

Tax Reform Agreement – Summary

(May 2)

Divisions of the Tax Bill:

- Division 1: Interest Accrual on Certain Tax Refunds (Department of Revenue Clean up)
- Division 2: Tax Penalties (Department of Revenue Clean Up)
- Division 3: Miscellaneous Tax Provisions
- Division 4: Tax Credits
- Division 5: General Fund Expenditure Limitation and Taxpayers Trust Fund
- Division 6: Individual Income Tax Changes Beginning in Tax Year 2018
- Division 7: Individual and Corporate Income Tax Changes
- Division 8: Future Contingent Income and Corporate Tax
- Division 9: Changes to Iowa Educational Savings Plan Trust and Iowa Able Savings Plan Trust
- Division 10: Sales and Use Tax: Modernization
- Division 11: Approval and Imposition of Local Option Sales and Services Tax
- Division 12: Hotel and Motel Excise tax and Automobile Rental Excise Tax Changes:

Tax Type	Millions				
	FY 2019	FY 2020	FY 2021	FY 2022	
Individual Income Tax Changes	-\$0.8	-\$186.0	-\$408.8	-\$471.3	-\$494.5
Corporation Income Tax Changes	\$0.0	\$25.6	\$20.8	\$5.2	-\$41.4
Income Tax Credits	\$0.6	\$4.5	\$9.3	\$11.6	\$11.8
Sales and Use (General Fund Only)	\$0.0	\$55.7	\$117.2	\$126.4	\$134.1
School Surtax Change	\$0.0	-\$1.8	-\$11.8	-\$13.7	-\$14.2
LOST Change	\$0.0	\$8.7	\$18.3	\$19.7	\$20.9
SAVE Transfer Change	\$0.0	\$11.0	\$23.2	\$25.0	\$26.5
Total General Fund Change in Net Receipts	-\$0.2	-\$100.2	-\$261.5	-\$328.0	-\$389.9

Source: Tax Research and Program Analysis Section, Iowa Department of Revenue

TAX PLAN TIMELINE

TAX YEAR 2018

Expands 529 education savings plans to include K-12 tuition

Raises the Section 179 limit to \$70,000/\$280,000 (individual only) and provides K-1 fix (does not couple with the repeal of the federal repeal of like-kind exchange)

Additional federal tax coupling changes

Sherwin Williams language

Department of Revenue clean-up language (administrative efficiencies)

- Interest accrual language changes across tax types for consistency
- Expands current tax fraud penalties to include other tax items beyond traditional tax types such as credits and refund claims to include reimbursements, rebates or other payments.

- Changes to Iowa Code relating to information sharing by Department of Revenue (DOR) in case of tax evasion. (intentionally filed a false claim)
- DOR will act as the point of contact on behalf of political subdivisions and the state with the United States census bureau to ensure that consistent, accurate, and integrated geography is provided to the US census bureau.
- Improve the reporting of the water service excise tax and prepaid wireless excise tax to improve reporting to save administrative costs.
- With the elimination of the political checkoff, requires political checkoff moneys received be put into general fund. (This was state money designated for a political party)

Tax Credit Changes:

- Innovation Fund extension – 5 years
- Clarifications for the Research Activities tax credit
 - Adjust the credit to tighten eligibility restrictions that narrow the scope of the tax credit to certain industries; manufacturing, life sciences, software, engineering, aviation, and aerospace. The credit will continue to attract firms to Iowa to conduct research and create and retain high paying jobs. (effective 1/1/17)
 - Refine the base amount for RAC to limit program expansion beyond original intent.
- Eliminate Solar Tax Credit – Installations after July 1, 2018

TAX YEAR 2019

Rate reduction for all individual income tax brackets (*see individual rate chart below*)

Raises the Section 179 limit to \$100,000/250,000 (individual and corporate) and allows K-1 fix

Allows a deduction for 25% of the federal qualified business income (QBI) deduction

General individual and corporate coupling to 3/24/18. Decouple from \$10K SALT deduction limitation (individuals)

Decouples with the federal repeal of like-kind exchanges (1031)

Sales tax modernizations take effect: The bill modifies and clarifies requirements for persons to collect and remit State sales/use tax and local option sales tax, including items such as:

- (digital goods) Ends the exemption for goods purchased and delivered online, includes digital books, ringtones, electronic games or entertainment.
- (subscription services) Adds subscription services, including streaming audio and video
- (Ride sharing) Adds taxis, driver services, ride-sharing services, and rides for hire as taxable personal transportation services subject to the sales/use tax. An exclusion is created for emergency or nonemergency medical transportation or paratransit service and public transit systems.
- (nexus) Expands the definition of sales tax nexus to include economic nexus, click-through nexus, marketplace collection, computer nexus and provides additional rulemaking authority to the Department that would allow them to establish notice and reporting requirements for retailers and marketplace facilitators related to sales and use tax obligations. (Colorado language)

- (marketplace) Expands the definition of retailer to include any marketplace provider that facilitates sales into Iowa, including expanding marketplace nexus to include collection or reporting duties by referrers. Example of a referrer is: A website that provides a list of products for sale by one or more third-party sellers but does not facilitate the sales transaction; rather, the referrer transfers the buyer to the third-party seller's website to complete the sales transaction. The seller compensates the referrer for the referral (either by commission, flat fee, or otherwise).
- (Hotel and auto) Require the collection of the entire amount charged to the customer for a hotel room or car rental.

LOST: Strikes special provisions related to the approval and imposition of LOST for cities contiguous for elections after January 1, 2019. (Polk and Johnson County).

Tax Credit Changes:

- Establishment of a tax credit review for the summer of 2019
- Eliminate the Geothermal Heat Pump Tax Credit and the Geothermal Tax Credit –Installations after January 1, 2019.
- Additional \$1 million increase to STO tax credit and increase student eligibility to 400% of poverty.

Revises Taxpayer Trust Fund – Renames Taxpayer Relief Fund and eliminates cap and credit language. The fund shall be used for future tax relief including expansion of the pension exclusion and rate reduction.

TAX YEAR 2020

Full coupling with 179 deduction for individual and corporate, Approx (\$1,040,000) including future federal increases for inflation, end pass-through fix. Couple with like-kind exchanges (1031)

QBI at 25% of the federal deduction

Implements Rolling Conformity, except for Bonus Depreciation

TAX YEAR 2021

Eliminates Corporate Federal Deductibility except 1-year transition for taxes or refunds paid or attributable to previous tax year

Reduces rates for all corporate income tax brackets *(see chart below)*

- New top rate of 9.8%

Eliminate corporate AMT

The new 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%

QBI increases to 50% of the federal deduction

TAX YEAR 2022

QBI increases to 75% of the federal deduction

TAX YEAR 2023

Trigger must be met to do the following:

Start with federal taxable income instead of AGI and provide adjustments. This automatically incorporates federal itemized or standard deduction amounts

Collapse individual income tax brackets down to 4

Reduce individual income rates (see chart below)

- New top rate of 6.5%

Eliminate Federal Deductibility for individual income and AMT

QBI increases to 100% of the federal deduction

Trigger based on reaching or exceeding a set net general fund tax receipts value (FY 2022 receipts \$8,314,600,000) Previous FY net tax receipts (FY 2022 receipts for TY 2023) equal or exceed 104% of net tax receipts from FY prior to that FY (FY 2021 for TY 2023).

Current and Proposed Individual Income Tax Brackets and Rates

Iowa Current Law*				Under the Proposal					
				TY 2023 and after**					
But Not		Tax Rates		TY 2019 -		But Not		Tax Rates	
Over	Over			TY 2018	2022	Over	Over		
[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.