



General Overview of Iowa Tax Reform

By **Christopher Nuss and Paul Carey**, BrownWinick Attorneys
nuss@brownwinick.com / carey@brownwinick.com

Following in Congressional footsteps, the Iowa General Assembly recently passed historical tax reform, purporting to cut individual income tax in excess of \$1.5 billion and corporate income tax of at least \$100 million over five years. This reduction, however, is partially offset by an estimated increase in sales and use tax collection of \$700 million over the next six years. It appears the baseline in arriving at these estimates includes the anticipated increase to Iowa income taxes due to an expected lower federal income tax deduction. This increase stems from Iowans paying reduced federal income taxes due to the recent federal tax reform.

On the individual side, most of the cuts are due to coupling with more of the federal income tax code than in prior years. There is some minimal coupling in 2018 but more significant coupling in 2019. Some of the most notable changes include the following:

- Section 179 expensing increases from \$25,000 annually to \$70,000 for 2018, \$100,000 for 2019, and then \$1 million per year thereafter (subject to phasing out at certain thresholds of investment).
- A deduction is allowed for the newly enacted federal 20% “qualified business income” deduction, although phased in over several years – 25% of such federal deduction in 2019 and 2020, half in 2021, 75% of in 2022, and then the entire federal deduction beginning in 2023.
- Allowing Section 1031 like-kind exchanges only for real property.
- Expanding the definition of qualified education expenses under Section 529 education savings plans to include tuition for elementary and secondary schools.

In addition to these changes, the top individual income tax rate decreases from 8.98% to 8.53%. Even more individual income tax changes would occur beginning 2023 (or later) if certain state revenue targets are met. These revenue goals are lofty and many anticipate little impact to the income tax system. Some of those changes would be eliminating the deduction for federal income taxes paid and reducing the income tax rates.

For corporations, much of the tax reform involves coupling with federal tax changes beginning in 2019 (other than bonus depreciation) and then beginning in 2021 the new law reduces tax rates (e.g., the top rate decreases from 12% to 9.8%), eliminates the alternative minimum tax, and gradually eliminates the deduction for federal income taxes paid.

There were also some modifications to subject more products and services to sales tax, such as in the areas of digital products, subscription services, other online sellers and marketplaces, and

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manufacturing. Some of the state income tax credit programs were also affected, including limiting which industries may qualify for the research activities tax credit.

Despite some early momentum, the historical tax reform package enacted into law did not change Iowa's Inheritance Tax system or rates.

For additional detail and to assess how these recent state and federal changes could affect your tax situation, contact Paul Carey at carey@brownwinick.com (phone: 515.242.2416) or Chris Nuss at nuss@brownwinick.com (phone: 515.242.2432).

666 Grand Avenue, Suite 2000
Des Moines, IA 50309
515-242-2400
www.brownwinick.com

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