

422.35 Net income of corporation — how computed.

The term “*net income*” means the taxable income as properly computed for federal income tax purposes under the Internal Revenue Code, with the following adjustments:

1. Subtract interest and dividends from federal securities.
2. Add interest and dividends from foreign securities, from securities of state and other political subdivisions, and from regulated investment companies exempt from federal income tax under the Internal Revenue Code, except for those securities the interest and dividends from which are exempt from taxation by the state of Iowa as otherwise provided by law, including those set forth in [section 422.7, subsection 2](#).
3. *a.* If the taxpayer is a small business corporation, subtract an amount equal to sixty-five percent of the wages paid to individuals, but not to exceed twenty thousand dollars per individual, named in subparagraphs (1), (2), and (3) who were hired for the first time by the taxpayer during the tax year for work done in this state:
 - (1) An individual with a disability domiciled in this state at the time of the hiring who meets any of the following conditions:
 - (a) Has a physical or mental impairment which substantially limits one or more major life activities.
 - (b) Has a record of that impairment.
 - (c) Is regarded as having that impairment.
 - (2) An individual domiciled in this state at the time of the hiring who meets any of the following conditions:
 - (a) Has been convicted of a felony in this or any other state or the District of Columbia.
 - (b) Is on parole pursuant to [chapter 906](#).
 - (c) Is on probation pursuant to [chapter 907](#), for an offense other than a simple misdemeanor.
 - (d) Is in a work release program pursuant to [chapter 904, subchapter IX](#).
 - (3) An individual, whether or not domiciled in this state at the time of the hiring, who is on parole or probation and to whom the interstate compact for adult offender supervision under [chapter 907B](#) applies.
- b.* This deduction is allowed for the wages paid to the individuals successfully completing a probationary period named in paragraph “*a*”, subparagraphs (1), (2), and (3), during the twelve months following the date of first employment by the taxpayer and shall be deducted in the tax years when paid.
- c.* For purposes of [this subsection](#):
 - (1) “*Physical or mental impairment*” means any physiological disorder or condition, cosmetic disfigurement, or anatomical loss affecting one or more of the body systems or any mental or psychological disorder, including intellectual disability, organic brain syndrome, emotional or mental illness, and specific learning disabilities.
 - (2) (a) “*Small business*” means a profit or nonprofit business, including but not limited to an individual, partnership, corporation, joint venture, association, or cooperative, to which the following apply:
 - (i) It is not an affiliate or subsidiary of a business dominant in its field of operation.
 - (ii) It has either twenty or fewer full-time equivalent positions or not more than the equivalent of three million dollars in annual gross revenues as computed for the preceding fiscal year or as the average of the three preceding fiscal years.
 - (iii) It does not include the practice of a profession.
 - (b) “*Small business*” includes an employee-owned business which has been an employee-owned business for less than three years or which meets the conditions of subparagraph division (a), subparagraph subdivisions (i) through (iii).
- (c) For purposes of this definition, “*dominant in its field of operation*” means having more than twenty full-time equivalent positions and more than three million dollars in annual gross revenues, and “*affiliate or subsidiary of a business dominant in its field of operation*” means a business which is at least twenty percent owned by a business dominant in its field of operation, or by partners, officers, directors, majority stockholders, or their equivalents, of a business dominant in that field of operation.

4. *a.* If the taxpayer is a business corporation and does not qualify for the adjustment under [subsection 3](#), subtract an amount equal to sixty-five percent of the wages paid to individuals, but shall not exceed twenty thousand dollars per individual, named in subparagraphs (1) and (2) who were hired for the first time by the taxpayer during the tax year for work done in this state:

(1) An individual domiciled in this state at the time of the hiring who meets any of the following conditions:

(a) Has been convicted of a felony in this or any other state or the District of Columbia.

(b) Is on parole pursuant to [chapter 906](#).

(c) Is on probation pursuant to [chapter 907](#), for an offense other than a simple misdemeanor.

(d) Is in a work release program pursuant to [chapter 904, subchapter IX](#).

(2) An individual, whether or not domiciled in this state at the time of the hiring, who is on parole or probation and to whom the interstate compact for adult offender supervision under [chapter 907B](#) applies.

b. This deduction is allowed for the wages paid to the individuals successfully completing a probationary period named in paragraph “*a*”, subparagraphs (1) and (2), during the twelve months following the date of first employment by the taxpayer and shall be deducted in the tax years when paid.

c. The department shall develop and distribute information concerning the deduction available for businesses employing persons named in paragraph “*a*”, subparagraphs (1) and (2).

5. *a.* Add any federal net operating loss deduction carried over from a taxable year beginning prior to January 1, 2023.

b. Any Iowa net operating loss carried over from a taxable year beginning prior to January 1, 2023, may be deducted as provided in [section 422.35, subsection 11](#), Code 2018.

6. Subtract the loss on the sale or exchange of a share of a regulated investment company held for six months or less to the extent the loss was disallowed under section 852(b)(4)(B) of the Internal Revenue Code.

7. Add, to the extent it reduced federal taxable income, any amount contributed under section 170 of the Internal Revenue Code to the extent such contribution was made to an organization for the purpose of deposit in the Iowa education savings plan trust established in [chapter 12D](#), and the taxpayer designated that any part of the contribution be used for the direct benefit of any dependent of a shareholder of the taxpayer or any other single beneficiary designated by the taxpayer.

8. Subtract the amount of foreign dividend income, including subpart F income as defined in section 952 of the Internal Revenue Code, based upon the percentage of ownership as set forth in section 243 of the Internal Revenue Code.

9. Subtract, to the extent included, the amount of any biodiesel production refund provided pursuant to [section 423.4](#).

10. Any adjustment subtracted from federal taxable income for an adjustment year pursuant to section 6225 of the Internal Revenue Code and the regulations thereunder shall be added back in computing net income of the partnership and the partners for state tax purposes for the adjustment year.

11. *a.* Section 163(j) of the Internal Revenue Code does not apply in computing net income for state tax purposes. If the taxpayer’s federal taxable income for the tax year was increased or decreased by reason of the application of section 163(j) of the Internal Revenue Code, the taxpayer shall recompute net income for state tax purposes under rules prescribed by the director.

b. For any tax year in which paragraph “*a*” does not apply, a taxpayer shall not be permitted to deduct any amount of interest expense paid or accrued in a previous taxable year that is allowed as a deduction in the current taxable year by reason of the carryforward of disallowed business interest provisions of section 163(j)(2) of the Internal Revenue Code, if either of the following apply:

(1) The interest expense was originally paid or accrued during a tax year in which paragraph “*a*” applied.

(2) The interest expense was originally paid or accrued during a tax year in which the taxpayer was not required to file an Iowa return.

12. Subtract, to the extent included, global intangible low-taxed income under section 951A of the Internal Revenue Code.

13. a. Subtract, to the extent included, the amount of a federal, state, or local grant provided to a communications service provider, if the grant is used to install broadband infrastructure that facilitates broadband service in targeted service areas at or above the download and upload speeds.

b. As used in [this subsection](#), “broadband infrastructure”, “communications service provider”, and “targeted service area” mean the same as defined in [section 8B.1](#), respectively.

14. a. Subtract, to the extent included, the amount of any qualifying COVID-19 grant issued to a business by the economic development authority, the Iowa finance authority, or the department of agriculture and land stewardship.

b. For purposes of [this subsection](#), “qualifying COVID-19 grant” means the same as defined in [section 422.7](#), [subsection 41](#), paragraph “b”.

c. The economic development authority, Iowa finance authority, or the department of agriculture and land stewardship shall notify the department of any COVID-19 grant program that may qualify under [this subsection](#) in the manner and form prescribed by the department.

d. [This subsection](#) is repealed January 1, 2024, and does not apply to tax years beginning on or after that date.

[C35, §6943-f31; C39, §6943.067; C46, 50, 54, 58, 62, 66, 71, 73, 75, 77, 79, 81, §422.35; 81 Acts, ch 132, §8, 9; 82 Acts, ch 1023, §14, 15, 30, 31, ch 1203, §2, ch 1206, §1]

83 Acts, ch 174, §2, 3; 83 Acts, ch 179, §16, 24; 86 Acts, ch 1236, §9; 86 Acts, ch 1238, §20; 86 Acts, ch 1241, §23; 87 Acts, 1st Ex, ch 1, §8 – 11; 89 Acts, ch 175, §3; 89 Acts, ch 225, §20, 21; 90 Acts, ch 1168, §46; 90 Acts, ch 1171, §6; 90 Acts, ch 1195, §2; 90 Acts, ch 1251, §53; 91 Acts, ch 210, §3; 92 Acts, ch 1222, §5, 6; 92 Acts, ch 1225, §2, 5; 94 Acts, ch 1107, §26; 94 Acts, ch 1166, §9, 10, 12; 95 Acts, ch 152, §6, 7; 96 Acts, ch 1129, §113; 97 Acts, ch 135, §8, 9; 98 Acts, ch 1078, §8, 12; 98 Acts, ch 1172, §13, 14; 99 Acts, ch 95, §10 – 13; 2001 Acts, ch 15, §3, 4; 2001 Acts, ch 116, §7, 28; 2001 Acts, 2nd Ex, ch 6, §23 – 26, 37; 2003 Acts, ch 139, §10 – 12; 2004 Acts, ch 1101, §47; 2004 Acts, 1st Ex, ch 1001, §40 – 42; 2005 Acts, ch 2, §3, 4, 6; 2005 Acts, ch 19, §54; 2005 Acts, ch 24, §9 – 11; 2005 Acts, ch 140, §41, 73; 2006 Acts, 1st Ex, ch 1001, §42, 49; 2007 Acts, ch 54, §36; 2007 Acts, ch 162, §8, 13; 2007 Acts, ch 186, §17; 2008 Acts, ch 1011, §8, 9; 2009 Acts, ch 133, §141 – 143; 2009 Acts, ch 135, §4, 5; 2011 Acts, ch 41, §21 – 25; 2011 Acts, ch 113, §58, 60; 2012 Acts, ch 1019, §130; 2012 Acts, ch 1110, §12; 2012 Acts, ch 1136, §35, 39 – 41; 2013 Acts, ch 1, §10 – 12; 2013 Acts, ch 70, §5, 6; 2013 Acts, ch 100, §24, 27; 2015 Acts, ch 1, §10 – 12; 2016 Acts, ch 1107, §4 – 6; 2018 Acts, ch 1161, §94 – 98, 128 – 130, 133, 134; 2019 Acts, ch 4, §1 – 3; 2020 Acts, ch 1062, §94; 2020 Acts, ch 1118, §67, 71, 78, 80 – 82, 101, 103, 104, 119 – 121, 124, 126; 2021 Acts, ch 80, §263, 264; 2021 Acts, ch 86, §30 – 32; 2021 Acts, ch 177, §1, 6 – 8, 53, 54, 56, 57

Referred to in [§422.33](#), [422.61](#)

2018 amendments to unnumbered paragraph 1 and subsection 11, and strike of former subsections 3, 4, 5, 7, 8, 10, 16, 17, 18, 19, 19B, 20, 22, and 24 are effective January 1, 2023, and apply to tax years beginning on or after that date; 2018 Acts, ch 1161, §133, 144; 2021 Acts, ch 177, §1

2018 amendment to former subsection 4, effective January 1, 2019, and applies to tax years beginning on or after that date; 2018 Acts, ch 1161, §97, 98

Former subsections 14 and 15 effective January 1, 2019, and apply to tax years beginning on or after that date; 2018 Acts, ch 1161, §97, 98

2018 amendment to former subsection 19A effective January 1, 2019, and applies to tax years beginning on or after that date; 2018 Acts, ch 1161, §97, 98

2019 amendment to former subsections 14 and 15 takes effect March 15, 2019, and applies retroactively to January 1, 2018, for tax years beginning on or after that date; 2019 Acts, ch 4, §2, 3

For net income exclusion of federal Paycheck Protection Program (PPP) loan forgiveness for certain fiscal-year filers under the federal Recovery Rebates and Coronavirus Aid, Relief, and Economic Security Act; see 2020 Acts, ch 1118, §109

2020 strike of former subsections 14 and 15 applies retroactively to January 1, 2020, for tax years beginning on or after that date; 2020 Acts, ch 1118, §126

Subsection 10 applies to federal adjustments and federal partnership adjustments that have a final determination date after July 1, 2020; 2020 Acts, ch 1118, §71

Subsection 11 applies retroactively to January 1, 2020, and applies to tax years beginning on or after that date; 2020 Acts, ch 1118, §82

Subsection 12 applies retroactively to January 1, 2019, for tax years beginning on or after that date; 2020 Acts, ch 1118, §81

Subsection 13 applies retroactively to January 1, 2019, and applies to tax years beginning on or after that date; 2020 Acts, ch 1118, §104

Subsection 14 applies retroactively to March 23, 2020, for tax years ending on or after that date; 2020 Acts, ch 1118, §121

For the preservation of existing rights to take increased expense allowance deductions under section 179 of the Internal Revenue Code, as amended by Pub. L. No. 115-97, §13101; see 2020 Acts, ch 1118, §125

For business expense deductions using forgiven federal Paycheck Protection Program (PPP) proceeds in computing net income for certain fiscal-year filers under the federal Consolidated Appropriations Act, 2021; see [2021 Acts, ch 177, §9, 10](#)

2021 repeal of former subsection 19A applies retroactively to January 1, 2021, for tax years beginning on or after that date, and for qualified property placed in service on or after that date; 2021 Acts, ch 177, §54

2021 amendment to subsection 10 applies retroactively to July 1, 2020, and applies to federal adjustments and federal partnership adjustments that have a final determination date after July 1, 2020; 2021 Acts, ch 86, §32

2021 repeal of former subsection 27, paragraph b applies retroactively to January 1, 2021, for tax years beginning on or after that date; 2021 Acts, ch 177, §57

2021 amendment to subsection 14 applies retroactively to March 17, 2020, for tax years ending on or after that date; 2021 Acts, ch 177, §8

Unnumbered paragraph 1 amended

Subsections 3 – 5 stricken and former subsections 6 and 6A renumbered as 3 and 4

Subsections 7, 8, and 10 stricken

Subsection 11 stricken, rewritten, and renumbered as 5

Subsections 12 and 13 renumbered as 6 and 7

Subsections 16 – 19, 19B, and 20 stricken and former subsection 21 renumbered as 8

Subsections 22 and 24 stricken and former subsections 25 – 30 renumbered as 9 – 14