

Tax Years After 2019

For tax years beginning on or after January 1, 2020, **the law implements conformity with federal tax law, with certain exceptions.**

Section 179

Beginning in 2020, the law allows Iowa taxpayer's to take a Section 179 deduction equal to the federal limit. The federal deduction is currently \$1 million, with a \$2.5 million threshold. Both numbers will be indexed for inflation

Bonus Depreciation

Additional first-year depreciation allowed under IRC §168(k) of federal law does not apply in computing net income for state tax purposes.

Like-Kind Exchange

For tax years beginning January 1, 2020, or later, the Iowa like-kind exchange law will be the same as the federal law. No deferral will be allowed for exchanges of personal property. **Real property will continue to be eligible for § 1031 gain or loss deferral treatment under both state and federal law.**

Individual Tax Rates

Beginning with tax year 2023, Iowa's individual income tax rates will be lowered **if two revenue targets are met:**

- Actual general fund revenue must total at least \$8.3146 billion in the previous fiscal year
- Actual net general fund revenue for the previous fiscal year must exceed the actual net general fund revenue level for the fiscal year immediately prior to the previous year by at least 4 percent.

First, the number of tax brackets would be reduced from nine to four. Second, the rates would be lowered as follows:

Taxed Income Brackets		Contingent Rates TY 2023
Lower Limit	Upper Limit	
\$ 0	\$ 6,000	4.40%
\$ 6,001	\$ 30,000	4.82%
\$ 30,001	\$ 75,000	5.70%
\$ 75,001	And Over	6.50%

If the trigger conditions are met, federal deductibility would also be eliminated for individuals.

Capital Gain Deduction Restricted

Beginning with tax year 2023, the Iowa capital gain deduction will apply only to net capital gain from the sale of real property *used in a farming business if sold to lineal descendants or other certain relatives*. This change will apply only when the two revenue targets stated above are met (and lower individual rates are triggered):

- Actual general fund revenue must total at least \$8.3146 billion in the previous fiscal year
- Actual net general fund revenue for the previous fiscal year must exceed the actual net general fund revenue level for the fiscal year immediately prior to the previous year by at least 4 percent.

Current law allows net capital gain from the sale of real property used in a business to be deducted from Iowa income if the other requirements of the deduction (such as 10-year ownership and material participation are met).

QBI Deduction

In 2020, like 2019, the law allows taxpayers to deduct from their Iowa taxable income an amount equal to 25 percent of their federal IRC § 199A “qualified business income” QBI deduction. In 2021, this percentage increases to 50 percent, and for tax years beginning in 2022, it increases to 75 percent. If the revenue targets above are met in years 2023 through 2025, the Iowa deduction will be 100 percent of the federal QBI deduction. This is because the revenue trigger would cause federal taxable income, rather than federal adjusted gross income, to be the starting point for tax calculations.

Corporate Tax Rates

Beginning in 2021, corporate income tax rates are reduced from a high of 12 percent to 9.8 percent.

Taxed Income Brackets		Current Law Tax Rates	TY 2021 Rates
Lower Limit	Upper Limit		
\$ 0	\$ 25,000	6.0%	5.5%
\$ 25,001	\$ 100,000	8.0%	5.5%
\$ 100,001	\$ 250,000	10.0%	9.0%
\$ 250,001	And Over	12.0%	9.8%

Corporate AMT

The law retains the corporate AMT through 2020 (despite its elimination under federal law), but eliminates it beginning in tax year 2021.

Federal Deductibility

The law does not allow corporations to deduct federal income taxes paid for tax years beginning on or after January 2021.