

Fiscal TOPICS

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Iowa Income Tax

Iowa individual income is taxed under the authority of [Iowa Code division II, chapter 422](#), and the tax was first enacted in 1934 with a minimum marginal rate of 1.0% and a maximum rate of 5.0% (HF 1 - Income, Corporation, and Sales Tax Act). The current tax rates were set in HF 388 (Individual Income Tax Rates Act of 1998) and are applied to nine income brackets ranging from an initial rate of 0.36% and a maximum rate of 8.98%. The nine income brackets are adjusted each year by the Department of Revenue based on an inflation calculation. For the 2014 tax year, the maximum marginal tax rate applies to taxable income above \$68,175.

The individual income tax is imposed on the Iowa income of individuals, estates, and trusts. Married filers with a combined net income of less than \$13,500 (\$9,000 for single taxpayers) are not generally required to pay Iowa income tax or file an Iowa income tax return. This "filing threshold" does not apply to taxpayers claimed as dependents on another tax return.

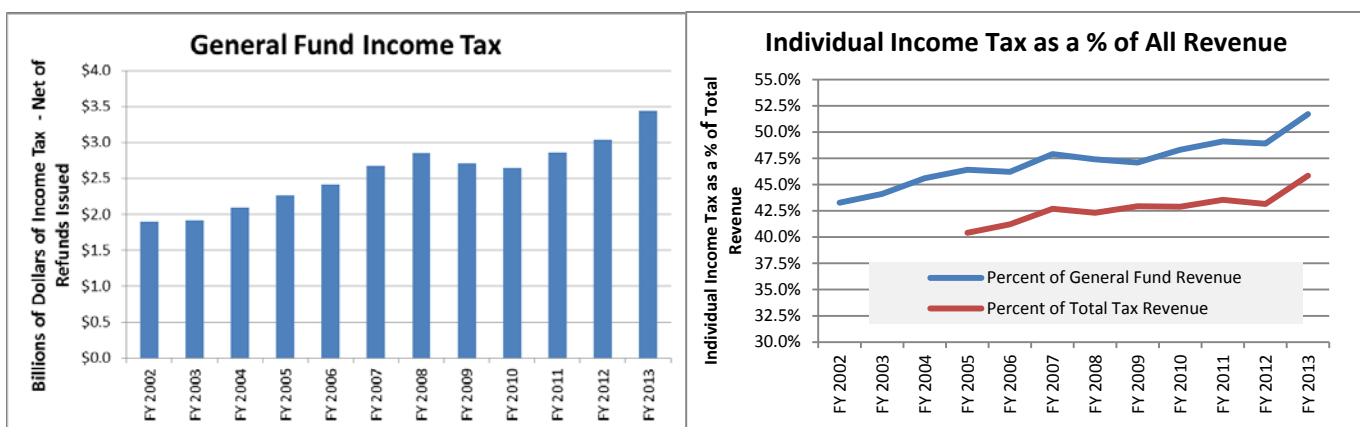
Iowa uses federal adjusted gross income as the initial point for income tax calculation. Iowa taxpayers deduct 100.0% of federal income tax paid when calculating taxable income. Iowa also provides for numerous other income tax exemptions, such as exemptions for all or a portion of Social Security and pension income, as well as certain types of capital gains income. There are also tax credits that may provide a reduction in individual income tax if the taxpayer qualifies. For a list of income tax credits please see the "More Information" section below.

The chart on the left below depicts Iowa income tax revenue for FY 2002 through FY 2013. Net revenue from the Iowa individual income tax totaled \$3.451 billion in FY 2013. In calendar year 2012, Iowans recorded \$129.503 billion in personal income,ⁱ so the state individual income tax equaled 2.7% of Iowa personal income.

The chart on the right below depicts net Iowa individual income tax revenue as a percent of net General Fund revenue, and as a percent of all Iowa tax revenue. For FY 2013, as a percent of total General Fund revenue and as a percent of total State tax revenue, individual income tax, net of tax refunds issued, represents:

- 50.1% of net General Fund revenue (fiscal year basis, excludes transfer revenue)
- 45.9% of all net State tax revenue (cash year basis, July through June)ⁱⁱ

Note that the preceding statistics do not include the local option income surtax for schools (approximately \$103.0 million) or the withholding tax that is deposited to nonstate funds under several economic development programs.ⁱⁱⁱ The total withholding tax diverted through the three programs in FY 2013 is estimated to be \$46.1 million.



More Information

Department of Revenue Tax Credit List: <http://www.iowa.gov/tax/taxlaw/Taxcredits.pdf>

Iowa General Assembly: <https://www.legis.iowa.gov/index.aspx>

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Iowa Income Tax Rate History

The following chart provides a history of Iowa individual income tax rates. The left column denotes the tax year the rate started. The tax rates listed for 1955 and 1967 each include a temporary surtax.

Tax Year	Lowest Rate	Highest Rate
1934	1.00%	5.00%
1953	0.75%	3.75%
1955	0.80%	4.00%
1957	0.75%	3.75%
1967	0.75%	5.25%
1971	0.75%	7.00%
1975	0.50%	13.00%
1987	0.40%	9.98%
1998	0.36%	8.98%

Source: Iowa Department of Revenue

Iowa Income Tax Brackets

Iowa indexes several of the features of the individual income tax system for inflation, including the value of the standard deduction and the nine tax bracket thresholds.^{iv} The following table provides the Iowa rates and income tax brackets for the year prior to the 10.0% rate reduction, the tax brackets for the first year with the lower tax rates, and the tax rates and brackets for tax year 2014.

Tax Rate	TY 1997 Bracket	Tax Owed	Tax Rate	TY 1998 Bracket	Tax Owed	Tax Rate	TY 2014 Bracket	Tax Owed
0.40%	\$ 1,112	\$ 4.45	0.36%	\$ 1,136	\$ 4.09	0.36%	1,515	\$ 5.45
0.80%	\$ 2,224	\$ 13.35	0.72%	\$ 2,272	\$ 12.27	0.72%	3,030	\$ 16.36
2.70%	\$ 4,448	\$ 73.40	2.43%	\$ 4,544	\$ 67.48	2.43%	6,060	\$ 89.99
5.00%	\$ 10,008	\$ 351.40	4.50%	\$ 10,224	\$ 323.08	4.50%	13,635	\$ 430.87
6.80%	\$ 16,680	\$ 805.10	6.12%	\$ 17,040	\$ 740.22	6.12%	22,725	\$ 987.17
7.20%	\$ 22,240	\$ 1,205.42	6.48%	\$ 22,720	\$ 1,108.28	6.48%	30,300	\$ 1,478.04
7.55%	\$ 33,360	\$ 2,044.98	6.80%	\$ 34,080	\$ 1,880.28	6.80%	45,450	\$ 2,508.23
8.80%	\$ 50,040	\$ 3,512.82	7.92%	\$ 51,120	\$ 3,230.33	7.92%	68,175	\$ 4,308.05
9.98%	Over \$50,040	\$3,512.82 Plus 9.98% of Amount Over \$50,040	8.98%	Over \$51,120	\$3,230.33 Plus 8.98% of Amount Over \$51,120	8.98%	Over \$68,175	\$4,308.05 Plus 8.98% of Amount Over \$68,175

ⁱ Total Iowa personal income is estimated annually by the U.S. Bureau of Economic Analysis. The annual estimate is subject to revision.

ⁱⁱ The red line on the chart depicting individual income tax revenue as a percent of all revenue starts with FY 2005 due to a lack of readily accessible data for previous fiscal years.

ⁱⁱⁱ Three economic development programs allow employers to retain the withholding tax of certain employees and remit the tax payments to an entity other than the state. The employees receive full credit for the income tax withheld from their paycheck. The three programs are the New Industrial Jobs Training Program (260E), the Targeted Jobs Credit Tax Credit, and the Accelerated Career Education (ACE) Program.

^{iv} Iowa uses the Gross Domestic Product Price Deflator for indexing tax brackets. The federal tax brackets are indexed using the Consumer Price Index for Urban Workers (CPI-U). The two inflation adjustment factors are produced by federal agencies. The inflation measure used by the federal tax system has produced a larger inflation adjustment each year than the method used to adjust Iowa income tax brackets. From TY 1998 through TY 2014, Iowa's top tax bracket increased 33.4% and the federal top bracket increased 45.5%.