

# Iowa Tax Expenditures 2000

## Phase 1 Report

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Corporate Income  
Individual Income  
Sales Tax  
Use Tax

**Federal Income Tax Basis Separately Delineated**

Prepared by



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# Introduction

**Tax expenditures are** – “Tax expenditures” are exemptions, exclusions, credits against tax and reductions in tax base that are tied to specific provisions in tax law. In addition, tax expenditures are generally targeted to a limited group of taxpayers. The basis of this report is identification of those provisions in Iowa law and estimation of the annual dollar effect for each of those provisions that satisfy this definition.

**Tax expenditures are not** – “Tax expenditures” are not appropriations. Although tax expenditures allocate resources for specific public purposes like appropriations, they achieve policy goals indirectly by changing costs of particular actions. General features of the tax system, such as rates and income brackets, are not considered “tax expenditures” even though the impact on taxpayers may differ.

**Purpose for study** – Although government programs funded through direct appropriations are subject to periodic review as part of the State budget process, programs funded through special features of the tax code generally escape such regular re-examination. Thus, this study is intended to improve government accountability.

**Other states** – With this first-ever tax expenditure report, Iowa joins more than 20 other states and the federal government in having such a study available for periodic examination of the dollar impact of tax exemptions and exclusions and credits against tax. All of Iowa’s border states, except South Dakota, prepare such studies.

**A first step** – This report should be considered a first step in an ongoing process that will evolve in form and scope over time. This report covers only tax expenditures that relate to corporate income, individual income, sales and use taxes.

**Next step** – The second phase of the project will cover local government tax expenditures and State property tax relief expenditures. Other work will cover additional State taxes such as estate and inheritance taxes. Additionally, tax expenditures related to non-general fund revenue sources will be covered during the third phase of the project.

**The process** – Conducting an examination of tax expenditures is a two-step process: defining what exemptions, exclusions, credits and tax base reductions are to be selected and then estimating the fiscal impact of those tax expenditures. For this report, more tax expenditures have been identified than have been given fiscal impact estimates. Continuing efforts to overcome restraints on resources and data availability may allow additional estimates of identified tax expenditures and the addition of even more separately identified expenditures in future reports.

**Overall results** – A total of 280 tax expenditures are identified in this report covering four taxes: corporate income, individual income, sales and use. Of these 280, dollar impact estimates are presented for 218 tax expenditures separately or in combination resulting in 189 dollar estimates. The total dollar impact of all tax expenditures if each is considered separately is \$3.86 billion for calendar year 2000. The two largest single tax

expenditures measured by dollar impact for year 2000 are the deduction of federal income tax when determining Iowa individual taxable income at \$596.3 million and the exemption of grocery-type food for human consumption from the sales tax at \$247.5 million.

**Format** – The report is divided into four components: Overview, Summary Listing of Estimated Tax Expenditures, Descriptive Listing of Estimated Tax Expenditures, and Listing of Tax Expenditures Not Estimated.

## Overview

### Nature of Tax Expenditures

#### Overall Definition of a “Tax Expenditure”

Tax expenditures are generally understood to be preferential provisions in tax law that produce reductions in tax from that which would be imposed without the provision. They take the form of special exclusions, exemptions, deductions, credits, and deferrals. Only when a specific provision is included in the law do tax expenditures actually occur.

#### Alternatives to Direct Policy and Appropriations

Tax expenditures can be viewed as alternatives to direct government appropriations. The main difference is that, while appropriations directly achieve policy goals by the expenditure of money, tax expenditures achieve policy goals indirectly by changing the relative costs of particular actions.

### Selection and Estimation Criteria

#### Two Approaches to Tax Expenditures

Within the general definition of a “tax expenditure,” there are two approaches to identifying tax expenditures.

**Traditional** – Using a widely accepted, relatively narrowly focused set of criteria, tax expenditures are identified by first defining the basic structure of the tax under consideration. Provisions deviating from the basic structure are then generally considered to be tax expenditures, whereas provisions, which form part of, or define, the basic structure, are not tax expenditures. Under this approach, some deductions, exemptions and the like are not considered tax expenditures because they are a part of the basic tax structure. For example, since income taxes are taxes on net income, deductions for expenses ordinary and necessary to producing the income are properly deductible in determining income and are, therefore, not tax expenditures.

**Expanded** – Under a more broadly defined theory, tax expenditures are defined as all exemptions, exclusions, deductions and credits. The latter definition will cause many more provisions to be listed as tax expenditures. While this approach avoids some of the definitional issues encountered under traditional tax expenditure analysis, it lists many items as tax expenditures which are generally accepted as a part of the tax base.

**For this report** – Use is made of the more traditional approach. Within the general traditional approach, selection of particular tax expenditures is still a subjective process. Although an attempt was made to be as inclusive as possible within the general criteria, there remains potential for additional tax expenditures in the future.

## **Timing**

The estimates in this report are, unless otherwise noted, for taxable events occurring in calendar 2000 and are based upon the most recently available data adjusted to reflect year 2000 levels of activity. Note is made when estimates have been made for other periods.

## **General Fund Only**

Estimates are based upon the impact on receipts of the State of Iowa only and only upon receipts going into the General Fund. Impacts on local option income surtaxes or “piggy-backed” local option sales taxes are not estimated.

## **Source of Data**

Sources of information used for the estimates are tax returns and filing information where possible. When that is not possible, secondary sources have been used.

## **Selected Taxes**

For this report, tax expenditures are limited to those related to individual income, corporate income, sales and use taxes. Tax expenditures related to gambling taxes, insurance premiums tax, alcohol taxes, cigarette and tobacco taxes, franchise tax, moneys and credits tax and inheritance, estate tax and other taxes will be considered at a later time.

## **Specific Assumptions**

The assumptions used for the Iowa tax expenditure study are generally consistent with those used for calculating tax expenditures for other states and for the federal government. Those assumptions are:

### **Economic Behavior Not Altered**

By definition, tax expenditures are sometimes originally created in order to bring about an expected result or to encourage a particular behavior. Estimates in this study are done assuming that elimination of the tax expenditure will not otherwise change behavior. This assumption avoids the necessity for making subjective assumptions about behavior and the possibility of inconsistency in methods and outcomes.

### **Tax Expenditures Independent**

The fiscal impact of one tax provision can effect the fiscal impact of another tax provision. For instance, in the individual income tax, increasing the standard deduction may result in less use of particular itemized deductions. This type of impact is beyond the scope of this study. Each tax expenditure is considered independently.

### **“Minimal” Impact Designation**

When an estimate is noted as “Minimal,” the calculated estimate was found to be less than \$100,000 in the year 2000.

## **Tax Expenditures Compared with Budgetary Fiscal Estimates**

Although the provided estimates of tax expenditures indicate the magnitude of the revenue gain from repeal of specific provisions, actual budgetary fiscal impacts of legislative changes may produce different results. Reasons for this variance primarily are:

- use of different basic economic assumptions or time periods when compiling estimates
- independent calculation of tax expenditures contrasted with budgetary fiscal estimates that are considered in the context of other changes

## Tax Base Descriptions and History

Before considering the exceptions to the tax base (tax expenditures) a general description of the current tax base and a short history of the development of that base is provided. The following descriptions cover the taxes considered in this report.

### Corporate Income Tax

Iowa corporate income tax generally uses federal definitions of income and deductions.

### Corporate Income Tax Rates

Year	Rate and Taxable Income Bracket Description
1934	Imposed at flat rate of 2.0%
1959	Rate increased from 2.0% to 3.0%
1965	Rate increased from 3.0% to 4.0%
1967	Graduated rates over 3 taxable income classes
1971	Rates increased from 6% to 10% over the same taxable income classes
1981	Top rate of 12% imposed for taxable income over \$250,000, no other changes

### Selected Corporate Income Tax Expenditures Enacted Since 1969

Year	Tax Expenditure or Other Description
1984	Deduction for hiring handicapped or convicted felons enacted
1985	Research and new jobs credits are allowed
1989	Minimum tax carry forward credit allowed
1995	Investment tax credit allowed for eligible businesses

### Individual Income Tax

The Iowa individual income tax was enacted in 1934 and is imposed on Iowa net income of individuals and estates and trusts. Individuals may also be subject to the alternative minimum tax and a tax on lump-sum distributions from qualified retirement plans.

Iowa uses federal adjusted gross income as the starting point in the income tax calculation. This means that Iowa net income generally conforms to federal definitions of sources included in income as well as adjustments to gross income.

## History of Iowa Individual Income Tax Rates and Brackets

Year	Rate and Taxable Income Bracket Description
1934	Graduated rates imposed ranging from 1.0% to 5.0% over five taxable income classes
1953	Rate lowered to range from 0.75% to 3.75% over the same taxable income classes
1955	Rates increased to range from 0.8% to 4.0% over five taxable income classes with the taxable income level for the top bracket lowered from \$5,000 to \$4,000
1957	Rates lowered to range from 0.75% to 3.75% over the same taxable income classes
1965	Rate changed to range from 0.75% to 4.5% over seven taxable income classes with the taxable income level for the top bracket beginning at \$9,000
1967	Rates increased from 3.75% to 4.5% on the sixth bracket and from 4.5% to 5.25% on the top bracket
1971	Rates increased on all brackets except lowest two classes with rates ranging from 0.75% to 7.0%
1975	Rates imposed ranging from 0.5% to 13.0% over 13 taxable income classes with the top bracket beginning at \$75,000 of taxable income
1979	Rates unchanged but indexation of brackets begins
1987	Rates changed to 0.4% to 9.98% over nine taxable income classes with the top bracket beginning at \$45,000 of taxable income
1996	Indexation of brackets made permanent
1997	All tax rates cut 10% with a range of .36% through 8.98% over nine taxable income classes with the top bracket beginning at \$45,000 taxable income

## Selected Individual Income Tax “Tax Expenditure” and Other Enactments Since 1969

Year	Tax Expenditure or Other Description
1969	Exemption from tax for individuals or couples with adjusted gross income of \$3,000 or less
1974	Standard deduction changed from 5% of income to 10% of income and maximum standard deduction increased from \$250 to \$500. Minimum adjusted gross income for taxation increased from \$3,000 to \$4,000
1975	Standard deduction increased to \$1,000 for all taxpayers except married separates who remained at \$500 per spouse.
1977	Child care credit allowed with credit up to \$100 for one child and \$200 for two or more children.
1979	Standard deduction increased to 15% of income with maximum of \$1,200 for singles and married separates and \$3,000 for others. The minimum adjusted gross income required for tax filing increased from \$4,000 to \$5,000. Personal and dependent credits increased by \$1 each year until they reached \$20 for personal credits and \$15 for dependent credits.
1982	Nonresident credit allowed. Lump sum and minimum taxes permitted.
1984	Charitable contributions deduction for non-itemized allowed (Sunset 1987)
1985	Research and new jobs credits allowed
1986	Child care credit changed to 45% of federal credit, net income adjustment addition for intangible drilling costs recovered through cost depletion for depreciation, and net income adjustment form forfeiture of an installment contract relating to foreclosure
1987	Standard deduction changed to a flat \$1,230 for singles and separates and \$3,030 for all others. Tuition/textbook credit and deduction allowed. Capital gains refund program implemented. Net income adjustments allowed for sale-leaseback agreements under Section 168(f)(8) of the Internal Revenue Code
1989	Government pension exclusion allowed. (Sunsets in 1991)
1990	Earned income credit allowed. Limited capital gains deduction replaces capital gains refund program. The standard deduction is indexed for inflation.
1992	Low income exemption raised to \$9,000 for singles and \$13,500 for all others over two years.
1995	Dependent credit increased from \$15 to \$40, pension exclusion of \$3,000/\$6,000 allowed.
1996	Tuition and textbook deduction ends with tuition and textbook credit increased to 10% of qualified expenditures.
1997	Net income adjustment for the work opportunity credit
1998	Tuition and textbook credit revised to include amounts expended for extracurricular activities and percentage increased to 25% of first \$1,000 per dependent. Pension exclusion increased to \$5,000/\$10,000. Cap removed from limited capital gains deduction. Educational Savings Plan Trust deduction allowed.
2000	Income exemption for war reparation payments to holocaust victims and their heirs.
2001	Pension exclusion increased to \$6,000/\$12,000

## Sales and Use Taxes

**Tax Rates** - When first imposed in 1934, the sales tax rate was 2 percent. The present State sales tax rate is 5 percent. Additionally, two local option sales taxes may apply, each with a maximum rate of 1 percent for a maximum State and local sales tax rate of 7 percent. One of the local option sales taxes can be described as a general local government tax. The other local sales tax is specifically limited in use to school infrastructure.

### History of Iowa Sales Tax Rates

Date of Change	Tax Rate
April 1, 1934	2.0%
July 1, 1955	2.5%
July 1, 1957	2.0%
October 1, 1967	3.0%
March 1, 1983	4.0%
July 1, 1992	5.0%

**Tax Base** - The Iowa State sales tax is imposed on the gross receipts from the sale of tangible personal property sold at retail and of enumerated services. The Iowa use tax is meant to complement the Iowa sales tax. The general rule is that a transaction is subject to Iowa use tax when it is completed outside the State but involves tangible personal property sold for use in Iowa and used in Iowa. The principle also applies to the sale of taxable services purchased outside of Iowa for use in Iowa. Any transaction where the sales tax has been paid is exempt from use tax.

### History of Major Iowa Sales Tax Base Imposition and Expansion

Date of Change	Nature of Change
April 1, 1934	Sales tax placed on tangible personal property, sale of gas, electricity, water and communication service and admissions to places of amusement and athletic events. The tax was to sunset in three years.
April 1, 1937	Sales tax made permanent and use tax imposed
April 24, 1947	Retail sales tax was put upon sales of all forms of amusement devices and commercial amusement enterprises.
July 1, 1963	Extend tax to vending machines
January 1, 1966	Extend tax to hotel and motel rooms
July 29, 1967	Taxable sale definition of tickets to places of amusement was expanded
October 1, 1967	Extend tax to listed services
July 1, 1971	Sale of all vehicles subject to registration made subject to the use tax
June 2, 1973	Gambling, games of skill, raffles subject to sales tax
July 1, 1979	Clarified that sales tax applied to parking facilities rather than just parking lots
July 1, 1985	Exception to exemption for food for human consumption for candy, candy-coated items, certain beverages and certain prepared food.



# Summary Listing of Estimated Tax Expenditures

## Annual Impact Calendar 2000

### Corporate Income Iowa Specific

Fifty Percent Deduction of Federal Tax ..... \$76,700,000

### Corporate Income Federal Base

Corporate Charitable Contributions ..... \$1,000,000

Electric and Telephone Coops and Mutuals ..... \$1,300,000

Sale of Farm Refiners Deferral of Gain .....\$200,000

### Individual Income Iowa Specific

Alternative Minimum Tax Exemptions .....\$16,300,000

Capital Gain - Iowa – All .....\$51,300,000

Capital Gain - Iowa - Breeding Stock ..... Included in "Capital Gain - Iowa - All"

Capital Gain - Iowa - Business Property ..... Included in "Capital Gain - Iowa - All"

Capital Gain - Iowa - Cattle and Horses ..... Included in "Capital Gain - Iowa - All"

Capital Gain - Iowa – Timber ..... Included in "Capital Gain - Iowa - All"

Credit – Accelerated Career Education (ACE) Withholding .....\$6,000,000

Credit - Age 65+ Exemption .....\$2,900,000

Credit - Alternative Minimum Tax – Individual .....\$1,300,000

Credit - Blind Exemption .....\$300,000

Credit - Child and Dependent Care .....\$7,000,000

Credit - Dependent Exemption .....\$30,300,000

Credit - Earned Income .....\$6,000,000

Credit - Franchise Tax .....\$3,100,000

Credit - New Jobs – Individual ..... 1,200,000

Credit - New Jobs Withholding .....\$33,700,000

Credit - New Jobs Withholding Supplement .....\$3,300,000

Credit - Out-Of-State Tax – All .....\$39,000,000

Credit - Out-Of-State Tax - Minimum Tax ..... Included in "Out-of-State-All"

Credit - Personal Exemption .....\$63,100,000

Credit - S-Corp Shares Apportionment .....\$8,600,000

Credit - Tuition and Textbook .....	\$11,700,000
Disability Income Exclusion .....	\$300,000
Federal Tax Deduction .....	\$596,300,000
Health Insurance - Iowa Deduction .....	\$4,700,000
Iowa Education. Savings Plan Trust-Deduction .....	\$2,100,000
Iowa Education Savings Plan Trust-Earnings .....	\$300,000
Itemized-Mortgage Credit Interest .....	Minimal
Itemized-Multipurpose Vehicle Fee .....	Minimal
Livestock Production Refund .....	\$2,000,000
Military - Bosnia-Herzegovina Duty .....	Minimal
Military - Death Forgiveness .....	Minimal
Military - Persian Gulf Conflict Duty .....	Minimal
Minimum Income Filing Requirements .....	\$8,500,000
Partial Pension Exclusion .....	\$59,000,000
Reciprocal Agreement – Illinois .....	\$16,300,000
Social Security Exemption/Iowa Addition .....	\$21,700,000
Solvent Farmer Discharge of Debt .....	\$1,500,000
Standard Deduction – Base.....	\$126,800,000
Standard Deduction – Indexation .....	600,000
State Legislature - Travel Expenses .....	Minimal
Tax Limit – Alternate Tax .....	\$11,700,000
Tax Limit – Minimum Income .....	\$4,700,000

### **Individual Income Federal Base**

Bequests and Gifts .....	\$237,500.000
Cancellation of Debt .....	Minimal
Capital Gain - Carryover Basis of Gifts .....	\$200,000
Capital Gain - Home Sale Exclusion .....	\$38,200,000
Capital Gain - Small Business Stock .....	Minimal
Capital Gain - Step-up Basis at Death .....	\$42,200,000
Capital Loss in Excess of Gains .....	\$5,100,000
Education Individual Retirement Accounts .....	Minimal
Employee Achievement Awards .....	Minimal

Employee Fringe - Cafeteria Plans .....	Included Separately in Employee Fringes
Employee Fringe - Child Care .....	\$1,100,000
Employee Fringe - Disability Insurance .....	\$300,000
Employee Fringe - Education Assistance .....	\$500,000
Employee Fringe - Life Insurance .....	\$4,400,000
Employee Fringe - Medical Insurance .....	\$167,500,000
Employee Fringe - Parking Expense Paid .....	\$2,100,000
Employee Fringe - Transit Pass Expenses .....	Minimal
Employee Meals and Lodging .....	\$1,300,000
Federal Employees Abroad Allowances .....	\$100,000
Foreign Income Exclusion .....	\$5,200,000
Foster Care Payments .....	Minimal
Health Insurance - Federal Base .....	\$7,100,000
Insurance Reimbursed Living Expenses .....	\$300,000
Itemized-2% Floor-All .....	\$18,000,000
Itemized-2% Floor-Employment-All Expense .....	Included in "2% Floor-All"
Itemized-2% Floor-Employment-Education .....	Included in "2% Floor-All"
Itemized-2% Floor-Employment-Job Hunting .....	Included in "2% Floor-All"
Itemized-2% Floor-Employment-Union Dues .....	Included in "2% Floor-All"
Itemized-2% Floor-Employment-Use of Home .....	Included in "2% Floor-All"
Itemized-2% Floor-Fees-Tax Preparation .....	Included in "2% Floor-All"
Itemized-2% Floor-Other-All Non-Business .....	Included in "2% Floor-All"
Itemized-2% Floor-Other-Legal Expenses .....	Included in "2% Floor-All"
Itemized-2% Floor-Employment-Uniforms .....	Included in "2% Floor-All"
Itemized-Casualty Loss – All .....	\$600,000
Itemized-Casualty Loss – Disaster .....	Included in "All Casualty Loss"
Itemized-Casualty Loss – Theft .....	Included in "All Casualty Loss"
Itemized-Charitable Contributions .....	\$78,700,000
Itemized-Income Tax - Non-Iowa Foreign .....	\$100,000
Itemized-Income Tax-Non - Iowa Other State .....	\$3,400,000
Itemized - Income Tax – Surtaxes .....	\$1,300,000
Itemized-Medical Expenses .....	\$18,300,000
Itemized-Mortgage and Investment Interest .....	\$152,300,000

Itemized-Other - All .....	\$11,900,000
Itemized-Other - Amortized Bond Premium .....	Included in "Other - All"
Itemized-Other - Annuity Input Recovery .....	Included in "Other - All"
Itemized-Other - Claim of Right .....	Included in "Other - All"
Itemized-Other - Co-op Housing Expenses .....	Included in "Other - All"
Itemized-Other - Death Taxes on Income .....	Included in "Other - All"
Itemized-Other - Gambling Losses .....	Included in "Other - All"
Itemized-Other - Short Sale Expense .....	Included in "Other - All"
Itemized-Other - Work Costs of Impaired .....	Included in "Other - All"
Itemized-Tax on Owner Occupied Property .....	\$42,800,000
Itemized-Tax on Personal Property .....	\$4,300,000
Jury Pay Remitted to Employers .....	Minimal
Life Insurance Death Benefits .....	\$35,700,000
Medical Savings Accounts .....	\$200,000
Military Benefits.....	\$5,500,000
Military Disability Pensions .....	\$8,400,000
Moving Expenses .....	\$900,000
Oil and Gas Passive Loss Exception .....	Minimal
One-Half Self-Employment Tax .....	\$13,700,000
Parsonage Allowance .....	\$500,000
Passive Loss Real Estate Exemption .....	\$9,200,000
Pension - 401(k) and Earnings on IRA .....	\$55,800,000
Pension Income Deferral – Keogh .....	\$14,400,000
Pension Pay-Ins and Earnings-Employer .....	\$184,900,000
Pension Pay-Ins – IRA .....	\$8,300,000
Pension Pay-Ins – Keogh .....	\$9,200,000
Public Assistance Benefits .....	\$400,000
Rapid Amortization for Reforestation .....	Minimal
Residence Limited Rental .....	Minimal
Scholarship and Fellowship Exclusion .....	\$4,000,000
Small Business Corporate Stock Loss .....	Minimal
Social Security Exemption/Federal Amount .....	\$64,200,000
Student Loan Interest .....	\$3,000,000

Utility Customer Conservation Subsidies .....	\$200,000
Veteran Education Benefits .....	\$300,000
Workers' Compensation – Benefits .....	\$7,700,000
Workers' Compensation - Coal Miners .....	Minimal
Workers' Compensation – Premiums .....	\$6,700,000

### **Individual Income and Corporate Income Iowa Specific**

Credit - Additional Research Activities .....	\$2,500,000
Credit - Alternative Research Activities .....	\$3,100,000
Credit - Assistive Device .....	\$460,000
Credit – Investment .....	\$4,000,000
Credit - Research Activities .....	\$13,400,000
Credit - Property Rehabilitation .....	\$2,400,000
Employer Social Security Tip Deduction .....	\$700,000
Iowa Education. Savings Plan Trust-Endowment Fund .....	Minimal

### **Individual Income and Corporate Income Federal Base**

Amortization of Start-up Costs .....	\$400,000
Depreciation - Accelerated on Buildings .....	\$10,500,000
Depreciation - Accelerated Machinery and Equipment .....	\$106,800,000
Employee Stock Ownership Plan (ESOP) .....	\$3,700,000
Expensing - Certain Ag. Capital Outlays .....	\$1,000,000
Expensing - Multi-Year Agricultural Cost .....	\$1,000,000
Expensing - Multi-Year Timber Costs .....	\$1,000,000
Expensing - Small Capital Investment .....	\$5,000,000
Installment Sales Income Deferral .....	\$2,800,000
Life Insurance Accelerated Death Benefit .....	\$400,000
Life Insurance and Annuity Interest .....	\$34,200,000
Percentage Depletion - Fuel Producers .....	\$100,000
Percentage Depletion - Non-Fuel Minerals .....	\$1,100,000

## Sales and Use

Adjuvants and Surfactants .....	\$200,000
Admissions - Primary or Secondary School .....	\$100,000
Advertising Envelopes .....	\$200,000
Advertising Material Used Out-Of-State .....	\$2,900,000
Agricultural Chemicals .....	\$26,900,000
Agricultural Drainage Tile .....	\$5,000,000
Agricultural Feed .....	\$127,800,000
Aircraft Repair and Replacement Parts .....	\$2,000,000
Argon Gas .....	\$2,400,000
Automotive Fluids to a Retailer .....	\$1,100,000
Breeding Stock .....	\$10,500,000
Clothing Sales Tax Holiday .....	\$1,600,000
Commercial Amusement Enterprises .....	\$500,000
Commercial Fertilizer .....	\$34,400,000
Construction Refund - Enterprise Zone .....	\$4,000,000
Construction Refund - Govt., Ed., Museum .....	\$24,500,000
Construction Refund - Rural Water ..... Included in "Construction Refund – Govt., etc.”	
Cultural Affairs Sales .....	Minimal
Domesticated Fowl .....	\$1,800,000
Draft Horses .....	Minimal
E911 Service Surcharge .....	\$700,000
Electricity to Private Water Companies .....	Minimal
Entertainment Media - Rental/ Broadcast .....	\$4,100,000
Excavation Notification Center Services .....	\$100,000
Farm Machinery - Self-Propelled .....	\$25,400,000
Farm Machinery - Special Purpose .....	\$24,600,000
Food Sales - For Human Consumption .....	\$247,500,000
Food Sales - Promoter of Iowa Products .....	Minimal
Free Newspapers As Retail Sale .....	\$1,100,000
Fuel for Implements of Husbandry .....	\$11,400,000
Fuel to Heat/Cool Greenhouses .....	\$100,000

Fuel to Heat/ Cool Livestock Buildings .....	\$4,200,000
Fuel Used in Grain Drying .....	\$7,300,000
Goods for Clothing Maintenance and Repair .....	\$300,000
Grain Dryers .....	\$200,000
Hospice Exemption .....	Minimal
Industrial Machinery, Equip. and Computers .....	\$123,700,000
Industrial Machinery - New Installation .....	Part of "Industrial Machinery, Equip. and."
Irrigation Equipment for Farming .....	Minimal
Laboratory Tests on Animals .....	\$1,900,000
Laboratory Tests on Humans .....	\$35,700,000
Livestock or Fowl Bedding .....	\$380,000
Massage Therapy .....	\$1,000,000
Modular Home - 40% Exemption .....	\$1,400,000
Newspapers .....	\$8,800,000
Nonprofit Educational Institutions .....	\$8,000,000
Nonprofit Hospital Exemption .....	\$53,700,000
On-Line Computer Service .....	\$8,800,000
Optional Residential Warranty Contracts .....	\$600,000
Organ Procurement Organization .....	Minimal
Packaging Containers – All .....	\$38,500,000
Packaging Containers - For Agriculture .....	Included in "Packaging Containers - All"
Prescription Drugs and Medical Devices .....	\$55,500,000
Printers' and Publishers' Supplies .....	\$1,200,000
Processing Chemicals .....	\$22,500,000
Processing Photography .....	\$2,100,000
Processing Power and Fuel .....	\$80,500,000
Processing Retreading .....	Minimal
Processing Services for Food Products .....	\$2,100,000
Raffles at Fairs – Tickets .....	\$300,000
Reciprocal Shipment of Wine .....	Minimal
Residential Utility Exemption .....	\$7,200,000
Sales by State, County and District Fairs .....	\$500,000
Sales To Lessors .....	\$600,000

Tax Levying or Certifying Bodies In Iowa .....	\$66,000,000
Transportation Services-All Air Charter .....	\$1,300,000
Transportation Services-All Spray-Air .....	Included in "Trans. Ser. - All Air Charter"
Transportation Services-General .....	\$71,700,000
Water Sold to Farmers .....	\$200,000

**Use Tax**

Mobile Homes - 40% Exemption .....	\$600,000
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# Descriptive Listing of Tax Expenditures Estimated

## Corporate Income Iowa Specific

### Fifty Percent Deduction of Federal Tax

*Citation: Iowa Code Subsection 422.35(4) (2001) and 701 IAC 53.12*

*Estimate: \$76,700,000*

Corporations may deduct from net income 50 percent of federal income taxes paid or accrued adjusted for any federal income tax refunds. Any Iowa tax deducted in calculating federal income tax must be added back when determining the Iowa liability.

## Corporate Income Federal Base

### Corporate Charitable Contributions

*Citation: Iowa Code Subsection 422.3(5) and Section 422.35 (2001) and 701 IAC 53.1 and IRC 170*

*Estimate: \$1,000,000*

Generally, taxpayers may deduct contributions and gifts to nonprofit, charitable organizations. The corporate contribution or gift is limited to 10 percent of taxable income for the year in which the contribution or gift was made computed without regard to (1) the deduction for charitable contributions, (2) the deductions for dividends received and for dividends paid on certain preferred stock of public utilities, (3) any net operating loss carry back to the tax year, and (4) any capital loss carry back to the tax year. Carryover of any contributions in excess of the 10 percent limit may be carried over for five succeeding tax years. With some exceptions, the value of donated property is its fair market value.

### Electric and Telephone Coops and Mutuals

*Citation: Iowa Code Subsection 422.3(5) and Section 422.35 (2001) and 701 IAC 41.2 and IRC 501(c)(12)*

*Estimate: \$1,300,000*

The incomes of mutual and cooperative telephone and electric companies are exempt from tax if at least 85 percent of their revenues are derived from patron service charges.

### Sale of Farm Refiners Deferral of Gain

*Citation: Iowa Code Subsection 422.3(5) and Section 422.35 (2001) and 701 IAC 41.2 and IRC 1042(g)*

*Estimate: \$200,000*

A taxpayer that sells stock in a domestic corporation that is engaged substantially in refining or processing agricultural or horticultural products and reinvests the proceed in qualified replacement property may defer recognition of gain on the sale.

## Individual Income Iowa Specific

### Alternative Minimum Tax Exemptions

*Citation: Iowa Code Numbered Paragraph 422.5(1)(k)(2) (2001) and 701 IAC 39.6(3)(a)*

*Estimate: \$16,300,000*

In determining the Iowa minimum tax, which is imposed to the extent that it exceeds regular tax liability, the minimum taxable income is reduced by an exemption before application of a tax. Exemption amounts are: \$17,500 for a married person filing a separate return or separately on the combined return or for an estate or trust; \$26,000 for a single person or an unmarried head of household or qualifying widow(er); \$35,000 for a married couple filing a joint return. The applicable exemption amounts are reduced, but not below zero, by 25 percent of the amount by which the minimum taxable income of the taxpayer determined without the exemption amount exceed the amounts of: \$75,000 for a married taxpayer filing separate returns or separately on the combined return or for an estate or trust; \$112,500 for a single taxpayer, unmarried head of household, or a surviving spouse; \$150,000 for a married couple filing jointly.

### Capital Gain - Iowa - All

*Citation: Iowa Code Subsection 422.7(21) (2001) and 701 IAC 40.38*

*Estimate: \$51,300,000*

All of the income from capital gains on the sale of selected types of property is excluded from Iowa taxation. The types of property are: (1) property, including real property, used in a business in which the taxpayer materially participated for 10 years and was held for a minimum of 10 years immediately prior to the sale, (2) cattle and horses used for breeding, draft dairy or sporting purposes and held for 24 months, (3) breeding livestock, other than cattle and horses held for 12 months by the taxpayer who received in excess of 50 percent of gross income from farming or ranching, and (4) timber held by the taxpayer for more than one year. Detailed descriptions of these exclusions are found in separately-listed tax expenditures.

### Capital Gain - Iowa - Breeding Stock

*Citation: Iowa Code Lettered Paragraph 422.7(21)(c) (2001) and 701 IAC 40.38(3) and 40.38(10)*

*Estimate: Included in "Capital Gain - Iowa – All"*

The net capital gain from the sale of breeding livestock, other than cattle or horses is excluded from income, if the livestock was held for a period of 12 months or more from the date of acquisition, if the taxpayer received more than one-half of gross income from farming or ranching operations during the tax year. If the sale is to a lineal descendant, the more than half of gross income from farming requirement does not apply.

## **Capital Gain - Iowa - Business Property**

*Citation: Iowa Code Lettered Paragraph 422.7(21)(a) (2001) and 701 IAC 40.38(1)*

*Estimate: Included in “Capital Gain - Iowa – All”*

The net capital gain is excluded from income from the sale of real property, tangible personal property or other assets of a business owned by the taxpayer for a minimum of 10 years and in which the taxpayer has been employed or materially participated for a minimum of 10 years. If the sale is other than real estate alone and is to a lineal descendant, the requirement for material participation does not apply. A “business” includes any activity engaged in by a person with the object of gain, benefit, or advantage. The “sale of a business” means the sale of all or substantially all of the tangible personal property or service of a business. “Assets of a business” include tangible and real property and other assets but exclude cattle or horses, livestock or timber considered in other capital gains exclusions.

## **Capital Gain - Iowa - Cattle and Horses**

*Citation: Iowa Code Lettered Paragraph 422.7(21)(b) (2001) and 701 IAC 40.38(2) and 40.38(9)*

*Estimate: Included in “Capital Gain - Iowa – All”*

Exempt from income tax is the 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 24 months or more after acquisition, if the taxpayer received more than one-half of gross income from farming or ranching operations in the tax year. If the sale is to a lineal descendant, the more than half of gross income from farming requirement does not apply.

## **Capital Gain - Iowa - Timber**

*Citation: Iowa Code Lettered Paragraph 422.7(21)(d) (2001) and 701 IAC 40.38(4) and 40.38(11)*

*Estimate: Included in “Capital Gain - Iowa – All”*

Exempt from income tax are the net capital gains from sales of timber held by the taxpayer more than one year. Christmas trees sold at tree farms are included in timber.

## **Credit – Accelerated Career Education (ACE) Withholding**

*Citation: Iowa Code Sections 260G.2, 260G.3(2) 260G.4A and 260G.4B (2001)*

*Estimate: \$6,000,000*

In addition to funding from employer contributions, tuition, student fees or special charges set by the board of a community college conducting an Accelerated Career Education (ACE) Program, funding for the ACE Program is provided by credits against withheld state income tax from the wages paid by the participating employer. An amount of up to 10 percent of the gross program job wage as certified by the employer in the agreement is to be credited from the total withholding payments made by the employer until all the costs of the program to be funded by withholding credits have been satisfied. The total withholding credits from all employers is not to exceed \$3.0 million in FY2001 or \$6.0 million starting in FY2002.

### **Credit - Age 65+ Exemption**

*Citation: Iowa Code Lettered Paragraph 422.12(1)(d) (2001)*

*Estimate: \$2,900,000*

An exemption credit of \$20, in addition to any other exemption credit, is allowed for each taxpayer who is 65 years of age on or before the first day following the end of the tax year. A nonresident taxpayer or part-year resident may deduct exemption credits as if they were residents for the entire year.

### **Credit - Alternative Minimum Tax - Individual**

*Citation: Iowa Code Section 422.11B (2001) and 701 IAC 42.8*

*Estimate: \$1,300,000*

A credit is allowed against regular income tax liability for at least a portion of alternative minimum tax paid in a prior year. Only the portion of the minimum tax, which is attributable to those adjustments, and tax preferences, which are “deferral items,” may be used to determine the credit. The portion of the minimum tax which is attributable to the “exclusion” item for appreciated charitable deductions does not qualify for the minimum tax credit. This is the only “exclusion” item allowed for State purposes, although there are several of that kind used to determine federal minimum tax. The minimum tax credit may only be used against regular income tax for a tax year to the extent that the regular tax is greater than the tentative minimum tax for the tax year. Any remaining credit may be carried forward. The estimate is based upon a sample of returns for 1998 filed in 1999 and reflects only the impact on individual income tax.

### **Credit - Blind Exemption**

*Citation: Iowa Code Lettered Paragraph 422.12(1)(e) (2001) and 701 IAC 42.2*

*Estimate: \$300,000*

A taxpayer who is blind as defined in Iowa Code Section 422.12(5) is allowed an additional personal exemption credit of \$20. A nonresident taxpayer or part-year resident may deduct exemption credits as if they were residents for the entire year.

### **Credit - Child and Dependent Care**

*Citation: Iowa Code Section 422.12C (2001) and 701 IAC 42.2(3) and 42.9*

*Estimate: \$7,000,000*

A credit against any tax which is refundable to the extent that it exceeds the taxpayer’s income tax liability less other applicable income tax credits is computed as a percentage of the child and dependent care credit which is allowed for federal income tax purposes under Section 21 of the Internal Revenue Code. The credit is computed so that those with lower net incomes are allowed higher percentages of their federal child care credit than taxpayers with higher net incomes. Percentages of the federal credit allowed for Iowa purposes by size of net income are: (1) <\$10,000; 75 percent; (2) \$10,000 to \$20,000; 65

percent; (3) \$20,000 to \$25,000; 55 percent; (4) \$25,000 to \$35,000; 50 percent; (5) \$35,000 to \$40,000, 40 percent; (6) \$40,000 +; No Credit.

### **Credit - Dependent Exemption**

*Citation: Iowa Code Lettered Paragraph 422.12 (1)(c) (2001) and 701 IAC 42.2*

*Estimate: \$30,300,000*

A credit of \$40 may be deducted from computed tax for each dependent. "Dependent" has the same meaning as provided by the Internal Revenue Code with the same dependents that may be claimed for federal income tax eligible to be used to claim the Iowa credit. If each spouse furnished 50 percent of the support for a dependent, they may elect between them which spouse is to be entitled to claim the dependent credit. The dividing of dependent credits applies only to the number of dependents and not to the money credits for a particular dependent.

### **Credit - Earned Income**

*Citation: Iowa Code Section 422.12B (2001) and 701 IAC 41.2(9)*

*Estimate: \$6,000,000*

A nonrefundable State earned income credit is allowed against any Iowa income tax at the rate of 6.5 percent of any earned income credit to which the taxpayer is entitled on the taxpayer's federal income tax return as authorized in Section 32 of the Internal Revenue Code. In the case of married taxpayers who file a joint federal return and who elect to file separate State returns or separately on the combined return form, the State earned income credit is allocated between the spouses in the ratio that each spouse's earned income relates to the earned income of both spouses. Nonresidents and part-year residents are allowed the same earned income credits as resident taxpayers.

### **Credit - Franchise Tax**

*Citation: Iowa Code Section 422.11 (2001) and 701 IAC 422.12*

*Estimate: \$3,100,000*

A shareholder in a financial institution, as defined in Section 581 of the Internal Revenue Code, which has elected to have its income taxed directly to the shareholders by electing S corporation status, may take a tax credit not to exceed the shareholder's pro-rata share of the Iowa franchise tax paid by the financial institution. The credit must be computed by recomputing the amount of Iowa individual income tax by reducing the shareholder's taxable income by the shareholder's pro-rata share of the items of income and expenses of the financial institution and subtracting the credits allowed against the individual income tax. Estimate prepared from sample of returns from 1998 filed in 1999.

### **Credit - New Jobs - Individual**

*Citation: Iowa Code Section 422.11A (2001) and 701 IAC 42.2(7)*

*Estimate: \$1,200,000*

A one-time credit may be elected for one tax year against the income tax of a business equal to 6 percent of eligible wages paid in that year to employees in new jobs under an Iowa Industrial New Jobs Training Act agreement (Iowa Code Chapter 260E). The maximum credit per eligible employee is 6 percent of the State unemployment wage base defined in Iowa Code Chapter 96.19(37). The employer must agree to increase employment within the State by at least 10 percent. Any credit unused in the year earned may be carried forward until used or for 10 years, whichever is earlier. The estimate is based upon a sample of 1998 returns filed in 1999 and reflects only the individual income tax impact.

### **Credit - New Jobs Withholding**

*Citation: Iowa Code Section 260E.5 (2001) and 261 IAC 5.5*

*Estimate: \$33,700,000*

A credit of 1-1/2 percent of the gross wages of new employees is allowed against withholding to be submitted to the State by a qualifying industrial business with a training agreement with the Community College of the merged area within which the industry is located. The Industrial New Jobs Training Credit is to be paid to the community college to retire bonds that have been issued to pay for the training of workers for the new jobs for the new or expanding industry. Industry includes a business which is engaged in interstate or intrastate commerce for the purpose of manufacturing, processing or assembling products, conducting research and development or providing services in interstate commerce. Retail, health or professional services are excluded.

### **Credit - New Jobs Withholding Supplement**

*Citation: Iowa Code Section 15.331 (2001) and 261 IAC 4(1)*

*Estimate: \$3,300,000*

For eligible businesses in the New Jobs and Income and Enterprise Zones programs, an additional new jobs credit from withholding of 1-1/2 percent of gross wages of new employees is allowed. This brings the total credit percentage available to these eligible businesses to 3 percent. The new jobs credit is paid to the community college to retire the bonds issued to pay for the training of the new employees.

### **Credit - Out-Of-State Tax - All**

*Citation: Iowa Code Subsection 422.8(1) (2001) and 701 IAC 42.4*

*Estimate: \$39,000,000*

Iowa residents are allowed an out-of-state tax credit for taxes paid to another state or foreign country on income which is also reported on the taxpayer's Iowa return. The out-of-state tax credit is allowable only if the taxpayer files an Iowa resident income tax

return. If an Iowa resident taxpayer pays income tax to another state or foreign country on any of the taxpayer's income, the taxpayer is entitled to a net tax credit. The amount of income tax actually paid to other states or countries may be deducted from Iowa net tax as long as the credit does not exceed the amount of Iowa net income tax on the same income which was taxed by the other state.

### **Credit - Out-Of-State Tax - Minimum Tax**

*Citation: Iowa Code Subsection 422.8(4) (2001) and 701 IAC 42.7*

*Estimate: Included in "Out-of-State-All"*

Iowa residents are allowed an out-of-state tax credit for minimum taxes paid to another state or foreign country on preference items derived from sources outside of Iowa. Part-year residents who pay minimum tax to another state or foreign country on preference items derived from sources outside Iowa are allowed an out-of state credit only to the extent that the minimum tax paid to the other state or country relates to preference items that occurred during the period the taxpayer was an Iowa resident. Taxpayers who are nonresidents for the entire year are not allowed to take the credit. The credit is not to exceed the Iowa minimum tax that would have been computed on the same preference items which were taxed by the other state or foreign country.

### **Credit - Personal Exemption**

*Citation: Iowa Code Subsection 422.12(1) (2001) and 701 IAC 42.2(1)*

*Estimate: \$63,100,000*

Personal exemption credits may be deducted from computed tax. The total credits may not exceed the computed tax. Personal credits allowed on each return by filing status are (1) Single, qualifying widow(er) with dependent child, estates and trusts - \$40; (2) Married filing jointly - \$80; (3) Married filing separately on separate returns or for each on combined returns - \$40 (4) Head of Household - \$80. A married person living with husband or wife at the close of the tax year, or living with husband or wife at the time of death of a spouse during the tax year, may deduct the entire married filing jointly credit. Where a spouse files a separate return, each spouse may deduct the credit separately with no division of the credit in any proportion. A nonresident taxpayer or part-year resident may deduct personal exemption credits as if they were residents for the entire year.

### **Credit - S-Corp Shares Apportionment**

*Citation: Iowa Code Numbered Paragraph 422.5(1)(j)(2) (2001) and 701 IAC 50.1*

*Estimate: \$8,600,000*

Resident shareholders of all S corporations, which carry on business within and without Iowa, may, at their election, determine the S corporation income allocable to sources within Iowa by allocation and apportionment of the S corporation income. If apportioning is used, the resident shareholder must include as income subject to tax the larger of apportioned income or any distributions from the corporation. A State credit is provided for the portion of the income of the shareholder that is outside of Iowa which is entered

on line 54 of the IA 1040 for 2000. The estimate is based upon a sample of 1998 returns filed in 1999 without adjustment.

### **Credit - Tuition and Textbook**

*Citation: Iowa Code Numbered Paragraph 422.12(2) (2001) and 701 IAC 42.2(8)*

*Estimate: \$11,700,000*

All taxpayers may claim a tuition and textbook credit of 25 percent on up to \$1,000 of qualifying expenditures for dependents in grades kindergarten through grade 12 in Iowa at an accredited nonprofit school adhering to the provisions of the United States Civil Rights Act of 1964 and the Iowa Civil Rights Act of 1965. Where there are separate tuition charges for classes for religious instruction, those tuition charges do not qualify. If the tuition covers all charges including extracurricular activities, the tuition must be prorated to allow consideration of only classes for subjects legally and commonly taught in public schools in Iowa. Divorced or separated taxpayers who pay amounts for tuition and textbooks for dependents may claim the credit if they claim them as dependents on the Iowa return. In the case of married taxpayers filing separate returns or separately on combined returns, the credit must be allocated based on proportionate incomes.

### **Disability Income Exclusion**

*Citation: Iowa Code Subsection 422.7(5) (2001) and 701 IAC 40.22*

*Estimate: \$300,000*

A taxpayer who is permanently and totally disabled and has not attained age 65 by the end of the tax year or reached mandatory retirement age can exclude a maximum of \$100 per week of payments received in lieu of wages. In order for the payments to qualify for the exclusion, the payments must be made under a plan providing payment of such amounts to an employee for a period during which the employee is absent from work on account of permanent and total disability. In the case of a married couple where both qualify, each is eligible for an annual exclusion of up to \$5,200. There is a reduction in the exclusion, dollar for dollar to the extent that the taxpayer's income exceeds \$15,000. Each spouse is considered separately. There is no exclusion if incomes exceed \$20,200.

### **Federal Tax Deduction**

*Citation: Iowa Code Lettered Paragraph 422.9(2)(b) (2001) and 701 IAC 41.3*

*Estimate: \$596,300,000*

Federal income taxes paid or accrued during the tax year may be deducted from Iowa income subject to tax. Taxpayers who are not on an accrual basis of accounting are to deduct their federal income taxes in the year paid. Deductible federal income taxes for cash basis taxpayers include: (1) the entire amount of federal income tax withheld from compensation during the tax year, (2) the tax paid at any time during the tax year on a filing of federal estimated tax or on any amended filing, (3) any additional federal tax on a prior federal return paid during the tax year, and (4) reduction of any amount to be deducted by any refund of federal income tax received during the tax year if the amount had been deducted on the Iowa return in a prior year.



## **Health Insurance - Iowa Deduction**

*Citation: Iowa Code Subsection 422.7(29) (2001) and 701 IAC 40.48*

*Estimate: \$4,700,000*

Amounts paid by a taxpayer for health insurance for the taxpayer, the taxpayer's spouse, and the taxpayer's dependents are deductible in computing net income on the Iowa return to the extent the amounts paid are not otherwise deductible for Iowa tax purposes. Amounts paid on a "pretax" basis may not be deducted. For purposes of the State deduction for health insurance premiums, the same premiums for the same health insurance or medical insurance coverage qualify for this deduction as would qualify for federal medical expense deduction. Among the types of insurance that are included are: general medical and dental insurance, contact lens insurance, premiums paid before age 65 for up to five years of coverage after that age, and premiums for long-term health care services. Note: For 2000, the additional Iowa and federal base combine to a tax expenditure of \$11.8 million.

## **Iowa Educational Savings Plan Trust-Deduction**

*Citation: Iowa Code Subsection 422.7(32) (2001) and 701 IAC 40.53(1)*

*Estimate: \$2,100,000*

The Iowa educational savings plan trust was created so that individuals can contribute funds on behalf of beneficiaries in accounts administered by the State treasurer to cover future higher education costs of the beneficiaries. An individual referred to as a "participant" can claim a deduction from income subject to tax for contributions made by that individual to the Iowa educational savings plan trust on behalf of a beneficiary. For 1998 the maximum contribution deductible is \$2,000. The limit is indexed for inflation for years after 1998. Starting in the 2000 tax year the contribution may be as high as \$5,000 per beneficiary, but the excess over the indexed \$2,000 amount may not be deducted. The indexed deductible amount for 2000 is \$2,054. A single participant may contribute for more than one beneficiary. Thus, the total deducted by a single individual may be in excess of the limit for a single beneficiary.

## **Iowa Educational Savings Plan Trust-Earnings**

*Citation: Iowa Code Subsection 422.7(33) (2001) and 701 IAC 40.53(2) and IRC 529*

*Estimate: \$300,000*

The Iowa educational savings plan trust was created so that individuals can contribute funds on behalf of beneficiaries in accounts administered by the State treasurer to cover future higher education costs of the beneficiaries. To the extent that interest or other earnings accrue on a beneficiary's account in the Iowa educational savings plan trust, the interest or other earnings are excluded for the purposes of computing net income of the participant or the beneficiary. For federal purposes, taxes on the earnings from those plans are paid by the beneficiaries and are deferred until the tuition is actually paid. In effect this is often a complete exclusion from taxation because of *de minimis* income exclusions.

## **Itemized-Mortgage Credit Interest**

*Citation: Iowa Code Lettered Paragraph 422.9(2)(f) (2001) and 701 IAC 41.12*

*Estimate: Minimal*

Any taxpayer who had the mortgage interest credit on the federal return as provided in Section 25 of the Internal Revenue Code can claim a deduction for all the mortgage interest paid in the tax year including the mortgage interest that was not deducted on the federal return due to the mortgage interest credit.

## **Itemized-Multipurpose Vehicle Fee**

*Citation: Iowa Code Lettered Paragraph 422.9(2)(h) (2001)*

*Estimate: Minimal*

To the extent not otherwise allowed as a federal itemized deduction pursuant to section 164 of the Internal Revenue Code, a deduction is allowed for 60 percent of the annual registration fee paid for a multi-purpose vehicle pursuant to section 321.124, subsection 3, paragraph “h.” Generally, this applies to vehicles of the 1992 model year and earlier and does apply to vehicles of the kind called “mini-vans” and SUV’s (Sports Utility Vehicles).

## **Livestock Production Refund**

*Citation: Iowa Code Sections 422.120, 422.121, 422.122 (2001) and 701 IAC 438*

*Estimate: \$2,000,000*

A credit equal to 10 cents for each corn equivalent consumed by livestock in production in cow-calf operations is allowed for an individual or corporate taxpayer if the taxpayer’s federal taxable income is not more than \$99,600 for the tax year for which the credit is taken. The ceiling amount is subject to indexation. Corn equivalents are specified by type of animal. Total credits given are allowed up to an appropriated amount only. When claims exceed the appropriation, all claims are reduced proportionately. Limitation on the appropriation stands at \$2.0 million annually.

## **Military - Bosnia-Herzegovina Duty**

*Citation: Iowa Code Subsection 422.7(25) (2001) and 701 IAC 40.51*

*Estimate: Minimal*

For active duty military pay received on or after November 21, 1995, by national guard personnel and by armed forces military reserve personnel, the pay is exempt from State income tax to the extent the military pay was earned overseas for services performed pursuant to military orders related to peacekeeping in the Bosnia-Herzegovina area. In order for the active duty pay to qualify for exemption from tax, the military service had to have been performed outside the United States, but not necessarily in the Bosnia-Herzegovina area.

## **Military - Death Forgiveness**

*Citation: Iowa Code Subsection 422.5(10) (2001) and 701 IAC 39.11*

*Estimate: Minimal*

An individual's Iowa income tax is forgiven if the person's federal income tax was forgiven because the individual was killed in a combat zone, the individual was missing in action and presumed dead, or the individual was killed outside the United States due to terrorist or military action while the person was a military or civilian employee of the United States. The tax is forgiven on the return of the year of death and on the return prior to that year. If a person was married and filed jointly, the entire tax on the return is forgiven. Although minimal in recent years, the estimate is subject to fluctuation.

## **Military - Persian Gulf Conflict Duty**

*Citation: Iowa Code Subsection 422.7(24) (2001) and 701 IAC 40.40*

*Estimate: Minimal*

Military pay received by persons in the national guard and persons in the armed forces military reserve is exempt from State income tax to the extent the military pay is not otherwise excluded from taxation and the military pay is for active-duty military service on or after August 2, 1990, pursuant to military orders related to Operation Desert Shield. The exemption applies to individuals called to active duty in Iowa to replace other persons who were in military units who were called to serve on active duty outside Iowa provided the military orders specify that the active duty assignment in Iowa pertains to Operation Desert Shield.

## **Minimum Income Filing Requirements**

*Citation: Iowa Code Subsection 422.5(2) (2001) and 701 IAC 39.1(1)(b)*

*Estimate: \$8,500,000*

Each year a return must be filed for every resident, except any resident claimed as a dependent on another person's return, whose net income is greater than \$13,500 in the case of married persons filing jointly, filing separately on a combined return or filing separate returns, unmarried heads of household and surviving spouses or greater than \$9,000 in the case of a single persons. Each resident who is claimed as a dependent on another person's Iowa return must file a return if their net income is \$4,000 or more or \$5,000 or more starting in 2001.

## **Partial Pension Exclusion**

*Citation: Iowa Code Subsection 422.7(31) (2001) and 701 IAC 40.47*

*Estimate: \$59,000,000*

Effective for tax years beginning on or after January 1, 2001, for a person who is disabled, or is 55 years of age or older, or is the surviving spouse of an individual who would have qualified, subtraction from income subject to tax is made for pension or retirement pay, including, but not limited to, defined benefit or defined contribution

plans, annuities, individual retirement accounts, plans maintained or contributed to by an employer or maintained or contributed to by a self-employed person as an employer, and deferred compensation plans or any plans, up to a maximum of \$6,000 for a person, other than a husband or wife, who files a separate State income tax return and up to a maximum of \$12,000 for a husband and wife who file a joint State income tax return, separate returns or separately on the combined return. For 2000, the exemption is \$5,000 and \$10,000 respectively. The estimate reflects 2000 law and incomes.

### **Reciprocal Agreement - Illinois**

*Citation: Iowa Code Subsection 422.8(5) (2001) and 701 IAC 38.13*

*Estimate: \$16,300,000*

The Iowa Department of Revenue and Finance may, when it is cost-efficient, administratively feasible, and of mutual benefit to Iowa and another state, enter into a reciprocal tax agreement with tax administration agencies of the other state. Under this agreement, income earned from personal services in Iowa by resident of the other state will be exempt from Iowa income tax if the other state provides an identical exemption from its state income tax. "Income earned from personal services" includes: wages, salaries, commissions, tips, deferred compensation, pensions, and annuities which were earned from personal services in Iowa by a resident of another state that had a reciprocal agreement with Iowa at the time the deferred compensation, pensions or annuities were earned. Illinois is the only state with which a reciprocal agreement is in effect.

### **Social Security Exemption/Iowa Addition**

*Citation: Iowa Code Subsection 422.7(13) (2001) and 701 IAC 40.23(2)*

*Estimate: \$21,700,000*

Although up to 85 percent of social security benefits received can be taxed for federal income tax purposes, no more than 50 percent of social security benefits can be taxed for Iowa individual income tax purposes. The amount of social security benefits that is subject to tax is the lesser of one-half of the annual benefits received in the tax year or one-half of the taxpayer's provisional income over a specified base amount. The provisional income is the taxpayer's modified adjusted gross income plus one-half of the social security benefits and one-half of the railroad retirement benefits received. Although railroad retirement benefits are not taxable, one-half of the railroad retirement benefits received may be used to determine the amount of social security benefits taxable for Iowa purposes. For 2000, the Iowa addition and the federal amount combine for a tax expenditure equal to \$85.8 million.

### **Standard Deduction - Base**

*Citation Iowa Code Subsection 422.9(1) (2001) and 701 IAC 41.4*

*Estimate: \$126,800,000*

The standard deduction is taken after any deduction for federal tax paid. The deduction equals \$3,030 for a married couple filing jointly, a surviving spouse or unmarried head of

household and \$1,230 for a married person filing separately or a single person. Note: The dollar amounts shown are the base amounts used for annual indexation. This estimate includes the tax expenditure for the indexation factor.

### **Standard Deduction - Indexation**

*Citation: Iowa Code Subsections 422.4(2) and 422.9(1) (2001) and 701 IAC 38.12*

*Estimate: \$600,000*

Standard deduction base amounts are indexed by the “cumulative standard deduction factor.” The cumulative inflation factor is the product for the 1989 index of 100 percent times all annual standard deduction factors for subsequent years. The “annual standard deduction factor” is an index expressed as a percentage which reflects the purchasing power of the dollar as a result of inflation. In determining the annual inflation factor, use is made of the annual percent change, but not less than zero percent, in the gross domestic product price deflator computed for the second quarter of the calendar year by the Bureau of Economic Analysis of the United States Department of Commerce and shall add all of that percent change to 100 percent. The annual standard deduction factor is expressed as a percentage rounded to the nearest one-tenth of 1 percent. Indexation and the base standard deduction are shown under the tax expenditure for the standard deduction.

### **State Legislature - Travel Expenses**

*Citation: Iowa Code Subsection 422.7(10) (2001) and 701 IAC 40.31*

*Estimate: Minimal*

State legislators whose personal residences in their legislative districts are more than 50 miles from the State capital may claim the same per diem travel expense deductions that are allowed on federal income tax returns. Those who qualify may deduct the per diem allowance for federal employees in effect for the tax year. The portion of this per diem allowance equal to the daily expense allowance authorized State legislators may be claimed as an adjustment to income. The balance of the per diem allowance for federal employees must be allocated between lodging expenses and meal expenses and is deductible as a miscellaneous itemized deduction. Only 50 percent of the food expense may be deducted. State legislators whose personal residences in their legislative districts are 50 miles or less from the State capital may claim a deduction for meals and lodging of \$50 per legislative day. Any State legislator may elect to itemize adjustments to income for amounts incurred for food and lodging for the “legislative days” of the State legislator.

### **Tax Limit - Alternate Tax**

*Citation: Iowa Code Subsection 422.5(2) (2001) and 701 IAC 39.9*

*Estimate: \$11,700,000*

A special tax computation is available for determining the State income tax liability for all low-income taxpayers except single taxpayers. The taxpayer multiplies the net income for the tax year in excess of \$13,500 by the maximum individual income tax rate,

currently 8.98 percent. The tax amount so computed is then compared to the tax amount on the individual's taxable income from the tax tables or the tax-rate schedule. The taxpayer is subject to the lesser of the two tax amounts.

### **Tax Limit - Minimum Income**

*Citation: Iowa Code Subsection 422.5(2) (2001) and 701 IAC 39.5(10)(c ) and 39.5(11)(b)*

*Estimate: \$4,700,000*

If subtracting the payment of tax from net income, including any lump-sum distribution, would produce a result of less than \$9,000 for single taxpayers, then the tax that is due is limited to the amount that would produce a result of income less tax equal to \$9,000. Single taxpayers are not eligible for the alternate tax rate calculation.

## **Individual Income Federal Base**

### **Bequests and Gifts**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 102*

*Estimate: \$237,500.000*

The value of property acquired by bequest, devise, inheritance or gift is excludable from gross income. However, the income flowing from the property is not exempt. Food, clothing and rent payments furnished as strike benefits by a labor union to a needy worker participating in a strike may be considered gifts. Although states not subject to the federal estate tax are included in this estimate, gifts not subject to the federal gift tax are excluded.

### **Cancellation of Debt**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 ( 2001) and 701 IAC 41.2 and IRC 108*

*Estimate: Minimal*

Generally, cancellation of indebtedness is included in income. There are four exceptions that are in order of priority: (1) a debt discharge in a bankruptcy action under Title 11 of the U.S. Code in which the taxpayer is under the jurisdiction of the court and the discharge is either granted by or is under a plan approved by the court, (2) a discharge when the taxpayer is insolvent outside bankruptcy, (3) a discharge of qualified farm indebtedness, and (4) a discharge of qualified real property business indebtedness. Income arising from the discharge of qualified farm debt owed to an unrelated lender may be excluded from income if the debt occurred as a direct result of the business of farming and at least 50 percent of the taxpayer's aggregate gross receipts for the prior three years is farm income. The discharge of farm debt is excluded only to the extent absorbed by tax attributes.

## **Capital Gain - Carryover Basis of Gifts**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 1015(d)*

*Estimate: \$200,000*

Generally, the basis for gifts is the basis of the gift for the donor (the cost that was incurred when the transferred property was first acquired by the donor) plus an allowance for the gift taxes paid on the gift. Thus, deferral of the donor's unrealized capital gains is continued.

## **Capital Gain - Home Sale Exclusion**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 121*

*Estimate: \$38,200,000*

Excluded from income subject to tax is any gain from the sale or exchange of personal residence property if, during the 5-year period ending on the date of the sale or exchange, the property has been owned and used by the taxpayer as the taxpayer's principal residence for at least two years. In general, the sale cannot exceed \$250,000 or \$500,000 for married joint filers. The exclusion may not be used more than once every two years.

## **Capital Gain - Small Business Stock**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 1202(a)*

*Estimate: Minimal*

A non-corporate taxpayer can exclude 50 percent of any gain from the sale or exchange of qualified small business stock held for more than five years. The gain eligible for the 50 percent exclusion may not exceed the greater of \$10,000,000 or 10 times the taxpayer's basis in the stock. The remaining amount is treated as a capital gain and is fully taxable for Iowa purposes. In order to qualify for the exclusion, the stock must be issued after August 10, 1993, and acquired by the taxpayer at its original issue (directly or through an underwriter) in exchange for money or property, or as compensation for services provided to the corporation. A qualified small business is a domestic C corporation with aggregate gross assets that do not exceed \$50,000,000 at the date of issuance.

## **Capital Gain - Step-up Basis at Death**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 1014*

*Estimate: \$42,200,000*

Capital gains on assets held at the owner's death are not subject to capital gains taxes. Generally, the basis of any property, real or personal, acquired from a decedent is its fair market value on the date of the decedent's death or on the alternate valuation date. Principally, this stepped-up basis applies to property acquired by bequest, devise or

inheritance. It also applies to property required to be included in the decedent's gross estate for federal estate tax purposes even though it was the subject of a lifetime transfer, unless transferee sold or otherwise disposed of the property before the decedent died. The step-up in the heir's cost basis means that, in effect, the tax on the capital gain is forgiven.

### **Capital Loss in Excess of Gains**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 1211*

*Estimate: \$5,100,000*

Any capital losses are deductible only to the extent of any capital gains plus, in the case of non-corporate taxpayers, ordinary income of up to \$3,000. Thus, both net long-term capital losses and net short-term capital losses may be used to offset up to \$3,000 of an individual's ordinary income.

### **Education Individual Retirement Accounts**

*Citation: Iowa Code Subsection 422.3(4) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 530*

*Estimate: Minimal*

Individuals at moderate income levels may contribute up to \$500 per beneficiary per year to a tax-favored education individual retirement account (IRA). Under the general rule, distributions from education IRAs are included in the recipient's gross income under the annuity rules. Thus, distributions of amounts contributed to the education IRA would be received tax free, while earnings may be excludable from income if they are used to pay qualified higher education expenses and those expenses are at least equal to the amount of the distribution. No contribution may be made by any person to an education IRA for a beneficiary during a year in which a contribution is made by anyone to a qualified State tuition program on behalf of the same beneficiary.

### **Employee Achievement Awards**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 74(c), 132(e) and 274(j)*

*Estimate: Minimal*

Under a limited exception, employees may exclude from income certain employee achievement awards. An employee who receives tangible personal property from his employer in recognition of length of service or safety achievement can exclude the value of the property from income, as long as the cost of the property to the employer does not exceed the amount of the employer's deduction for the property. Specific dollar limits also apply, which are generally \$400 annually per employee during a year unless the award is a part of a qualified plan award which may total up to \$1,600 per employee per year. The property must be awarded as part of a meaningful presentation and must not constitute disguised compensation. Cash awards and gift certificates do not qualify as employee achievement awards unless *de minimis*.



## **Employee Fringe - Cafeteria Plans**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 125*

*Estimate: Included Separately in Employee Fringes*

Benefits chosen from employer cafeteria plans are excluded from income to the extent allowed by law for the separate benefits. Cafeteria plans are employer-sponsored benefit packages that offer employees a choice between taking cash and receiving qualified benefits, such as accident and health coverage, group term life insurance coverage, or coverage under a dependent care program. If a participant chooses cash, it is included in gross income as compensation. “Qualified benefits” do not include medical savings accounts or long-term care insurance coverage.

## **Employee Fringe - Child Care**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 129*

*Estimate: \$1,100,000*

The exclusion for dependent care assistance benefits is limited to \$5,000 a year (\$2,500 in the case of a married individual filing a separate return). In the case of a married couple filing a joint return, the \$5,000 limit applies with respect to the couple in order to effectuate the intent to coordinate the limit on the exclusion with the limit on the amount of child care expenses eligible for the child care credit. A special rule applies for determining the value of child care in a facility on the employer’s premises (on-site facility). Under this rule, the value of the benefit is measured by the value of services provided to employees who actually use the facility.

## **Employee Fringe - Disability Insurance**

*Citation Iowa Code Subsection 422.3(5) and Section 422.9 (2001) and 701 IAC 41.2 and IRC 106*

*Estimate: \$300,000*

Premiums paid by the employer under an insurance policy providing for replacement payments to the employee in the event he becomes sick or disabled are excludible from the employee’s gross income.

## **Employee Fringe - Education Assistance**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 127*

*Estimate: \$500,000*

Payments received by an employee for tuition, fees, books, supplies and similar items under an employer’s educational assistance program may be excluded from gross income up to \$5,250 for undergraduate courses beginning before December 31, 2001. Excluded are graduate teaching or research assistants who receive tuition reduction. Excludable assistance may not include tools or supplies that the employee retains after the course or the cost of meals, lodging or transportation. Although courses need not be job-related,

courses involving sports, games, or hobbies may be covered only if they involve the employer's business or are required as part of a degree program.

### **Employee Fringe - Life Insurance**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 79*

*Estimate: \$4,400,000*

An employee must include in income the cost of more than \$50,000 of group-term life insurance provided by an employer. The cost of the insurance for up to \$50,000 is exempt provided certain nondiscrimination rules are followed. Otherwise, the cost of a life insurance contract that is purchased under a qualified annuity, pension, or profit-sharing plan with deductible employer contributions or with earnings of a trust created by such plan is generally included in the covered employee's gross income. If a discriminatory group-term insurance plan exists, the cost of the life insurance paid by the employer for the tax year is included in the gross income of key employees and certain former key employees.

### **Employee Fringe - Medical Insurance**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 106*

*Estimate: \$167,500,000*

Employer-paid health insurance premiums and other medical expenses, including long-term care, are deducted as a business expense by employers, but they are not included in employee gross income. In the case of an employee who is an eligible individual, amounts contributed by such employee's employer to any medical savings account of such employee shall be treated as employer-provided coverage for medical expenses under an accident or health plan to the extent they do not exceed certain limits.

### **Employee Fringe – Parking Expense Paid**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 132(f)(1)(C ) and (f)(2)(B)*

*Estimate: \$2,100,000*

Employee parking expenses that are paid by the employer or that are received in lieu of wages are excludable from the income of the employee. The maximum amount allowed in 2000 is \$175 per month with \$180 per month allowed in 2001. That amount is indexed. This tax expenditure does not include parking at facilities owned by the employer.

### **Employee Fringe - Transit Pass Expenses**

*Citation: Iowa Code 2001 422.3(5) and 422.7 and IAC 701-41.2 and IRC 132(f)(1)(B ) and (f)(2)(A)*

*Estimate: Minimal*

Transit passes, tokens, fare cards, and van pool expenses paid for by an employer or

provided in lieu of wages to defray an employee's commuting costs are excludable from the employee's income. In 2000 and 2001, the maximum amount of the exclusion is \$65 per month. That amount will increase to \$100 in 2002.

### **Employee Meals and Lodging**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 119*

*Estimate: \$1,300,000*

Employer-provided meals and lodging for the convenience of the employer are excluded from an employee's gross income even though the employer's costs for these items are deductible as a business expense but only if, in the case of meals, the meals are furnished on the business premises of the employer, or in the case of lodging, the employee is required to accept such lodging on the business premises of his employer as a condition of his employment. The meals are excludable from the employee's gross income if provided to the employee, the employee's spouse or dependents by or on behalf of the employer, the meals are furnished on the business premises of the employer and the meals are furnished for the convenience of the employer. Lodging must be provided either at a place where the employee performs a significant portion of duties or on the premises where the employer conducts a significant portion of business.

### **Federal Employees Abroad Allowances**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 912 and Reg 1.912*

*Estimate: \$100,000*

Amounts received by U.S. federal civilian employees and Peace Corps members stationed outside the continental United States as cost-of-living allowances in accordance with regulations approved by the President are excluded from gross income. The allowances supplement wage income and cover expenses like rent, education and cost of travel to and from the United States. Such allowances shall be considered as retaining their characteristics notwithstanding any combination thereof with any other allowance. For example, the cost-of-living portion of a "living and quarters allowance" would be excluded from gross income whether or not any other portion of such allowance is excluded from gross income.

### **Foreign Income Exclusion**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 911 and Reg 1.911*

*Estimate: \$5,200,000*

A qualified individual may elect to exclude a portion of foreign earned income and the housing cost amount from the individual's gross income for the taxable year. Foreign earned income is excludable to the extent of the applicable limitation for the taxable year, which is \$76,000 in 2000. The housing cost amount is excludable to the extent

attributable to employer provided amounts. If they do not receive a specific allowance for housing expenses, they may deduct against U.S. taxes that portion of housing expenses that exceeds one-sixth of the salary of a civil servant grade GS-14. The amounts excluded for housing for the taxable year can not exceed the individual's foreign earned income for the year. A housing cost amount that would be deductible except for the application of this limitation may be carried over to the next taxable year and is deductible to the extent of the limitation for that year.

## **Foster Care Payments**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 131*

*Estimate: Minimal*

Foster parents provide under a contract with the State a home and care for children who are wards of the State. Compensation received for this service is excluded from the gross incomes of foster parents. Related expenses are not deductible. However, the payments are taxable if for more than 10 persons under 18 or more than five over age 18.

## **Health Insurance - Federal Base**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 162*

*Estimate: \$7,100,000*

Self-employed persons may deduct from gross income 60 percent of amounts paid for health insurance for themselves, spouses, and dependents. The deduction is limited to the taxpayer's net earned income derived from the trade or business for which the insurance plan was established, minus the deduction for 50 percent of the self-employment tax and/or the deduction for contributions to Keogh, self-employed SEP or SIMPLE plans. The percentage of expenses that is deductible is increased to 70 percent in 2002 and to 100 percent in 2003. The estimate is based directly upon federal data for Iowa returns. Note: For 2000, additional Iowa and federal base combine to a tax expenditure of \$11.8 million.

## **Insurance Reimbursed Living Expenses**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 123*

*Estimate: \$300,000*

A taxpayer whose residence is damaged or destroyed by fire, storm, or other casualty and who must temporarily occupy another residence during the repair can exclude from gross income any insurance payments received as reimbursement for living expenses during that period. This includes a person who is denied access to a principal residence by governmental authorities because of the occurrence or threat of occurrence of a casualty. The exclusion is limited to the excess of actual living expenses incurred by the taxpayer and members of the household over the normal living expenses that they would have

incurred during the period. The exclusion covers additional costs incurred in renting suitable housing and any extraordinary expenses for transportation, food, utilities and miscellaneous items.

### **Itemized-2 percent Floor-All**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.9 (2001) and 701 IAC 41.2 and IRC 62, 67,162, 212 and 280A*

*Estimate: \$18,000,000*

Certain expenses can be deducted as miscellaneous itemized deductions. The amount that can be claimed is the amount of expenses that exceed 2 percent of adjusted gross income. Generally, the 2-percent floor is applied after any other deduction limit such as the 50 percent limit on business-related meals and entertainment. These deductions can be classified into three generally headings: unreimbursed employee expenses, tax preparation fees, and other expenses.

### **Itemized-2 percent Floor-Employment-All Expense**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.9 (2001) and 701 IAC 41.2 and IRC 62 Reg 1.62-1*

*Estimate: Included in “2 percent Floor-All”*

Unreimbursed employee expenses can be deducted as miscellaneous itemized deductions if they exceed 2 percent of adjusted gross income (the 2 percent floor). Generally, the 2 percent limit applies after any other deduction limit such as the 50 percent limit on business-related meals and entertainment. Besides the “2 percent Floor – Employment” deductions described separately, deductible expenses may include professional dues; business and malpractice liability insurance; license and regulatory fees and taxes; subscriptions to professional journals and trade magazines related to work; tools and supplies used in work; travel, entertainment and gift expenses related to work.

### **Itemized-2 percent Floor-Employment-Education**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.9 (2001) and 701 IAC 41.2 and IRC 162*

*Estimate: Included in “2 percent Floor-All”*

Education expenses paid by an individual are generally deductible (even if they lead to a degree) if the education that is undertaken (1) maintains or improves a skill required by the individual in the individual's employment or other trade or business or (2) meets the express requirements of the individual's employer or the requirements of law or regulations imposed as a condition to the retention by the individual of an established employment relationship, status, or rate of compensation. Unreimbursed expenditures for such items as tuition, books, laboratory fees, dues paid to professional societies, fees paid for professional journals, etc., are deducted by an employee as an itemized deduction subject to the 2-percent floor.

## **Itemized-2 percent Floor-Employment-Job Hunting**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.9 (2001) and 701 IAC 41.2 and IRC 162*

*Estimate: Included in “2 percent Floor-All”*

Individuals may deduct all expenses incurred in seeking employment in the same trade or business regardless of whether or not the search is successful. Expenses can include resume preparation and distribution as well as travel and transportation expenses. If a person travels to an area seeking new employment in the present trade or business and also engages in personal activities, traveling expenses to and from the area are deductible only if the trip relates primarily to seeking the new employment. If the travel is primarily personal in nature, only the actual expenses of the search at the destination are deductible. To the extent that job-hunting expenses are deductible, they are only deductible as an itemized deduction subject to the 2-percent floor.

## **Itemized-2 percent Floor-Employment-Uniforms**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.9 (2001) and 701 IAC 41.2 and IRC 162*

*Estimate: Included in “2 percent Floor-All”*

The cost and upkeep of a uniform, including laundering and cleaning, are deductible only if the uniform is required as a condition of employment and is not adaptable to general wear. If an employee is reimbursed under an accountable plan, reimbursement does not have to be reported as income to the individual. Any excess cost in that case may be deducted as an itemized deduction subject to the 2-percent floor. Reimbursements under a non-accountable plan must be included in income but may be deducted as an itemized deduction subject to the 2-percent floor.

## **Itemized-2 percent Floor-Employment-Union Dues**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.9 (2001) and 701 IAC 41.2 and IRC 162*

*Estimate: Included in “2 percent Floor-All”*

Union dues, initiation fees and out-of-work benefit assessments are deductible as itemized deductions subject to the 2 percent floor.

## **Itemized-2 percent Floor-Employment-Use of Home**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.9 (2001) and 701 IAC 41.2 and IRC 280A*

*Estimate: Included in “2 percent Floor-All”*

An employee may deduct expenses related to business use of their home if the exclusive regular use of the home office is for the convenience of their employer. This deduction can be considered a part of any other unreimbursed employee business expense. The deduction is included among those that are deductible to the extent that they exceed 2 percent of adjusted gross income.

### **Itemized-2 percent Floor-Fees-Tax Preparation**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.9 (2001) and 701 IAC 41.2 and IRC 67 and 212(3)*

*Estimate: Included in “2 percent Floor-All”*

Expenses may be deducted as a miscellaneous itemized deduction when they are for the determination of any tax for which a deduction is otherwise allowable, such as tax counsel fees and appraisal fees. The deduction is included among those that are deductible to the extent that they exceed 2 percent of adjusted gross income.

### **Itemized-2 percent Floor-Other-All Nonbusiness**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.9 (2001) and 701 IAC 41.2 and IRC 212*

*Estimate: Included in “2 percent Floor-All”*

An individual may deduct as an itemized deduction, subject to the 2 percent floor, ordinary and necessary expenses paid or incurred during the tax year for the production or collection of income, or for the management, conservation, or maintenance of property held for the production of income. Expenses attributable to property held for rents or royalties are deductible from gross income and are not subject to the 2 percent floor. The expenses must be reasonable in amount and bear a reasonable and proximate relation to the production or collection of taxable income or to the management, conservation or maintenance of property held for the production of income. Expenses deductible include investment advisory fees, appraisal fees for a casualty loss or charitable contribution, hobby expenses up to the amount of income earned, indirect deductions of pass-through entities, subscriptions to investment advisory publications, certain attorneys’ fees, and the cost of safe deposit boxes. A description of the legal fees allowed is provided separately.

### **Itemized-2 percent Floor-Other-Legal Expenses**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.9 (2001) and 701 IAC 41.2 and IRC 212*

*Estimate: Included in “2 percent Floor-All”*

Legal expenses are deductible as itemized deductions, subject to the 2 percent floor, if they are paid or incurred for the production of income or for the management, conservation, or maintenance of income-producing property. Legal expenses paid or incurred in recovering investment property and amounts of income included in gross income are deductible. However, legal expenses incurred in defending or perfecting title to property, in the acquisition or disposition of property, or in developing or improving property must be capitalized. Generally, legal expenses paid by one spouse in resisting the other’s monetary demands in divorce are nondeductible personal expenses. However, legal expenses for collecting alimony under a divorce decree are deductible, as a miscellaneous itemized deduction, subject to the 2 percent floor.

### **Itemized-Casualty Loss - All**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.9 (2001) and 701 IAC 41.2 and IRC 165(c)(3)*

*Estimate: \$600,000*

For individuals for property not connected with a trade or business or a transaction entered into for profit, deduction from income subject to tax may be made for uninsured losses arising from fire, storm, shipwreck, or other casualty, or from theft of more than \$100 to the extent that total losses during the year exceed 10 percent of adjusted gross income. A loss from a casualty arises from an event due to some sudden, unexpected or unusual cause. Damage or loss to property caused by an unusual and unprecedented drought can be treated as a casualty loss. Although cash or property received as compensation for, or to repair or replace, damaged property reduces the amount of the loss, the deduction will not be reduced by excludable gifts received by a disaster victim, even if the gifts are used to rehabilitate the property.

### **Itemized-Casualty Loss - Disaster**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.9 (2001) and 701 IAC 41.2 and IRC 165(i)*

*Estimate: Included in "All Casualty Loss"*

If a taxpayer sustains a loss from a disaster in an area subsequently determined by the President of the United States to warrant federal assistance, a special rule may help the taxpayer to cushion any loss. Disaster loss treatment is available with respect to a personal residence rendered unsafe by a disaster in a designated area and ordered to be demolished or relocated by the State or local government. The taxpayer has the option of (1) deducting the loss on his return for the year in which the loss occurred or (2) deducting the loss on his return for the preceding tax year. Each loss is subject to a \$100 floor and total losses are deductible only to the extent that the total loss amount for the year exceeds 10 percent of adjusted gross income.

### **Itemized-Casualty Loss - Theft**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.9 (2001) and 701 IAC 41.2 and IRC 165(e)*

*Estimate: Included in "All Casualty Loss"*

A loss from theft or embezzlement is generally deductible for the tax year in which the taxpayer discovers the loss. No deduction is available for lost or mislaid articles. Each loss is subject to a \$100 floor and total losses are deductible only to the extent that the total loss amount for the year exceeds 10 percent of adjusted gross income.



## **Itemized-Charitable Contributions**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.9 (2001) and 701 IAC 41.2 and IRC 170*

*Estimate: \$78,700,000*

Generally, taxpayers may deduct contributions to nonprofit, charitable organizations. Taxpayers who donate capital assets can deduct the assets' current value without being taxed on any appreciation in value. An individual's total charitable contribution generally may not exceed 50 percent of adjusted gross income.

## **Itemized - Income Tax – Iowa Surtaxes**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.9 (2001) and 701 IAC 41.2 and IRC 164(a)*

*Estimate: \$1,300,000*

Iowa school district and emergency medical income surtaxes may be deducted as income taxes since they are not Iowa State income taxes.

## **Itemized-Income Tax - Non-Iowa Foreign**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.9 (2001) and 701 IAC 41.2 and IRC 901*

*Estimate: \$100,000*

Foreign income and profits taxes are deductible even if the taxpayer elects to claim a credit for them. Foreign taxes accrue in the period in which they are imposed.

## **Itemized-Income Tax-Non-Iowa Other State**

*Citation: Iowa Code 422.3(5) and 422.9 (2001) and 701 IAC 41.2 and IRC 164(a)*

*Estimate: \$3,400,000*

Income taxes paid to states other than Iowa can be deducted as an itemized deduction. This may include local income taxes in other states.

## **Itemized-Medical Expenses**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.9 (2001) and 701 IAC 41.2 and IRC 213*

*Estimate: \$18,300,000*

There is a deduction allowed of the expenses paid during the taxable year, not compensated for by insurance or otherwise, for medical care of the taxpayer, his spouse, or a dependent to the extent that such expenses exceed 7.5 percent of adjusted gross income. Medical expenses are generally deductible in the year paid with advance payments generally not deductible until services are rendered. Charges to a credit card qualify as payment of medical expenses in the year charged. Health insurance of self-employed individuals is separately deducted as an adjustment to income. (See Health Insurance - Federal Base and Health Insurance - Iowa Deduction tax expenditures.)

## **Itemized-Mortgage and Investment Interest**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.9 (2001) and 701 IAC 41.2 and IRC Code Sec 163*

*Estimate: \$152,300,000*

Owner-occupants of homes may deduct mortgage interest on their primary and secondary residences as itemized non-business deductions. The mortgage interest deduction is limited to interest on debt no greater than the owner's basis in the residence and, for debt incurred after October 13, 1987, is limited to no more than \$1 million. Interest on up to \$100,000 of other debt secured by a lien on a principal or second residence is also deductible, irrespective of the purpose of borrowing, provided that the debt does not exceed the fair market value of the residence. The amount allowed as a deduction for investment interest for any taxable year cannot exceed the net investment income of the taxpayer for the taxable year.

## **Itemized-Other-All**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 672*

*Estimate: \$11,900,000*

“Other” itemized deductions include: \$3,000 Claim of Right, Amortized Bond Premium, Annuity Input Recovery, Death Taxes on Income, Gambling Losses, Short Sale Expense and Work Costs of Impaired Individuals. Descriptions of the separate provisions are provided separately.

## **Itemized-Other-Amortized Bond Premium**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.9 (2001) and 701 IAC 41.2 and IRC 171*

*Estimate: Included in “Other – All”*

If a taxable bond owner has paid a premium over the face amount of the bond, that owner has the option of (1) amortizing the premium until bond maturity and reducing the basis in the bond by the amortized amount or (2) not amortizing and treating the premium as part of the bond basis. If amortization is chosen, the amount amortized may be deducted as an itemized deduction without regard to the 2 percent floor. Effective generally for taxable bonds issued after September 27, 1985, the amount of bond premium that can be amortized for a tax year is calculated under a constant yield method.

## **Itemized-Other-Annuity Input Recovery**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.9 (2001) and 701 IAC 41.2 and IRC 72(b)(3)*

*Estimate: Included in “Other – All”*

If after an annuity starting date, payments as an annuity under the contract cease by reason of the death of an annuitant, and as of the date of such cessation, there is investment in the contract not recovered, then the amount of any investment not recovered is allowed as a deduction to the annuitant for their last taxable year.

### **Itemized-Other-Claim of Right**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.9 (2001) and 701 IAC 41.2 and IRC 1341*

*Estimate: Included in “Other – All”*

Payments that have been included in gross income in a prior year that have been received without restrictions under a claim of right that later are found to have been paid in error and are subsequently refunded may be claimed as a deduction if the amount repaid exceeds \$3,000. If this compensation creates an inequity resulting from income taxed at a lower rate in the year of refund, the tax due in the year of refund may be optionally adjusted to eliminate this inequity. If the deduction of the repayment results in a lower tax liability than a refund of the tax, the deduction may be used.

### **Itemized-Other-Co-op Housing Expenses**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.9 (2001) and 701 IAC 41.2 and IRC 67 and 216*

*Estimate: Included in “Other – All”*

A cooperative housing corporation tenant-stockholder may deduct amounts paid or accrued to the corporation to the extent that the amounts paid represent the proportionate share of real estate taxes on the apartment building or houses and land or of interest on debt contracted in the acquisition, construction, alteration, rehabilitation or maintenance of the building, houses or land. Eighty percent or more of the cooperative housing corporation gross income must come from tenants before a tenant may deduct a share of the taxes and interest.

### **Itemized-Other-Death Taxes on Income**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.9 (2001) and 701 IAC 41.2 and IRC 691(c )*

*Estimate: Included in “Other – All”*

If a person includes in gross income an item of income that had accrued as of the date of death of a decedent or prior successive decedents, so that it was included in the valuation of the estate for estate tax purposes, that person may take a corresponding deduction based on the estate tax attributable to the net value of the income item.

### **Itemized-Other-Gambling Losses**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.9 (2001) and 701 IAC 41.2 and IRC 165(d)*

*Estimate: Included in “Other – All”*

Proven losses sustained during the taxable year on wagering transactions are allowed as a deduction but only to the extent of the gains during the taxable year from such transactions. For those not in the business of gambling, the deduction may be itemized under “Other Miscellaneous Deductions.” In the case of a husband and wife making a joint return for the taxable year, the combined losses of the spouses from wagering

transactions shall be allowed to the extent of the combined gains of the spouses from wagering transactions. If gambling is a business, the losses may be deducted as business losses to the extent of gains.

### **Itemized-Other-Short Sale Expense**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 67(b)(8) and 246*

*Estimate: Included in “Other – All”*

Any deduction allowable in connection with personal property used in a short sale may be deducted. These expenses include amounts paid by a trader in securities equal to dividends on stock borrowed in connection with short sales are deductible as business expenses.

### **Itemized-Other-Work Costs of Impaired**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.9 (2001) and 701 IAC 41.2 and IRC 67(d)*

*Estimate: Included in “Other- All”*

Expenses of a handicapped individual for expenses related to employment or all ordinary and necessary expenses paid or incurred during the tax year in carrying on any business may be deducted from income subject to tax. The term “impairment-related work expenses” means expenses of a handicapped individual for attendant care services at the individual’s place of employment and other expenses in connection with such place of employment which are necessary for such individual to be able to work. Handicapped persons include any individuals who have a physical or mental disability (including blindness or deafness) which limits employment or who have any physical or mental impairment (including sight or hearing) which substantially limits one or more major life activities.

### **Itemized - Tax on Owner Occupied Property**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.9 (2001) and 701 IAC 41.2 and IRC 164(a)(1)*

*Estimate: \$42,800,000*

Owner-occupants of homes may deduct property taxes on their primary and secondary residences as itemized non-business deductions.

### **Itemized - Tax on Personal Property**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.9 (2001) and 701 IAC 41.2 and IRC 164(a)*

*Estimate: \$4,300,000*

Personal property taxes based upon value and taxes paid to foreign governments may be deducted from income otherwise subject to tax.

## **Jury Pay Remitted to Employers**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.9 (2001) and 701 IAC 41.2 and IRC 62(a)(13)*

*Estimate: Minimal*

Deduction is allowed for any remission to an employer of any jury pay in exchange for payment by the employer of compensation for the period an individual was performing jury duty. For purposes of the preceding sentence, the term “jury pay” means any payment received by the individual for the discharge of jury duty.

## **Life Insurance Death Benefits**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.9 (2001) and 701 IAC 41.2 and IRC 101*

*Estimate: \$35,700,000*

Amounts received under a life insurance contract paid by reason of the death of the insured are generally excluded from gross income. These amounts may be excluded whether they are return of premiums paid, increased value of the policy due to investment or a death benefit feature - the policy proceeds exceeding the value of the contract immediately prior to the death of the insured. It is immaterial whether the proceeds are received in a single sum or otherwise. However, if the proceeds are left with the insurer, any interest earned and paid is income to the recipient.

## **Medical Savings Accounts**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 220*

*Estimate: \$200,000*

Some employees may deduct annual contributions to a medical savings account (MSA). Employer contributions to MSAs (except those made through cafeteria plans) for qualified employees are also excluded from income. An employee may contribute to an MSA in a year only if an employer does not contribute. MSAs are only available to self-employed individuals or employees covered under an employer-sponsored high deductible health plan of a small employer. Earnings from MSAs are excludable from income. Distributions from an MSA are not taxable.

## **Military Benefits**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 134(b)(1)(A)*

*Estimate: \$5,500,000*

Qualified military benefits generally may be excluded from income and are not subject to tax. Military personnel receive many kinds of allowances and benefits for housing, subsistence, and other needs. The exclusion from income for military benefits applies to monetary allowances and to the value of in-kind benefits that are provided to current and former military personnel to dependents. The allowances and benefits must have been

provided on account of the taxpayer's status or service in the military. Included among the allowances and benefits are: living allowances, family-related allowances, health-related benefits, education allowances, travel allowances, moving and evacuation allowances, death-related allowances and allowances for veteran's benefits, combat zone compensation and combat-related benefits, group term life insurance, premiums for survivor and retirement protection plans, mustering out payments, uniform allowances, and defense counsel. The tax expenditure estimate for 2000 attempts to estimate the impact of military personnel maintaining an Iowa home of record.

### **Military Disability Pensions**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 104(a)(4)*

*Estimate: \$8,400,000*

Primarily for individuals suffering combat-related injuries or individuals eligible for VA disability benefits, gross income does not include amounts received as a pension, annuity, or similar allowance for personal injuries or sickness resulting from active service in: (1) the armed forces of any country; (2) the National Oceanic and Atmospheric Administration (NOAA) (formerly the Coast and Geodetic Survey); or (3) the United States Public Health Service (PHS). Any amount received as a disability annuity under the provisions of section 808 of the Foreign Service Act of 1980 (22 USC §4048) is also excluded from gross income.

### **Moving Expenses**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 217*

*Estimate: \$900,000*

An employee or self-employed individual may deduct as an adjustment to gross income the expenses of moving the employee and family from one location to another if the move is related to starting work in a new location and the amount is reasonable. Deductible moving expenses are limited to the cost of transportation of household goods and personal effects and travel (including lodging but not meals) to the new residence. A taxpayer must meet a distance test, a length of employment test and a commencement of work test. The new residence must be at least 50 miles farther from the taxpayer's old residence than the old residence was from the former place of work. Employment must be for 39 weeks of the 12 months following the move. The move must be related to the start of work in a new location.

### **Oil and Gas Passive Loss Exception**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 469(c)(3)*

*Estimate: Minimal*

In general, the term "passive activity" excludes any working interest in any oil or gas

property which the taxpayer holds directly or through an entity which does not limit the liability of the taxpayer with respect to such interest. Thus, limits on passive activity income do not apply to oil and gas property income.

### **One-Half Self-Employment Tax**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 164(f)*

*Estimate: \$13,700,000*

Instead of allowing the deduction of one-half of the self-employment tax as a business expense related to that self-employment, an adjustment to income is allowed in an amount equal to one-half of the amount of self-employment tax.

### **Parsonage Allowance**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 107*

*Estimate: \$500,000*

A licensed or ordained minister's gross income does not include the rental value of a home that is furnished to the minister as compensation for performing religious duties. In addition, an allowance that is paid as part of the minister's compensation, designated as a rental allowance, and used to rent or provide a home for the minister may be excluded from gross income.

### **Passive Loss Real Estate Exemption**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 469(I)*

*Estimate: \$9,200,000*

In general, passive losses may not offset income from other sources. Generally, to the extent that the total deductions from passive activities exceed the total income from these activities for the tax year, the excess passive activity loss may be carried forward as a deduction from the passive activity in the next succeeding tax year. Although rental activity is treated as passive activity, special rules apply to rental real estate activities in which a taxpayer actively participates. In the case of active participation, losses up to \$25,000 attributable to most real estate activity may be used to offset other income.

### **Pension - 401(k) and Earnings on IRA**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 219, 401, 403, and 408*

*Estimate: \$55,800,000*

Individual taxpayers can take advantage of several tax-preferenced retirement plans: deductible IRAs, nondeductible IRAs, Roth IRAs, 401(k) plans, 401(k) type plans like 403(b), and the federal Thrift Savings Plan. The allowable contributions are limited in

amount depending upon the plan. In 1999, an employee could exclude up to \$10,000 (indexed) of wages from gross income under a qualified arrangement with an employer's 401(k). Employees can annually contribute to a deductible IRA up to \$2,000 or 100 percent of compensation or \$4,000 on a joint return with only one working spouse with limitations based upon income. Similar limits of contributions exist for other plans. The tax on the investment income earned by 401(k) plans, non-deductible IRAs, and deductible IRAs is deferred until the money is withdrawn. Roth IRAs do not allow deduction of the limited contributions, but within limits, withdrawals are not taxed. This estimate excludes consideration of the impact of pay-ins to IRA accounts which are estimated separately.

### **Pension Income Deferral - Keogh**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 401*

*Estimate: \$14,400,000*

Self-employed individuals can make deductible contributions to their own retirement (Keogh) plans equal to 25 percent of their income up to a maximum of \$30,000 per year. In addition, the tax on the investment income earned by Keogh plans is deferred until the money is withdrawn. This estimate covers only the tax impact of deferral of income on the accounts.

### **Pension Pay-Ins and Earnings-Employer**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 401 and 404*

*Estimate: \$184,900,000*

Certain employer contributions to pension plans are excluded from an employee's gross income even though the employer can deduct the contributions. In addition, the tax on the investment income earned by the pension plans is deferred until the money is withdrawn. In addition to the requirement that contributions and benefits be nondiscriminatory, the contributions that may be provided for an individual may be limited in any one year. For instance, under a defined contribution plan, the annual addition to a participant's account may not exceed the lesser of (1) 25 percent of the participant's compensation not exceeding \$170,000 in 2000 or (2) \$30,000 for year 2000.

### **Pension Pay-Ins - IRA**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 219 and 408*

*Estimate: \$8,300,000*

Individual taxpayers can take advantage of several tax-preferenced retirement plans: deductible IRAs (Individual Retirement Accounts) and nondeductible IRAs are part of them. Employees can annually contribute to a deductible IRA up to \$2,000 or 100 percent of compensation or \$4,000 on a joint return with only one working spouse with



limitations based upon income. Roth IRAs do not allow deduction of the limited contributions, but within limits, withdrawals are not taxed. Estimates of the tax impact of deferral of income of IRAs is estimated along with other benefits under 401(k) plans in a separate estimate.

### **Pension Pay-Ins - Keogh**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 401*

*Estimate: \$9,200,000*

Self-employed individuals can make deductible contributions to their own retirement (Keogh) plans equal to 25 percent of their income up to a maximum of \$30,000 per year. In addition, the tax on the investment income earned by Keogh plans is deferred until the money is withdrawn. This estimate is for the deduction of pay-ins only. A separate estimate is completed for the tax impact of deferral of tax on Keogh earnings.

### **Public Assistance Benefits**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 61*

*Estimate: \$400,000*

Many types of government assistance payments are excludable from income if they are in the nature of general welfare. For example, payments made by a city or State to the blind or to crime victims may be excluded from gross income, unless fraudulently received. Similarly, payments from housing assistance programs that are in the nature of general welfare and payments from work training programs that are not intended as compensation may be excluded from income.

### **Rapid Amortization for Reforestation**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and IRC 194*

*Estimate: Minimal*

In general, investment costs such as those a timber grower incurs in clearing land and planting trees are considered capital outlays and may not be deducted from income until the trees are sold. However, up to \$10,000 expended in a year for reforestation can be amortized over seven years. Because timber growth periods are typically longer than 15 years, this provision allows reforestation expenses to be deducted long before the general rule would allow them to be deducted.

### **Residence Limited Rental**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 280A*

*Estimate: Minimal*

If a dwelling unit is used during the taxable year by the taxpayer as a residence and such dwelling unit is actually rented for less than 15 days during the taxable year, then no

deduction of expenses related to that income is allowed nor is any of the income reportable.

### **Scholarship and Fellowship Exclusion**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 117*

*Estimate: \$4,000,000*

Scholarships and fellowships are excluded from taxable income to the extent that they pay for tuition and course-related expenses of the grantee. Similarly, tuition reductions for employees of educational institutions and their families are not included in taxable income. These amounts include required tuition and fees as described in IRC Sec. 170(b)(1)(A)(ii) and fees, books, supplies, and equipment required in the student's course of instruction. The exclusion is not limited to grants that, by their express terms, are to be used for tuition and course-related expenses. The exclusion also covers expense amounts incurred by the candidate for tuition and course-related expenses during the period to which the grant applies, provided the grant terms do not earmark or designate their use for other purposes (such as room or board) and do not specify that the grant may not be used for tuition or course-related expenses.

### **Small Business Corporate Stock Loss**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 1244*

*Estimate: Minimal*

In the case of an individual, a loss on small business corporation stock issued to that individual or to a partnership which would (but for this provision) be treated as a loss from the sale or exchange of a capital asset shall be treated as an ordinary loss with limits. For any taxable year the aggregate amount that may be treated by the taxpayer as a loss shall not exceed \$50,000 or \$100,000, in the case of a husband and wife filing a joint return. Thus, these losses are not subject to the \$3,000 annual capital loss write-off limit.

### **Social Security Exemption/Federal Amount**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 86*

*Estimate: \$64,200,000*

Social security benefits in excess of the beneficiary's contributions out of taxed income are deferred employee compensation. The exemption of those benefits from tax is a tax expenditure. Portions (reaching as high as 85 percent) of recipients' social security and tier I railroad retirement benefits are included in the income tax base if the recipients' provisional income exceeds certain amounts. Benefit payments from the Social Security Trust Fund, for disability and for dependents and survivors, are excluded from the beneficiaries' gross incomes. For 2000, the combined Iowa additional and federal tax expenditure combine for a total tax expenditure of \$85.9 million.

## **Solvent Farmer Discharge of Debt**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and IRC 108(g) and 1017*

*Estimate: \$1,500,000*

Income arising from the discharge of qualified farm indebtedness owed to an unrelated lender, including a federal, State, or local government or agency, or instrumentality thereof, may be excluded from a taxpayer's income if certain requirements are met. The debt must be incurred directly in connection with the operation by the taxpayer of the trade or business of farming. Also, this relief applies only if at least 50 percent of the taxpayer's aggregate gross receipts for the three tax years preceding the tax year in which the discharge of indebtedness occurs is attributable to farming. The discharge of debt income is excluded only to the extent absorbed by tax attributes and the adjusted bases of qualified property.

## **Student Loan Interest**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 221*

*Estimate: \$3,000,000*

Taxpayers may claim an above-the-line deduction of up to \$2,500 (\$2,000 in 2000) on interest paid on an education loan. Interest may only be deducted for the first five years in which interest payments are required. The maximum deduction is phased down ratably for taxpayers with modified adjusted gross income between \$60,000 and \$75,000 (\$40,000 and \$55,000 for singles).

## **Utility Customer Conservation Subsidies**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 136*

*Estimate: \$200,000*

Gross income of a utility customer does not include the value of any subsidy provided (directly or indirectly) by a public utility to a non-business customer for the purchase or installation of any energy conservation measure.

## **Veteran Education Benefits**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7(2001) and 701 IAC 41.2 and IRC 61 and 117*

*Estimate: \$300,000*

Payments of benefits under any law administered by the Veterans Administration are excludable from the recipient's gross income. Thus, G.I. Bill benefits paid by the Veterans Administration are excluded from gross income.

## **Workers' Compensation - Benefits**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 104*

*Estimate: \$7,700,000*

Workers' compensation provides payments to disabled workers. These benefits, although income to the recipients, are not subject to the income tax. Benefits received by an employee under a workers' compensation act providing compensation to employees for personal injuries or sickness incurred in the course of employment are excludable from gross income. The exclusion also applies to benefits paid under a workers' compensation act to the survivor or survivors of an employee who died of injuries incurred in the course of employment. The term "workers' compensation act" includes a statute that is in the nature of a workers' compensation act. As a practical matter, "in nature" statutes are largely (if not entirely) confined to those providing compensation to public employees - particularly those in hazardous occupations.

## **Workers' Compensation - Coal Miners**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 104*

*Estimate: Minimal*

Disability payments to former coal miners out of the Black Lung Trust Fund, although they are income, are not subject to tax. The purpose of the Black Lung Trust Fund is to provide benefits, in cooperation with the States, to coal miners who are totally disabled due to pneumoconiosis (black lung disease) and to the surviving dependents of miners whose deaths were due to such disease, and to ensure that, in the future, adequate benefits are provided to coal miners and their dependents in the event of their deaths or total disability due to pneumoconiosis. These benefits are of the nature of workers' compensation.

## **Workers' Compensation - Premiums**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 104*

*Estimate: \$6,700,000*

Workers compensation insurance premiums are paid by employers and deducted as a business expense. The premiums are not included in employee gross income.

## Individual Income and Corporate Income Iowa Specific

### Credit - Additional Research Activities

*Citation: Iowa Code 15.335 (2001) and 261 IAC 58.4(5) and 701 IAC 52.10(3) and 52.7*

*Estimate: \$2,500,000*

For eligible businesses within an economic development area, an additional refundable credit equal to 6-1/2 percent of the Iowa apportioned share of the qualifying expenditures for increasing research activities is allowed against individual and corporate income taxes due for the first 10 years after an application is approved by DED. The credit is in addition to that available under Iowa Code 422.33(5) (2001). Qualifying expenditures are those allowable under section 41 of the Internal Revenue Code. An alternative method of calculating the credit may be elected consistent with the alternative incremental credit described in section 41(c)(4)(A) of the Internal Revenue Code. The percentages applied are 3.30 percent, 4.40 percent and 5.5 percent. Either method may be elected in any year.

### Credit - Alternative Research Activities

*Citation: Iowa Code Sections 15.335 and 422.10 and Subsections 15A.9(8) and 422.33(5) and 701 IAC 52.7(3)(b)*

*Estimate: \$3,100,000*

In addition to the regular research tax credit equal to 6.5 percent of apportioned share of qualifying expenditures for increasing research activities, an alternative method of computing the credit may be elected that is consistent with the alternative incremental credit allowed under federal law. The alternative credit may be elected regardless of the method used for federal income tax purposes and may be changed from year to year.

### Credit - Assistive Device

*Citation: Iowa Code Section 422.11E and Subsection 422.33(9) (2001) and 701 IAC 52.17*

*Estimate: \$500,000*

A small business making workplace modifications to allow a person with a disability to be employed may, subject to availability, take a tax credit equal to 50 percent of the first \$5,000 paid to purchase, rent or modify an assistive device or to modify the workplace. A "small business" is one that either has gross receipts of under \$3 million in the prior year or not more than 14 full-time employees during the preceding year. Application must be made to the Department of Economic Development. Total credits approved for one year cannot exceed \$500,000.

### Credit - Investment

*Citation: Iowa Code Section 15.333 ( 2001) and 701 IAC 42.2(10) and 52.10(2)*

*Estimate: \$4,000,000*

As part of the New Jobs and Income and Enterprise Zones programs, a one-time credit

against income taxes is allowed equal to 10 percent of all improvements to real property used in connection with the operation of an eligible business and which receives a partial property tax exemption. The cost of land and any buildings and structures located on the land qualify along with machinery and equipment used in manufacturing establishments and computers except point of sale equipment and computer software. Subject to approval by the Department of Economic Development in consultation with the Department of Revenue and Finance, an eligible business whose project primarily involves value-added agricultural products may have unused investment tax credit refunded starting in July 2001. Value-added agricultural products businesses apply with DED for prior approval. A maximum of \$4 million a fiscal year may be approved for value-added businesses with proration for over subscription. The credit is to be taken in the year the qualifying asset is placed in service. Unused credit may be carried forward 7 years.

### **Credit - Research Activities**

*Citation: Iowa Code Section 422.10 and Subsection 422.33(5) (2001) and 701 IAC 42.2(6) and 52.7*

*Estimate: \$13,400,000*

A refundable credit equal to 6-1/2 percent of the Iowa apportioned share of the qualifying expenditures for increasing research activities is allowed against individual and corporate income taxes due. Qualifying expenditures are those allowable under section 41 of the Internal Revenue Code. An alternative method of calculating the credit may be elected consistent with the alternative incremental credit described in section 41(c)(4)(A) of the Internal Revenue Code. The percentages applied are 1.65 percent, 2.20 percent and 2.75 percent. Either method may be elected in any year. For 2000, the individual income tax component is \$900,000 of the total.

### **Credit -Property Rehabilitation**

*Citation: Iowa Code Sections 404A and 422.11D and Subsection 422.33(10) (2001)*

*Estimate: \$2,400,000*

Twenty-five percent of qualified rehabilitation costs made to property approved by the State Historical Preservation Office may be credited against tax with up to 75 percent of any possible credit in excess of tax refunded at a discounted rate. Eligible property includes: property listed on or eligible to be on the national register of historic places, property designated as of historic significance to a district listed on or eligible to be on the national register of historic places, property or district designated a local landmark by a city or county ordinance, or a barn constructed prior to 1937. In the case of commercial property, rehabilitation costs must equal at least 50 percent of the assessed value of the property, excluding land, prior to the rehabilitation. In the case of residential property or barns, the rehabilitation costs must equal at least \$25,000 or 25 percent of the fair market value, excluding land, prior to the rehabilitation. Qualified costs add to the property basis. No more than \$2.4 million can be approved for these credits per fiscal year.

## **Employer Social Security Tip Deduction**

*Citation: Iowa Code Subsections 422.7(30) and 422.35(17) and 701 IAC 40.49 and 53.20*

*Estimate: \$700,000*

Employers in the food and beverage industry are allowed a credit against federal tax under Section 45B of the Internal Revenue Code for a portion of the social security taxes paid on employee tips. The credit is equal to the employer's FICA obligation attributable to tips received which exceed tips treated as wages for purposes of satisfying minimum wage standards of the Fair Labor Standards Act. To the extent that an employer takes the credit for a portion of the social security taxes paid or incurred, the employer's deduction for the social security tax is reduced accordingly. For Iowa tax purposes, the full deduction for the social security tax paid or incurred is allowed. There is no corresponding Iowa credit against tax.

## **Iowa Educational Savings Plan Trust-Endowment Fund**

*Citation: Iowa Code Subsection 422.7(34) and Lettered Paragraph 12D.4(1)(e) (2001) and 701 IAC 40.53(4)*

*Estimate: Minimal*

The Iowa educational savings plan trust was created so that individuals can contribute funds on behalf of beneficiaries in accounts administered by the State treasurer to cover future higher education costs of the beneficiaries. Within the trust is an endowment fund, which may be funded from public and private sources, the income from which will be made available to participants in the trust to enhance their savings invested for the payment of future education costs. Gifts, grants, or donations made by any governmental entity or any person, firm, partnership, or corporation to the trust for deposit into the endowment fund are considered to be made for a valid public eleemosynary, charitable and educational purpose and are not to be included in the income of the donor for Iowa tax purposes.

## **Individual Income and Corporate Income Federal Base**

### **Amortization of Start-up Costs**

*Citation: Iowa Code Subsection 422.3(5), Sections 422.7 and 422.35 (2001) and 701 IAC 41.2 and 53.1 and IRC 195*

*Estimate: \$400,000*

When a taxpayer enters into a new business, certain start-up expenses, such as the cost of legal services, are normally incurred. Taxpayers may elect to amortize these outlays over not less than 60 months even though they are similar to other payments made for non-depreciable intangible assets that are not recoverable until the business is sold. Amortization can be claimed only if the trade or business is commenced or acquired by the taxpayer. The amortization commences with the month in which the business begins which is the month in which the business is acquired. Once an amortization period is selected it may not be changed.

## **Depreciation - Accelerated on Buildings**

*Citation: Iowa Code Subsection 422.3(5) and Sections 422.7 and 422.35 (2001)  
and 701 IAC 41.2 and 53.1 and IRC 167 and 168*

*Estimate: \$10,500,000*

A 40-year life is considered the normal life for buildings. The 27.5-year life allowed for depreciation of buildings used in rental housing and the 39-year life allowed for depreciation of other types of buildings used to generate income thus create a tax expenditure. In addition tax expenditures arise from pre-1987 tax allowances for buildings as well as those created by other depreciation schedules in place since that time.

## **Depreciation-Accelerated Machinery and Equipment**

*Citation: Iowa Code Subsection 422.3(5) and Sections 422.7 and 422.35 (2001)  
and 701 IAC 41.2 and 53.1 and IRC 167 and 168*

*Estimate: \$106,800,000*

The modified accelerated cost recovery system is mandatory for most tangible depreciable property. The period over which recovery of cost is made is less than the general class life of the property. Machinery and equipment are depreciated over various periods: three years (class life of less than five years), five years (class life of more than four and less than 10 years), seven years (class life of more than nine years and less than 16 years), 10 years (class life of more than 15 and less than 20 years), 15 years (class of more than 19 years and less than 25 years), 20 years (class life of 25 years or more) and 25 years (water utility and municipal sewers placed in service after June 12, 1996).

## **Employee Stock Ownership Plan (ESOP)**

*Citation: Iowa Code Subsection 422.3(5) and Sections 422.7 and 422.35 (2001)  
and 701 IAC 41.2 and 53.1 and IRC 409*

*Estimate: \$3,700,000*

Employee Stock Ownership Plans (ESOPs) are a special type of tax exempt employee benefit plan. Employer paid contributions (the value of the stock issued to the ESOP) are deductible by the employer as part of employee compensation costs. They are not included in the employees' gross income for tax purposes until they are paid out as benefits. The special income tax provisions are intended to encourage employee ownership. Among the special provisions are: (1) ESOPs may borrow to buy employer stock to be guaranteed by payment of a portion of wages deductible by the employer and excluded from employee taxes, (2) employees who sell appreciated company stock to the ESOP may defer any taxes due until withdrawal of benefits, and (3) dividends paid to ESOP held stock are deductible by the employer.



## **Expensing - Certain Agricultural Capital Outlays**

*Citation: Iowa Code Subsection 422.3(5) and Sections 422.7 and 422.35 (2001)  
and 701 IAC 41.2 and 53.1 and IRC 175, 180 and 464(f)*

*Estimate: \$1,000,000*

Farmers, except for certain agricultural corporations and partnerships, are allowed to expense certain expenditures for feed and fertilizer, as well as for soil and water conservation. In general, the expenses should be capitalized since the expenditures are for inventory or other items that impact receipts in later years. Cash-basis farmers can deduct with some restrictions prepaid feed costs in the year paid. A farmer, other than a farm syndicate, may elect to deduct current expenses otherwise chargeable to capital accounts for fertilizer, lime, ground limestone, marl or other similar materials. Advance payments for feed, seed, fertilizer or other farming supplies may generally add up to 50 percent of total deductible farming expenses. Generally, soil and water conservation expenditures that may not be depreciated and that are not otherwise deductible may be expensed.

## **Expensing - Multi-Year Agricultural Cost**

*Citation: Iowa Code Subsection 422.3(5) and Sections 422.7 and 422.35 (2001)  
and 701 IAC 41.2 and 53.1 and IRC 263A(d)*

*Estimate: \$1,000,000*

Farmers are generally allowed to deduct in the current year certain multi-period production costs rather than follow the general capitalization rules in two situations: (1) Pre-productive costs of animals and plants that have a pre-productive period of two years or less may be currently deducted with recapture as ordinary income upon disposition of the product and with an alternative depreciation system for farm assets placed in service during a year in which the election is in effect. (2) Vintners and orchard growers may expense the costs of replacing plants or trees that have been damaged by disease, pests, frost, or other natural disasters. If the expensing election is made, all depreciation related to farming must be determined using straight-line depreciation.

## **Expensing - Multi-Year Timber Costs**

*Citation: Iowa Code Subsection 422.3(5) and Sections 422.7 and 422.35 (2001)  
and 701 IAC 41.2 and 53.1 and IRC 263A(c)(5)*

*Estimate: \$1,000,000*

Generally, costs incurred in most industries are capitalized under the uniform capitalization rules and then deducted upon sale. An exception is allowed for costs incurred in raising, growing, or harvesting trees (including costs associated with the real property underlying such trees), other than trees bearing fruit, nuts, or other crops, or ornamental trees. Ornamental trees do not include evergreen trees that are more than six years old when severed from the roots. These costs may be expensed as they occur and may be deducted from income at that time.

## **Expensing - Small Capital Investment**

*Citation: Iowa Code Subsection 422.3(5) and Sections 422.7 and 422.35 (2001)  
and 701 IAC 41.2 and 53.1 and IRC 179*

*Estimate: \$5,000,000*

An expense deduction is provided for taxpayers (other than estates, trusts or certain non-corporate lessors) who elect to treat the cost of qualifying property as an expense rather than a capital expenditure. The election for the year the property is placed in service may not be revoked without IRS consent. The maximum deduction is \$20,000 for tax years beginning in 2000. The maximum amount is reduced by a dollar for each dollar of the cost of qualified property placed in service during the tax year over \$200,000. The total cost of property that may be expensed for any tax year cannot exceed the total amount of taxable income derived from the active conduct of any trade or business during the tax year, including salaries and wages. A deduction disallowed under this rule is carried forward an unlimited number of years subject to the ceiling amount for each year.

## **Installment Sales Income Deferral**

*Citation: Iowa Code Subsection 422.3(5) and Sections 422.7 and 422.35 (2001)  
and 701 IAC 41.2 and 53.1 and IRC 453*

*Estimate: \$2,800,000*

Non-dealers, those who do not regularly hold property for sale or resale, may generally defer from income that which is related to receipt of payment in installments until the payment is actually received. In order to defer the taxation of the income from installment sales, the total of installment obligations held must be less than \$5 million. Included in this total are only properties with sales prices exceeding \$150,000.

## **Life Insurance Accelerated Death Benefit**

*Citation: Iowa Code Subsection 422.3(5) and Sections 422.7 and 422.35 (2001)  
and 701 IAC 41.2 and 51.3 and IRC 101(g)*

*Estimate: \$400,000*

Amounts are excluded from income resulting from a life insurance contract on the life of an insured, terminally or chronically ill individual. Similarly, if a portion of a life insurance contract is assigned or sold to a viatical settlement provider, amounts received are excluded from income.

## **Life Insurance and Annuity Interest**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 and 422.35 (2001)  
and 701 IAC 41.2 and 53.1 and IRC 72 and 101*

*Estimate: \$34,200,000*

Favorable tax treatment is provided for investment income within qualified life insurance and annuity contracts. Investment income earned on qualified life insurance contract held until death is permanently exempt from income tax. Investment income distributed prior to the death of the insured is tax deferred, if not tax exempt. Investment income earned on

annuities is tax deferred without annual contribution or income limits applicable to other tax-favored retirement income plans.

### **Percentage Depletion - Fuel Producers**

*Citation: Iowa Code Subsection 422.3(5) and Sections 422.7 and 422.35 (2001)  
and 701 IAC 41.2 and 53.1 IRC 611, 612, 613 and 613A*

*Estimate: \$100,000*

A deduction for depletion is allowed in determining the taxable income from natural resources. The deduction is similar to depreciation in that it allows recovery of the cost of an asset over its productive life. The right to a depletion allowance is based upon an economic interest. Independent fuel mineral producers and royalty owners are generally allowed to take percentage depletion deduction rather than cost depletion. (NOTE: These producers are relatively small companies and are not large national or multi-national companies.) Such allowance shall not exceed 50 percent (100 percent in the case of oil and gas properties) of the taxpayer's taxable income from the property (computed without allowances for depletion). Under percentage depletion, the deduction allowed is a percentage of the income from the property: 22 percent for uranium, 15 percent for oil, gas and oil shale and 10 percent for coal. The tax expenditure is the excess of percentage depletion over cost depletion.

### **Percentage Depletion-Non-Fuel Minerals**

*Citation: Iowa Code Subsection 422.3(5) and Sections 422.7 and 422.35 (2001)  
and 701 IAC 41.2 and 53.1 IRC 611, 612, 613 and 613A*

*Estimate: \$1,100,000*

A deduction for depletion is allowed in determining the taxable income from natural resources. The deduction is similar to depreciation in that it allows recovery of the cost of an asset over its productive life. The right to a depletion allowance is based upon an economic interest. Independent mineral producers and royalty owners are generally allowed to take percentage depletion deduction rather than cost depletion. Such allowance shall not exceed 50 percent of the taxpayer's taxable income from the property (computed without allowances for depletion). Under percentage depletion, the deduction allowed is a percentage of the income from the property and is set depending on the type of business from 22 percent for mining including sulfur and graphite, to 14 percent for such as metal mines and sod, to 5 percent for such as sand and clay used for drainage tile. The tax expenditure is the excess of percentage depletion over cost depletion.

## Sales and Use

### Adjuvants and Surfactants

*Citation: Iowa Code Subsection 422.42(14) (2001)*

*Estimate: \$200,000*

Sales of adjuvants, surfactants and certain other products which directly enhance the effects of fertilizer, limestone, herbicide, pesticide and insecticide used in agricultural production are exempt.

### Admissions – School Events

*Citation: Iowa Code Subsection 422.43(1) (2001) and 701 IAC 16.26(2)*

*Estimate: \$100,000*

Sales are exempt of admissions to amusements, fairs and athletic events of elementary and secondary educational institutions.

### Advertising Envelopes

*Citation: Iowa Code Subsection 422.25(9) (2001) and 701 IAC 18.41*

*Estimate: \$200,000*

Sales of envelopes which are used to contain advertising are exempt from tax. Envelopes which are not primarily used for advertising are taxable. The primary use of the envelopes controls whether they are taxable or exempt. Note: Part of this estimate is separately included in the tax expenditure for advertising material used out of state.

### Advertising Material Used Out-Of-State

*Citation: Iowa Code Subsections 422.45(45) and 423.4(5) (2001) and 701 IAC 18.54*

*Estimate: \$2,900,000*

Sales are exempt of advertising material to any person in Iowa if that person, or any agent of that person, will, after the sale, send that advertising material outside of Iowa and the subsequent sole use of that material will be outside the State. “Advertising material” is tangible personal property only, including paper. It is limited to: brochures, catalogs, leaflets, fliers, order forms, return envelopes, floppy discs, CD-ROMs, videotapes, and any similar items of tangible personal property which will be used to promote sales of property or services. The exemption also applies to the use tax for advertisement and promotional material and matter, seed catalogs, envelopes for same and other similar material temporarily stored in the state which are acquired outside of Iowa and which, subsequent to being brought into Iowa are sent outside of the state.

## **Agricultural Chemicals**

*Citation: Iowa Code Subsection 422.42(14) (2001) and 701 IAC 17.9(3) and 17.10*

*Estimate: \$26,900,000*

Sales of herbicides, pesticides, insecticides which are to be used in disease, weed, or insect control or health promotion of plants or livestock produced as part of agricultural production for market are exempt from tax. All forms of inoculation, whether for promotion of better growth and healthier plants or for prevention or cure of mildew of plants or disease of seeds and bulbs, are intended for the same general purpose. Sales tax is not imposed on any material used for inoculation.

## **Agricultural Drainage Tile**

*Citation: Iowa Code Subsection 422.42(14) (2001) and 701 IAC 17.9(3) and 18.35*

*Estimate: \$5,000,000*

Sales of agricultural drainage tile, including the gross receipts from the installation of agricultural drainage tile, are exempt from tax.

## **Agricultural Feed**

*Citation: Iowa Code Subsection 422.43(14) (2001) and 701 IAC 17.9(3) and 18.14 0*

*Estimate: \$127,800,000*

Tax does not apply to the sale of feed for any form of animal life when the product of the animals constitutes food for human consumption. Tax applies on feed sold for consumption by pets. Sales of food used in disease, insect control or health promotion of livestock produced as part of agricultural production for market are exempt from tax. "Food" includes vitamins, minerals, other nutritional food supplements, and hormones sold to promote the growth of livestock.

## **Aircraft Repair and Replacement Parts**

*Citation: Iowa Code Subsections 422.45(38A) and 422.45(38B) (2001) and 701 IAC 18.49(2) and (3)*

*Estimate: \$2,000,000*

Exempt are sales or rental of tangible personal property permanently affixed to certain aircraft as a component part of that aircraft or for rendering, furnishing or performing of services in connection with the repair, remodeling or maintenance of certain aircraft (including aircraft engines and component materials or parts). "Aircraft" is any contrivance known which is designed for navigation of or flight in the air and is used in a scheduled interstate Federal Aviation Administration certified air carrier operation or is used in a nonscheduled interstate Federal Aviation Administration certified air carrier operation conducted under 14 CFR ch.1, pt 135.

## **Argon Gas**

*Citation: Iowa Code Subsection 422.45(55) (2001) and 701 IAC 18.60*

*Estimate: \$2,400,000*

Exempt from tax are sales of argon and other similar gases to be used in the manufacturing process. Only sales of inert gases similar to argon are eligible for the exemption. An “inert gas” is any gas which is normally chemically inactive and can not support combustion and can not be used as a fuel or as an oxidizer. Argon, nitrogen, carbon dioxide, helium, neon, krypton and xenon are nonexclusive examples of inert gases.

## **Automotive Fluids to a Retailer**

*Citation: Iowa Code Subsection 422.45(33) (2001) and 701 IAC 18.46*

*Estimate: \$1,100,000*

Sales are exempt of certain automotive fluids if (1) the sale is to a retailer who will install the automotive fluid in or apply the automotive fluid to a motor vehicle and (2) the installation or application must be done while the retailer is providing a taxable enumerated service such as automotive lubrication or (3) the automotive fluid must be installed in or applied to a motor vehicle which the retailer intends to sell and the sale of which will be subject to Iowa use tax. Examples of automotive fluids include: motor oil and other automobile lubricants, hydraulic, brake, and transmission fluids, sealants, undercoatings, antifreeze and gasoline additives.

## **Breeding Stock**

*Citation: Iowa Code Subsection 422.42(14) (2001) and 701 IAC 17.9(1)*

*Estimate: \$10,500,000*

Sales of agricultural breeding livestock are exempt from tax. “Livestock” means domestic animals which are raised on a farm as a source of food or clothing. The term includes cattle, sheep, hogs and goats, ostriches, rheas, emus, fish and other aquaculture animals. It does not include horses, mules, and draft animals, mink and other non-domesticated animals even if raised in captivity for food or clothing, any animal raised for racing, cats, dogs, and other pets. The sale of agricultural livestock is exempt from tax only if the purchaser intends to use the livestock primarily for breeding at the time of purchase. Note: Even though all sales of ostriches, rheas and emus may not be breeding stock and are then exempt as sales of “domesticated fowl,” all of these sales are tabulated under this category because the majority of the sales of ostriches, rheas and emus in 2000 are as breeding stock.

## **Clothing Sales Tax Holiday**

*Citation: Iowa Code Subsection 422.45(59) (2001) and 701 IAC 20.12*

*Estimate: \$1,600,000*

Purchases of items of clothing or footwear designed to be worn on or about the human

body are exempt from sales and use tax if (1) the sale price of an item is less than \$100 and (2) the sale of the item takes place during the period beginning at 12:01 a.m. on the first Friday in August and ending at midnight on the following Saturday. Sales of “accessories” such as jewelry, handbags, and similar items and of special clothing or footwear primarily designed for athletic activity or protective use and not normally worn except when used for the athletic activity or protective use for which it is designed are excluded from the exemption. Rentals of clothing and footwear are also excluded from the exemption.

### **Commercial Amusement Enterprises**

*Citation: Iowa Code Subsection 422.42(14) (2001) and 701 IAC 16.30*

*Estimate: \$500,000*

Sales are exempt by commercial amusement enterprises which contract to furnish a show for a fixed fee.

### **Commercial Fertilizer**

*Citation: Iowa Code Subsection 422.42(14) (2001) and 701 IAC 17.4 and 18.57(1)*

*Estimate: \$34,400,000*

Commercial fertilizer and agricultural limestone sales are exempt only if the purchaser will utilize the fertilizer or limestone for the health promotion of plants which are produced as part of agricultural production for market. Plant hormones are considered to be commercial fertilizer. Agricultural production includes the production of flowering, ornamental, or vegetable plants in commercial greenhouses or otherwise and production from aquaculture.

### **Construction Refund - Enterprise Zone**

*Citation: Iowa Code Subsection 15.331A (2001) and 261 IAC 4.6(15)*

*Estimate: \$4,000,000*

As part of the New Jobs and Income and Enterprise Zone programs, an eligible business is entitled to a refund of the sales and use taxes paid by a contractor or subcontractor used in the fulfillment of a written contract relating to the construction or equipping of a facility within the economic development area. The sales or use tax paid on the following items until the facility becomes operational may be refunded: gas, electricity, water, sewer, utility services, goods, wares, merchandise or services rendered. Sales or use tax cannot be refunded on furniture or fixtures.

### **Construction Refund - Govt., Ed., Museum**

*Citation: Iowa Code Subsection 422.45(7) (2001) and 701 IAC 19.12*

*Estimate: \$24,500,000*

Governmental units, private nonprofit educational institutions or nonprofit private museums may apply for refunds of sales and use tax paid by construction contractors for

materials used in projects that are to be used by those applying for the refund. The contractors, subcontractors and builders who enter into contracts with the listed contractees are required to remit sales tax on building materials, supplies, and equipment to their suppliers or to pay a corresponding use tax.

### **Construction Refund - Rural Water**

*Citation: Iowa Code Section 357A.15 and Subsection 422.45(7B) (2001) and 701 IAC 17.33 and 19.12*

*Estimate: Included in "Construction Refund - Govt., Ed., Museum"*

Non-profit rural water districts organized under Iowa Code 504A are exempt from paying tax on building supplies and equipment used in the performance of a construction contract. However, contractors, subcontractors and builders who enter into written construction contracts with them are still required to remit sales tax on building materials, supplies, and equipment to their suppliers or to pay a corresponding use tax. Non-profit rural water districts may apply for a refund of the tax paid.

### **Cultural Affairs Sales**

*Citation: Iowa Code Subsection 303.9(2) (2001)*

*Estimate: Minimal*

Certain sales are exempt if made by the Iowa Department of Cultural Affairs on the premises of property under control of the department and at the State capitol. The department may sell mementos and other items relating to Iowa history and historic sites on the premises under their control.

### **Domesticated Fowl**

*Citation: Iowa Code Subsection 422.42(14) (2001) and 701 IAC 17.9(2) and 18.12*

*Estimate: \$1,800,000*

Sales of domesticated fowl are exempt from tax. "Domesticated fowl" include any domesticated bird raised as a source of food, either eggs or meat. Domesticated fowl include, but are not limited to, chickens, ducks, turkeys, pigeons, ostriches, rheas, and emus. Sales for racing or as pets are not exempt from tax. Note: Even though all sales of ostriches, rheas and emus may not be breeding stock and are then exempt as sales of "domesticated fowl," all of these sales are tabulated under this category because the majority of the sales of ostriches, rheas and emus in 2000 are as breeding stock.

### **Draft Horses**

*Citation: Iowa Code Subsection 422.45(17) (2001) and 701 IAC 17.16*

*Estimate: Minimal*

Sales are exempt of draft horses, when purchased for use and they are used as a draft horse. Horses commonly known as Clydesdale, Belgian, Shire, and Percheron are included as well as others which are shown to be used as draft horses. Horses are used as



draft horses when they are used to pull a load. The load does not have to be commercial in nature.

### **E911 Service Surcharge**

*Citation: Iowa Code Lettered Paragraph 34A.7A(1)( c) (2001)*

*Estimate: \$700,000*

The E911 emergency telephone service surcharge is not included in taxable sales of telephone service and thus is not subject to sales and use tax.

### **Electricity to Private Water Companies**

*Citation: Iowa Code Subsection 422.45(33A) (2001) and 701 IAC 17.31*

*Estimate: Minimal*

Sales are exempt of electricity sold to water companies with property assessed under Iowa Code Sections 428.24, 428.26 and 428.28 to the extent that the electricity is used to pump water from wells or rivers.

### **Entertainment Media - Rental/ Broadcast**

*Citation: Iowa Code Subsections 422.45(24) and 422.45(41) (2001) and 701 IAC 17.18*

*Estimate: \$4,100,000*

Sales from the rental of films, video and audio tapes or discs, records, photos, copy, scripts, or other media used for the purpose of transmitting that which can be seen, heard or read is not taxable if the lessee (1) imposes a charge for the viewing or rental of the media with that charge subject to Iowa sales and use tax, or (2) the lessee broadcasts the contents of the media for public viewing or listening. Sales of motion picture films, video and audio tapes or discs and records or any other media which can be seen, heard, or read are exempt if the sales from the ultimate leasing or renting of the media are subject to Iowa sales and use tax.

### **Excavation Notification Center Services**

*Citation: Iowa Code Subsection 422.45(49) (2001)*

*Estimate: \$100,000*

Sales are exempt from services rendered, furnished, or performed by the statewide excavation notification center established by Iowa Code Section 480.3 and by the vendor providing the services.

### **Farm Machinery - Self-Propelled**

*Citation: Iowa Code Subsection 422.45(26) (2001) and 701 IAC 18.44 and 18.57(4)*

*Estimate: \$25,400,000*

Exempt from tax are the gross receipts from the sale or rental of farm machinery and

equipment, including auxiliary attachments which improve the performance, safety, operation, or efficiency of the machinery and equipment and replacement parts if the machinery and equipment is used directly and primarily in production of agricultural products. Also, the machinery and equipment must be self-propelled implements or implements customarily drawn or attached to self-propelled implements. Any replacement part must be essential to any repair or reconstruction necessary to the farm machinery's or equipment's use in the production of agricultural products. No machinery subject to vehicle registration qualifies.

### **Farm Machinery - Special Purpose**

*Citation: Iowa Code Subsection 422.45(39) (2001) and 701 IAC 18.48 and 18.57(7)*

*Estimate: \$24,600,000*

Exempt from tax are gross receipts from the sale or rental of farm machinery and equipment, including auxiliary attachments which improve the performance, safety, operation, or efficiency of the machinery and equipment and replacement parts. The implement, machinery, or equipment must be used directly and primarily used in livestock or dairy production, used in aqua-culture production, or in the production of flowering, ornamental or vegetable plants. It must not be self-propelled or customarily drawn or attached to self-propelled implements. Any replacement part must be essential to any repair or reconstruction necessary to its use.

### **Food Sales - For Human Consumption**

*Citation: Iowa Code Subsection 422.45(12) (2001) and 701 IAC 20.1, 20.2, 20.3, 20.4, 20.5, and 20.6*

*Estimate: \$247,500,000*

Sales are exempt of all foods for human consumption which are eligible for purchase with food coupons issued by the United States Department of Agriculture pursuant to regulations in effect on July 1, 1974, with the exception of: (1) candy, candy-coated items and other candy products; (2) beverages, excluding tea and coffee, and all mixes and ingredients used to produce such beverages which do not contain a primary dairy product or dairy ingredient base or which contain less than 15 percent natural fruit or vegetable juice; (3) foods prepared on or off the premises of the retailer which are consumed on the premises of the retailer; (4) foods sold by caterers; and (5) hot or cold foods prepared for immediate consumption off the premises of the retailer. Sales of exceptions to the exemption actually purchased using food coupons are exempt.

### **Food Sales - Promoter of Iowa Products**

*Citation: Iowa Code Subsection 422.45(52) (2001) and 701 IAC 17.32*

*Estimate: Minimal*

Sales are exempt of food and beverages for human consumption made by certain organizations that promote Iowa products and any other food or beverage sold by the organization in conjunction with the promoted Iowa product. The organization must be

(1) nonprofit and (2) organized to principally promote a food or beverage product for human consumption that is produced, grown or raised in Iowa.

### **Free Newspapers As Retail Sale**

*Citation: Iowa Code Subsection 422.42(14) (2001) and 701 IAC 17.14*

*Estimate: \$1,100,000*

The distribution to the public of free newspapers or shoppers guides is a retail sale for the purposes of the processing exemption. Thus, sales of chemicals, solvents, sorbents, and reagents directly used and consumed, dissipated or depleted in processing of free newspapers and shoppers guides are exempt. Also, all sales of tangible personal property included in the production of the free newspapers are exempt as well as processing power and fuel and services used in processing.

### **Fuel for Implements of Husbandry**

*Citation: Iowa Code Subsections 422.42(14) 422.45(34) (2001) and 701 IAC 17.9(7) and 18.57(3)*

*Estimate: \$11,400,000*

Sales of fuel, gas, electricity, water and heat consumed in implements of husbandry are exempt. An implement of husbandry is defined to mean any tool, equipment, or machine necessary to the carrying on of the business of agricultural production and without which that work could not be done. An airplane or helicopter designed for and used primarily in spraying or dusting of plants which are raised as part of agricultural production for market is an implement of husbandry. The sale of fuel used in milk coolers and milking machines, stationary irrigation equipment, implements used to handle feed, grain and hay and to provide water for livestock is exempt.

### **Fuel to Heat/Cool Greenhouses**

*Citation: Iowa Code Subsection 422.42(14) (2001) and 701 IAC 17.9(5) and 18.57(2)*

*Estimate: \$100,000*

Sales of fuel used for heating or cooling greenhouses, buildings or parts of buildings used for production of flowering, ornamental, or vegetable plants intended for sale are exempt from tax.

### **Fuel to Heat/Cool Livestock Buildings**

*Citation: Iowa Code Subsection 422.42(14) (2001) and 701 IAC 17.9(4)*

*Estimate: \$4,200,000*

The sale of fuel used to provide heat or cooling for livestock buildings is exempt from tax. "Fuel" includes electricity. "Livestock" includes domesticated fowl.

## **Fuel Used in Grain Drying**

*Citation: Iowa Code Subsection 422.42(14) (2001) and 701 IAC 17.9(7)d and 17.2*

*Estimate: \$7,300,000*

Sale of fuel used in grain drying is exempt from tax. Fuel includes electricity.

## **Goods for Clothing Maintenance and Repair**

*Citation: Iowa Code Subsections 422.42(14) and 422.45(19) and 701 IAC 18.7 and 18.47*

*Estimate: \$300,000*

Sales of chemicals, solvents, sorbents or reagents consumed in the maintenance or repair of fabric or clothing are exempt from tax. Generally, this applies to dry-cleaning and laundry establishments but also applies to any chemical or solvent used to clean carpeting. Also, the sale of property which is a label, container or similar article or receptacle for transfer in association with the maintenance or repair of fabric or clothing is exempt from tax. Exempt items include plastic garment bags, “shirt boards” and garment hangers. A container, label or similar article is exempt from tax only if the item is transferred to the customer. Thus, bundle bags and meese carts used to transfer or transport clothing within a dry-cleaning establishment are not subject to the exemption. This estimate does not include the categories of plastic garment bags, “shirt boards” and garment hangers which are included with “Packing Containers – All.”

## **Grain Dryers**

*Citation: Iowa Code Subsection 422.45(26) (2001) and 701 IAC 18.44(2)f*

*Estimate: \$200,000*

Exempt are the gross receipts from the sale or rental of a grain dryer including auxiliary attachments which improve the performance, safety, operation, or efficiency of the machinery and equipment and replacement parts. The grain dryer must be directly and primarily used in production of agricultural products. Replacement parts must be essential to any repair or reconstruction necessary to the use in the production of agricultural products. Note: The dollar value of this exemption varies considerably from year to year depending upon the price of fuel and the moisture content of grain harvested.

## **Hospice Exemption**

*Citation: Iowa Code Subsection 422.45(54A) (2001) and 701 IAC 17.34*

*Estimate: Minimal*

Sales are exempt of the sale or rental of tangible personal property or of the performance of services for any freestanding nonprofit hospice facility which operates a hospice program if the property or service is purchased for use in the hospice's program. A “hospice program” is any program operated by a public agency, a private organization, or a subdivision of either, which is primarily engaged in providing care to terminally ill individuals.

## **Industrial Machinery, Equip. and Computers**

*Citation: Iowa Code Subsection 422.45(27) (2001) and 701 IAC 18.58*

*Estimate: \$123,700,000*

Sales or receipts from rental are exempt for machinery, equipment or computers used by a manufacturer in processing; the sale or rental of a computer used in the processing or storage of data or information by an insurance company, financial institution, or commercial enterprise; and the sale or rental of various other types of tangible personal property under certain circumstances are also exempt. "Commercial enterprise" includes businesses and manufacturers conducted for profit and includes centers for data processing services to insurance companies, financial institutions, businesses and manufacturers, but excludes professions and occupations and nonprofit organizations. "Occupations" means the principal business of an individual and includes the business of farming. Manufacturing includes all activities subsequent to the extractive process of quarrying or mining.

## **Industrial Machinery New Installation**

*Citation: Iowa Code Subsection 422.45(29) (2001) and 701 IAC 18.45(7) and 26.16*

*Estimate: Part of "Industrial Machinery, Equip. and Computers"*

Exempt from tax are sales from the services of designing or installing new industrial machinery or equipment. The enumerated services of electrical or electronic installation are included in the exemption. To qualify for the exemption, the sale or rental of the machinery or equipment involved must be exempt. The machinery or equipment must be "new." "New" means never having been used or consumed by anyone. The charges for design or installation must be separately identified and stated. A "computer" is not considered to be machinery or equipment for this exemption.

## **Irrigation Equipment for Farming**

*Citation: Iowa Code Subsection 422.45(42) (2001) and 701 IAC 18.52*

*Estimate: Minimal*

Exempt are the gross receipts from the sale or rental of irrigation equipment used in farming operations.

## **Laboratory Tests on Animals**

*Citation: Iowa Code Subsection 422.43(11) (2001)*

*Estimate: \$1,900,000*

Exempt are gross receipts from the service of laboratory testing on animals including mobile testing laboratories and field testing by testing laboratories.

## **Laboratory Tests on Humans**

*Citation: Iowa Code Subsection 422.43(11) (2001) and 701 IAC 26.44*

*Estimate: \$35,700,000*

Sales are exempt of the service of laboratory testing on humans. Laboratory testing includes that conducted at mobile testing laboratories and field testing by test laboratories.

## **Livestock or Fowl Bedding**

*Citation: Iowa Code Subsection 422.45(30) (2001) and 701 IAC 17.26*

*Estimate: \$400,000*

Sales of wood chips, sawdust, hay, straw, paper or other materials used for bedding in the production of agricultural livestock or fowl are exempt from sales and use tax.

## **Massage Therapy**

*Citation: Iowa Code Subsection 422.43(11) (2001) and 701 IAC 26.47*

*Estimate: \$1,000,000*

Exempt are sales of services of massage therapy provided by massage therapists licensed under Iowa Code 152C.

## **Modular Home - 40 percent Exemption**

*Citation: Iowa Code Subsection 422.45(40) (2001) and 701 IAC 17.22*

*Estimate: \$1,400,000*

Exempt from tax is 40 percent of the gross receipts of sales of modular homes. A “modular home” is any structure, built in a factory, made to be used as a place for human habitation which cannot be attached or towed behind a motor vehicle and which does not have permanently attached to its body or frame any wheels or axles.

## **Newspapers**

*Citation: Iowa Code Subsection 422.45(9) (2001) and 701 IAC 18.42*

*Estimate: \$8,800,000*

The gross receipts from the sale of newspapers, free newspapers and shoppers guides are exempt from tax. A “newspaper” is a periodical, published at short, stated and regular intervals, usually daily or weekly. It is printed on newsprint with news ink. The format of a newspaper is that of sheets folded loosely together without stapling.

## **Nonprofit Educational Private Institutions**

*Citation: Iowa Code Subsection 422.45(8) (2001) and 701 IAC 17.11*

*Estimate: \$8,000,000*

Sales are exempt of goods, wares, or merchandise, or services to any private nonprofit educational institution in Iowa if used for educational purposes. A private nonprofit educational institution is an institution which primarily functions as a school, college, or university with students, faculty, and an established curriculum, a group of qualifying organizations acting in concert, or libraries. Note: Refunds of tax related to construction are included under “Construction Refund – Government, Educational, Museum” tax expenditure.

## **Nonprofit Hospital Exemption**

*Citation: Iowa Code Subsection 422.45(54) (2001) and 701 IAC 18.24 and 18.59*

*Estimate: \$53,700,000*

Exempt are sales to and from the rendering, furnishing or performing of services or sales of tangible personal property for a nonprofit hospital licensed under Iowa Code 135B if the property or service purchased is used in the operation of the hospital. A hospital is not entitled to claim a refund for tax paid by a contractor on the sale or use of tangible personal property or the performance of services in the fulfillment of a written construction contract with the hospital. “Hospital” means a place devoted primarily to the maintenance and operation of facilities for the diagnosis, treatment, or care over a period exceeding 24 hours of two or more unrelated individuals suffering from illness, injury or a medical condition. Also, in the definition are institutions, places, buildings or agencies providing accommodations for aged or infirm persons requiring or receiving chronic or convalescent care.

## **On-Line Computer Service**

*Citation: Iowa Code Subsection 422.45(56) (2001) and 701 IAC 18.20(5)*

*Estimate: \$8,800,000*

Sales are exempt of charges paid to a provider for access to on-line computer services that provide or enable computer access by multiple users to the Internet.

## **Optional Residential Warranty Contracts**

*Citation: Iowa Code Subsection 422.43(6) (2001) and 701 IAC 18.25(3)(b)*

*Estimate: \$600,000*

The sales are exempt of a residential warranty contract regulated under Iowa Code 1999 523C. The sales of the service contracts are not taxable, but the sales of any taxable services performed for the providers of residential service contracts are subject to tax. A “residential service contract” is a contract or agreement between a residential customer and a service company which undertakes, for a predetermined fee and for a specified period of time, to maintain, repair, or replace all or any part of the structural components,

appliances, or electrical, plumbing, heating, cooling, or air-conditioning systems of residential property containing not more than four dwelling units.

### **Organ Procurement Organization**

*Citation: Iowa Code Subsection 422.45(53) (2001) and 701 IAC 17.30*

*Estimate: Minimal*

Sales are exempt of tangible personal property to or services rendered, furnished or performed for a statewide, nonprofit organ procurement organization. An “organ procurement organization” is an organization which performs or coordinates the activities of retrieving, preserving or transplanting organs, which maintains a system of location prospective recipients for available organs and which is registered with the United Network for Organ Sharing and designated by the United States Secretary of Health and Human Services.

### **Packaging Containers - All**

*Citation: Iowa Code Subsection 422.45(19) (2001) and 701 IAC 18.7 and 32.7*

*Estimate: \$38,500,000*

Sales are exempt of containers, labels, cartons, pallets, packing cases, wrapping paper, twine, bags, bottles, shipping cases, garment hangers and other similar articles and receptacles sold to retailers or manufacturers for the purpose of packaging or facilitating the transportation of tangible personal property which is sold either at retail or for resale. Producers, wholesalers and jobbers are considered retailers or manufacturers. Containers and the other items when sold to a final buyer or ultimate consumer are exempt from tax when no separate charge is made for the container. The sale of wrapping paper, paper bags and like items are subject to tax when sold at retail. NOTE: This tax expenditure includes the effect of Packaging Containers - For Agriculture.

### **Packaging Containers - For Agriculture**

*Citation: Iowa Code Subsection 422.45(51) (2001) and 701 IAC 18.48(4) and 18.57(6)*

*Estimate: Included in “Packaging Containers – All”*

Exempt are gross receipts from the sale of packing material used in agricultural, livestock or dairy production. The exemption applies to the producers of ornamental, flowering, or vegetable plants in commercial greenhouses or other places which sell such items in the ordinary course of business. Included is an item that is a container, label, carton, pallet, packing case, wrapping, baling wire, twine, bag, bottle, shipping case, or other similar article or receptacle sold for use in agricultural, livestock or dairy production.

### **Prescription Drugs and Medical Devices**

*Citation: Iowa Code Subsection 422.45(13) (2001) and 701 IAC 20.7, 20.8, and 20.9*

*Estimate: \$55,500,000*

Sales or rentals are exempt of prescription drugs; prosthetic, orthotic, and orthopedic



medical devices; insulin; and prescribed oxygen for human use or consumption. “Prescription drug” means a drug intended to be dispensed pursuant to a prescription drug order or medication order from a practitioner, or oxygen or insulin dispensed for human consumption with or without a prescription drug order or medication order. “Medical device” means equipment or a supply intended to be prescribed by a practitioner including orthopedic or orthotic devices. “Medical device” also includes prosthetic devices intended to be dispensed for human use with or without a prescription to an ultimate user. These devices can include ostomy, urological and tracheostomy equipment and supplies and diabetic-testing materials. Note: Sales of any products otherwise exempt under this provision that are purchased by nonprofit hospitals are included in that tax expenditure. Also, purchases of items exempt under this provision that are purchased by tax certifying and levying bodies in Iowa are included in that tax expenditure.

### **Printers' and Publishers' Supplies**

*Citation: Iowa Code Subsection 422.45(21) (2001) and 701 IAC 18.33*

*Estimate: \$1,200,000*

Exempt from tax are sales by trade shops to a printer or publisher of an enumerated list of products that are generally expendable tools and supplies used to complete a finished product for sale at retail. A “printer” means a business engaged in printing that completes a finished product for ultimate sale at retail or one that is used to complete a finished printed packaging material used to package a product for ultimate sale at retail. “Printer” does not mean an in-house printer who prints or copyrights its own materials.

### **Processing Chemicals**

*Citation: Iowa Code Subsection 422.42(14) (2001) and 701 IAC 17.14 and 18.29*

*Estimate: \$22,500,000*

Chemicals, solvents, sorbents, and reagents directly used and consumed, dissipated, or depleted in processing tangible personal property intended to be sold ultimately at retail shall be exempt from sales and use tax. A catalyst is considered to be a chemical, solvent, sorbent or reagent. The chemical, solvent, sorbent, or reagent need not become an integral or component part of the processed tangible personal property.

### **Processing Photography**

*Citation: Iowa Code Subsection 422.43(4) and Section 423.2 (2001) and 701 IAC 16.51(1)*

*Estimate: \$2,100,000*

The sale of engraving, photography, retouching, printing and binding services are considered sales of tangible personal property instead of services. This extends the processing exemption so that it applies to them. Thus, sales of chemicals, solvents, sorbents, and reagents directly used and consumed, dissipated or depleted in engraving, photography, retouching, printing and binding are exempt.

## **Processing Power and Fuel**

*Citation: Iowa Code Subsection 422.42(14) (2001) and 701 IAC 17.2, 17.3, 18.29 and 33.3*

*Estimate: \$80,500,000*

Receipts from the sale of tangible personal property which is to be consumed as fuel in creating power, heat or steam for processing or for generating electric current, are exempt from sales and use tax. Note: This does not include heat for heating buildings, whether for manufacturing, processing, warehousing or for offices. Sales of electricity for lighting and ventilating are not exempt. Also, not exempt are sales of fuels used to enable storage after manufacturing.

## **Processing Retreading**

*Citation: Iowa Code Subsection 422.43(5) and Section 423.2 (2001) and 701 IAC 16.51(2)*

*Estimate: Minimal*

The sale of vulcanizing, recapping and retreading are considered to be the sale of tangible personal property instead of services. This extends the processing exemption to them. Thus, sales of chemicals, solvents, sorbents, and reagents directly used and consumed, dissipated or depleted in vulcanizing, recapping and retreading are exempt.

## **Processing Services for Food Products**

*Citation: Iowa Code Subsection 422.42(14) (2001) and 701 IAC 17.3(2)*

*Estimate: \$2,100,000*

An expanded definition of “processing” is allowed to manufacturers of food products for human consumption. Sales of any carbon dioxide in a liquid, solid or gaseous form, electricity, steam, or other taxable services primarily used in the performance of these activities are exempt from tax. The exemption applies for the activities of: (1) treatment of material that changes its form, context, or condition in order to produce a marketable food product for human consumption, (2) maintenance of quality or integrity of the food product and the maintenance or the changing of temperature levels necessary to avoid spoilage or to hold the food in marketable condition, (3) maintenance of necessary environmental conditions, (4) sanitation and quality control, (5) formation of packaging, (6) placement into shipping containers, and (7) movement of product until shipment from the building of manufacturer.

## **Raffles at Fairs - Tickets**

*Citation: Iowa Code Subsection 422.45(32) and 701 IAC 17.20*

*Estimate: \$300,000*

Sales are exempt of raffle tickets for a raffle licensed pursuant to Iowa Code section 99B.5, raffles conducted at fairs by the sponsor of the fair or by a qualified organization.

## **Reciprocal Shipment of Wine**

*Citation: Iowa Code Subsections 123.187(1) and (2) (2001) and 701 IAC 17.29*

*Estimate: Minimal*

Exempt from sales or use tax are sales of wine shipped by common carrier into this State to a person 21 years of age or older from a winery licensed or permitted pursuant to laws regulating alcoholic beverages in a state which affords this State an equal reciprocal shipping privilege. The wine is not to be resold and is limited to 18 liters per month per consumer. "Equal reciprocal shipping privilege" means allowing wineries located in Iowa to ship wine into another state, not for resale, but for consumption or use by a person 21 years of age or older.

## **Residential Utility Exemption**

*Citation: HF 1 and HF 795 of 2001 Implement Iowa Code Subsections 422.45(60) and (61) 2001 Iowa Acts*

*Estimate: \$7,200,000*

Sales of all natural gas, distillate fuel (heating oil), liquid propane gas and electricity to residential customers are exempt from tax for billings in March and April, 2001, for energy provided from February 5 through March 31, 2001. Additionally, the rate of State tax is reduced on these sales to 4 percent in calendar 2002, 3 percent in calendar 2003, 2 percent in calendar 2004, 1 percent in calendar 2005, 0 percent starting in calendar 2006. Local option sales taxes still apply. The tax expenditure estimate is provided for FY 2002 other cash basis estimates are: \$35.1million for FY 2003, \$54.1 million for FY 2004, \$74.3 million for FY 2005, \$95.5 million for FY 2006, and \$98.3 million for FY 2007

## **Sales by State, County and District Fairs**

*Citation: Iowa Code Subsection 422.45(50) (2001) and 701 IAC 17.28*

*Estimate: \$500,000*

Sales are exempt of tangible property or services rendered, furnished or performed by the State fair organized under Iowa Code chapter 173 or a county, district or fair society organized under Iowa Code chapter 174. This exemption does not apply to individuals, entities, or others that sell or provide services at the state, county, district fair or fair societies.

## **Sales To Lessors**

*Citation: Iowa Code Subsection 422.45(18) (2001) and 701 IAC 18.36(4) and 18.53*

*Estimate: \$600,000*

The exemption from tax on sales for resale is inapplicable to the purchase of tangible personal property for the purpose of renting or leasing such property to others. If tangible personal property is purchased for leasing, the purchase of the property is exempt from tax if the following conditions are met: (1) the lessor purchasing the property is regularly engaged in the business of leasing, (2) the period of the lease is for more than five months, (3) the lease or rental receipts are subject to tax.

## **Tax Levying or Certifying Bodies In Iowa**

*Citation: Iowa Code Subsection 422.45(5) (2001) and 701 IAC 18.5(3)*

*Estimate: \$66,000,000*

Sales are exempt to any tax-certifying or tax-levying body of the State of Iowa or governmental subdivision thereof, including regional transit systems, the State board of regents, state department of human services, state department of transportation, and all divisions, boards, commissions, agencies or instrumentalities of the state, federal, county, or municipal government which have no earnings going to the benefit of an equity investor or stockholder. Not exempt are sales in connection with the operation of any municipally owned public utility engaged in selling gas, electricity, pay television service, or heat to the general public or providing sewage service or solid waste collection and disposal service to a county or municipality on behalf of nonresidential commercial operations located within the county or municipality. The exemption does not apply to contractors, who deal with agencies, instrumentalities or other entities of government. Refunds on construction contracts are included in a separate tax expenditure.

## **Transportation Services-All Air Charter**

*Citation: Iowa Code Subsection 422.45(25) (2001) and 701 IAC 26.21*

*Estimate: \$1,300,000*

Sales are exempt of aerial commercial or chartered transportation services.

## **Transportation Services-All Spray-Air**

*Citation: Iowa Code Subsection 422.45(25) (2001)*

*Estimate: Included in "Transportation Services-All Charter"*

Sales are exempt of the service rendered, furnished or performed by specialized flying implements of husbandry used for agricultural aerial spraying.

## **Transportation Services-General**

*Citation: Iowa Code Subsection 422.45(2) (2001) and 701 IAC 19.14 and 26.42(4)(a)*

*Estimate: \$71,700,000*

Transportation charges and delivery charges are not subject to the Iowa sales and use tax when they are separately contracted or, if no written contract exists, are separately itemized on the billing from the seller to the purchaser. The exemption does not apply to the services of transporting electrical energy or of transporting natural gas. The exemption does not apply to the rental of recreational vehicles or recreational boats. The exemption does include transportation of people.

## **Water Sold to Farmers**

*Citation: Iowa Code Subsection 422.42(14) (2001) and 701 IAC 17.9(8) and 18.57(5)*

*Estimate: \$200,000*

Sales of water sold for direct use as drinking water for livestock or poultry products for market are exempt from sales and use tax. Also, sales are exempt of water used in the production of plants.

## Use Tax

### Mobile Homes - 40 percent Exemption

*Citation: Iowa Code Subsection 423.4(12) (2001) and 701 IAC 32.3*

*Estimate: \$600,000*

All taxable mobile homes or manufactured housing is subject to a use tax in an amount equal to 60 percent of the mobile home's or manufactured housing's purchase price (40 percent of the home's or housing's purchase price is exempt from use tax). In arriving at the purchase price upon which the use tax is to be computed, the trade-in allowance is a reduction in the purchase price if (1) the property traded for the mobile home or manufactured housing is a type of property normally sold in the regular course of business of the retailer selling the home or housing and (2) the retailer intends ultimately to sell the traded property at retail or to use the traded property in the manufacturing of a like item.

# Listing of Tax Expenditures Not Estimated

## Corporate Income Iowa Specific

### Alternative Minimum Tax Exclusion

*Citation: Iowa Code 422.33(4)(c ) (2001) and 701 IAC 52.5(2)*

When computing alternative minimum tax, an exclusion is provided with an income size phase-out before computation of tax. The exclusion is equal to \$40,000. However, the exemption is reduced by 25 percent of the amount that the alternative minimum taxable income, computed without regard to the \$40,000, exceeds \$150,000. The exemption cannot fall below zero.

### Credit - Alternative Minimum Tax - Corporate

*Citation: Iowa Code Subsection 422.33(7) (2001) and 701 IAC 52.5(4)*

A credit is allowed against regular income tax liability for the alternative minimum tax paid in a prior year. The minimum tax credit may only be used against regular income tax for a tax year to the extent that the regular tax is greater than the tentative minimum tax for the tax year. Any remaining credit may be carried forward.

### Credit - New Jobs - Corporate

*Citation: Iowa Code Subsection 422.33(6) (2001) and 701 IAC 52.8*

A one-time credit may be elected for one tax year against the income tax of a business equal to 6 percent of eligible wages paid in that year to employees in new jobs under an Iowa Industrial New Jobs Training Act agreement (Under Iowa Code Chapter 260E). The maximum credit per eligible employee is six percent of the state unemployment wage base defined in Iowa Code Section 96.19(37). The employer must agree to increase employment within the state by at least 10 percent. Any credit unused in the year earned may be carried forward until used or for 10 years whichever is earlier.

## Corporate Income Federal Base

### Tax Free - Stock Trade for Property

*Citation: Iowa Code Subsection 422.3(5) and 422.35 (2001) and 701 IAC 41.2 and 53.1 and IRC 1032(a)*

No gain or loss is recognized to a corporation upon the receipt of money or other property in exchange for its stock (including treasury stock). Also, no gain or loss is recognized by a corporation upon the lapse or acquisition of an option to buy or sell its stock (or treasury stock).

## Individual Income Iowa Specific

### Annuity Passed Through Estate

*Citation: Iowa Code Subsection 422.7(4) (2001)*

Iowa net income is reduced by any installment payment from an annuity which was purchased under an employee's pension or retirement plan when the computed value of the installments has been included as part of the decedent employee's estate for Iowa inheritance tax purposes.

### Capital Gain - Distressed Sales

*Citation: Iowa Code Subsection 422.7(16) (2001) and 701 IAC 40.27*

Gains from sales, exchanges, or transfers of property may be excluded from net income, if the gains are considered to be distressed sale transactions. In order to be a distressed sale transaction, the transaction must involve forfeiture of an installment real estate contract, the transfer of real or personal property securing a debt to a creditor in cancellation of that debt or from the sale or exchange of property as a result of actual notice of foreclosure. Also, the transaction must have these qualifications: (1) the forfeiture, transfer, or sale or exchange must be done to establish a positive cash flow; (2) immediately before the transaction, the taxpayer's debt to asset ratio must exceed 90 percent; and (3) the taxpayer's net worth at the end of the tax year must be less than \$75,000. Except where married taxpayers live apart, their assets must be considered together for purposes of qualifying.

### Individual Development Accounts

*Citation: Iowa Code Subsection 422.7(28) and Section 514A.3 (2001) and 701 IAC 40.44*

Authorized low-income individuals may have individual development accounts established for them by appropriate agencies. The accounts are to provide a means to pay in advance for education, housing, business establishment, and emergency medical expenses. Exemption from tax to the extent included in federal income subject to tax applies to: (1) contributions made by persons and entities other than the owner of the account, (2) the amount of any savings refund made to an account as authorized for contributions made to the accounts by the owner of the account, and (3) earnings on the account or interest earned on the account.

### Itemized-Adoption Expense

*Citation: Iowa Code Lettered Paragraph 422.9(2)(c) (2001) and 701 IAC 41.5(3)*

Unreimbursed amounts paid by the taxpayer in the adoption of a child in excess of 3 percent of the taxpayer's net income, or the combined net income of a husband and wife in the case of married taxpayers filing a joint return, may be deducted from Iowa net income in the year paid. The expenses are deductible if used in an adoption by a licensed



agency under Iowa Code chapter 238 or by a person making an independent placement under Iowa Code section 238.33 or by a person making an independent placement under Iowa Code chapter 600.

### **Itemized-Disabled Relative Care Expenses**

*Citation: Iowa Code Lettered Paragraph 422.9(2)(e) (2001) and 701 IAC 41.5(4)*

Deduction is allowed for expenses incurred by a taxpayer in the taxpayer's home for care of a disabled person who is unable to live independently. The deduction is limited to \$5,000 for each disabled person cared for in the taxpayer's home. The disabled person must be a grandchild, child, parent or grandparent of the taxpayer or the taxpayer's spouse and (1) be receiving medical assistance under Iowa Code Chapter 249A or (2) be income and resource level eligible to receive such benefits or (3) be eligible to receive such benefits if living in a health-care facility licensed under Iowa Code chapter 135C. Qualifying expenses include a share of food expenses as well as amounts spent directly on the disabled person for such items as clothing, medical care, dental care and transportation. Medical expenses not otherwise itemized because of federal adjusted gross income percentage limits may be included in the deduction.

### **Itemized-Volunteer Work Mileage**

*Citation: Iowa Code Lettered Paragraph 422.9(2)(d) (2001)*

An additional deduction for mileage incurred by the taxpayer in voluntary work for a charitable organization is allowed equal to the excess of the mileage reimbursement allowed state employees and that allowed for federal income tax purposes.

### **Tax Limit - Net Worth and Distressed Sales**

*Citation: Iowa Code Subsection 422.5(6) and 701 IAC 39.8*

Taxpayers whose net incomes include gains or losses from distressed sales may limit their State income tax liabilities to their net worth immediately before the distressed sales for the tax years in which the distressed sale occurs. The State income tax liability is the aggregate of the income tax plus the taxpayer's minimum tax and the taxpayer's lump-sum tax. A "distressed sale" is the forfeiture of an installment real estate contract, the transfer of real or personal property securing a debt to a creditor in cancellation of that debt or from the sale or exchange of property as a result of actual notice of foreclosure.

### **Unskilled In-Home Health Care Service**

*Citation: Iowa Code Subsection 422.7(27) (2001) and 701 IAC 40.43*

Supplemental assistance payments, authorized under Iowa Code section 249.3(2)"a"(2) which are received by an individual providing unskilled in-home health care services to a member of the caregiver's family are exempt from State income tax to the extent that the individual caregiver is not a licensed health care professional. For purposes of this exemption, a member of the caregiver's family includes a spouse, parent, step-parent, child, stepchild, brother, stepbrother, sister, stepsister, lineal ancestor, such as a

grandparent, and lineal descendant, such as a grandchild. Those licensed health care professionals that are not eligible for this exemption include medical doctors, doctors of osteopathy, physician assistants, psychologists, podiatrists, chiropractors, physical therapists, occupational therapists, nurses, dentists, dental hygienists, optometrists, speech pathologists and audiologists.

## **Individual Income Federal Base**

### **Clean Fuel Vehicles and Refueling Property**

*Citation: Iowa Code Subsection 422.3(4) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 179A*

A deduction from gross income is allowed for up to \$2,000 of the cost of a clean fuel motor vehicle. The allowed deduction is up to \$5,000 of the cost of a truck or van with a gross vehicle weight above 10,000 pounds and not exceeding 26,000 pounds. The amount allowed is up to \$50,000 of the cost of a truck or van with a gross vehicle weight above 26,000 pounds or a bus with a seating capacity exceeding 20 adults. The deduction will be phased out from 2002 through 2004. A qualified clean fuel vehicle need not be depreciable property, but it must be acquired for use by the taxpayers, the original use must commence with the taxpayer. The vehicle must meet certain environmental standards. A clean-fuel vehicle is one that uses natural gas, liquefied natural gas, liquefied petroleum gas, hydrogen, electricity or any other fuel that is at least 85 percent methanol, ethanol, any other alcohol or ether.

### **Employee Fringe - Miscellaneous Non-Cash**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 132*

Excluded from employee's gross income are several miscellaneous non-cash benefits including: (1) no additional cost services (free standby flights by airlines to employees), (2) qualified employee discounts, (3) working condition fringe benefits (use of company car for business purposes), (4) *de minimis* fringe benefits (use of copy machine for personal use), (5) qualified moving expense reimbursements, and (6) value of any on-premises athletic facilities provided and operated by the employer. These benefits may be extended to retired and disabled former employees, to widows and widowers of deceased employees and to spouses and dependent children of employees.

### **Personal Injury Damages**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 104(a)(2)*

Excluded from income is the amount of any damages (other than punitive damages) received (whether by suit or agreement and whether as lump sums or as periodic payments) on account of personal physical injuries or physical sickness. Damages for emotional distress (including the physical symptoms of emotional distress) may not be

treated as damages on account of a personal physical injury or sickness, except to the extent of an amount paid for medical care attributable to emotional distress.

### **Premature Withdrawal Interest Forfeiture**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 62(a)(9)*

Interest that was previously earned on a time savings account or deposit with a savings institution and that is later forfeited because of premature withdrawals is deductible from gross income in the year when the interest is forfeited.

### **Tax Free - Transfer to Spouse**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.7 (2001) and 701 IAC 41.2 and IRC 1041*

No gain or loss is recognized for transfers of property from an individual to a spouse or to a former spouse incident to a divorce. These transfers are treated as a gift, and the transferor's basis for the transferred property is carried over to the transferee. In the case of a transfer to a former spouse, the transfer must occur within one year after the date on which the marriage ceased or must be related to the cessation of the marriage. This non-recognition treatment is not available for transfers to spouses or former spouses who are nonresident aliens.

## **Individual Income and Corporate Income Iowa Specific**

### **Added Wage Deduction - All Businesses**

*Citation: Iowa Code Subsections 422.35(6A) and 422.7(12A) (2001) and 701 IAC 53.11(7) and 40.21*

A business is allowed an additional deduction from income equal to sixty-five percent of the wages, up to \$20,000 per individual, paid to qualified individuals who are hired for the first time by the taxpayer during the tax year paid for work done in Iowa during the first twelve months of employment. Qualified individuals are: (a) an individual who at the time of hiring is domiciled in Iowa and (1) has been convicted of a felony in any state or the District of Columbia, (2) is on parole from the Iowa department of corrections facilities (3) is on probation designated by an Iowa court or (4) is in a work release program or (b) an individual, whether or not domiciled in Iowa at the time of the hiring, who is on parole or probation and to whom the interstate probation and parole compact applies.

### **Added Wage Deduction - Small Businesses**

*Citation: Iowa Code Subsections 422.35(6) and 422.7(12) (2001) and 701 IAC 53.11 and 40.21*

If business is a small business an additional deduction from income is allowed equal to 65 percent of the wages, up to \$20,000 per individual, paid to qualified individuals who

are hired for the first time by the taxpayer during the tax year paid for work done in Iowa during the first 12 months of employment. Qualified individuals are: (a) qualifying individuals with disabilities domiciled in Iowa at the time of the hiring; (b) an individual who at the time of hiring is domiciled in Iowa and (1) has been convicted of a felony in any state or the District of Columbia, (2) is on parole from the Iowa department of corrections facilities, (3) is on probation designated by an Iowa court or (4) is in a work release program; or (c) an individual, whether or not domiciled in Iowa at the time of the hiring, who is on parole or probation and to whom the interstate probation and parole compact applies.

### **Credit - Eligible Housing Business**

*Citation: Iowa Code Section 15E.193B (2001) and 701 IAC 42.13 and 52.15*

A corporation or individual that qualifies as an eligible housing business may receive a tax credit of up to 10 percent of the new investment which is directly related to the building or rehabilitating of homes in an enterprise zone. The tax credit may be taken on the tax return for the tax year in which the home is ready for occupancy. New investment does not include machinery, equipment, hand or power tools necessary to build or rehabilitate homes. Any credit in excess of the tax liability, less credits, may be carried forward for seven years or until used. An eligible housing business is one that builds or rehabilitates a minimum of four single-family homes with a value, after completion, not exceeding \$120,000 within an enterprise zone or for one multiple dwelling unit containing three or more individual dwelling units with a value per unit not to exceed \$120,000 within an enterprise zone.

### **Interest - Beginning Farmer Bond**

*Citation: Iowa Code Section 175.17 (2001) and 701 IAC 40.36 and 53.6*

Interest from bonds or notes issued by the agricultural development authority to finance the beginning farmer loan program is exempt from the State individual and corporate income taxes. Also, the bonds cannot be taxed for estate or inheritance tax purposes.

### **Interest - State Exempt**

*Citation: Iowa Code Subsections 422.7(2) and 422.7(19) (2001) and 701 IAC 40.3*

Interest on a selected list of bonds and notes issued by various state and local government entities are specifically exempt from income taxes.

### **Net Operating Loss - Non-Farm**

*Citation: Iowa Code Subsections 422.9(3) and 422.35(11) (2001) and 701 IAC 40.18 and 53.2*

Net operating losses are allowed for Iowa corporation and individual income tax purposes to the same extent that they are allowed for federal corporate or individual income tax purposes. Generally, the loss may be carried back two years and any remainder may be carried forward twenty years. If the loss is due to casualty from fire, storm, shipwreck, or other casualty, or from theft or for a small business from a loss in a Presidentially-

declared disaster area, the loss may be elected to be carried back three years with the remainder forward 20 years or optionally entirely carried forward 20 years.

### **Speculative Shell Building Depreciation**

*Citation: Iowa Code Subsections 422.7(26) and 422.35(16) (2001) and 701 IAC 40.42 and 53.17*

Speculative shell buildings constructed or reconstructed may be depreciated as 15-year property under the accelerated cost recover system of the Internal Revenue Code. If the taxpayer has deducted depreciation on the speculative shell building on the taxpayer's federal income tax return, that amount of depreciation must be added to the federal adjusted gross income in order to deduct depreciation computed under this provision.

## **Individual Income and Corporate Income Federal Base**

### **Agricultural Cost-Sharing Payments**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.35 (2001) and 701 IAC 41.2 and 53.1 and IRC 126 and 1255*

Agricultural cost-sharing payments may be excluded in whole or in part from income if three conditions are met: The United States Secretary of agriculture certifies that the payment services to conserve soil and water resources, improve forests, or provide a habitat for wildlife; the Internal Revenue Service determines that the improvement does not substantially increase the annual income from the property; and the payment is for a capital expense. No deductions, depreciation, amortization, or depletion may be claimed with respect to any such amount excluded from income. If the property (or improvement) purchased with the payments is disposed of within 20 years, the payment amounts are recaptured as ordinary income. A 100 percent recapture rate applies if disposition occurs within the first 10 years, with an annual decrease of 10 percent thereafter.

### **Alcohol Fuel Credit Deduction**

*Citation: Iowa Code Subsections 422.35(7) and 422.7(9) (2001) and 701 IAC 40.9, 41.2 and 53.10(2) and IRC 40*

The amount of credit allowable for the federal alcohol fuels credit, as provided in Section 40 of the Internal Revenue Code, is a deduction from Iowa taxable income to the extent that use of the federal credit increased income.

### **Corporate Farm Exceptions to Accrual**

*Citation: Iowa Code Subsection 422.3(5) and Section 422.35 (2001) and IRC 447 and 464*

Generally, corporations must report income and expenses on an accrual basis. For corporations engaged in farming there are exceptions for S-corporations and certain family corporations with receipts up to \$25 million annually and other corporations with receipts up to \$1 million.

## **Livestock Involuntary Conversion**

*Citation: Iowa Code Subsection 422.5(9) and Section 422.35 (2001) and IRC 1033(d)*

The destruction of livestock by disease or the sale or exchange of livestock because of disease is treated as an involuntary conversion. Sales or exchanges of livestock (except poultry) solely on account of drought, flood, or other weather-related conditions that exceed the number normally sold may also be entitled to involuntary conversion treatment.

## **Net Operating Loss - Farming**

*Citation: Iowa Code Subsection 422.3(5) (2001) and 701 IAC 40.18(9) and 53.2(3)(d) and IRC 172*

A farming net operating loss may be carried back for five years instead of the usual two-year carryback period or three years if in a federally-declared disaster area. The loss must be attributable to the income and deductions of a farming business. The 20-year carryforward is the same as that for other business.

## **Tax Free - Exchange of Contracts**

*Citation: Iowa Code Subsection 422.3(5) and Sections 422.7 and 422.35 (2001) and 701 IAC 41.2 and 53.1 and IRC 1035*

No gain or loss results from an exchange of (1) life insurance contracts, (2) a life insurance contract for an endowment or an annuity contract, (3) two annuity contracts, (4) an endowment insurance contract for an annuity contract or (5) two endowment insurance contracts if the new contract provides for regular payments beginning on a date not later than the date payments would have begun under the contract that was exchanged. Policyholders who surrender life insurance or annuity contracts of a financially troubled insurance company may qualify for non-recognition of gain if, within 60 days, all cash received is reinvested in another policy or contract issued by another insurance company or in a single custodial account.

## **Tax Free - Like-Kind Exchanges**

*Citation: Iowa Code Subsection 422.3(5) and Sections 422.7 and 422.35 (2001) and 701 IAC 41.2 and 53.1 and IRC 1031*

No gain or loss shall be recognized on the exchange of property held for productive use in a trade or business or for investment if such property is exchanged solely for property of like kind which is to be held either for productive use in a trade or business or for investment. This rule does not cover stock in trade or other property held primarily for sale, stocks, bonds, notes, certificates of trust, beneficial interests, partnership interests, securities or evidences of indebtedness or interest. It does cover "trade-in" allowances. Property is of like kind if it is of the same nature or character. Most exchanges of real properties qualify as like-kind exchanges. Personal properties are like kind if they are of a like kind or class. Depreciable tangible personal properties are of a like class if they fall within the same general asset class for depreciation purposes.

## **Tax Free - Transfer to Controlled Corp**

*Citation: Iowa Code Subsection 422.3(5) and Sections 422.7 and 422.35 (2001) and 701 IAC 41.2 and 53.1 and IRC 351*

No gain or loss is recognized if one or more persons (individuals, trusts or estates, partnerships or corporations) transfer property to a corporation solely in exchange for its stock and, immediately after the transfer, are in “control” of the transferee corporation. “Control” means the ownership of at least 80 percent of the voting stock and at least 80 percent of all other stock of the corporation. Stock rights or warrants are not considered to be stock. Nonqualified preferred stock is not treated as stock. Stock is not considered issued in exchange for property if it is issued for services or unsecured debts of the transferee or for interest accrued to the transferor on debts owed by the transferee. If the transferor-stockholder receives other property (including securities) or cash in addition to the stock, any gain from the transfer is recognized, but only up to the cash or the fair market value of the other property received.

## **Sales and Use**

### **Building Material for Out-of-State**

*Citation: Iowa Code Subsections 422.42(15) and 422.42(16) (2001) and 701 IAC 19.5(1) and 32.8*

Withdrawal of tangible personal property from inventory of a retailer who is a builder, contractor, subcontractor or owner of building materials, supplies, or equipment used in the performance of construction contracts outside Iowa is not a sale of tangible personal property and is not a taxable event. The use of tangible personal property such as building materials, supplies, or equipment by a manufacturer in the performance by the manufacturer or its subcontractor of construction outside of Iowa is not a taxable event.

### **Casual Sale - Business Liquidation**

*Citation: Iowa Code Subsection 422.45(6) (2001) and 701 IAC 18.28(2)*

When retailers sell all or substantially all of the tangible personal property held or used in the course of the trade or business for which retailers are required to hold a sales tax permit, the casual sale exemption from taxation applies when (1) the trade or business is transferred to another person and (2) the transferee engages in a similar trade or business. The trade or business transferred refers to the place where the business is located since each retail business collecting tax must have a separate permit for each location.

### **Casual Sale - Not Business Liquidation**

*Citation: Iowa Code Subsection 422.45(6) (2001) and 701 IAC 18.28(1) and 18.28(3)*

Sales, otherwise taxable, that are on a casual basis are generally exempt from tax. In order to be “casual” (1) the sale of tangible personal property or taxable services must be of a nonrecurring nature and (2) the seller, at the time of the sale must not be engaged, for profit, in the business of selling tangible goods or services taxable under Iowa Code

422.43. Casual sales of vehicles subject to registration, vehicles subject only to the issuance of a certificate of title, and aircraft are not exempt. Sales of capital assets, such as equipment, machinery and furnishings which are not sold out of inventory are casual sales as long as they are not recurring (more than twice in 12 months or on an annual basis).

### **Commercial Watercraft Special Fuel**

*Citation: Iowa Code Subsection 422.45(23) (2001) and 701 IAC 18.37*

The sale of special fuel for diesel engines used in commercial watercraft transporting cargo or passengers on rivers bordering Iowa is exempt, even if no fuel tax has been imposed and paid. The seller must deliver the fuel to the owner's watercraft while it is afloat.

### **Employment Placement Out-of-State**

*Citation: Iowa Code Subsection 422.43(11) (2001) and 701 IAC 26.38*

Sales are exempt of private employment agencies from services rendered for placing a person in employment where the person's principal place of employment is to be located outside the State of Iowa.

### **Fees for Games and Amusements**

*Citation: Iowa Code Subsection 422.43(1) (2001) and 701 IAC 16.26(3)*

Sales of entry fees at a place of amusement, fair or athletic event are not subject to tax when the sales of tickets or admissions charges for observing the activity are taxable. A fee includes, but is not limited to, entry fees, registration fees, or other charges made by the operator or sponsor of a game or other form of amusement for the right to participate in a game or amusement. Game or other form of amusement includes, but is not limited to, events such as golf tournaments, bowling tournaments, car races, motorcycle races, bridge tournaments, rodeos, animal shows, fishing contests, balloon races, and trap shoots.

### **Legal Aid Organizations**

*Citation: Iowa Code Subsection 422.45(37) (2001) and 701 IAC 18.51*

Sales are exempt, including rent and services, to nonprofit legal aid organizations.

### **Long-Term Room Rental**

*Citation: Iowa Code Subsection 422.43(7) (2001) and 701 IAC 18.40*

Sales are exempt of the renting of all rooms by the same person for a period of more than 31 consecutive days. Rooms include but are not limited to: sleeping rooms, banquet rooms or conference rooms in any hotel, motel, inn, public lodging house, rooming or tourist court, or in any place where sleeping accommodations are furnished to transient guests, whether with or without meals.



## **Non-Iowa Governments**

*Citation: Iowa Code Subsection 422.45(44) (2001) and 701 IAC 17.23*

Sales of tangible personal property or the sale, furnishing or services of electrical energy, natural or artificial gas, or communication services are exempt if made to another state or political subdivision of another state if the other state provides a similar reciprocal exemption for this State and political subdivisions of this State.

## **Nonprofit Disabled Service Providers**

*Citation: Iowa Code Subsection 422.45(22) (2001) and 701 IAC 17.19(2) and (3)*

Sales are exempt to nonprofit corporations providing residential care and intermediate care for the mentally retarded and residential care for the mentally ill, residential care for mentally retarded children licensed by the department of human services under Iowa Code chapter 237, residential care for child foster care other than “individuals,” rehabilitation services to persons with disabilities, and community mental centers as accredited by the department of human services. The exemption does not apply to the purchase of building materials by a contractor for use in the construction, remodeling or reconditioning of a facility used or to be used by any of those exempt corporations.

## **Nonprofit Health Centers**

*Citation: Iowa Code Lettered Paragraph 422.45(22)(e) (2001) and 701 IAC 17.19(1) and (3)*

Sales are exempt to community health centers as defined in 42 USCA section 254c and to migrant health centers defined in 42 USCA section 254b. The exemption does not apply to tax paid on the purchase of building materials by a contractor which are used in the construction, remodeling or reconditioning of a facility used or to be used by any of these health centers.

## **Nonprofit Health Services Computers**

*Citation: Iowa Code Numbered Paragraph 422.45(27)(d)(3) (2001) and 701 IAC 18.45*

Exempt are sales of computers to nonprofit health service corporations who are organized under Iowa Code 2001 chapter 514. These are essentially insurance companies and are treated as such.

## **Nonprofit Lending Organization**

*Citation: Iowa Code Subsection 422.45(36) (2001) and 701 IAC 18.50*

Sales are exempt to a nonprofit organization of tangible personal property for the purpose of lending the tangible personal property to the general public for use by the public on a nonprofit rental basis. The exemption is applicable to tangible personal property only and not to taxable services. It is applicable to the sale of tangible personal property and not to its rental.

## **Nonprofit Private Museum**

*Citation: Iowa Code Subsection 422.45(43) (2001) and 701 IAC 17.24*

Sales are exempt of goods, wares, merchandise or services to private nonprofit museums if they are used for educational, scientific, historic preservation, or aesthetic purpose. A “museum” is an institution organized for educational, scientific, historical preservation, or aesthetic purposes which is predominately devoted to the care and exhibition of a collection of objects in a room, building, or locale. This collection must be open to the public on a regular basis and its staff must be available to answer questions regarding the collection. Museums include: art galleries, historical museums, museums of natural history, and museums devoted to one particular subject or one person. Also see Construction Refund – Government, Educational and Museum.

## **Prizes for Gambling**

*Citation: Iowa Code Subsection 422.45(35) (2001) and 701 IAC 17.21*

Sales are exempt of tangible personal property which is to be given as prizes to players in games of skill, games of chance, raffles, and bingo games as defined in and lawful under Iowa Code chapter 99B. A gift certificate is not tangible personal property. If a person wins a gift certificate as a prize at the time the person redeems the gift certificate any tax due is payable.

## **Processing Services**

*Citation: Iowa Code Subsection 422.42(18) (2001) and 701 IAC 26.2(2)*

Sales of a taxable service used in the processing of tangible personal property for use in taxable retail sales or services are exempt.

## **Railroad Rolling Stock**

*Citation: Iowa Code Subsections 422.45(10) and 423.4(6) (2001) and 701 IAC 17.13*

Sales of tangible personal property used or to be used as railroad rolling stock for transporting persons or property are exempt along with related materials and parts. Railroad rolling stock is that portion of railroad property that is incapable of being affixed or annexed on any one place and that is intended for movement on rails to transport persons or property whether for hire or not for hire. Locomotives, railroad cars, and materials and parts used are exempt. Fuel and lubricants used in railroad rolling stock are materials used in railroad rolling stock and their sales are exempt. Enumerated services are not railroad rolling stock and are not exempt.

## **Reconditioning Services**

*Citation: Iowa Code Subsection 422.42(18) (2001) and 701 IAC 26.2(8)*

Sales of services are exempt from tax when used in the reconditioning or repairing of tangible personal property of the type which is normally sold in the regular course of the retailer's business and which is held for sale by the retailer.

## **Recycling and Waste Reprocessing Equipment**

*Citation: Iowa Code Numbered Paragraph 422.45(27)(a)(5) (2001) and 701 IAC 18.45(8)*

Exempt are receipts from sales or rentals of machinery, equipment, or computers directly and primarily used in the recycling or reprocessing of waste products. Machinery or equipment eligible includes: compactors, balers, crushers, grinders, cutters or shears. The property does not need to be “real property” in order to qualify. Recycling or reprocessing can begin when waste or material, which would otherwise become waste is collected or separated. The end of recycling or reprocessing is when waste or a material which would otherwise become waste is in the form of raw material in which it will be used in manufacturing or in the form of a product which will be sold for use other than as a raw material in manufacturing.

## **Relief Agency Refunds**

*Citation: Iowa Code Subsection 422.47(1) (2001) and 701 IAC 18.6*

Sales tax paid by a relief agency may be refunded upon the purchase of goods, wares, merchandise or services rendered, furnished, or performed that are used for free distribution to the poor and needy. Persons are determined to be in the poor and needy category when their incomes and resources are at or below the poverty level based upon federal guidelines.

## **Sales by County or City**

*Citation: Iowa Code Subsection 422.45(20) (2001) and 701 IAC 18.13 and 18.39*

Sales are in general exempt if made by a city or county. The exemption does not apply to sales from furnishing or service of gas, electricity, water, heat and communication services rendered, furnished or performed by a county or city. Sales of fees for participating in any athletic sports by counties and cities are taxable. Also, sales from a county or municipality furnishing sewage service or solid waste collection and disposal service to nonresidential commercial operations are taxable.

## **Sales for Education, Religion or Charity**

*Citation: Iowa Code Subsection 422.45(3) (2001) Amended for 7/1/01 by HF 736 of 2001 and 701 IAC 17.1*

Sales are exempt from tax to the extent in which net proceeds are used for educational, religious or charitable activities except for receipts from games of skill, games of chance, raffles and bingo games. “Educational” activities involve acquisition of knowledge tending to develop and train an individual. Their primary purpose is to teach with systematic instruction with the educational process being more than incidental. “Religious” purpose is analogous to religious worship. “Charitable” purpose applies to almost anything that tends to promote well-doing and well-being for public good or public welfare with no pecuniary profit to the one performing the service or to the giving of gifts by persons kindly disposed toward others without obligation. Effective July 1, 2001, there is a new definition of charitable purpose. In order to receive the exemption,

the following must be true: 1. The entity to which the proceeds go must be a 501(c ) (3) organization under the IRC. 2. The gross receipts of the sale must be by a qualifying organization or donated to a qualifying organization. 3. Proceeds are exempt only to the extent that they are expended for educational, religious or charitable purposes.

### **Software Maintenance or Support Contract**

*Citation: Iowa Code Subsection 422.43(6) (2001) and 701 IAC 18.25(3)(c )*

If a computer software maintenance or support services contract provides only for the furnishing of technical support services and not for the furnishing of any materials, no tax is imposed upon the sale of the contract because no taxable service is involved. (This is a tax base issue and not a tax expenditure.) If a computer software maintenance or support services contract provides for the furnishing of technical support services and for the taxable transfer of tangible personal property and the contract fee is not divided between taxable and nontaxable transactions, 50 percent of the gross receipts from the sale of the contract is subject to tax.

### **Trade-In for Remanufacture**

*Citation: Iowa Code Lettered Paragraph 422.42(5)(b) (2001) and 701 IAC 15.19(2)*

When tangible personal property is traded toward the purchase price of other tangible personal property, the gross receipts are only the portion of the purchase price which is payable in money to the retailer if three conditions are met: (a) the tangible personal property is traded to a retailer, and the property traded is the type normally sold in the regular course of the retailer's business; (b) the tangible personal property traded to the retailer is intended by the retailer to be ultimately sold at retail; and (c ) the tangible personal property traded to a retailer is intended to be used by the retailer or another in the remanufacturing of a like item.

### **Transportation Services - Long-Term Rent**

*Citation: Iowa Code Subsection 422.45(2) (2001) and 701 IAC 26.68(2)(a) and 26.74*

Sales are exempt from the leasing of any vehicle subject to registration for a gross weight of 13 tons or less if the written lease is for more than 60 days and if the lessor, at the time of the signing of the lease, is licensed under Iowa Code 321F. Use tax may be imposed upon certain motor vehicle leases for a period of 12 months or more. The total gross receipts are exempt for rental of aircraft for 60 days or more. "Aircraft" means the same as defined in Iowa Code section 328.1, subsection 4, which includes a drone aircraft or one transporting only the pilot.

### **Wind Energy Conversion Property**

*Citation: Iowa Code Subsection 422.45(48) (2001) and 701 IAC 18.56*

The sales are exempt of property used to convert wind energy to electrical energy or the gross receipts from the sale of materials used to manufacture, install, or construct property used to convert wind energy to electrical energy. This property is any device

which converts wind energy to usable electrical energy including, but not limited to, wind chargers, windmills, wind turbines, pad mount transformers, substations, power lines, and tower equipment.

## Use

### Aircraft Exemptions

*Citation: Iowa Code Subsections 423.4(17), (18), (19) and (20) (2001) and 701 IAC 31.6 and 32.13*

“Aircraft” are subject only to use tax. The use of the following aircraft is exempt: (1) use in scheduled interstate Federal Aviation Administration certified air carrier operations and (2) use by an aircraft dealer who rents or leases the aircraft if the aircraft is kept in the inventory of the dealer, the dealer reserves the right to regain possession if a buyer is found and the renter or lessee understands the arrangement. Also, use is exempt for tangible personal property permanently affixed or attached as a component part of the aircraft including, but not limited to, repair or replacement materials or parts; and all services used for aircraft repair, remodeling, and maintenance services when such services are performed on aircraft, aircraft engines, or aircraft component materials or parts for scheduled or non-scheduled FAA certified air carriers.

### Barges and Waterborne Vessels

*Citation: Iowa Code Subsection 423.4(13) (2001) and 701 IAC 32.6*

Use within Iowa is exempt from tax of any ship, barge or other waterborne vessel if that use is primarily for the transportation of property or cargo for hire on the rivers bordering this state. The exemption extends to tangible personal property used as material in the construction of or as a part for the repair of any exempt ship, barge, or waterborne vessel. Use must be on a river or rivers bordering Iowa, not on any river or rivers bounded on both banks by Iowa territory.

### Mobile Homes - Previously Taxed

*Citation: Iowa Code Subsection 423.4(11) (2001) and 701 IAC 32.3*

A use tax is not imposed on any mobile home or manufactured housing if the tax has been previously imposed pursuant to Iowa Code 2001 section 423.2 and has been paid. In order for the exemption to be allowed, the purchaser of the mobile home or manufactured housing has the responsibility to provide the county treasurer with documentation verifying that the Iowa use tax was previously paid.

### Property for Leased Vehicle Manufacture

*Citation: Iowa Code Subsection 423.4(8) (2001) and 701 IAC 33.7*

Use of tangible personal property which by means of fabrication, compounding, or manufacturing becomes an integral part of vehicles commonly known as motor trucks, truck tractors, road tractors, trailers, and semi-trailers is exempt if the vehicle is manufactured for lease and is actually leased to a lessee for use outside the State of Iowa and the subsequent sole use in Iowa is in interstate commerce or interstate transportation.