits are usually nonrefundable, but in some instances are refundable. The number of times such tax credits may be transferred, the type of persons eligible to transfer or obtain the credit, and whether or not the transferred amount may be a complete or partial transfer, depends on the unique

¹³⁰ Iowa Admin. Code 701-40.17, 701-42.5(2).

¹³¹ Iowa Admin. Code 701-42.6(3).

¹³² Iowa Code §422.8(5). "Income earned from personal services" includes wages, salaries, commissions, tips, and earned income from other sources. Iowa Code §422.8(5)(a).

¹³³ Iowa Code §422.8(5)(b).

¹³⁴ Iowa Admin. Code 701-38.13(1).



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statutory rules of each transferable credit. However, most transferable tax credits share similar procedural rules for documenting a transfer with the Department of Revenue through the use of certificates and replacement certificates. It is quite common for transferable tax credits to be sold or exchanged on a secondary market, and Iowa law generally provides that any consideration received or paid for such tax credits is not considered taxable income or allowed as a tax deduction for purposes of Iowa income tax.

The Department of Revenue requires taxpayers with multiple tax credits to claim them in a specified order, and generally allows nonrefundable tax credits to be claimed before refundable tax credits.¹³⁵

The Iowa individual income tax is reduced by the following credits:¹³⁶

a. Personal Exemption Credit. The Iowa personal exemption is provided in the form of a credit of \$40 each for the taxpayer and spouse, \$80 for a head of household, an additional \$20 for taxpayers age 65 and over and for the blind, and \$40 for each dependent.¹³⁷ The Iowa personal exemption credit is nonrefundable.

In contrast, for the 2014 tax year, the federal personal exemption is \$3,950 for the taxpayer and each dependent. The federal exemption is taken as a deduction, as opposed to a credit, in calculating the federal tax.¹³⁸

b. Child and Dependent Care Credit. (Effective 1990) The child and dependent care credit is based upon a percentage of the corresponding federal credit granted for certain employment-related expenses of individuals with qualifying dependents. The federal credit is a nonrefundable credit. The state credit is a refundable credit. The following schedule shows the state credit as a percentage of the federal child and dependent care credit allowed on the basis of Iowa net income for the tax year:

If Iowa Net Income Is:	State Credit as Allowable Percentage of Federal Credit:
Less than \$10,000	75 percent
\$10,000 - \$19,999	65 percent
\$20,000 - \$24,999	55 percent
\$25,000 - \$34,999	50 percent
\$35,000 - \$39,999	40 percent
\$40,000 - \$44,999	30 percent
\$45,000 and over	Not eligible for credit

¹³⁵ Iowa Admin. Code 701-42.44.

¹³⁶ For additional information see https://tax.iowa.gov/sites/files/idr/Tax%20Credits%20Users%27%20Manual%202015_0.pdf (last accessed November 2, 2015).

¹³⁷ Iowa Code §422.12(2)(a).

¹³⁸ I.R.C. §151.

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Married persons filing separately must determine the credit based upon combined net income.¹³⁹

c. Earned Income Credit. (Effective 1990) Iowa individual taxpayers are allowed an earned income credit. The credit is equal to 15 percent of the taxpayer's federal earned income credit amount. The state earned income credit is refundable.¹⁴⁰ The federal earned income credit is also a refundable credit.

d. Tuition Tax Credit. (Effective 1987) A school tuition and textbook tax credit is allowed equal to 25 percent of the first \$1,000 paid for each dependent. Books or materials used for or expenses related to extracurricular activities are included in determining the amount of the credit.¹⁴¹

e. Early Childhood Development Tax Credit. (Effective 2006) A taxpayer may claim an early childhood development tax credit equal to 25 percent of the first \$1,000 of early childhood development expenses paid to others for dependents age three through five. The expenses eligible for the credit include books that improve child development, instructional materials required to be used in child development or educational lesson activity, lesson plans and curricula, and child development and educational activities outside of the home. The credit is unavailable to taxpayers with net incomes of \$45,000 or more.¹⁴²

f. Volunteer Fire Fighter/Reserve Peace Officer/Emergency Medical Services Personnel Member Tax Credit. (Effective 2012) Volunteer fire fighters, reserve peace officers, and volunteer emergency medical services personnel members that have met minimum training standards may claim a \$100 nonrefundable tax credit for serving in that capacity during the tax year. Individuals who meet more than one of the qualifications may only claim the tax credit for one position. Taxpayers are required to obtain written statements from appropriate superiors to document the service. If the individual was not in that position for the entire year, the credit is prorated based upon the number of months of service.¹⁴³

g. Claim of Right Tax Credit. If a taxpayer repays in the current tax year certain amounts of income that were subject to tax in a prior year and a tax benefit would be allowed under similar circumstances under IRC §1341, a tax benefit is allowed on the Iowa return. The tax benefit is 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 qualifies as a refundable tax credit on the return for the current year.¹⁴⁴

h. Research Activities Tax Credit. (Effective 1985) Iowa taxpayers are allowed a research activities credit equal to 6.5 percent of the taxpayer's qualified

¹³⁹ Iowa Code §422.12C(1), (3), (4). For tax years beginning on or after January 1, 2015, the credit is computed without regard to whether the federal credit was limited by the taxpayer's tax liability.

¹⁴⁰ Iowa Code §422.12B. See 2013 Iowa Acts, ch. 123, §§70, 71.

¹⁴¹ Iowa Code §422.12(2)(b). See Iowa Admin. Code 701-42.4(3) for examples of extracurricular activities.

¹⁴² Iowa Code §422.12C(2)-(4).

¹⁴³ Iowa Code §422.12(2)(c), (d).

¹⁴⁴ Iowa Code §422.5(11).



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expenditures apportionable to Iowa for increasing research activities. Qualified expenditures in Iowa are generally wages for qualified research services performed in Iowa, the cost of supplies used in conducting qualified research in Iowa, and at least 65 percent of expenses paid by the taxpayer to a person other than an employee of the taxpayer for basic research performed in Iowa. The state also provides an alternative simplified research credit consistent with the federal alternative simplified credit provided in IRC §41(c)(5).¹⁴⁵

Taxpayers approved by the Iowa Economic Development Authority under the High Quality Jobs Program may be eligible for additional research activities credits by claiming the supplemental research credit. The supplemental research credit equals 10 percent for taxpayers with gross revenues of \$20 million or less, and 3 percent for taxpayers with gross revenues exceeding \$20 million. The alternative simplified supplemental research credit, consistent with the federal alternative simplified credit provided in IRC §41(c)(5), also varies based on gross revenue.¹⁴⁶

An additional \$2 million in research activities credit is available for expenses related to the development and deployment of innovative renewable energy generation components manufactured or assembled in Iowa.¹⁴⁷

The research activities credit is refundable.

i. New Jobs Tax Credit. (Effective 1985) A new jobs tax credit is allowed for increasing employment by at least 10 percent by a business under the Industrial New Jobs Training Program in Iowa Code chapter 260E. The credit is equal to 6 percent of the taxable wages paid to employees in new jobs or jobs directly related to new jobs for the taxable year in which the taxpayer elects to take the credit. It is a nonrefundable credit with a 10-year carryforward.¹⁴⁸

j. Historic Preservation and Cultural and Entertainment District Tax Credit. (Effective 2000) A taxpayer may receive a tax credit in an amount equal to 25 percent of the qualified rehabilitation costs¹⁴⁹ incurred in rehabilitating properties that meet the Department of Cultural Affairs' criteria for rehabilitation and that are eligible to be listed on the National Register of Historic Places, historic properties in areas eligible to be designated local historic districts, local landmarks, or barns constructed prior to 1937.¹⁵⁰ In the case of commercial property, rehabilitation costs must equal the lesser of at least \$50,000 or 50 percent of the assessed value of the property, excluding the land, prior to rehabilitation. In the case of all other property, the rehabilitation costs must equal the lesser of at least \$25,000 or 25 percent of the assessed value, excluding the land, prior to rehabilitation.¹⁵¹ In order to receive the credit, the rehabilitation project must be approved by and registered with the Department of

¹⁴⁵ Iowa Code §422.10; I.R.C. §41.

¹⁴⁶ Iowa Code §15.335.

¹⁴⁷ Iowa Code §15.335(1)(b), (c).

¹⁴⁸ Iowa Code §422.11A.

¹⁴⁹ Iowa Code §404A.1(6).

¹⁵⁰ Iowa Code §§404A.1(7)(a), (b), 404A.2, 422.11D.

¹⁵¹ Iowa Code §404A.1(7)(c).



Cultural Affairs, and the eligible taxpayer must enter into and fulfill an agreement for the successful completion of the program's requirements.¹⁵²

The maximum amount of tax credits that may be awarded each fiscal year is \$45 million, except under certain circumstances.¹⁵³ First, for fiscal years beginning on or after July 1, 2016, up to \$4.5 million of unawarded tax credits may be carried forward to the next fiscal year and awarded in that fiscal year.¹⁵⁴ Second, for fiscal years beginning on or after July 1, 2016, tax credit awards that are irrevocably declined on or before June 30 of the next fiscal year may be re-awarded during that same fiscal year.¹⁵⁵ Finally, certain amounts of tax credits reserved but later declined, or available for approval, before July 1, 2014, may be awarded before July 1, 2016.¹⁵⁶

The tax credits are refundable or may be carried forward one year, and are transferable to another person.¹⁵⁷

k. Franchise Tax Credit. (Effective 1997) A franchise tax credit is allowed for shareholders in a financial institution that have elected S corporation status for federal tax purposes. Because Iowa law does not recognize such an election for purposes of the franchise tax, the franchise tax credit is allowed in order to avoid double taxation of income. The credit is based on the taxpayer's pro rata share of the franchise tax paid by the financial institution.¹⁵⁸

l. Alternative Minimum Tax Credit. (Effective 1988) Alternative minimum tax paid in a prior year can be claimed as a tax credit against the taxpayer's regular income tax liability in a subsequent tax year. The credit may only be claimed to the extent that the regular tax is greater than the minimum tax for a tax year. Any remaining credit is carried over to the following tax years.¹⁵⁹

m. E-15 Plus Gasoline Promotion Tax Credit. (Effective 2011) An E-15 plus promotion tax credit is available to retail dealers who sell E-15 plus gasoline, which is gasoline with an ethanol content of at least 15 percent but less than 70 percent. The credit is not allowed for gasoline classified as E-85. For January 1 through May 31 of each calendar year, the tax credit equals 3 cents per gallon. For June 1 through September 15 of each calendar year, the tax credit equals 10 cents per gallon. For September 16 through December 31 of each calendar year, the tax credit equals 3 cents per gallon. A taxpayer may claim this tax credit even if the taxpayer also claims the ethanol promotion tax credit or the E-85 gasoline promotion tax credit on the same ethanol gallonage. The tax credit is refundable or may be carried forward one year. The tax credit is repealed on January 1, 2018.¹⁶⁰

¹⁵² Iowa Code §404A.3.

¹⁵³ Iowa Code §404A.4(1).

¹⁵⁴ Iowa Code §404A.4(3).

¹⁵⁵ Iowa Code §404A.4(2)(a).

¹⁵⁶ Iowa Code §404A.4(2)(b), (c).

¹⁵⁷ Iowa Code §404A.2(3), (5).

¹⁵⁸ Iowa Code §422.11.

¹⁵⁹ Iowa Code §422.11B.

¹⁶⁰ Iowa Code §422.11Y.



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n. Ethanol Promotion Tax Credit. (Effective 2009) An ethanol promotion tax credit is available for retail dealers who sell and dispense ethanol blended gasoline. To receive this tax credit a taxpayer must calculate its biofuel distribution percentage, which is the sum of its total ethanol gallonage plus its total biodiesel gallonage expressed as a percentage of its total gasoline gallonage for the year.

Two tax credit schedules are applicable depending upon whether the taxpayer sells and dispenses more than 200,000 gallons of motor fuel in a year. For a taxpayer who sells and dispenses more than 200,000 gallons of motor fuel in a year, the taxpayer's biofuel threshold percentage begins at 10 percent for calendar year 2009, and increases each year until it reaches 25 percent for calendar years 2019 and 2020. For a taxpayer who sells and dispenses 200,000 gallons or less of motor fuel in a year, the taxpayer's biofuel threshold percentage begins at 6 percent for calendar year 2009, and increases each year until it reaches 25 percent for calendar year 2020.

The ethanol promotion tax credit may be calculated on a companywide or site-by-site basis. For taxpayers who meet the applicable threshold percentage, the credit rate is 8 cents per gallon. For taxpayers who do not meet the applicable threshold percentage, the credit rate is adjusted based on the taxpayer's biofuel percentage disparity. If the taxpayer's disparity equals 2 percent or less, the tax credit rate is 6 cents per gallon. If the taxpayer's disparity equals more than 2 percent but not more than 4 percent, the tax credit rate is 4 cents per gallon. A taxpayer is not eligible for a tax credit if its biofuel threshold percentage disparity is more than 4 percent. A taxpayer may claim this tax credit even if the taxpayer also claims the E-15 plus gasoline promotion tax credit or the E-85 gasoline promotion tax credit on the same ethanol gallonage. The tax credit is refundable or may be carried forward one year. The tax credit is repealed on January 1, 2021.¹⁶¹

o. E-85 Gasoline Promotion Tax Credit. (Effective 2006) An E-85 gasoline promotion tax credit is available to a retail dealer who sells and dispenses E-85 gasoline from motor fuel pumps. E-85 gasoline is gasoline with an ethanol content of at least 70 percent, but not more than 85 percent. The tax credit is calculated using a credit rate of 16 cents per gallon of E-85 gasoline which is sold and dispensed by the taxpayer. A taxpayer may claim the E-85 gasoline promotion tax credit even if the taxpayer also claims the ethanol promotion tax credit or the E-15 plus gasoline promotion tax credit on the same ethanol gallonage. The E-85 gasoline promotion tax credit is refundable or may be carried forward one year. The tax credit is repealed on January 1, 2018.¹⁶²

p. Biodiesel Blended Fuel Tax Credit. (Effective 2006) A biodiesel blended fuel tax credit is available to retail dealers who sell biodiesel blended fuel that includes at least 2 percent biodiesel for calendar year 2012, and at least 5 percent biodiesel for calendar year 2013 and for each subsequent calendar year. The amount of the tax credit for 2012 is 2 cents per gallon if the fuel is at least 2 percent but less than 5 percent biodiesel, and 4.5 cents if it is 5 percent biodiesel or higher. For 2013 and

¹⁶¹ Iowa Code §422.11N.

¹⁶² Iowa Code §422.11O.



beyond, the fuel must be 5 percent biodiesel or higher, and the tax credit is 4.5 cents per gallon. The credit is refundable or may be carried forward one year. The tax credit is repealed January 1, 2018.¹⁶³

q. Equity Investment Tax Credit. (Effective 2002) A tax credit is allowed for 25 percent of the equity investment in the form of cash made in a qualifying business approved by the Iowa Economic Development Authority.¹⁶⁴ The credit is focused on “angel investors” who make investments in start-up companies. A “qualifying business” is one that is principally located in Iowa; is six years old or less; is not a retailer, in real estate, or one that provides health care or otherwise requires a professional license; has a net worth of \$10 million or less; has at least two investors and has equity of at least \$500,000; and is participating in an entrepreneurial assistance program.¹⁶⁵

The maximum amount of tax credits that may be issued per calendar year for investment in any one business is \$500,000.¹⁶⁶ The maximum amount of tax credits that may be issued per calendar year to an individual and his or her spouse or dependent shall not exceed \$100,000 combined.¹⁶⁷ The tax credits are capped at \$2 million per fiscal year.¹⁶⁸

Tax credits claimed against the individual income tax are refundable or may be carried forward one year. Tax credits claimed against all other available taxes are nonrefundable and have a three-year carryforward.¹⁶⁹

r. Investment Tax Credit. (Effective 1994) Investment tax credits are available for eligible businesses participating in the High Quality Jobs Program administered by the Iowa Economic Development Authority. The credit equals 10 percent of the new investment directly related to new jobs created or businesses constructed by eligible businesses. This means cost of machinery, real property and improvements to real property, and base rent paid to a third-party developer for a period not to exceed 10 years. The tax credit is amortized equally over five calendar years, is nonrefundable, and has a seven-year carryforward.¹⁷⁰

s. Innovation Fund Investment Tax Credit. (Effective 2011) An innovation fund investment tax credit equal to 25 percent of a cash investment in a certified innovation fund is available for investments made on or after January 1, 2013. Innovation funds must meet several criteria to be certified by the Iowa Economic Development Authority. The aggregate amount of credits that may be authorized per

¹⁶³ Iowa Code §422.11P.

¹⁶⁴ Iowa Code §§15E.43, 422.11F(1). See also 2015 Iowa Acts (SF510), ch. 138, §§107-128.

¹⁶⁵ Iowa Code §15E.44(2). Entrepreneurial assistance program participation requirement may be waived by the Economic Development Authority. Iowa Code §15E.44(2)(c).

¹⁶⁶ Iowa Code §15E.43(2)(c).

¹⁶⁷ Iowa Code §15E.43(2)(b).

¹⁶⁸ Iowa Code §15.119(2)(d).

¹⁶⁹ Iowa Code §15E.43(1)(d).

¹⁷⁰ Iowa Code §§15.333, 422.11F(2).



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year cannot exceed \$8 million. The credits are nonrefundable, transferrable, and have a five-year carryforward.¹⁷¹

t. Iowa Fund of Funds Tax Credit. (Effective 2002) An Iowa capital investment corporation was created to organize the Iowa Fund of Funds managed by a private venture fund manager. The fund manager makes investments in private seed and venture capital funds which have made a commitment to consider equity investments in businesses located in Iowa. Investors in the Iowa Fund of Funds are guaranteed a certain rate of return. However, a contingent tax credit is allowed for investments made into the Iowa Fund of Funds to the extent the actual rate of return on these investments does not meet the rate of return guaranteed to investors.¹⁷²

Pursuant to litigation and agreements among various interested parties in 2012, the contingent tax credits are capped at \$57 million in the aggregate and are redeemable at a maximum of \$20 million per year.¹⁷³ Legislation was enacted in 2013 to provide for the wind-up and eventual repeal of the Iowa Fund of Funds Program. As a result, the organization of a new fund of funds and the making of new investments by the fund of funds is prohibited. New investments in the fund of funds, the issuance of new credit certificates, and various other acts are prohibited except in limited circumstances.¹⁷⁴

u. Endow Iowa Tax Credit. (Effective 2003) An endow Iowa tax credit is allowed equal to 25 percent of an endowment gift made to an endow Iowa qualified community foundation to be used for charitable purposes. The contribution may not be deducted as a charitable deduction for state tax purposes. The aggregate amount of credits that may be authorized per year cannot exceed \$6 million, and any one taxpayer may not receive a credit greater than \$300,000. Ten percent of the credits are reserved each year for endowment gifts of \$30,000 or less, but they may be distributed to other applicants if demand is insufficient.¹⁷⁵ The credit is nonrefundable and has a five-year carryforward.

v. Wind Energy Production Tax Credit. (Effective 2004) A tax credit is allowed based upon the number of kilowatt-hours of electricity sold or used for on-site consumption by a wind production facility that meets certain energy production requirements and that was originally placed in operation between July 1, 2005, and June 30, 2012. The credit equals the number of kilowatt-hours sold or used times 1 cent. The Iowa Utilities Board must determine the eligibility of the facility for the credit. The maximum amount of nameplate generating capacity in the aggregate for all qualified facilities determined eligible for the credit may not exceed 50 megawatts. An owner of a facility cannot own more than two qualified facilities eligible for the tax

¹⁷¹ Iowa Code §§15.119(2)(e), 15E.52, 422.11Z.

¹⁷² Iowa Code §§15E.61-15E.71, 422.11Q.

¹⁷³ For additional information regarding the Iowa Fund of Funds Program, see the presentation by the Iowa Department of Revenue to the Legislative Tax Expenditure Committee on December 12, 2012, *available at* <https://www.legis.iowa.gov/DOCS/LSA/IntComHand/2013/IHMFM007.pdf> (last visited November 3, 2015). See also Iowa Code §15E.66(1), (5), (7).

¹⁷⁴ 2013 Acts, ch. 140, §§129-132, enacting Iowa Code §15E.72.

¹⁷⁵ Iowa Code §§15E.305, 422.11H.



credit. To be eligible for the tax credit, the facility must be located in a city or county that has enacted an ordinance for the special valuation of wind energy conversion property pursuant to Iowa Code section 427B.26, and must be eligible for such special valuation, or it must receive approval from the board of supervisors or city council. Each qualified facility may receive tax credit certificates for a period of 10 years. The certificates are nonrefundable, have a seven-year carryforward, and may be transferred to other persons.¹⁷⁶

w. Renewable Energy Tax Credit. (Effective 2005) Either a producer or purchaser of renewable energy may apply to the Iowa Utilities Board for a tax credit equal to 1.5 cents per kilowatt-hour of electricity or \$4.50 per million British thermal units of heat for a commercial purpose, methane gas, refuse-derived fuel, or other biogas used to generate electricity; or \$1.44 per 1,000 standard cubic feet of hydrogen fuel produced and sold by an eligible renewable energy facility or used for on-site consumption by the producer.

Upon receipt of an application, the board determines whether or not the facility from which the energy was generated and sold is an eligible renewable energy facility. An eligible renewable energy facility may be a wind energy conversion facility, biogas recovery facility, biomass conversion facility, methane gas recovery facility, solar energy conversion facility, or refuse conversion facility. To be eligible, the facility must meet certain ownership and energy production requirements and must be placed into service in this state on or after July 1, 2005, but before January 1, 2017. The board cannot find as eligible more than an aggregate of 363 megawatts of nameplate generating capacity for wind energy conversion facilities and more than a combined 63 megawatts of nameplate generating capacity and, annually, 167 billion British thermal units of heat for commercial purposes for all other types of facilities. Because of these and other statutory limitations, a waiting list of eligible facilities is maintained in the event additional capacity becomes available.

The board calculates the amount of energy generated and sold by the renewable energy facility and notifies the Department of Revenue of the amount of energy eligible for the tax credit. The department then issues the appropriate tax credit certificates to the applicant. Renewable energy tax credit certificates cannot be issued for renewable energy purchased or produced for on-site consumption after December 31, 2026.

Each renewable energy facility shall receive tax credit certificates for a period of 10 years. The certificates have a seven-year carryforward and may be transferred once to another person. A person who receives a wind energy production tax credit under Iowa Code chapter 476B is not eligible to claim the renewable energy tax credit. A person who is eligible for the renewable energy tax credit is not eligible to receive the solar energy system tax credit under Iowa Code section 422.11L.¹⁷⁷

x. Agricultural Assets Transfer Tax Credit. (Effective 2007) The agricultural assets transfer tax credit is available as part of the Beginning Farmer Tax Credit

¹⁷⁶ Iowa Code §422.11J; Iowa Code ch. 476B.

¹⁷⁷ Iowa Code §422.11J; Iowa Code ch. 476C.



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Program administered by the Iowa Finance Authority to taxpayers who help beginning farmers acquire agricultural assets by lease or rental agreement. Agricultural assets include land, depreciable agricultural property, crops, or livestock.¹⁷⁸ To be eligible, a beginning farmer must be a resident of the state with sufficient farm education, training, or experience, must have access to adequate working capital and production items, must materially participate in farming, and must not maintain or manage an amount of land and assets greater than that necessary to support a beginning farmer.¹⁷⁹

The agreement must be for a period of at least two years but not more than five years and must be based on a cash basis or a commodity-share basis or both. If based on a cash basis, the amount of the credit is 7 percent of the gross amount paid to the taxpayer under the agreement. If based on a commodity-share basis, the amount of the credit is 17 percent of the amount paid to the taxpayer from crops or animals sold. However, if the beginning farmer is a veteran, both percentages are increased by one additional point for one year. The Iowa Finance Authority may elect to use an alternative method to compute a tax credit for a crop-share basis lease based on the average per bushel yield in the same county where the leased land is located by a per bushel state price. The maximum tax credit that may be issued to a taxpayer is \$50,000. The tax credit is nonrefundable and has a 10-year carryforward.¹⁸⁰ Not more than \$8 million in tax credits may be issued per year.¹⁸¹ Several aspects of the tax credit, including the amount of the credit, are scheduled to change on January 1, 2018.¹⁸²

y. Custom Farming Contract Tax Credit. (Effective 2013) The custom farming contract tax credit is available as part of the Beginning Farmer Tax Credit Program administered by the Iowa Finance Authority to taxpayers who contract with a beginning farmer to do custom work related to the production of crops or livestock. The contract must be in writing, cannot exceed 24 months, and cannot be substantially higher or lower than the market rate for similar contracts. The taxpayer must make all management decisions, but the beginning farmer may make day-to-day operational decisions affecting production. The beginning farmer must furnish any necessary equipment and must furnish labor on a regular, continuous, and substantial basis. In addition, the taxpayer and the beginning farmer cannot have a common interest in the land or be related. The credit equals 7 percent of the gross amount paid to the beginning farmer, and is allowed only for the amount paid on a cash basis equaling at least \$1,000 per year. The tax credit is increased by one additional percentage point for one year if the beginning farmer is a veteran. The maximum tax credit that may be issued to a taxpayer is \$50,000. The tax credit has a 10-year carryforward.¹⁸³ Not

¹⁷⁸ Iowa Code §§16.80, 422.11M(1).

¹⁷⁹ Iowa Code §16.79.

¹⁸⁰ Iowa Code §16.80.

¹⁸¹ Iowa Code §16.82.

¹⁸² See 2014 Iowa Acts, ch. 1080, §§122, 125; 2014 Iowa Acts, ch. 1112, §§1-16.

¹⁸³ Iowa Code §§16.81, 422.11M(2).



more than \$4 million in tax credits may be issued per year.¹⁸⁴ The tax credit is repealed on January 1, 2018.¹⁸⁵

z. Charitable Conservation Contribution Tax Credit. (Effective 2008) A tax credit is provided for charitable contributions of real estate for conservation purposes. The amount of the tax credit is equal to 50 percent of the fair market value of an interest in qualified real property located in the state which is conveyed in perpetuity by the taxpayer to a qualified organization as an unconditional charitable donation exclusively for conservation purposes. However, the tax credit cannot exceed \$100,000. “Qualified organization” and “conservation purpose” mean the same as defined in IRC §170(h) except for certain conveyances of open space to fulfill density requirements. The amount of the contribution for which the tax credit is claimed is not deductible in determining taxable income for state tax purposes. The tax credit is nonrefundable and has a 20-year carryforward.¹⁸⁶

aa. Redevelopment Tax Credits. (Effective 2009) Investors who plan to redevelop a grayfield site or brownfield site may apply to the Iowa Economic Development Authority to receive tax credits through the Redevelopment Tax Credits Program.¹⁸⁷ Grayfield sites are those that have infrastructure in place but the property’s current use is outdated. Brownfield sites are those that have potential environmental contamination. Qualifying redevelopment projects are reviewed and scored by the Brownfield Redevelopment Advisory Council and the Economic Development Authority Board, and then qualifying projects may be awarded a tax credit by the Economic Development Authority Board. Tax credit awards may not exceed 12 percent of a qualifying investment in a grayfield site, and 24 percent of a qualifying investment in a brownfield site. However, the maximum credit is 15 percent or 30 percent, respectively, if the project meets certain green development requirements. “Green development” means development that meets or exceeds the sustainable design standards adopted by the State Building Code Commissioner.

Not more than \$10 million in tax credits may be awarded each fiscal year, and of that amount not more than \$1 million may be awarded to any one qualifying redevelopment project.¹⁸⁸

The tax credits are refundable for nonprofit corporations that meet certain criteria, nonrefundable for all other taxpayers, are transferable, and have a five-year carryforward.¹⁸⁹

The tax credit is repealed on June 30, 2021.¹⁹⁰

bb. School Tuition Organization Tax Credit. (Effective 2006) A tax credit is available for voluntary contributions made to a school tuition organization (STO) that is

¹⁸⁴ Iowa Code §16.82.

¹⁸⁵ 2014 Iowa Acts, ch. 1080, §§120, 125.

¹⁸⁶ Iowa Code §422.11W.

¹⁸⁷ Iowa Code §§15.291-15.295, 422.11V.

¹⁸⁸ Iowa Code §§15.119(2)(f), 15.293A(5), (6).

¹⁸⁹ Iowa Code §15.293A(1)(c), (2)(d).

¹⁹⁰ Iowa Code §15.293A(8).



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exempt from federal income tax. The tax credit is equal to a maximum of 65 percent of the amount of the contribution. The contribution may not be deducted as a charitable deduction for state tax purposes or be designated for any particular student. At least 90 percent of its total revenue must be used by the STO to provide tuition grants to “eligible students,” who are defined in statute as members of households that have total annual incomes of not more than three times the federal poverty level. The STO must limit the tuition grants provided to children who reside in Iowa, must provide grants to students at more than one school, and must only provide grants to eligible students. The tuition grants are to be used to allow the eligible students to attend a nonpublic elementary or secondary school located in the state.¹⁹¹

The tax credit is claimed by including a tax credit certificate to the taxpayer’s tax return. An STO is authorized to issue a percentage of the total annual tax credit certificates equal to the ratio that the students served by that STO bears to the total number of students served by all STOs. The tax credit is nonrefundable and has a five-year carryforward.¹⁹²

The total approved tax credits are \$12 million per tax year.¹⁹³ Of this total, the maximum that may be issued to corporations is \$3 million per tax year.¹⁹⁴

cc. Solar Energy System Tax Credit. (Effective 2012) A solar energy system tax credit is available equal to a certain percentage of the federal energy credits related to solar energy provided in IRC §25D and IRC §48.¹⁹⁵

The federal residential energy efficiency property credit is available for solar electric property expenditures and solar water heating property expenditures made on the residence of the taxpayer.¹⁹⁶ The Iowa credit equals 60 percent of the federal credit for installations occurring before January 1, 2016, and 50 percent of the federal credit for installations occurring after January 1, 2016. The credit cannot exceed \$5,000 per separate and distinct installation.¹⁹⁷

The federal energy credit is available for business solar electric, heating, and cooling property and for business equipment using solar energy to illuminate structures using fiber-optic distributed sunlight.¹⁹⁸ The Iowa credit equals 60 percent of the federal credit for installations occurring before January 1, 2016, and 50 percent of the federal credit for installations occurring after January 1, 2016. The credit cannot exceed \$20,000 per separate and distinct installation.¹⁹⁹

Taxpayers who claim this tax credit are not eligible to claim the renewable energy tax credit under Iowa Code chapter 476C. The tax credit is nonrefundable and has a

¹⁹¹ Iowa Code §422.11(1), (2), (6).

¹⁹² Iowa Code §422.11S(3), (7).

¹⁹³ Iowa Code §422.11S(8).

¹⁹⁴ Iowa Code §422.33(28).

¹⁹⁵ Iowa Code §422.11L.

¹⁹⁶ See I.R.C. §§25D(a)(1), (2), 25D(d)(1), (2).

¹⁹⁷ Iowa Code §422.11L(1); 2015 Acts (HF645), ch. 124, §§1, 9, 10.

¹⁹⁸ See I.R.C. §48(a)(3)(A)(i), (ii).

¹⁹⁹ Iowa Code §422.11L(1); 2015 Acts (HF645), ch. 124, §§1, 9, 10.



10-year carryforward. The cumulative amount of credits that may be issued to individuals, and to corporations under Iowa Code section 422.33, subsection 29, cannot exceed \$5 million. Of that amount, at least \$1 million must be reserved for residential solar energy system installation claims. If less than \$1 million is claimed during the year for those installations, the remaining amount may be made available for other claims. Any credit amounts that go unclaimed may be made available for the following year in addition to the annual \$5 million cap.²⁰⁰

These federal credits apply to property placed in service before 2017, so the federal credit and the Iowa credit will be available through the 2016 tax year.²⁰¹

dd. From Farm to Food Donation Tax Credit. (Effective 2013) A tax credit is available for a taxpayer who produces a food commodity and donates it to an Iowa food bank or an Iowa emergency feeding organization. The food must not be damaged, out-of-condition, or unfit for human consumption. The credit equals 15 percent of the value of the food, as established according to the federal guidelines for charitable contributions of food under IRC §170(e)(3)(C), or \$5,000, whichever is less. The contribution may not be deducted as a charitable deduction for state tax purposes. The credit is nonrefundable and has a five-year carryforward.²⁰²

ee. Fuel Tax Credit. (Effective 1975) The fuel tax credit is available for fuel tax paid on the purchase of certain motor fuel or undyed special fuel for use in certain vehicles and is in lieu of the motor fuel tax refund allowed under Iowa Code section 452A.17. The tax credit is refundable or may be carried forward until depleted.²⁰³

ff. Geothermal Heat Pump Tax Credit. (Effective 2012) A geothermal heat pump tax credit is available equal to 20 percent of the federal residential energy efficient property tax credit allowed for geothermal heat pumps provided in IRC §25D(a)(5) for residential property located in Iowa. The credit is nonrefundable with a 10-year carryforward.²⁰⁴

gg. Workforce Housing Investment Tax Credit. (Effective 2014) A workforce housing investment tax credit is available as part of the Workforce Housing Tax Incentives Program administered by the Iowa Economic Development Authority.²⁰⁵ Housing businesses seeking tax credits for a housing project under the program are required to apply to and enter into an agreement with the authority for the completion of the project. The credit cannot exceed 10 percent of the qualifying new investment of the housing project. “Qualifying new investment” means costs that are directly related to the acquisition, repair, rehabilitation, or redevelopment of a housing project in this state, and includes costs that are directly related to new construction of dwelling units if the new construction occurs in a distressed workforce housing community, as

²⁰⁰ Iowa Code §422.11L(2)-(4); 2015 Acts (HF645), ch. 124, §§2, 9, 10.

²⁰¹ See I.R.C. §§25D(g), 48(a)(2)(A)(i)(II), 48(a)(3)(A)(ii).

²⁰² Iowa Code §422.11R; Iowa Code ch. 190B.

²⁰³ Iowa Code §§422.110, 422.111.

²⁰⁴ Iowa Code §422.11I.

²⁰⁵ Iowa Code §§15.351-15.356, 422.11C



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determined by the authority. The credit is nonrefundable with a five-year carryforward, and is transferable.

The maximum aggregate amount of tax incentives (tax credit and sales and use tax refund) that may be awarded for a housing project shall not exceed \$1 million,²⁰⁶ and the maximum amount of tax incentives that may be awarded by the authority under the program in a fiscal year shall not exceed \$20 million.²⁰⁷

hh. Adoption Tax Credit. (Effective 2014) An adoption tax credit is available equal to the amount of qualified adoption expenses incurred by the taxpayer during the year in connection with the adoption of a child in Iowa, not to exceed \$2,500 per adoption. “Qualified adoption expenses” includes medical and hospital expenses of the biological mother which are incident to the child’s birth, welfare agency fees, legal fees, and all other fees and costs which relate to the adoption of a child, but does not include expenses that violate state or federal law. The adoption must be completed by the Department of Human Services, a child-placing agency licensed under Iowa Code chapter 238, an agency complying with the Interstate Compact on Placement of Children in Iowa Code section 232.158, or a person petitioning for an independent placement under Iowa Code chapter 600. The credit is refundable and has a one-year carryforward. Taxpayers who claim itemized deductions (see Part IV, Section B, Subsection 2, of this Guide) are required to reduce that deduction by the amount of expenses used to calculate this credit.²⁰⁸

ii. Iowa Taxpayers Trust Fund Tax Credit. (Effective 2013) An individual (not fiduciaries) who timely files an individual income tax return is allowed a Taxpayers Trust Fund tax credit. The credit amount is calculated each year by the Department of Revenue according to the balance in the Taxpayers Trust Fund created in Iowa Code section 8.57E. The credit is nonrefundable and may only be claimed against the income tax liability remaining after subtracting all other refundable and nonrefundable credits.²⁰⁹

6. Income Tax Checkoffs

A taxpayer with excess tax payments (income tax refund or additional payment remitted with tax return) is allowed to designate \$1 or more to certain income tax checkoffs enacted by the General Assembly. No more than four income tax checkoffs are allowed each year on the individual income tax return.²¹⁰ If four income tax checkoffs are provided on the individual income tax return for two consecutive years, the two checkoffs that receive the least amount of money are automatically repealed.²¹¹ If more than four checkoffs are enacted in one session of the General

²⁰⁶ Iowa Code §15.354(4).

²⁰⁷ Iowa Code §15.119(2)(g).

²⁰⁸ Iowa Code §§422.9(2)(c), 422.12A.

²⁰⁹ Iowa Code §422.11E.

²¹⁰ Iowa Code §422.12E(1).

²¹¹ Iowa Code §422.12E(1).



Assembly, the earliest four enacted checkoffs are included on the individual income tax return and all other checkoffs are automatically repealed.²¹²

For tax year 2015, the four income tax checkoffs on the individual income tax return were the Iowa State Fair Foundation Fund checkoff,²¹³ the Fish and Game Protection Fund checkoff,²¹⁴ the Child Abuse Prevention Program Fund checkoff,²¹⁵ and the joint Veterans Trust Fund and Volunteer Fire Fighter Preparedness Fund checkoff.²¹⁶ The two checkoffs that received the least amount of contributions through March 15, 2015, will be automatically repealed in 2016.

Taxpayers are also allowed to designate \$1.50 of tax liability to the Iowa Election Campaign Fund to finance public elections.²¹⁷ The taxpayer may direct that the contribution go to a particular political party or to all political parties.²¹⁸ This income tax checkoff is not subject to the limitation on the number of checkoffs that may be included on the return.

C. Individual Income Tax Collection

Instead of requiring that income taxes be paid in one lump sum at the close of each tax year, the Iowa income tax system, like the federal income tax system, requires that taxes be collected and paid in periodic installments (often described as “pay-as-you-go”) so that income tax revenues are collected contemporaneously with the earning of income. This is accomplished through income tax withholding and estimated tax payments.

1. Income Tax Withholding

a. In General. Employers and withholding agents are required to withhold income taxes under several situations and deposit those taxes with the Department of Revenue on a quarterly, monthly, or semi-monthly basis depending on the amounts collected.²¹⁹ Withholding tax returns are also due each calendar quarter and on an annual basis.²²⁰ Employers and withholding agents who fail to properly withhold and deposit the required taxes can be held personally responsible for the payment of such taxes.²²¹

b. Withholding on Residents. Employers and withholding agents who pay wages to resident employees are required to deduct and withhold from those wages an amount that will approximate the employee’s annual tax liability for the year.²²² The amount required to be withheld from each employee’s wages is calculated based upon withholding tables prepared by the Department of Revenue and upon the number of

²¹² Iowa Code §422.12E(2).

²¹³ Iowa Code §422.12D.

²¹⁴ Iowa Code §422.12H.

²¹⁵ Iowa Code §422.12K.

²¹⁶ Iowa Code §422.12L.

²¹⁷ Iowa Code §422.12J.

²¹⁸ Iowa Code §§68A.601-68A.609.

²¹⁹ Iowa Code §422.16. See Iowa Code §422.4(3), (19) for the definitions of “employer” and “withholding agent”.

²²⁰ Iowa Code §422.16(2).

²²¹ Iowa Code §422.16(4)-(6), (8).

²²² Iowa Code §422.16(1)(a). See Iowa Code §422.4(18) for the definition of “wages.”



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personal allowances claimed by the employee.²²³ Income tax is also required to be withheld at the rate of 5 percent on certain nonwage income subject to federal withholding tax, including pensions, annuities, and other similar payments; at the rate of 5 percent on gambling winnings above certain threshold amounts; and at the rate of 6 percent on certain supplemental wages (bonuses, commissions, etc.).²²⁴

c. Withholding on Nonresidents. Wages paid to nonresidents working in Iowa are subject to withholding in the same manner as residents.²²⁵ However, nonresidents working in feature film, television, or educational video production, and nonresidents engaged in certain emergency response work or training for an electric utility, are not subject to withholding if the employer receives an exemption from withholding from the Department of Revenue.²²⁶ Iowa gambling winnings are also subject to withholding in the same manner as residents.²²⁷ A nonresident's other nonwage income taxable in Iowa is subject to withholding at a rate of 5 percent, unless the nonresident elects to make estimated tax payments on that income.²²⁸ However, withholding is not required on payments made for certain agricultural commodities or products sold by nonresidents if the withholding agent provides the Department of Revenue information relating to the sales, or on distributions made by certain publicly traded partnerships if the partnership provides certain information relating to the partners to the Department of Revenue.²²⁹

2. Estimated Tax

If a taxpayer's Iowa income tax attributable to income other than wages subject to withholding is reasonably expected to be \$200 or more for the tax year, the taxpayer is required to make payments of estimated tax in quarterly installments.²³⁰ However, farmers and fishermen exempt from the payment of federal estimated tax payments are also exempt from the payment of Iowa estimated tax payments.²³¹ The underpayment of estimated income tax can result in underpayment penalties.²³² The underpayment penalty can be avoided if the current year estimated tax payments equal or exceed the prior year's tax liability, or if the total tax payments equal or exceed 90 percent of the tax on the taxpayer's annualized income.²³³

²²³See the Department of Revenue's withholding tax tables for more information, *available at* <https://tax.iowa.gov/withholding-tax-information-0> (last visited November 2, 2015). See Iowa Admin. Code 701-46.3(2) for a discussion of personal allowances claimed by employees.

²²⁴ Iowa Code §422.16(1)(c)-(e); Iowa Admin. Code 701-46.1, 701-46.2(1).

²²⁵ Iowa Code §422.16(1)(a).

²²⁶ Iowa Code §422.16(1)(b), (f); Iowa Admin. Code 701-46.4(5).

²²⁷ Iowa Code §422.16(1)(d).

²²⁸ Iowa Code §§422.16(12)(a), 422.17; Iowa Admin. Code 701-46.4(1). See Iowa Admin. Code 701-46.4(2) for a noninclusive list of the types of income paid to a nonresident that are subject to Iowa withholding.

²²⁹ Iowa Code §422.16(12)(b), (c); Iowa Admin. Code 701-46.4(6), (8).

²³⁰ Iowa Code §422.16(11); Iowa Admin. Code 701-49.1.

²³¹ Iowa Code §422.16(11)(a). See also Iowa Admin. Code 701-49.2(1)(b) for income tax payment methods for farmers and fishermen. See also I.R.C. §6654(i).

²³² Iowa Admin. Code 701-49.6.

²³³ Iowa Admin. Code 701-49.6(l).



3. Tax Return Filing Dates

Individual and fiduciary income tax returns and any tax owing is due by the last day of the fourth month following the close of the tax year (April 30).²³⁴ Partnerships, limited partnerships, and limited liability companies doing business in Iowa, or deriving income from sources within Iowa, are also required to file an income tax return detailing income and losses, and the names, addresses, and respective shares of the partners.²³⁵

A partnership, limited liability company, S corporation, or trust that has elected under the Internal Revenue Code to have its income taxed directly to the owners and beneficiaries may file a composite return for its nonresident owners and beneficiaries in lieu of having those members file nonresident income tax returns.²³⁶ The composite return may be filed at the election of the company or may be required by the Director of Revenue. When such a composite return is filed, the company filing the return is liable for tax required to be shown on the return.

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²³⁴ Iowa Code §§422.21, 422.24. If at least 90 percent of the tax required to be shown on the return has been paid by the due date and the taxpayer files after the due date, the Department of Revenue will automatically grant a six-month extension to file the return. Iowa Admin. Code 701-39.2(4).

²³⁵ Iowa Code §422.15(2). See also Iowa Admin. Code 701-45.1 through 701-45.4 for rules on partnership returns.

²³⁶ Iowa Code §422.13(5); Iowa Admin. Code 701-48.