

## SF 2417 Tax Relief & Reform Summary

- Reduces individual income tax rates in Tax Year (TY) 19
- If revenue triggers are met, additional individual income tax rate cuts are made, and federal deductibility is eliminated starting January 1, 2023.
- Couples with major provisions from federal tax reform
- Reduces corporate income tax rates and eliminates corporate federal deductibility in TY 21
- Couples with section 179 expensing to \$70,000/\$280,000 in TY 18, \$100,000/\$400,000 in TY 19 and \$1,000,000/\$2,500,000 in TY 20.
- **Budget Impact:**
  - FY 19: -\$100.2
  - FY 20: -\$261.7
  - FY 21: -\$328.5
  - FY 22: -\$390.5
  - FY 23: -\$437.5 (assuming triggers are met)
  - FY 24: -\$642.6 (assuming triggers are met)

### Major Tax Changes

#### Tax Year 18 Changes:

- Allowing rollovers between 529 and Achieving a Better Life Experience (ABLE) accounts for individuals with disabilities in 2017 federal law changes
- Definitional changes regarding retirement savings and business accounting rules in 2017 federal law changes
- The extension of higher Earned Income Tax Credits for married households and households with three or more children in 2015 federal law changes
- The above-the-line deduction for teachers' education expenses in 2015 federal law changes
- Expanded definition of qualified education expenses under the 529 education savings plans in 2017 federal law changes
- Expand Section 179 cap and investment limit to \$70,000/\$280,000 from \$25,000/\$200,000 and allow shareholders or partners to depreciate expensing received from pass-throughs that exceeds the Iowa cap, where each entity cannot exceed the federal cap, 20 percent per year in the subsequent five tax years

#### Tax Year 19 Changes:

#### **Current and Proposed Individual Income Tax Brackets and Rates**

Iowa Current Law*			Under the Proposal						
			TY 2019 -				TY 2023 and after**		
Over	But Not Over	Tax Rates	TY 2018	2022		Over	But Not Over	Tax Rates	
[1] \$0	\$1,628	0.36%	No change	0.33%	[1]	\$0	\$6,000	4.40%	
[2] \$1,628	\$3,256	0.72%	No change	0.67%	[2]	\$6,000	\$30,000	4.82%	
[3] \$3,256	\$6,512	2.43%	No change	2.25%	[3]	\$30,000	\$75,000	5.70%	
[4] \$6,512	\$14,652	4.50%	No change	4.14%	[4]	\$75,000	or more	6.50%	
[5] \$14,652	\$24,420	6.12%	No change	5.63%					
[6] \$24,420	\$32,560	6.48%	No change	5.96%					
[7] \$32,560	\$48,840	6.80%	No change	6.25%					
[8] \$48,840	\$73,260	7.92%	No change	7.44%					
[9] \$73,260 or more		8.98%	No change	8.53%					

\*Current tax brackets are indexed under current law. TY 2019 brackets are reported in this table.

\*\*Proposed tax brackets are indexed. TY 2023 brackets are reported in this table. Note:

The rate and bracket change in TY 2023 only occurs if revenue targets are met.

- TY 2019 and TY 2020 - Allow 25% of the federal qualified business income (QBI) deduction from Iowa taxable income

The plan conforms with the Internal Revenue Code effective for tax year 2019 and later coupling with:

- AGI changes –
  - Elimination of the domestic production activities deduction
  - Elimination of the moving expenses deduction for non-military moves
  - Elimination of alimony payment deduction and elimination of alimony received as income for agreements after December 31, 2018
- Itemized deduction changes -
  - Elimination of the income limitation on itemized deductions
  - Elimination of home equity interest deduction and casualty deduction for non-disaster related losses
  - Elimination of itemized deduction for unreimbursed job expenses and tax preparation services
- No bonus depreciation
- Expand Section 179 cap and investment limit to \$100,000/\$400,000 and allow shareholders or partners to depreciate expensing received from pass-throughs that exceeds the Iowa cap, where each entity cannot exceed the federal cap, 20 percent per year in the subsequent five tax years.

**Local option tax voting**

- Language allowing certain Polk, Dallas, and Johnson counties to present local option sales tax vote upon petition of certain individual cities or unincorporated area of designated city (effective 1/1/19).

**Tax Year 20 Changes:**

- Expand Section 179 cap and investment limit to \$1,000,000/\$2,500,000
- Couple with the federal repeal of like-kind exchange (1031) for all but real property (this is done because of the high 179 limit)
- Automatic individual and corporate coupling (except for 179, Bonus Depreciation, QBI).

**Tax Year 21 Changes:**

- Allow 50% of the federal qualified business income deduction from Iowa taxable income

In TY 2021, federal deductibility is eliminated, the AMT is eliminated, and rates are reduced as noted below:

**Corporation Income Tax Rates Under Current Law and Proposed**

Tax Bracket	Current Law	Proposed TY 2021 and Later
\$0 - \$25,000	6.0%	5.5%
\$25,000 - \$100,000	8.0%	5.5%
\$100,000 - \$250,000	10.0%	9.0%
\$250,000 and Above	12.0%	9.8%

**Tax Year 22 Changes:**

- Allow 75% of the federal qualified business income deduction from Iowa taxable income

**Tax Year 23 Changes:**

Trigger – All changes take effect in TY 23 or a later date upon satisfaction of the following trigger components:

- Previous fiscal year net tax receipts (FY 22 receipts for TY 23) equal or exceed \$8,314,600,000.
- Previous fiscal year net tax receipts (FY 22 receipts for TY 23) equal or exceed 104% of net tax receipts from fiscal year prior to that fiscal year – meaning FY 22 receipts need to have growth at least 4% for trigger to be met.
- The Department of Revenue and Department of Management will certify the net tax receipts by November 1, 2022 to determine if the \$8,314,600,000 has been met.

If the components of the trigger are met, federal deductibility is eliminated, and the tax rates reflected in the income tax bracket and rate table on page 2 are implemented.

Starting in TY 23 federal taxable income, instead of federal adjusted gross income, becomes the starting point of individual and corporate tax calculation. This automatically makes the qualified business income deduction 100%. This automatically incorporates federal itemized or standard deduction amounts.

Starting in TY 23, the health insurance deduction is limited to taxpayers who 65+ with net income below \$100,000. Repeals the capital gains deduction and replaces it with a new deduction for capital gains from the sales of real property used in a farming business if sold to lineal descendants or certain other relatives.

Other adjustments made in TY 2023 under the switch to federal taxable income are listed below:

- Subtract Social Security benefits taxed by the federal government
- Subtract military pension income and active duty pay
- Subtract the Iowa current law pension exclusion
- Subtract 529 and ABLE contributions up to the Iowa annual exemption limit
- Subtract interest on federal securities
- Add interest on instruments that are federally-exempt but not state exempt
- Add any bonus depreciation claimed on the federal return and adjust depreciation accordingly
- Subtract any income included at the federal level for education loan payments made by employers
- Subtract AmeriCorp Education Award payments
- Eliminate federal deductibility, except in tax year 2023 a deduction is allowed for any payments for prior tax years and any refunds for prior tax years must be included
- Eliminate other Iowa-specific adjustments not included above (such as the Iowa capital gain deduction and the additional health insurance premiums currently deductible in Iowa)
- Eliminate the option of choosing married filing separate on the same return and double the brackets for married taxpayers
- Eliminate the Iowa Alternative Minimum Tax, allow nonrefundable claims of any available Iowa Alternative Minimum Tax Credit in TY 2023 and eliminate the tax credit effective in TY 2024
- Redefine net income for the purposes of applying the filing thresholds and the alternate tax to include either the federal standard deduction or federal itemized deductions (effectively returning the measure to mimic current law) and the federal qualified business income deduction

### **Income Tax Credit Changes:**

#### **Tax Credit Review in 2019**

- The bill established a 2019 Interim Tax Credit Study Committee to evaluate tax credits available under Iowa law, including Iowa's utilization of tax credits as a tool for promoting and supporting economic growth and development. The study committee shall also consider new or different tax credits or incentive programs, or tax rate or structure changes, that will foster economic growth and improve Iowa's overall tax and economic development climate.

#### **School Tuition Organization Tax Credit:**

- Increases the current program cap from \$12M to \$13M. Increases the household income limit for a student to be considered eligible. These changes are for TY 19.

#### **Geothermal Heat Pump Tax Credit and Geothermal Tax Credit:**

- Repealed effective January 1, 2019.

#### **Innovation Fund Tax Credit:**

- Five-year extension to June 30, 2023.

#### **Research Activities Tax Credit:**

- Limits the availability to businesses engaged in manufacturing, life sciences, software engineering, or the aviation and aerospace industry. Effective January 1, 2017. Also, modifies the calculation of the base amount of research expenditures used in calculating the credit, effective retroactively to January 1, 2010

#### **Tax Payer Trust Fund Credit:**

- Repeals Tax Payer Trust Fund Credit. Removes \$60 million cap on the TTF. Any moneys in the TTF remain there until used for "tax relief" as determined by the Legislature.

#### **Targeted Jobs Withholding Tax Credit:**

- Extends one year to June 30, 2019.

### **Sales and Use Tax Changes:**

- The sales and use tax code is modernized to egd the inherent favoring of internet-based businesses over

traditional retailers. Sales tax changes are effective January 1, 2019, except the change in manufacturing definition which is effective July 1, 2018.

There are six major components to the modernization:

- Digital Goods
- Ride Sharing
- Subscription Services
- Online Sellers
- Online Marketplaces
- Manufacturing Definition
- Online Travel Companies Websites

The definition of sales tax nexus is expanded to include any retailer selling more than \$100,000 of products or making more than 200 separate sales into the state, whether or not through an online marketplace, or who uses software or data files installed on property used in the state. Under the current Quill decision, it is assumed that approximately one quarter of small online sellers, each with \$100,000 to \$1.8 million in sales into Iowa, and one half of large online sellers, those with \$1.8 million and more in sales into Iowa, would comply with this provision.

The definition of retailer is expanded to include any marketplace provider that facilitates sales into the state. This expansion is put in place to rectify the current disadvantage faced by traditional retailers required to charge sales tax on in-person sales at stores or market stands while retailers on online marketplaces claim to have no such requirement. This includes entirely digital marketplaces such as phone app stores.