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## LEGAL UPDATE

Legal Services Division



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### STATE OF IOWA AND FEDERAL RESPONSE TO COVID-19 — TAXATION

**Purpose.** *Legal updates are prepared by the nonpartisan Legal Services Division of the Legislative Services Agency. A legal update is intended to provide legislators, legislative staff, and other persons interested in legislative matters with summaries of recent meetings, court decisions, Attorney General Opinions, regulatory actions, federal actions, and other occurrences of a legal nature that may be pertinent to the General Assembly's consideration of a topic. Although an update may identify issues for consideration by the General Assembly, it should not be interpreted as advocating any particular course of action.*

**Overview.** This legal update summarizes tax-related actions the state of Iowa and the federal government initiated in response to the COVID-19 outbreak. The update is not a comprehensive description of each action and does not describe all state and federal tax-related actions initiated in response to COVID-19.

#### IOWA RESPONSE

**Tax Returns.** The filing deadlines of certain state tax returns and payments were extended to July 31, 2020, for income, franchise, and moneys and credits taxes due on or after March 19, 2020, and before July 31, 2020. The state tax return and payment deadlines subject to the extension include the following: individual, composite (nonresident partners), partnership, corporate, S corporation, fiduciary, franchise, and moneys and credits taxes. Interest does not accrue against any unpaid taxes that are extended until August 1, 2020. A taxpayer does not accrue late payment or underpayment penalties if the taxpayer complies with the extended filing and payment deadline.

**Iowa Small Business Relief Program.** The Iowa Small Business Relief Program allows a sales tax or withholding tax permit holder to apply to defer the payment of sales or withholding tax due. In reviewing applications, the Department of Revenue considers if the business is in an industry that has suffered an economic loss due to COVID-19, if the business has suffered such a loss, and if the business is in good standing with the Department of Revenue. If the Department of Revenue grants a deferral application, the taxpayer has 60 days after the original due date to pay the sales or withholding tax due without incurring penalties and interest. Interest begins to accrue 61 days after the original due date of the deferred taxes.

**Unemployment Tax Payments.** First quarter unemployment tax payments by certain small-business employers due April 30, 2020, are delayed until the end of the second quarter, July 31, 2020. Employers with 50 or fewer employees and who are in good standing with no delinquencies in quarterly unemployment tax payments are eligible for the program. All eligible employers must file a Quarterly Employers Contribution and Payroll Report electronically by midnight on April 30, 2020, to avoid a late report filing penalty. Unemployment tax payments for the first quarter are due when second quarter payments are due, which is July 31, 2020. Interest and penalties do not accrue on delayed payments for eligible employers but begin to accrue August 1, 2020.

**Unemployment Insurance Claims.** A person laid off due to COVID-19, or who is required to stay home to self-isolate or care for family members due to illness related to COVID-19, is eligible to receive unemployment benefits, provided the person meets all other eligibility requirements. Work search

requirements for unemployed persons have been temporarily waived. Employees who are laid off, or are unable to work for reasons related to COVID-19, are no longer required to use all paid leave prior to being eligible for unemployment insurance benefits. A person collecting unemployment who refuses to return to work is not eligible for unemployment benefits unless the person has tested positive for COVID-19 or does not have access to child care due to COVID-19.

**Property Tax.** The penalty and interest for the late payment of property tax due March 31, 2020, were waived. The property tax payment due but not paid by March 31, 2020, will be classified as delinquent but a March 31, 2020, late payment does not accrue a late penalty and interest charge.

**Board of Review.** The Board of Review in each city and county is authorized to remain in session until June 15, 2020, to review property tax assessment protests. The period for filing a protest with the Board of Review is extended to and includes May 25, 2020 to June 5, 2020.

**Withholding Tax.** For taxpayers who remit withholding tax on a semi-monthly basis, the deposit due date for the period ending March 15, 2020, was extended from March 25, 2020, to April 10, 2020. Interest does not accrue until April 11, 2020, against any unpaid taxes for which the due date was extended. A taxpayer does not accrue late payment or underpayment penalties if the taxpayer complies with the extended payment deadline.

**Estimated Tax Payments.** For individual, corporate, or franchise taxpayers required to make estimated tax installment payments due for tax years that begin in 2020, there is conditional estimated tax underpayment penalty relief for installment payments due on or after April 30, 2020, and before July 31, 2020. A taxpayer who takes advantage of the underpayment penalty relief is required to make up the underpayments in future increased installments. Failure to pay future increased required installments by the specified due date shall be considered an underpayment of estimated taxes for that particular installment.

**Beer Barrel and Wine Gallonage Taxes.** Reporting and remittance of beer barrel and wine gallonage taxes were deferred for the months of February, March, and April 2020. The report and remittance of such taxes for the impacted months are due June 10, 2020. The 10 percent penalty for late filing of the February, March, and April taxes were waived.

**Manufacturing of Hand Sanitizer.** The Alcoholic Beverages Division has taken the position that alcohol manufactured for use as hand sanitizer is not an "alcoholic liquor." Therefore, no regulations need to be waived and there are no additional requirements for Iowa liquor manufacturers and native distilleries.

**Small Business Relief Grants.** The Iowa Department of Economic Authority administered a program that provided grants to small businesses that have been impacted by COVID-19 ranging from \$5,000 to \$25,000. The first phase application period for the program ended on March 31, 2020. However, a second phase of the program was authorized through the federal CARES Act. Grant award notifications began April 23, 2020, and will continue until all funds have been exhausted.

**College Savings Iowa.** Due to the extension of the state tax return filing deadline to July 31, 2020, a participant who makes a contribution on or before July 31, 2020, may elect to have made the contribution on the last day of the preceding calendar year.

**First-Time Homebuyer Savings Account.** Due to the extension of the state tax return filing deadline to July 31, 2020, an account holder who opens up a first-time homebuyer savings account in 2019 must designate the beneficiary of the first-time homebuyer savings account by July 31, 2020, rather than April 30, 2020.

**Tax Sales.** Regulatory provisions were suspended that required a county treasurer to hold a tax sale for any parcel of property which had delinquent taxes, including provisions allowing the county treasurer to collect delinquent taxes by alternative forms of collection including personal judgment.

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## FEDERAL RESPONSE

**Tax Returns.** The filing of federal tax returns and payment deadlines were extended for all taxpayers who file and pay their federal income taxes by April 15, 2020. The affected federal tax return deadlines were extended to July 15, 2020. Penalties and interest do not accrue until July 16, 2020, against any unpaid taxes that were extended.

**Estimated Tax Payments.** Estimated tax payments for tax year 2020 that are due April 15 and June 15 were each extended to July 15, 2020.

### FAMILIES FIRST CORONAVIRUS RESPONSE ACT (FFCRA)

**Sick or Family Leave.** The FFCRA requires certain employers to pay sick or family leave wages to employees who are unable to work or telework due to certain circumstances related to COVID-19. Employers are entitled to a refundable tax credit for the required leave paid, up to specified limits.

### CORONAVIRUS AID, RELIEF, AND ECONOMIC SECURITY ACT (CARES ACT)

**Paycheck Protection Program (PPP).** The PPP is a direct incentive for small businesses with 500 or fewer employees to maintain their employees on the payroll. Businesses in certain industries with more than 500 employees in the aggregate, may also be eligible for the PPP if the business has 500 or fewer employees at one location. Businesses may take out loans up to \$10 million, limited by a formula tied to payroll costs, and may cover employees making up to \$100,000 per year. The loan amounts will be forgiven if 75 percent of the loan proceeds are used to cover payroll costs over an eight-week period after the loan is made, and employee compensation levels are maintained. In addition to payroll costs, loans may be used for interest payments on mortgages, rent, and utilities. If the loan is not forgiven, the fixed rate on the loan is 1 percent, all payments are deferred for six months, and the loan is due two years from issuance.

**Unemployment Compensation.** Temporary unemployment compensation is provided in the amount of \$600 per week to each recipient for up to four months, which is in addition to regular state and federal unemployment insurance benefits. Unemployment benefits were extended to self-employed workers, independent contractors, gig-economy workers, and those with limited work history. If an employer receives a loan under the PPP and places a recipient of the temporary unemployment compensation back on the payroll on a full-time basis, the recipient is no longer eligible to receive the \$600 a week temporary unemployment compensation.

**Employee Retention Credit.** The credit is available to all employers regardless of size. Employers are eligible for a 50 percent refundable payroll tax credit on wages paid up to \$10,000 per employee during 2020. Qualifying wages are based on the average number of employees of a business in 2019. If the employer has 100 or fewer employees on average in 2019, the credit is based on wages paid to all employees, even if the employee is not currently providing services due to the COVID-19 crisis. If the employer has more than 100 employees on average in 2019, then the credit is allowed only for wages paid to employees who did not provide services due to the COVID-19 crisis. The wage calculation may include a portion of the cost of employer-provided health care. The following are not eligible to receive the employee retention credit: state and local governments, self-employed persons, and businesses that participate in the PPP.

**Rebates (Refundable Tax Credit).** Taxpayers receive a \$1,200 refundable tax credit for individuals and \$2,400 for joint taxpayers. Additionally, taxpayers receive an additional \$500 for each dependent child under 17 years of age. The rebates are not taxable income for recipients, because the rebate is a credit against 2020 tax liability and is refundable for taxpayers with no tax liability to offset. The rebate phases out beginning at \$75,000 for single, \$112,500 for head of household, and \$150,000 for joint taxpayers. The rebate amount is reduced by \$5 for each \$100 that a taxpayer's income exceeds the phaseout threshold. The rebate phases out entirely at \$99,000 for single taxpayers with no children and \$198,000

for joint taxpayers with no children. A taxpayer's 2019 or 2018 tax return will be used to calculate the rebate, but taxpayers eligible for a larger rebate based on 2020 income will receive the rebate in the 2020 tax season. Taxpayers with higher incomes in 2020 will see the rebate overpayment forgiven.

**Charitable Contributions.** Taxpayers who do not itemize deductions are allowed, in addition to the standard deduction, a \$300 deduction for charitable gifts on their 2020 federal income tax returns. For taxpayers who do itemize deductions on their federal tax returns, the cap limiting the amount a donor may deduct in charitable gifts in a single year was eliminated for the 2020 tax year. Thus, a donor may fully deduct charitable gifts equal to as much as 100 percent of adjusted gross income for the 2020 tax year.

**Withdrawals from Retirement Accounts.** There were significant changes made relating to withdrawing funds from retirement accounts. First, participants under 59 1/2 years of age are allowed to make a withdrawal up to \$100,000 without incurring the 10 percent early withdrawal penalty if the participant is facing an adverse impact from COVID-19. Withdrawn amounts are taxable over three years, but participants may recontribute the withdrawn funds into their retirement accounts for three years without affecting annual retirement account contribution caps. Eligible retirement accounts include individual retirement accounts, 401(k)s, certain deferred compensation plans, and qualified annuities. Second, required minimum distributions (RMDs) from most retirement accounts are not required for calendar year 2020 for participants who have reached 72 years of age. Additionally, the recent federal SECURE Act increased the age a taxpayer is required to take a RMD from 70 1/2 years of age to 72 years of age. Third, the current retirement plan loan limit is doubled to the lesser of \$100,000 or 100 percent of the participant's vested account balance if the participant is facing COVID-19 challenges.

**Student Loan Payments.** There were two changes made related to student loans. Borrowers on federal payment plans may suspend monthly payments through September 30, 2020, and the interest on the student loan does not accrue through September 30. Additionally, employer payments of student loans on behalf of employees are excluded from the employee's federal taxable income. Employers may contribute up to \$5,250 annually toward an employee's student loans.

**Employer-side Payroll Tax Payments.** Employer-side payroll tax payments (Social Security and Medicare) due between March 27, 2020, and December 31, 2020, may be delayed, with 50 percent of the delayed amount due by December 31, 2021, and the other half due by December 31, 2022.

**Net Operating Loss (NOL).** Corporations may take a NOL earned in 2018, 2019, or 2020 and carry back those losses five years. The NOL limit of 80 percent of taxable income is also suspended, so corporations may use a NOL to fully offset taxable income. The bill also modifies excess loss limitations for non-corporate taxpayers which allows such taxpayers to fully offset taxable income by business losses for the 2018, 2019, and 2020 taxable years, even if losses are not related to COVID-19.

**Excise Tax Applied on Alcohol.** The federal excise tax applied on alcohol used to produce hand sanitizer is temporarily suspended for tax year 2020.

**Aviation Excise Taxes.** Federal aviation excise taxes are suspended until January 1, 2021.

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