

ISCPA 2025 IOWA TAX UPDATE

November 13, 2025

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Presenters



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Agenda

- Iowa tax updates from the 2025 legislative session
- Notable items unchanged and what didn't pass
- OBBBA and its effects on Iowa taxation
- Iowa PTET changes and considerations
- Capital gain deductions
- Iowa tax credits and incentives updates and programs
- Farmer lease exclusions
- Updates and issues from the Iowa Department of Revenue
- Employee stock capital gain deductions
- 2023 Filing statistics
- Iowa general revenue receipts
- Zero-based rule making
- State nexus and apportionment considerations

2025 Iowa Legislative Session Updates

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- SF605 – Sports Gambling
- SF606 – E-filing of Sales and Use Tax Returns
- SF619 – Disaster Recovery & Natural Hazard Mitigating Financing Programs
- HF976 – Tax Administration Updates
- SF607 – Unemployment Insurance Taxes

SF605

SF605 - Relating to state income tax withholdings on winnings from sports wagering

- Clarifying language that all winnings from sports gambling are subject to Iowa income tax.
- Requires state income tax to be withheld on sports gambling winnings when federal tax is required to be withheld.
 - When there is over \$5,000 of winning or proceeds are more than 300 times the amount wagered.
 - Withholding rate of 3.8%.
- Effective 1/1/2026.



SF606

SF606 - A bill for an act relating to electronic filing of sales and use tax returns, and including effective date provisions.

- Amends Iowa Code Section 423.31 to mandate electronic filing for sale and use tax returns. If not electronically filed, the returns are considered not filed with the Department.
 - DOR will estimate the tax due plus 5% late filing penalty plus interest and other penalties.
- Permission may be requested from the Department to paper file, and if granted will be considered valid.
- Effective 5/6/2025.

SF619

SF619 - A bill for an act relating to the natural hazard mitigation financing program, the disaster recovery housing assistance program, the disaster recovery new housing program, post-loss assignment of benefits, the licensing and regulation of adjusters, appraisers, and umpires, and the Iowa economic emergency fund, and providing penalties, making appropriations, and including effective date and applicability provisions.

- Exempts from income tax interest and dividends from bonds issued by Natural Hazard Mitigating Financing Programs.
- Exempts qualifying state disaster recovery new housing grants from individual and corporate income tax.

HF976

HF976 - A bill for an act relating to the administration of the tax by the department of revenue by modifying provisions related to personal income, property, sales and use, motor fuel, and inheritance taxes, changing tax expenditure reviews, and including effective date and retroactive applicability provisions.

- DOR can release taxpayer information to law enforcement if indication Taxpayer has committed criminal offense.
- Eliminates need for the DOR to submit an annual tax expenditure report to legislature.
- Allows DOR to share limited confidential info with the State Treasurer to ID owner of unclaimed property.

- The measure, which went into effect July 1, 2025, halves the taxable wage base for unemployment insurance tax – from 66.7% to 33.4%.
- It also modifies employer contribution rates and excludes wages from the definition of “taxable wages” paid by employers when the employees work in another state in cases where reciprocity applies.
- Projected to save Iowa businesses nearly \$1B over 5 years
- \$1.95 billion in the Unemployment Compensation Trust Fund
 - Iowa had the ninth largest unemployment trust fund in the country
- (Note: In 2022, Iowa cut unemployment benefits from 26 weeks to 16)

INDIVIDUAL TAX RATE REDUCED

- SF 2442, § 2(a) (enacted 5/1/2024) replaces the phase-in of lower rates enacted in 2017 with a flat rate of 3.8% effective for 2025.
 - The 2024 rate was 5.7%, and the 2023 rate was 6.0%.
- This rate also applies to Fiduciaries (Iowa Code Sec 422.6), Composite payments (SF 2442, § 7) and PTET payments (SF 2442, § 8).
- For the “alternative” tax computation, the rate is 4.3% (SF 2442, § 3(b))

INTEREST RATE REDUCED

- 10% interest rate announced for 2026.
 - This is unchanged from 2025.
- The annual rate is based on the average monthly prime rate during the preceding twelve-month period (October through September).
- Iowa law requires that this average be rounded to the nearest whole percent and two percentage points to be added to it.



COLLEGE SAVINGS IOWA DEDUCTION LIMIT

- The deduction limit for the Iowa § 529 plan increased to \$5,800 for 2025, with inflation adjustments going forward.
- This also applies to IABLE plans for qualified disability expenses.
- The bill also allows Roth rollovers of College Savings Iowa as allowed by the federal tax law, effective starting in 2024.

Notable Items Unchanged

CORPORATE TAX RATE UNCHANGED

The 2025 corporation tax rates, which top out at 7.1% for income over \$100,000 (5.5% on income up to \$100,000), are unchanged for 2026.

Because net corporate income tax receipts did not exceed \$700 million, rates remain same in 2026.

2025 Iowa Legislative Session; What Didn't Pass

Property Tax Overhaul

- SF651 (SSB1227)
- Aimed to overhaul Iowa's property tax system, simplify calculations, and impose revenue growth limits on local governments.
- Will remain a top priority for legislators in 2026. Gov. Reynolds stated she plans to be more involved in 2026 and has stated "everything is on the table".
- Iowa's method of collecting property taxes employs a "rollback" system that limits the percentage of a property's assessed value that is taxable by local governments, school districts and other taxing entities.
- Bills proposed sought to replace it with a "revenue restricted" system, which taxes the full value of residential property, while limiting the amount of new revenue local governments can collect.



OBBBA and its effects on Iowa Taxation

Iowa has rolling conformity with federal changes, so Iowa conforms to most OBBBA changes.

Items of note:

- Iowa did not conform with Federal 163(j) interest expense limitation rules starting in 2020. Because of this, the recent federal change enacted by the OBBBA restoring the 163j calculation from EBIT to EBITDA does not affect Iowa taxation. Taxpayers should continue applying Iowa's existing approach.
- An OBBBA provision, IRC §1062, generally allows sellers of farmland to a qualified farmer to elect to pay taxes on the gain of the sale of farmland in four equal installments. Iowa does not conform to this election, even though it generally uses rolling conformity for federal changes. Iowa Code § 422.7(13)(b) specifically overrides installment reporting for capital gains in this context. As a result, for Iowa purposes, the entire gain must be recognized in the year of sale.



Executive Order 14247

- Executive Order 14247 – “Modernizing Payments To and From America’s Bank Account” was issued making it so that Treasury cannot accept paper checks after 9/30/2025. There are no planned changes for the State of Iowa to follow suit (for the time being); however, IDOR recommends that taxpayers switch to electronic payments through GovConnect.

OBBBA - PTET

- The OBBBA increased the federal SALT deduction to \$40,000. Iowa's PTET remains in effect for 2025 (Iowa Code Sec. 422.16C)
 - “This section only applies to tax years for which the limitation on individual deductions applies under section 164(b)(6) of the Internal Revenue Code.”
- Further, the Department states “The PTET election is scheduled to expire in the same tax year that the individual limitation on the state and local tax (SALT) deduction under Internal Revenue Code section 164(b)(6) expires. If that SALT deduction limitation is extended by Congress in the future, the Iowa PTET election will automatically be extended for the same period of time”.

OBBBA - PTET

The OBBBA expanded the SALT deduction amount to \$40K and extended it through 2029.

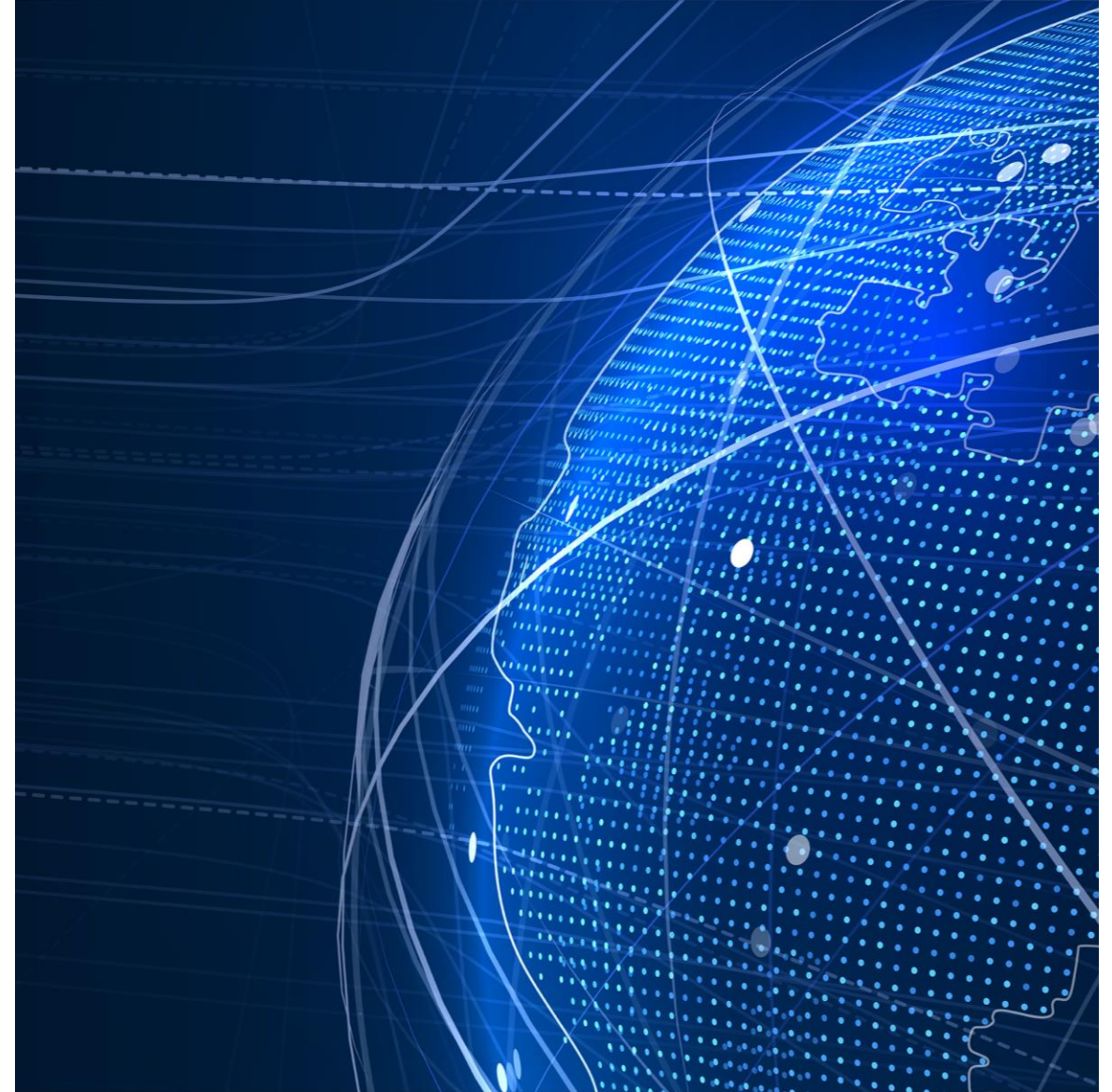
Phase out of income

- A phase-out of the \$40,000 cap beginning at Modified Adjusted Gross Income (MAGI) of \$250,000 (single filers) and \$500,000 (joint filers).
- Fully phased down to \$10K at \$300K MAGI for singles and \$600K for MFJ.

For 2026 through 2029, the \$40,000 cap is increased by 1% each year, until it reverts to \$10,000 in 2030.

OBBBA – GILTI/NCTI

- GILTI (Global Intangible Low-Taxed Income) has been **exempt** from Iowa Corporate Income Tax since 2020.
- Due to OBBBA, GILTI will no longer exist as of 1/1/2026. It will be replaced by a new category of income, NCTI (Net CFC Tested Income).
- Due to Iowa's rolling conformity, NCTI will be **taxable** for Iowa corporate income tax purposes.





OBBBA – FDII/FDDEI

- Iowa has full conformity with the federal deduction before and after OBBBA.
- Was considered FDII (Foreign Derived Intangible Income) before 1/1/2026
- Will be considered FDDEI (Foreign Derived Deduction Eligible Income) after 1/1/2026

Iowa PTET Summary

Iowa PTET Summary

- Governor Reynolds signed HF 352 in 2023. The bill creates an elective pass-through entity tax, effective for **2022**.
- The Iowa PTET provides for a tax to be paid at the entity level at the top individual rate. Owners receive a refundable credit for their share of tax paid, reduced by an amount approximating the Iowa tax benefit of the deduction.
- There is no owner consent requirement in the bill. From Iowa Code § 422.16C(b)(3):
 - *A separate election shall be made for each tax year on a form and at a time prescribed by the department. An election shall be irrevocable once made and shall be binding on the taxpayer and all partners or shareholders of the taxpayer.*

How to elect Iowa PTET

- From IDOR website guidance:

Pass-through entities will be allowed to make a PTET election for a tax year in one of two ways:

1. Make the election directly on the pass-through entity's IA 1065 partnership return or IA 1120S S corporation return.
2. Submit a PTET election form prior to filing the Iowa return by logging into the pass-through entity's partnership or S corporation account on GovConnectIowa.

Annual election

- A PTET election only applies for one tax year. A separate election must be made for each tax year.
- Once an election is made for a year, you're stuck with it: "The election is irrevocable and binding on the pass-through entity and all of its owners for the applicable tax year."

PTET Deadline

- For tax years beginning on or after Jan. 1, 2023, the PTE tax election deadline is now 6 months after the original due date of the PTE's IA 1065 or IA 1120S return.
- The IDR also offered certain PTEs until April 20, 2025, to file a late election for 2023. Iowa Dep't of Revenue, "IDR Modifies the Pass-Through Entity Tax Election Deadline" (Dec. 23, 2024).

PTET Computation

- For 2025, the rate is 3.8%.
- The PTET computation will allow only composite and PTET credits from other entities. No NOL deduction is available at the PTET level.
- The PTET does not affect the ability of owners to use their NOL carryforwards.
- The PTET is computed only on “Iowa Source” income.

Capital Gains Deductions

Capital Gains Exclusions After 2022

- Capital gain exclusions limited to:
 - Sale of breeding livestock by a farmer (Form 100A)
 - Certain § 1231 gains for retired farmers (Form 100G)
 - Certain farm sales (Form 100H)
 - Certain stock received on account of employment (Form 100J)



Farmer Capital Gains Deductions

Post 2022 Farm Sales

The exclusion of capital gains for farm sales survives.
There are now two sets of rules.

Participating farmer rule (Iowa Code § 422.7(13)(b)(1)):
For a non-retired farmer, exclusion is available for
farmers with 10 years of material participation on land
used in a farming business for ten years.

Relative sale rule: If the land is sold to a relative,
without regard to participation or holding period



Special rules for retired farmers

- A “retired farmer” – one who is either disabled, or at least 55 years old and no longer materially participating in a farming business, will be ineligible for the new retired farmer rent exclusion (discussion below) or the beginning farmer tax credit if the farmer elects to exclude capital gains after retiring.
- Once a farmer has retired, the exclusion election is a single election for all future qualifying sales.
- These farmers also get a one-time opportunity to exclude livestock capital gains (more later).

Change in participation requirement

After 2022, a “retired farmer” meets the material participation test for excluding land sales by having participated in a farming business for at least 10 years *at any time* (Iowa Code § 422.7(13)(b)). This replaces the “5 of 8 before drawing social security” test under current law.

This is the same participation test for non-retired farmer land exclusion.



Broadened sale to relative exclusion

- Iowa Code § 422.7(13)(b)(2) excludes from income sales where the
- “taxpayer has held the real property used in a farming business which is sold to a relative of the taxpayer.”
- This replaces the prior rule that exempts only gains from sales to lineal descendants.



Who's your relative?

Iowa Code § 422.7(13)(a)(6) defines relative:

- (a) The individual is related to the taxpayer by consanguinity or affinity within the second degree as determined by common law.
- (b) The individual is a lineal descendent of the taxpayer. For purposes of this subparagraph division, “lineal descendent” means children of the taxpayer, including legally adopted children and biological children, stepchildren, grandchildren, great-grandchildren, and any other lineal descendent of the taxpayer.
- (c) An entity in which an individual who satisfies the conditions of either subparagraph division (a) or (b) has a legal or equitable interest as an owner, member, partner, or beneficiary.

Consanguinity and Affinity

“Consanguinity” is a relationship by blood. “Affinity” is a relationship by marriage.

- Spouse - Children - Parents (first degree)
- Brothers/Sisters - Half-Brothers/Half-Sisters - Grandchildren - Grandparents (second degree)
- Stepchildren - Stepmother/Stepfather - Mother-in-Law - Father-in-Law (first degree)
- Stepbrothers/Stepsisters - Brothers-in-Law - Sisters-in-Law – Step grandchildren – Step grandparents (second degree)

Third degree relatives

- Uncles/Aunts
- Nephews/Nieces
- Great-Grandparents
- Great-Grandchildren
- Step uncles/Step aunts
- Step nephews/Step nieces
- Step great-Grandparents
- Step great-Grandchildren

But lineal descendants still qualify.





Reporting the exclusion

Retired farmers will use Form 100H, Iowa Capital Gain Deduction – Real Property Used in a Farming Business, to claim the exclusion.

Revived breeding livestock exclusion

Iowa Code § 422.7(44)(b)) excludes Net Capital Gain from:

The sale of cattle or horses held by the taxpayer for breeding, draft, dairy, or sporting purposes for a period of twenty-four months or more from the date of acquisition; but only if the taxpayer received more than one-half of the taxpayer's gross income from farming or ranching operations during the tax year.

And from:

The sale of breeding livestock, other than cattle or horses, if the livestock is held by the taxpayer for a period of twelve months or more from the date of acquisition; but only if the taxpayer received more than one-half of the taxpayer's gross income from farming or ranching operations during the tax year.

This exclusion (formerly 422.7(27)(c)) was repealed after 2022 but retroactively restored. It is reported on Form 100A.

Retired farmer livestock exclusion

Iowa Code §§ 422.7(13)(c) and (d) (my emphasis):

For a taxpayer **who is a retired farmer**, subtract [from net income] the net capital gain from the sale of cattle or horses **cattle or horses held by the taxpayer for breeding, draft, dairy, or sporting purposes** for a period of twenty-four months or more from the date of acquisition; **but only** if the taxpayer materially participated in the farming business for **five of the eight** years preceding the farmer's retirement or disability **and who has sold all or substantially all of the taxpayer's interest in the farming business by the time the election under this paragraph is made.**

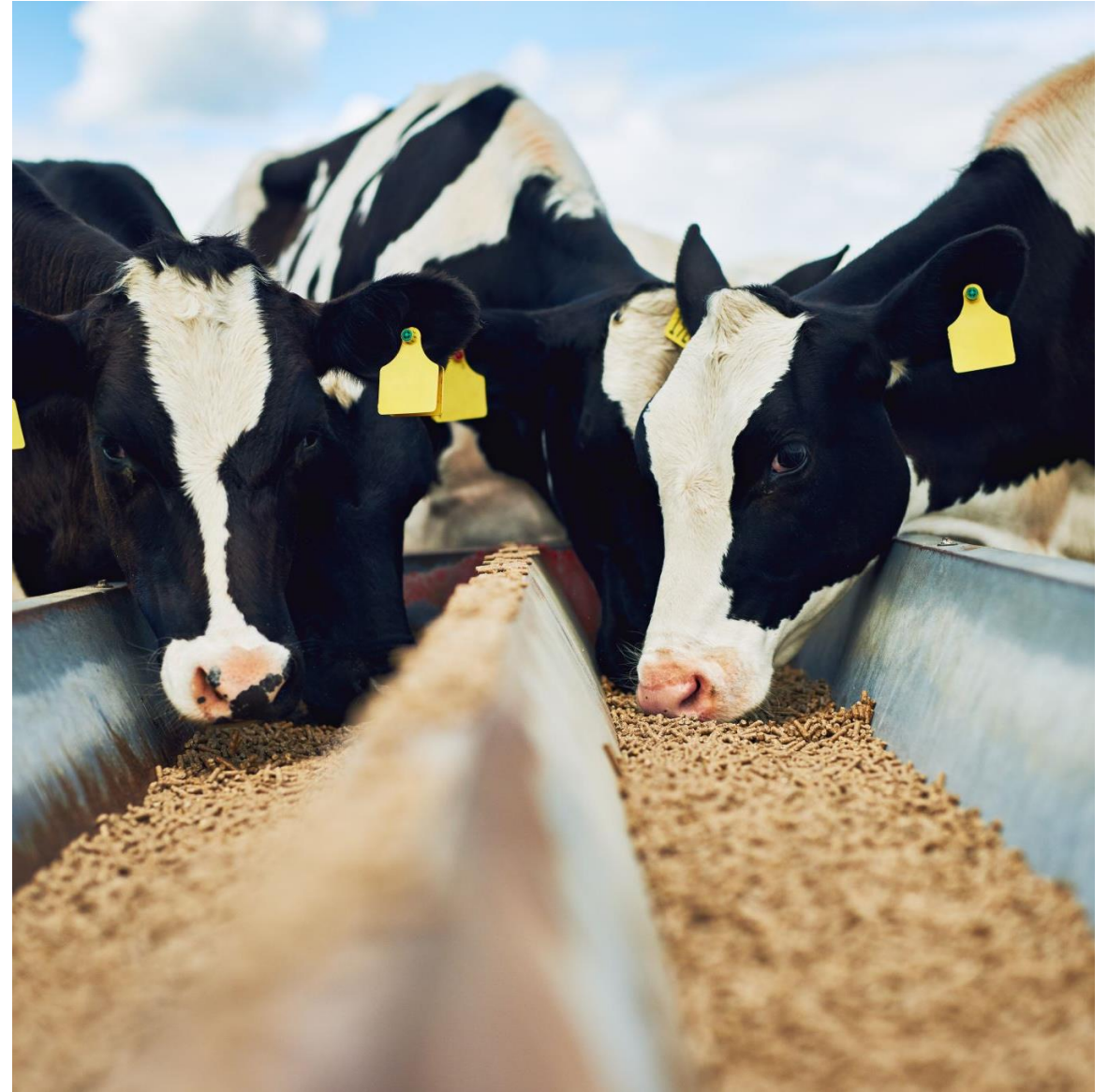
For a taxpayer **who is a retired farmer**, subtract the net capital gain from the sale of **breeding** livestock, other than cattle and horses, if the livestock is held by the taxpayer for a period of twelve months or more from the date of acquisition; **but only** if the taxpayer materially **participated** in the farming business for **five of the eight years** preceding the farmer's retirement or disability **and who has sold all or substantially all of the taxpayer's interest in the farming business by the time the election under this paragraph is made.**

Election requirement and limitation

- The exclusions for capital gains require a single lifetime election to exclude all lifetime qualifying capital gains. This election requires foregoing the exclusion for cash rents paid to retired farmers provided in Iowa Code § 422.14. They also become ineligible for the beginning farmer tax credit for farm lease income. (Iowa Code § 422.7(13)(f) and (f)).
- The election is made on Iowa Form 100G, Iowa Capital Gain Deduction – Retired Farmers.

Different Participation Rule

The livestock exclusions fall back on the IRS 469(h)(3) retired farmer participation rule, but without directly incorporating it.



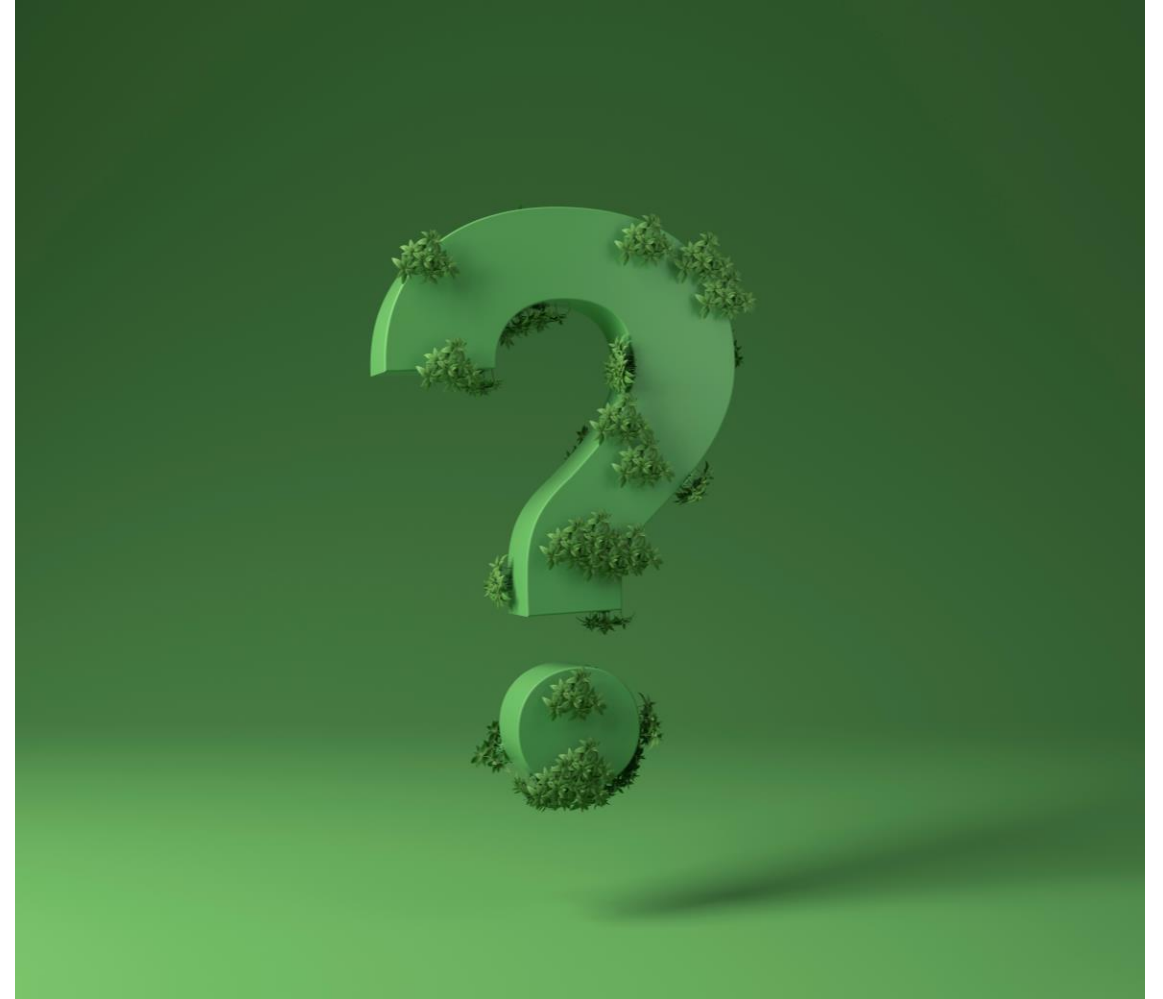
Different Qualification Rule

- The non-retired farmer livestock exclusions required 50% of income from farming. Unlike prior law, there appears to be no “sale to a relative” exclusion for non-retired farmers, and no such exclusion appears on the current version of Form 100A.

Iowa Tax Credits & Incentives Updates and Programs

State Incentives Considerations

- Capital Investment
- New Employment
- Job Training
- Financing Gaps
- State Competition
- Industries & Attractiveness of Project



Iowa Tax Incentive Programs

- Business Incentives for Growth (BIG)
- High Quality Jobs
- New Jobs Tax Credit
- Targeted Jobs Withholding Program
- Research & Development Tax Credit
- Major Economic Growth Attraction (MEGA)
- Industrial New Jobs (260E)
- Iowa Jobs Training (260F)



Iowa Codes 15.326 - 15.336

Business Incentives for Growth

Requirements:

- Must be Advanced Manufacturing, Bioscience, Insurance/Finance or Tech
- Projects need to demonstrate a defined economic impact to Iowa
- Wages and benefits requirements
- Thorough application process/review

Benefits:

- Investment Credits
 - Performance-based
 - Refundable after Iowa income tax
- Refund of Contractor Tax
- Local Property Tax Exemptions

High Quality Jobs Program

Requirements:

- Employment – Businesses must create or retain high-quality jobs, offering competitive wages and strong benefits
- Investment – Applicants need to invest in equipment, facilities and/or modernization of facilities
- Other location considerations

Benefits:

- Investment Credits
 - Amortized over 5 years
 - Carryforward of additional 7 years
- Refund of Contractor Tax
- Local Property Tax Exemptions
- Refund of Sales/Use Taxes
- Increase in R&D credits

New Jobs Tax Credit

Program Details:

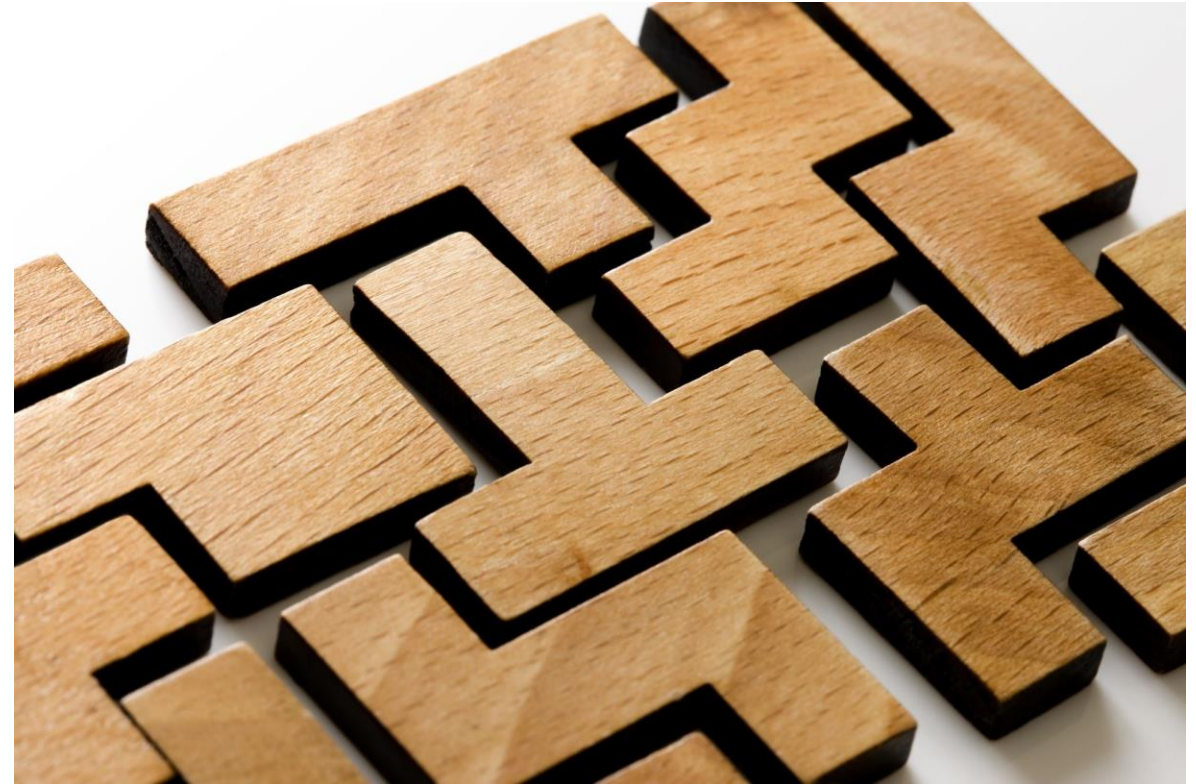
- Must be a New Jobs Training (260E) participant
- Employment must increase by at least 10%
- Form IA 133 needs to be filed
- Corporate Income Tax Credit
 - Maximum of \$2,370/employee in 2025
 - Carryforward up to 10 years
 - Varies based upon wages paid



Targeted Jobs Withholding Program

Program Details:

- Incentives directed towards growth/expansion of a targeted business
- Must be located in Burlington, Council Bluffs, Fort Madison, Keokuk or Sioux City
- Create 10+ new jobs OR \$500,000 of qualified new investment
- Benefit allows up to 3% of gross wages to be directed towards the project budget



Job Training Programs

Industrial New Jobs Training (260E)

- Administered by 15 community colleges
- Awards depend on training plan and new jobs and wages paid
- Diversion of state withholding repays bonds
- Up to 50% reimbursement of training
- Used in partnership with other programs

Jobs Training Program (260F)

- Local community college partnership
- Trains current employees to develop new skills, not just routine training
- Minimal, if any, costs for businesses
- Application process through the local community colleges

Historic Preservation Tax Credit

SF612 - "Changing certain tax credits, cigarette and tobacco-related regulations, and certain city budget certification deadlines, and providing for penalties."

- Amends Iowa Code Section 404A.2 to update the refundability provisions of the Historic Preservation Tax Credit.
- Any credit in excess of a Taxpayer's liability is now 100% refundable.
- Retroactive effective to 1/1/2025.



Tax & Finance Reform

SF657 - "A bill for an act related to state taxation and finance and other related matters, by creating, modifying, and eliminating tax credits and tax incentive programs, providing for penalties, and including effective date and retroactive applicability provisions."

- Business Incentives for Growth (BIG) Program introduced
 - Sales tax refunds for gas, utilities, electricity, TPP, for contractors and subs on eligible projects
- Employer Child Tax Credit repealed
- Assistive Device Tax Credit repealed
- Research Activities Tax Credit repealed
- New R&D Tax credit administered by Iowa Economic Development Agency (IEDA):
 - Businesses must apply with IEDA and be certified
 - Annual cap: \$40M
- Sustainable Fuel Production Tax Credit introduced

Tax & Finance Reform Continued...

Endow Iowa Credits

- No changes for 2025 tax year. There are ~\$3.4M of 2025 Endow Iowa Tax Credits available.
- Changes beginning 1/1/2026; from SF657:
 - Annual program allocation reduced
 - From \$6M/year to \$3.5M/year
 - Maximum credit per taxpayer reduced
 - From \$100k annually to \$50k annually
 - Gifts to corporate named endowments are no longer eligible for the credit
 - Iowa community foundations must submit an annual report to the legislature detailing grant distributions from Endow Iowa funds.

Data Center Incentives

Iowa offers Sales and Use tax incentives for data centers

In order to qualify, an eligible data center business must make a minimum investment in Iowa and satisfy other requirements in the Iowa Code.

Minimum investment of \$200 million over 6 years

Register with the Department using [Web Search Portal/Data Center Registration \(78-013\)](#), and

File an annual report with the Department beginning in January 2026.

Farmer Lease Exclusion

Retired Farmer Lease Income Exclusion

- Iowa Code § 422.7(14) allows an exclusion of “net income” of an **eligible individual** received under a **farm tenancy agreement** covering real property **held for 10 or more years** by an individual if the individual **materially participated in a farming business for 10 or more years**.
- This provision is elective. If elected, the farmer is ineligible for the capital gain exclusions for farm real estate or livestock. Iowa Code § 422.7(13)(b).

Eligible Individual

Iowa Code § 422.7(14)(f)(1):

“Eligible individual” means an individual who is disabled or who is fifty-five years of age or older at the time the election is made, who no longer materially participates in a farming business at the time the election is made, and who, as an owner-lessor, is party to a farm tenancy agreement.

Farm Tenancy Agreement

Iowa Code § 422.7(14)(f)(2):

“Farm tenancy agreement” means a written agreement outlining the rights and obligations of an owner-lessor and a tenant-lessee where the tenant-lessee has a farm tenancy as defined in § 562.1A. A “farm tenancy agreement” includes cash leases, crop share leases, or livestock share leases.



Direct Ownership Requirement

- Lease income earned through a pass-through entity will not qualify for the exclusion for farmers owning an interest in the entity. (§ 422.7(14)(e)).

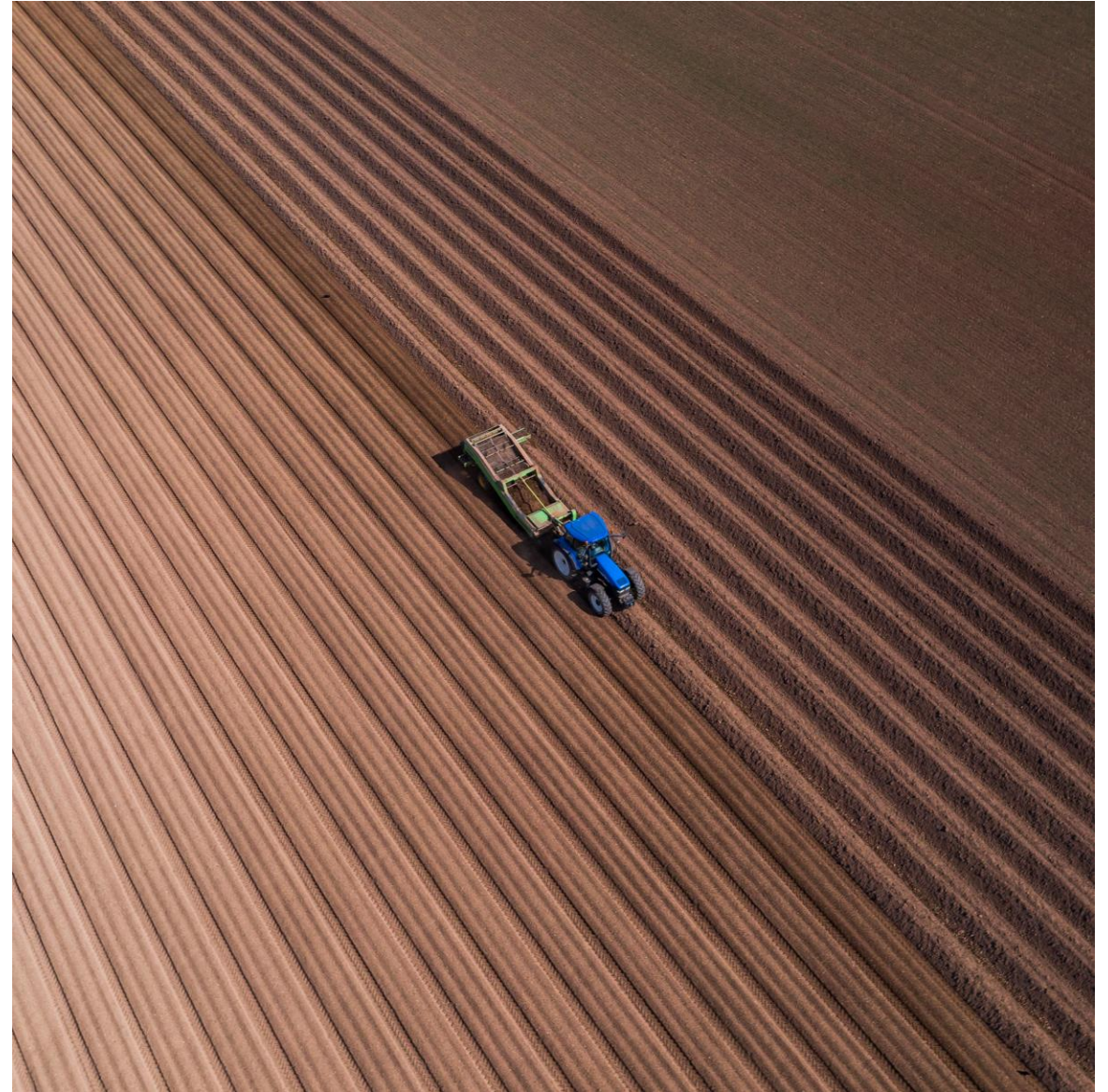
CRP?

CRP doesn't qualify as a farm tenancy agreement.

The Individual Policy Director said at an August 2023 webinar that CRP agreements will not qualify for the elective exclusion as the statute is written.

Making the Election

Retired farmers will use **Form IA 125**, Farm Tenancy Income Exclusion, to elect to exclude lease income.



Example: Long-time cash rent

Farmer has historically cash-rented non-contiguous land while materially participating in his local land. On retirement, will income from the historically-rented land qualify?

The exclusion applies to “a farm tenancy agreement covering **real property held by the eligible individual for ten or more years**, if the eligible individual materially participated in a farming business for ten or more years.”

The statute doesn't require it to be the same land that was personally farmed.

Semi-retirement example

Farmer leases has 640 acres that he actively farms. He cuts back his work time, leasing all but 80 acres to his son under a farm tenancy agreement. Farmer still continues to work the remaining acres. Does the lease income qualify?

You are only a “retired” farmer if you no longer materially participate in the farming business. The lease will fail to qualify.

Updates and Issues from the Iowa Department of Revenue

Responding to Notices

- Consider using GovConnectIowa's "Respond to a Letter Function" to reply to notices
- An account is **not** required to respond – just the date of the letter and the letter ID
- Submission confirmation provided
- Options available:
 - Make a payment
 - Provide additional information
 - Apply for abatement using this function
- Submission confirmation provided

Notices – Return Attachments

- Notices (other than Statement of Account Balance) are said to be reviewed by an examiner before they are sent out.
- However, in the examiner's review process, they do **not** review attachments to the return. They have a separate file of the attachments, but it is not part of their process to review those if there are things flagged in the actual return file.

Payments lost in the system

Common issues

- Paper checks
 - DOR software sometimes recognized the payment due date as the year end, which then creates a fiscal year return in their system that the payment is applied to.
- Incorrectly marking an estimated payment in GovConnect as the estimated payment due date, not the year end date

3rd Party Authorization

Third Party Access and Authorization:

- Signing certain income tax returns should AUTOMATICALLY make the taxpayer signing the return an authorized representative, starting with 2024 returns.
 - 1120, 1120S, 1120F, 1065, PTE-C

New “Signing IA 2848 Power of Attorney (14-101)” Form:

- The new POA form will now include an authorized representative information section at the bottom, eliminating the need for a separate Representative Certification form if the taxpayer's representative is not already on file. We will now be able to do both POA and Rep. Cert. at the same time instead of waiting for the Rep. Cert. to be accepted then submitting the POA.

Disclosure Designee on Tax Return:

- Can receive confidential information about the taxpayer for the tax year in question, but is not authorized to represent or act on behalf of the taxpayer.

Form Changes

- Iowa Schedule K-1 for Form 1041 will now have an area that details retirement plan income that might qualify for the retirement exclusion. Currently, retirement plan income received by a Trust/Estate is reported as “Other Income” and there is no detail as to the actual character of this income unless a footnote is provided.
- New schedule for Investment Subsidiaries.
- Iowa Form 125/100G will have a couple of new questions that ask about prior year elections made so that the entire form does not have to be completed in its entirety every year.

Withholding Tax Tables Updated for 2026

- On November 3rd, the Iowa Department of Revenue announced the revision of the withholding formula and IA W-4.
- The revision was made to reflect changes to individual income tax as a result of the OBBBA.
- The updated tables can be found [here](#).

Net Operating Losses and Bonus Depreciation

- For assets placed in service prior to 2021, Iowa required an add-back of federal bonus depreciation, which is then recovered over time through annual depreciation deductions.
- The Iowa NOL for loss years after 2022 is now the federal NOL. For loss years after 2022, depreciation modifications that generate a loss are effectively lost.
- Now that Iowa conforms to federal NOL rules, what happens when these depreciation reversals create a larger Iowa loss for an individual?
- This loss modification flows through from the K-1. Does the resulting NOL carry forward under Iowa's conformity—or are these depreciation modifications effectively lost?

Voluntary Disclosure Program

- The purpose of the voluntary disclosure program is to encourage unregistered business entities and persons to voluntarily contact the Department regarding unreported Iowa tax liabilities.
- The Iowa Department of Revenue offers a Voluntary Disclosure Program, allowing individuals and/or entities the opportunity to self-report actual or potential violations of laws and rules administered by DOR.

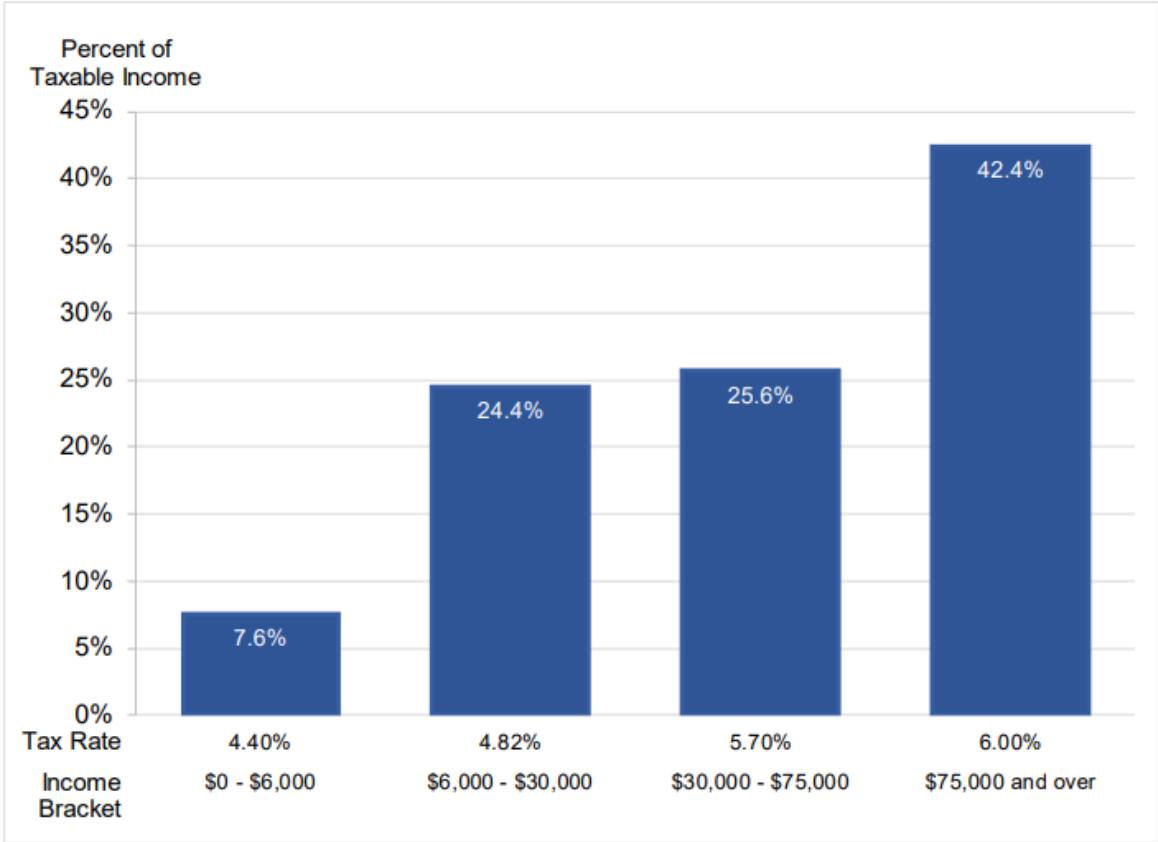
Voluntary Disclosure Program (cont.)

- Which taxpayers are eligible?
- Which taxes are covered?
- You or your representative may initially contact the Department on an anonymous basis.
- Anonymity of the taxpayer can be maintained until the voluntary disclosure agreement is executed by the taxpayer and the Department.

2023 Filing Statistics Released

Percentage of Filers by Tax Brackets

Figure 1. Tax Year 2023 Aggregate Taxable Income of Iowa Residents by Tax Rate and Income Bracket



Source: Iowa Department of Revenue 2023 Individual Income Statistical Report

Filing Status

Figure 2A. Percentage of Returns by Filing Status

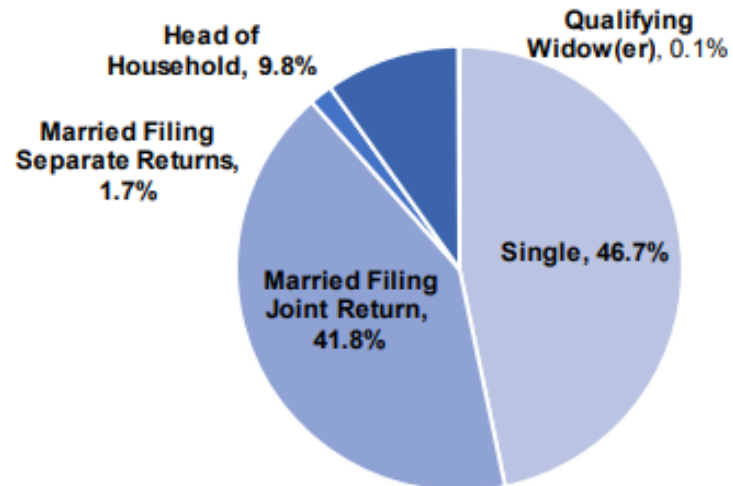
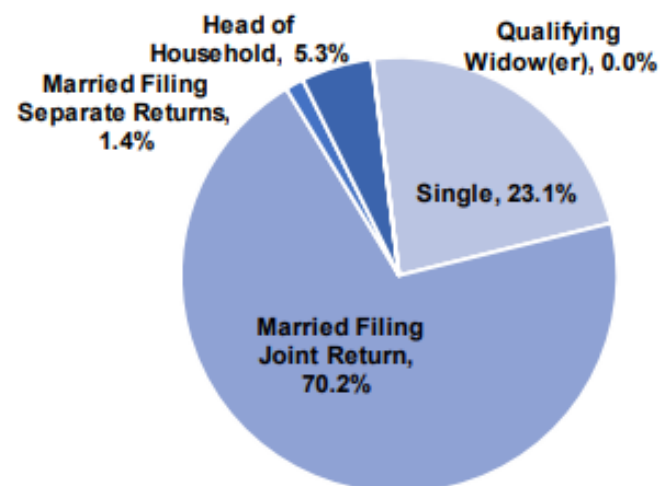


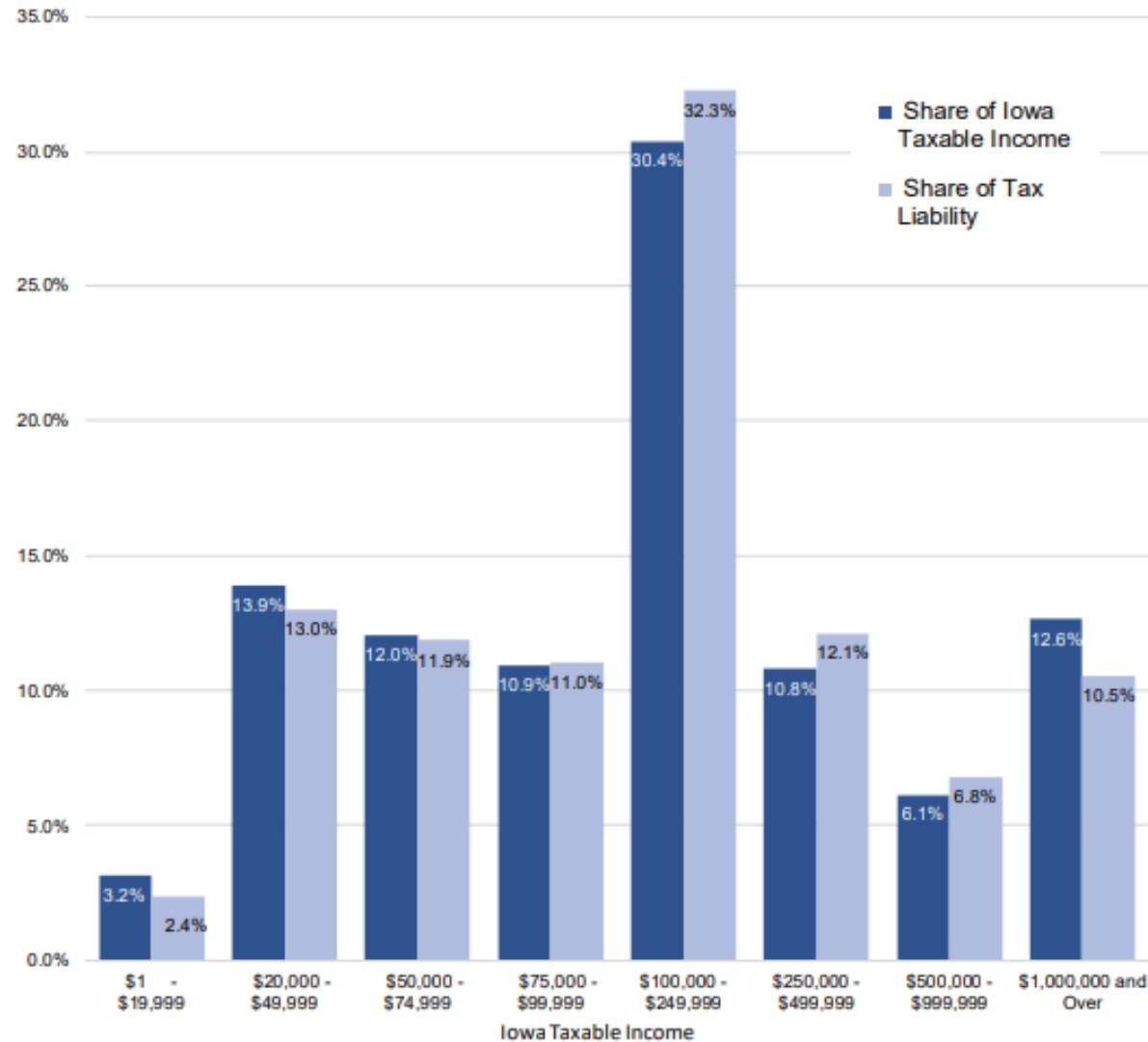
Figure 2B. Percentage of Tax Liability by Filing Status



Source: Iowa Department of Revenue 2023 Individual Income Statistical Report

Share of Iowa Income/Liability by Income Group

Figure 3. Share of Iowa Taxable Income and Tax Liability by Income Group for Resident Returns



Note: The figure does not include taxes paid or income for returns with Iowa taxable income of less than \$1.

Tax Credits

Tax Credits Claimed

2023	2022
\$314.2 million	\$306.1 million

*Excluding the exemption credits, nonresident/part-year resident credits, and the out-of-state tax credit

Non-Refundable and Refundable Credits Claimed in 2023

Tuition and Textbook Tax Credit	110,891 Returns	\$25.1 Million
Volunteer Firefighter/EMS Personnel/Reserve Peace Officer Tax Credit	12,708 Returns	\$3.20 Million
Fuel Tax Credit	12,476 Returns	\$2.52 Million
Child and Dependent Care Tax Credit	47,308 Returns	\$12.2 Million
Earned Income Tax Credit (EITC)	173,891 Returns	\$65.0 Million
Early Childhood Development Tax Credit	6,945 Returns	\$1.37 Million
"Other Nonrefundable Iowa Credits" Reported on Line 17	21,950 Returns	\$188.2 Million
"Other Refundable Credits" Reported on Line 26	1,382 Returns	\$16.6 Million
Total		\$314.2 Million

Employee Stock Capital Gain Deductions



Sales of qualified employer stock

Iowa Code § 422.7(42) provides an elective exclusion for long term gains capital gain for certain employer stock. It has fully phased in:

- 33% in 2023
 - 66% in 2024
 - 100% starting in 2025
-
- It is an elective exclusion for employees who meet qualification requirements for the stock.
 - The issuing corporation must also meet certain qualifications for the exclusion to be available.
 - The Department of Revenue has published regulations (701-302.41(422)).

Individual Qualifications

Individual must have owned capital stock in a qualified corporation for 10 years.

Stock must have been acquired by individual **while employed** and **“on account of employment.”**

For capital stock to have been acquired on account of employment, the employee-owner must have acquired the capital stock in a manner only available to employees of the qualified corporation.

Individual may elect to exclude the capital gain on the sale of one qualified corporation.

Other Individual Features

- Stock transferred to a spouse may qualify, but only if the employee and spouse are married at date of sale or death.
- Surviving spouse or personal representative of a deceased employee may make the election.
- Election will be made on a tax return under rules to be prescribed.

Corporate Qualifications

- At time of first sale or exchange, has employed people in Iowa for at least 10 years.
- At least five shareholders for the ten years before the first sale or exchange.
- At least two shareholders who are unrelated – using § 318, including siblings, aunts, uncles, cousins, nephews, and nieces.

Other notes on employer stock exclusion

The deduction has nothing to do with Employee Stock Ownership Plans (ESOPs). There is no longer a capital gain break relating to ESOPs specifically. This break may be of limited utility to ESOP participants.

Iowa General Revenue Receipts

IOWA'S GENERAL REVENUE RECEIPTS

Gross General Fund Receipts

September 2025	Change from PY
\$1,000.9 million	-10.8%

September 2025 YTD	Change from PY
\$2,460.2 million	-15.6%

IOWA'S GENERAL REVENUE RECEIPTS

Personal Income Tax

September 2025	Change from PY
\$322.6 million	-19.8%

September 2025 YTD	Change from PY
\$932.2 million	-19.0%

IOWA'S GENERAL REVENUE RECEIPTS

Sales/Use Tax

September 2025	Change from PY
\$387.4 million	+1.6%

September 2025 YTD	Change from PY
\$1,133.6 million	+1.9%

IOWA'S GENERAL REVENUE RECEIPTS

Corporate Income Tax

September 2025	Change from PY
\$99.7 million	-24.1%

September 2025 YTD	Change from PY
\$142.7 million	-29.1%

Iowa's Zero-Based Rule Making

IOWA'S ZERO-BASED RULE MAKING

- Zero-based rule making: An approach where agencies create expiration dates for administrative rules with the purpose of requiring each rule to be justified and eliminate outdated or inefficient procedures.
- Influenced by the Trump Administration's (first term) federal deregulation efforts.
- First implemented by Governor Reynold's with Executive Order 10 and permanently enacted during Iowa's 2024 legislative session.
- Goals of this approach:
 - Eliminating statutory language
 - Reduce regulatory burden
 - Prevent accumulation of outdated regulations

IOWA'S ZERO-BASED RULE MAKING

- Five-year automatic repeal of rules.
 - 6-month extension allowed if requested
- Re-adopt a rule by starting from scratch
 - Cost-benefit analysis
 - Consider “less restrictive alternatives to the rules”
 - Analyze how other state regulate the activities addressed

State Nexus & Apportionment Considerations

What is **Nexus**?

Means connection or link
= filing requirement

Common Types of Nexus

Physical

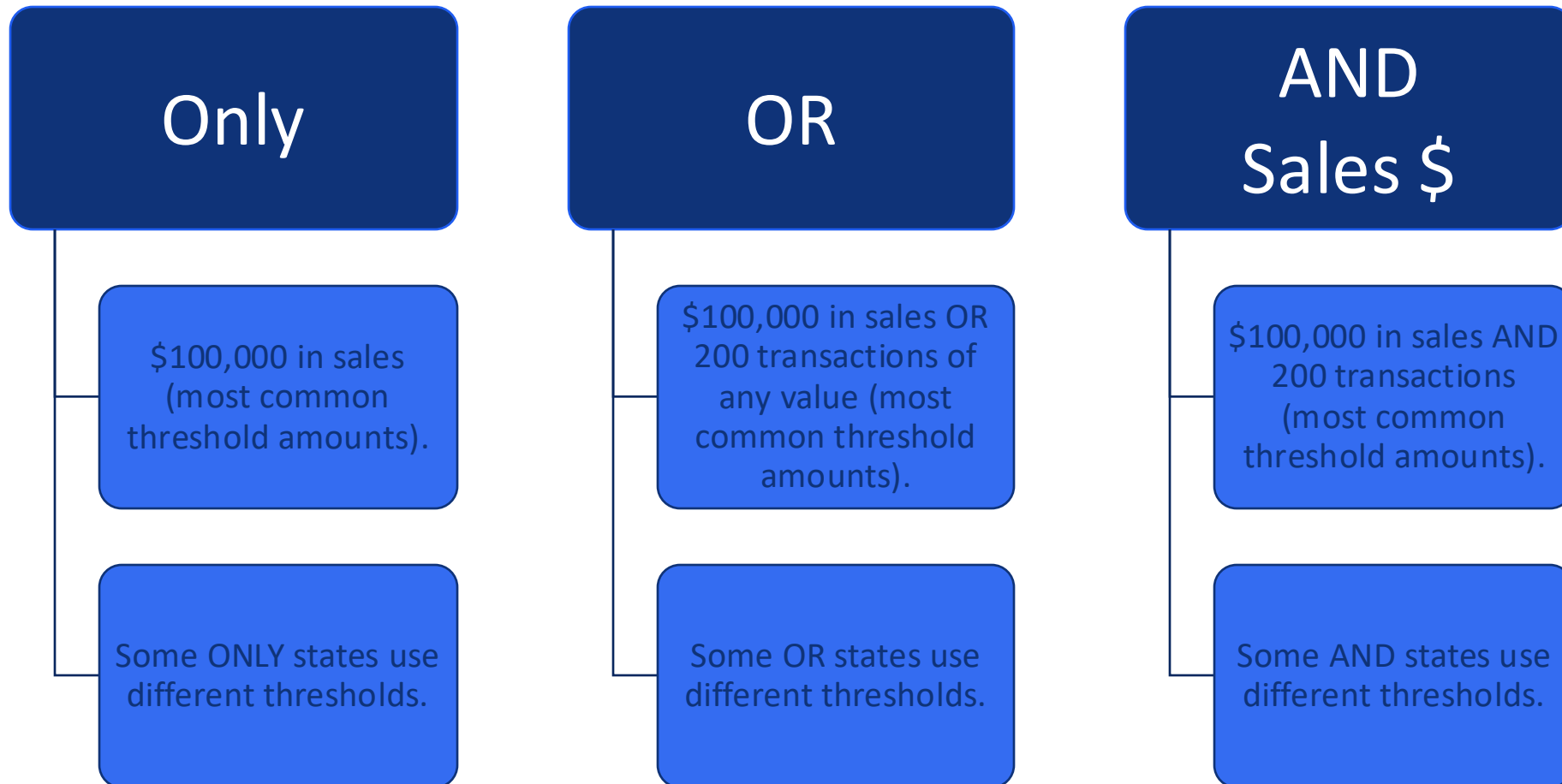
Affiliate

Economic/Factor Presence



Sales and use tax – Economic Nexus Types

THERE ARE 3 BASIC STYLES OF ECONOMIC NEXUS LAWS



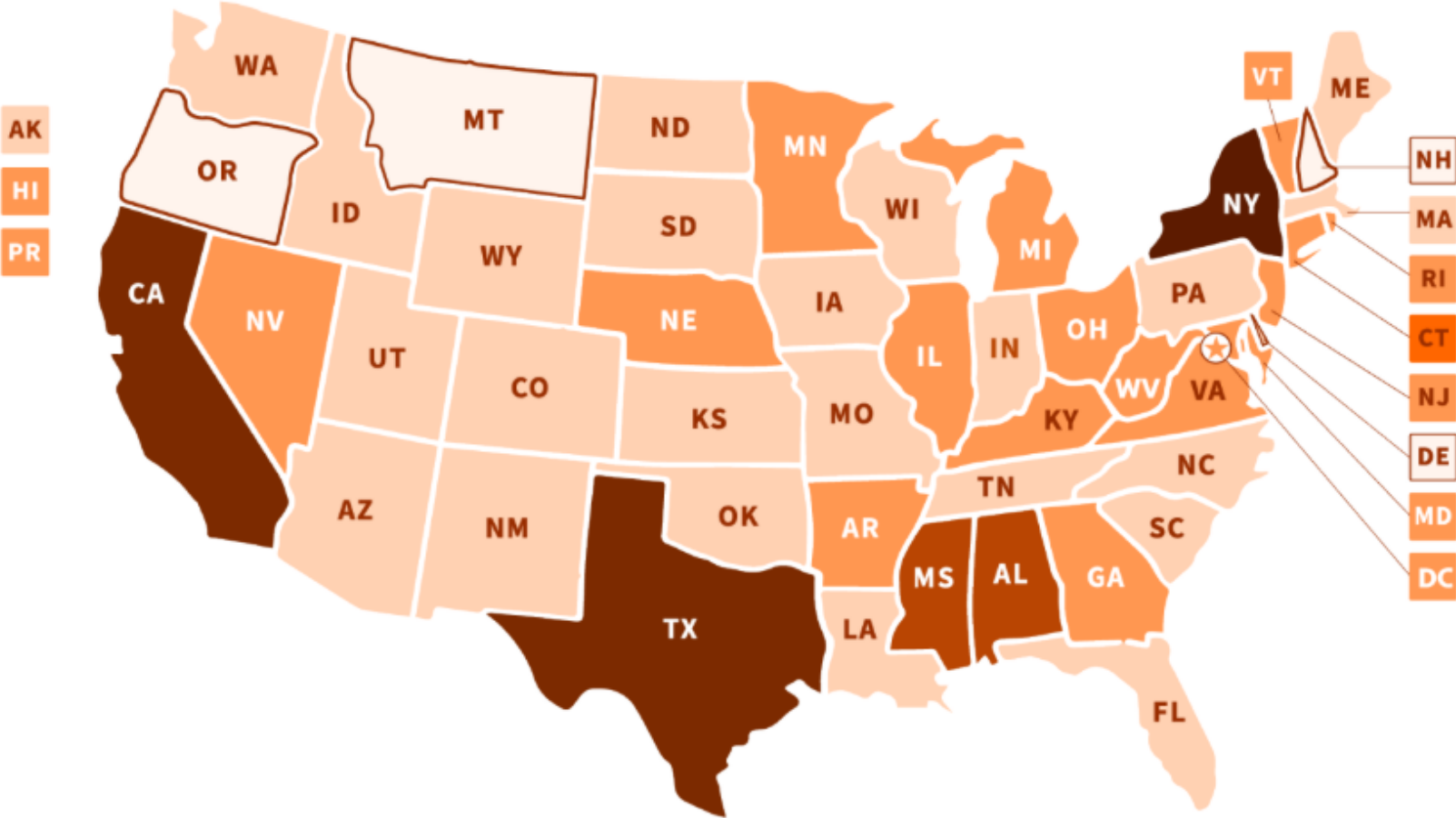
Economic Nexus--2019



Economic Nexus--2025

Thresholds legend

- No economic nexus
- \$100,000
- \$100,000 **or** 200 transactions
- \$100,000 **and** 200 transactions
- \$250,000
- \$500,000
- \$500,000 **and** 100 transactions



- Physical Presence
 - Owning real property
 - Owning tangible personal property, including inventory
 - Renting property
 - Owning or renting mobile property that enters the state
- Employees based in the state
- Remote employees working from home
- Employees traveling into the state to work
- Affiliates, agents or contractors working in the state

- Economic Presence
 - Licensing intangibles that are used in the state
 - Licensing software used in the state
 - Providing services received by customers in the state

Public Law 86-272

- Federal law that protects taxpayers from having to pay net income tax imposed by state and local jurisdictions
- Activity in state must be limited to:
 - Solicitation of sales of TPP
 - Orders sent outside of the state
 - Orders must be approved outside of the state
 - Product must be sent in from outside of the state

Public Law 86-272 – Protected activities

Advertising TPP

Carrying samples
so long as not sold

Setting up/advising
re: product
displays

Checking customer
inventories

Maintaining
display room 14 or
less days

Recruiting/training
sales personnel

Mediating
customer
complaints

In-home office for
sales personnel

Public Law 86-272 – Unprotected Activities

Remote workers
doing anything
other than
soliciting sales of
tangible property

Selling or
providing any
services

In-state repairs or
warranty work

Conducting
training in-state

Approving orders
in-state

Deliveries from
locations within
the state

Maintaining
Inventory in-state

Licensing
intangibles or
franchising

Public Law 86-272 – Unprotected Activities (Cont'd)

Collection
activity

Installation or
supervising
installation

Technical
Assistance

Repossessing
property

Picking up
damaged or
returned
inventory

Maintaining a
business
location

Consigning a
stock of goods

Employee
telecommuting
not for
solicitation

State Apportionment Factors

STATE APPORTIONMENT OF CORPORATE INCOME

(Formulas for tax year 2022 -- as of January 1, 2022)

ALABAMA *	Sales	MONTANA *	Double wtd Sales
ALASKA*	3 Factor	NEBRASKA	Sales
ARIZONA *	Sales/Double wtd Sales	NEVADA	No State Income Tax
ARKANSAS *	Sales	NEW HAMPSHIRE (3)	Double wtd Sales
CALIFORNIA *	Sales	NEW JERSEY	Sales
COLORADO *	Sales	NEW MEXICO *	3 Factor/Sales
CONNECTICUT	Sales	NEW YORK	Sales
DELAWARE	Sales	NORTH CAROLINA *	Sales
FLORIDA	Double wtd Sales	NORTH DAKOTA *	3 Factor/Sales
GEORGIA	Sales	OHIO	N/A (2)
HAWAII *	3 Factor	OKLAHOMA	3 Factor
IDAHO *	Double wtd Sales	OREGON	Sales
ILLINOIS *	Sales	PENNSYLVANIA	Sales
INDIANA	Sales	RHODE ISLAND	Sales
IOWA	Sales	SOUTH CAROLINA	Sales
KANSAS *	3 Factor	SOUTH DAKOTA	No State Income Tax
KENTUCKY *	Sales	TENNESSEE	Triple wtd Sales
LOUISIANA	Sales	TEXAS	Sales
MAINE *	Sales	UTAH	Sales
MARYLAND	Sales	VERMONT	Double wtd Sales
MASSACHUSETTS	Sales/Double wtd Sales	VIRGINIA	Double wtd Sales/Sales
MICHIGAN	Sales	WASHINGTON	No State Income Tax
MINNESOTA	Sales	WEST VIRGINIA *	Sales
MISSISSIPPI	Sales/Other (1)	WISCONSIN *	Sales
MISSOURI *	Sales	WYOMING	No State Income Tax
		DIST. OF COLUMBIA	Sales

Source: Federation of Tax Administrators – January 2022

Sales of Tangible Personal Property

- Typically sourced to destination of ship-to state
- Does it matter if customer picks up in their own truck?
- Or shipped via common carrier?

Iowa's Rules

- 701-503.5(1) Sales of tangible personal property are in this state if the property is delivered or shipped to a purchaser within this state regardless of the f.o.b. point or other conditions of the sales.
- 701-503.5(3) Property is delivered or shipped to a purchaser within this state if the shipment terminates in this state, even though the property is subsequently transferred by the purchaser to another state.
- 701-503.5(6) *Deliveries for transportation outside the state.* The taxpayer sells merchandise to a purchaser outside this state, and the purchaser picks up the produce or makes arrangements to have the product picked up at the taxpayer's place of business in this state to be taken outside the state. The sale by the taxpayer is a sale outside this state.
- 701-503.5(7) *Dock or pickup sales.* The taxpayer sells merchandise to a purchaser within this state, and the purchaser picks up the product at the taxpayer's place of business outside of this state. The sale by the taxpayer is a sale in this state.

How to source sales of services

- States may source the sale of services in a few ways.
- Cost of performance or market-based sourcing
 - Cost of performance
 - Where the income producing costs and activities are performed
 - Either sourced to where majority of costs occur or to state with greater proportion
 - States include Virginia, Texas, Florida?, South Carolina?

Market-based Sourcing

What does market-based sourcing mean?

Where is the market? Who is the customer?

Do you look through to location of your customer's customer?

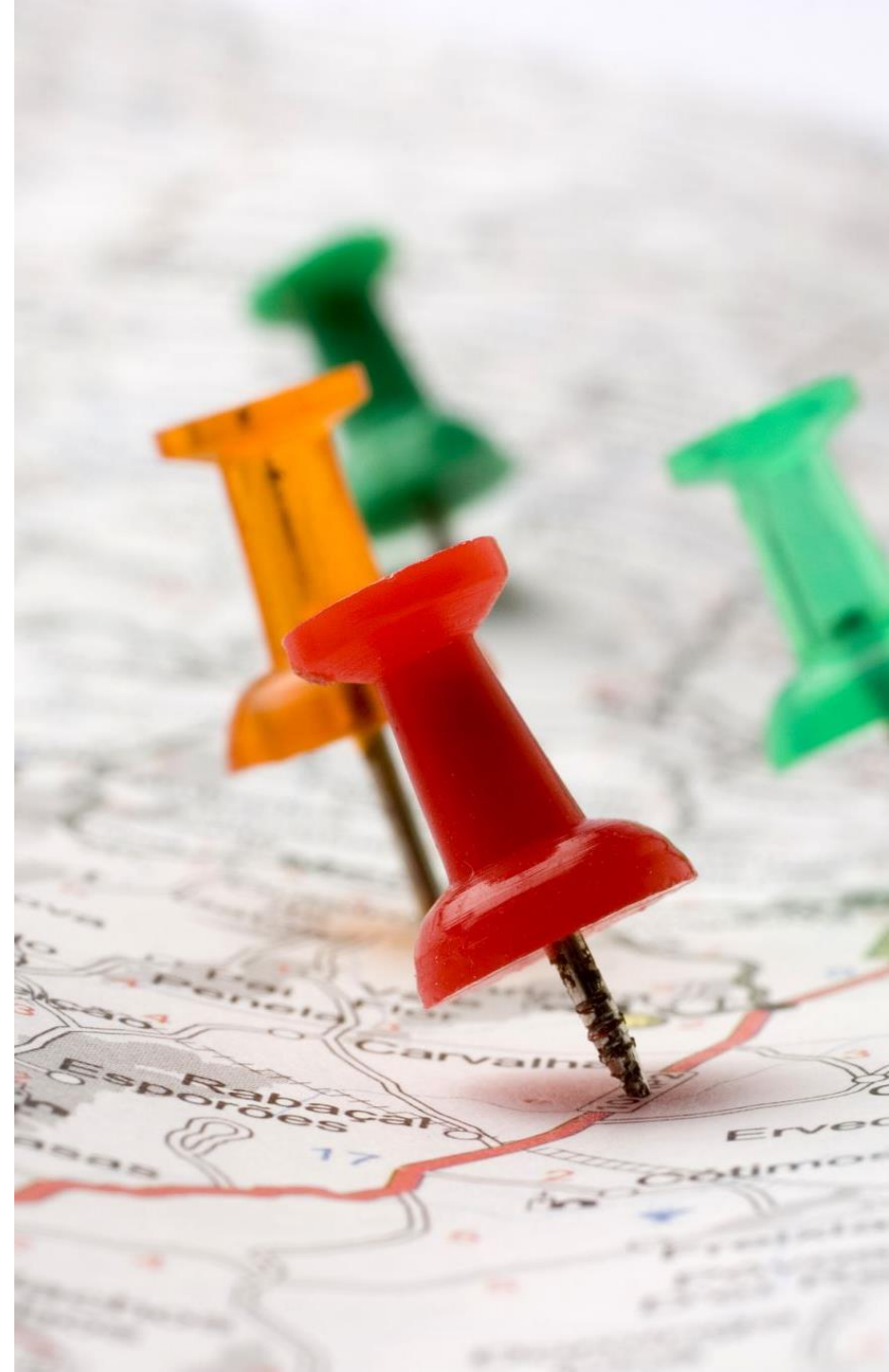
States can have different definitions for many of the terms.

Market-based Sourcing

- [a]ll gross receipts from the performance of services are includable in the numerator of the apportionment factor if the recipient of the service receives all of the benefit of the service in **Iowa**.
- If the recipient of the service receives some of the benefit of the service in **Iowa** with respect to a specific contract or item of income, the gross receipts are includable in the numerator of the apportionment factor in proportion to the extent the recipient receives benefit of the service in **Iowa**.

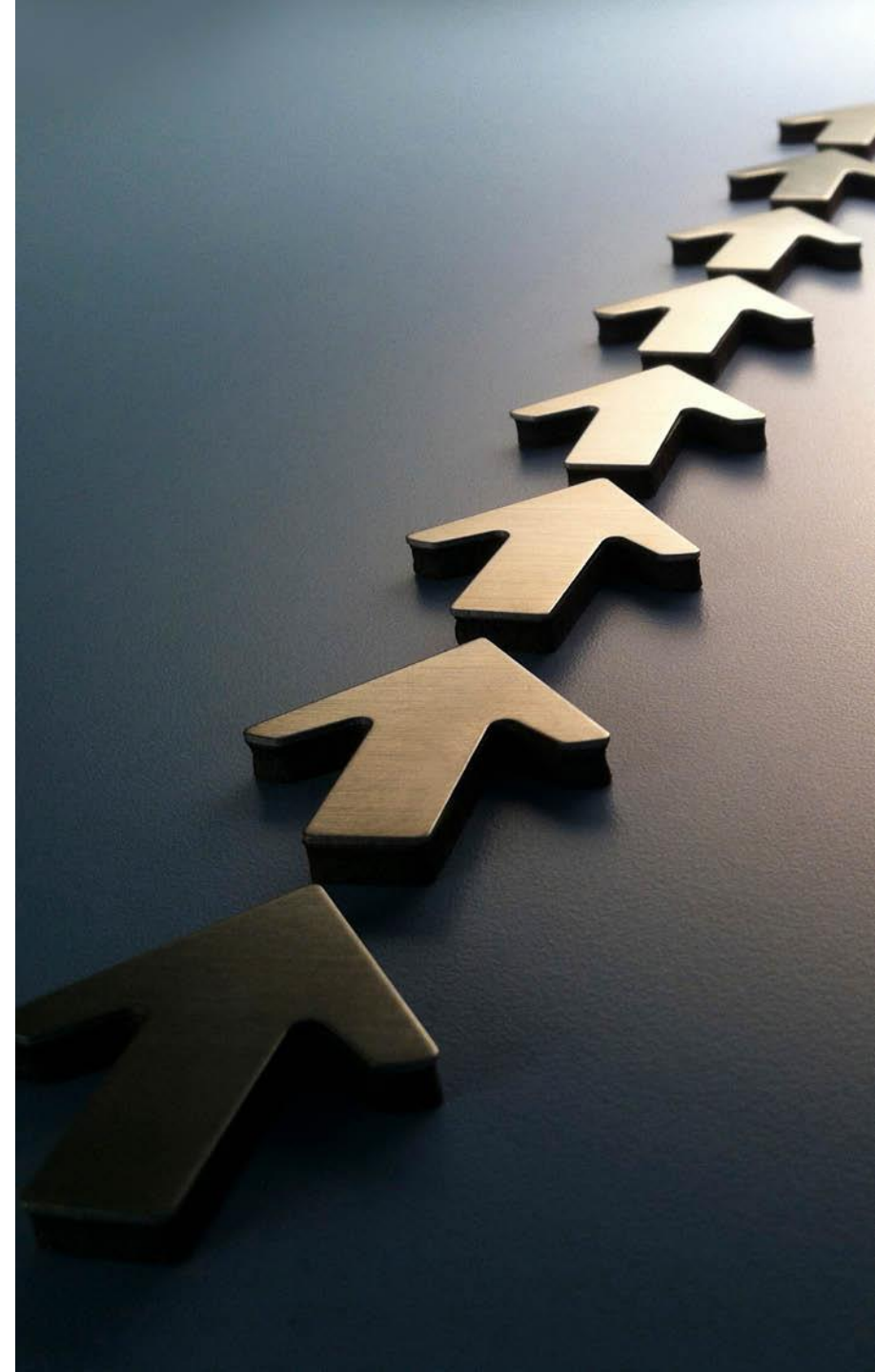
State differences

- State definitions on sourcing sales of services
- “Services received”
 - Examples: MN, IL, IN
- “Services delivered”
 - Examples: N.C., AL, TN
- “Benefit received”
 - Examples: CA, NY, AZ, IA
 - Note: in California and other states, whether customer is a business or individual can matter



State differences

- States may have cascading rules. If the “market” is not readily evident, you may look to the ordering office to source services. And then to billing office.
- Special industry rules
 - Telecommunication
 - Advertising
 - Transportation
 - Professional Services
 - Electronic Delivery
 - In-Person Services



Thank you

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