Changes Coming Soon to the Iowa Tax Laws!

These changes apply retroactively to January 1, 2018.

Section 179

Iowa's section 179 deduction increases from $25,000 to $70,000 for tax year 2018 for individual taxpayers. The phase-out threshold for this deduction is increased from $200,000 to $280,000.

The law also addresses other S179 problems created by decoupling from federal S179 laws. This problem arises when a taxpayer is allocated more section 179 deduction amounts than what is allowed under Iowa law by multiple partnerships or S corporations, or from an out-of-state entity. In these cases, the Iowa taxpayer has been unable to use the excess deduction at all, even though the taxpayer has been required to reduce his or her basis to correspond with the amount of the federal deduction passed through.

The law addresses this problem by allowing the taxpayer to elect to deduct the amount in excess of the Iowa limit evenly over a five-year period beginning the following tax year. Taxpayers who make the election cannot take the section 179 deduction for that tax year for any eligible property, but must depreciate the cost using the appropriate MACRS convention. This election is for one tax year and electing out of it in the subsequent tax year does not affect the taxpayer's ability to continue to take the five-year deduction of the excess from a prior year's election.

Tax-Free IRA Distributions to Certain Public Charities for Individuals 70 ½ and older

Starting in 2018 the new law conforms Iowa tax law with the federal PATH Act provision allowing taxpayers 70 ½ and older to make tax-free distributions from their IRAs to a qualified charity.

State Sales & Use Tax Deduction

Beginning in 2018, the law allows taxpayers who itemize deductions to choose to deduct state sales and use tax instead of state income and property tax. This provision conforms Iowa law to another provision of the PATH Act. Taxpayers must elect to deduct the sales and use tax on their federal return to make this choice on their state return.

Earned Income Tax Credit

Beginning in 2018, the law conforms Iowa law to federal law with respect to PATH Act provisions that increased phase-out amounts and credit percentages for the earned income tax credit.

Accounting Method Changes

Beginning in 2018, the law allows taxpayers to use accounting method changes made possible by the Tax Cuts & Jobs Act for purposes of calculating Iowa income.

Teacher Expense Deduction

Beginning in 2018, the law allows elementary and secondary teachers to apply the deduction allowed under federal law for out-of-pocket expenses up to $250 when calculating Iowa income.

529 Plans

Beginning January 1, 2018, the law conforms Iowa law with the new federal provisions for 529 plans. As such, "qualified education expenses" include (in addition to those associated with attending college) up to $10,000 per beneficiary, per year for tuition expenses for attending an accredited elementary or secondary (K-12) school in Iowa.

Like-Kind Exchange for Personal Property

For 2018, the law does not couple with the Tax Cuts & Jobs Act elimination of IRC § 1031 like-kind exchange treatment for personal property. As such, Iowa continues to recognize deferred gain or loss for personal property exchanges in tax year 2018, even though federal law does not.

Bonus Depreciation

Iowa does not recognize additional first-year depreciation in tax year 2018.

Domestic Production Activities Deduction

For 2018, Iowa does not specifically couple with the federal repeal of the DPAD deduction. Because Iowa law continues to point to the federal tax code as it existed on January 1, 2015 (absent specific exceptions), it appears that Iowa law will continue to recognize DPAD in 2018.