
FISCAL UPDATE Article

Fiscal Services Division

November 28, 2022



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CORPORATE INCOME TAX RATE REDUCTION

Corporate Income Tax Rate Reduction. 2022 Iowa Acts, chapter [1002](#), divisions IX and X ([HF 2317](#) — Tax Modifications Act), established a process designed to reduce Iowa corporate income tax rates over a number of tax years. Iowa's existing corporate income tax rate structure taxes the first \$100,000 of taxable corporate income at 5.5%. Corporate income from \$100,001 through \$250,000 is taxed at 9.0%, and corporate income above \$250,000 is taxed at 9.8%. The process established in HF 2317 lowers the top tax rate each tax year following any fiscal year when net corporate income tax receipts (gross corporate income tax receipts minus corporate income tax refunds issued) exceeds \$700.0 million. The potential reduction process starts with tax year (TY) 2023 (tax years beginning on or after January 1, 2023). This potential annual tax rate reduction process continues until Iowa's corporate income tax consists of a single rate of 5.5% on all corporate income subject to the tax.

Rate Reduction Process. Amendments in the Act to Iowa Code section [422.33\(1\)](#) direct the Department of Management, by November 1 of each year following the end of a fiscal year, to determine if the net corporate income tax receipts for the fiscal year preceding the determination date exceeded \$700.0 million.

If the Department of Management determines that net corporate receipts exceeded the \$700.0 million threshold for the just-ended fiscal year, the Department of Revenue is directed to adjust corporate income tax rates for the upcoming tax year. The Department of Revenue is required to calculate a lower top tax rate that, had the calculated lower top tax rate been in effect for tax payments collected during and tax refunds issued in the preceding fiscal year, would have generated \$700.0 million in net corporate income tax revenue.

In calculating the new top tax rate, the Department of Revenue is directed to develop the requisite top rate and then reduce that rate to the next lowest one-tenth of one percent (a rate of 7.9586% calculated to have produced \$700.0 million for the preceding fiscal year would be rounded lower and established at 7.9% for the upcoming tax year). The lowest tax rate allowed under this process is 5.5% (Iowa's current lowest corporate income tax rate).

Fiscal Note. The [Fiscal Note](#) for HF 2317 estimated the corporate income tax rate changes would reduce net General Fund revenue by the following amounts, when compared to revenue projections without the rate reduction law change:

- FY 2023 = \$19.6 million
- FY 2024 = \$79.6 million
- FY 2025 = \$109.8 million
- FY 2026 = \$135.3 million
- FY 2027 = \$182.1 million
- FY 2028 = \$229.4 million

The fiscal estimate was based on the projected FY 2022 net corporate income tax receipts total of \$780.0 million. The analysis projected that Iowa's top corporate income tax rate for TY 2023 would equal 8.9% and by TY 2028, the top rate would be reduced to 7.2%.

On September 27, 2022, Governor Reynolds [announced](#) that actual net corporate income tax receipts for FY 2022 exceeded \$850.0 million, more than \$150.0 million in excess of the \$700.0 million threshold. The announcement further stated that for TY 2023, the top Iowa corporate income tax rate would equal 8.4%. Also on September 27, 2022, the Department of Revenue issued [Order 2022-03](#), certifying that Iowa corporate income tax rates for tax years beginning on or after January 1, 2023, would equal 5.5% for income of up to \$100,000, and 8.4% for income in excess of that amount. The new top tax rate was based on a determination by the Department of Management that FY 2023 net corporate income tax receipts totaled \$860.2 million. This amount was \$80.2 million higher than the level used in preparing the **Fiscal Note** for HF 2317.

New Fiscal Estimate. At the request of the Administrative Rules Committee and the Legislative Services Agency, the Department of Revenue produced a revised estimate of the impact of the corporate income tax rate reduction provisions of HF 2317, given the actual level of net receipts received in FY 2022 and the announced top TY 2023 corporate income tax rate of 8.4%. The new projections call for a higher tax revenue reduction than projected in the **Fiscal Note**. The additional tax reduction for the first three fiscal years combined totals \$105.9 million. For each of those first three years, the projected tax reduction was increased by:

- FY 2023 = \$3.5 million
- FY 2024 = \$24.3 million
- FY 2025 = \$78.1 million

More Information. In addition to the documents linked within this **Fiscal Update Article**, additional documents related to this issue are available from the LSA upon request:

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Doc ID 1313006