



MULTISTATE INCOME/FRANCHISE TAX

Iowa enacts tax relief bill that includes several income tax law changes

Tax Alert

Overview

On June 16, 2021, the Iowa Governor signed [Senate File 619](#) (SF 619) into law. SF 619 includes several provisions that address Iowa's conformity to federal tax laws, including federal bonus depreciation rules, net operating losses, COVID-19 related grants, and the Paycheck Protection Program. SF 619 also phases out the inheritance tax and reduces the individual income tax rates.

This Tax Alert summarizes some of the more significant provisions of SF 619.

Income tax provisions

- 168(k) bonus depreciation – SF 619 conforms Iowa to Internal Revenue Code (IRC) section 168(k) bonus depreciation. This allows businesses to elect the additional first year deduction of a capital purchase that can be fully expensed the first year. This provision applies to tax years beginning on or after January 1, 2021.
- Net operating losses (NOLs) – SF 619 repeals the contingent tax changes in 2018 Iowa Acts, Chapter 1161, Sections 99-132. As a result, effective for tax years beginning on or after January 1, 2023, Iowa conforms to the federal NOL. To transition from a post-apportioned state NOL, the state will require an addback of NOLs deducted for federal purposes that were generated in a tax year prior to January 1, 2023 and will also continue to allow carryforward and utilization of post-apportioned state NOLs generated prior to January 1, 2023.
- 163(j) business interest expense deduction – SF 619 keeps Iowa decoupled from IRC section 163(j) business interest expense deduction limitation. This provision applies to tax years beginning on or after January 1, 2021.
- COVID-19 related grants – SF 619 excludes all qualifying grant monies attributable to COVID-19 (that were administered by the Iowa

Department of Economic Authority, Iowa Finance Authority, and Iowa Department of Agriculture and Land Stewardship) from Iowa individual income tax and Iowa corporate income tax. For this provision, qualifying COVID-19 grants included any grant that was issued between March 17, 2020 and December 31, 2021.

- Federal Paycheck Protection Program (PPP) – SF 619 fully conforms Iowa with federal law for those fiscal year filers who previously were excluded from such conformity and allows such filers to take deductions for business expenses paid with federal PPP loan proceeds that were forgiven. This provision takes effect on June 16, 2021 and is applicable to tax years ending after March 27, 2020.
- Early Childhood Development Tax Credit (ECDC) and Child Dependent Care Credit (CDCC) – SF 619 increases the net income threshold for determining eligibility for the ECDC from less than \$45,000 per year to less than \$90,000 per year. The bill also increases eligibility for 30% of the federal CDCC amount from income less than \$45,000 per year to income less than \$90,000 per year. This provision applies to tax years beginning on or after January 1, 2021.
- State inheritance tax – SF 619 proportionally reduces, over a four-year period, the rates of tax applicable to the state inheritance tax for estates of decedents dying on or after January 1, 2021. The bill then repeals the state inheritance tax and the state qualified use inheritance tax effective January 1, 2025 for property of estates of decedents dying on or after January 1, 2025.
- Individual income tax rate change – SF 619 repeals the contingent tax changes in 2018 Iowa Acts, Chapter 1161, Sections 99-132. As a result, effective for tax years beginning on or after January 1, 2023, individual income tax rates are reduced from the current top rate of 8.98% to 6.5% and the total number of individual tax brackets are reduced from nine to four.

Get in touch

[Steven Kelly](#)

[Michael Dugan](#)



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30 Rockefeller Plaza
New York, NY 10112-0015
United States

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