

Iowa Tax Reform Guidance: Domestic Production Activities Deduction

On December 22, 2017, President Donald Trump signed Public Law 115-97, commonly referred to as the Tax Cuts and Jobs Act, which included a repeal of the federal Domestic Production Activities Deduction (DPAD) for tax years beginning on or after January 1, 2018.

Iowa, however, did not conform to this repeal for tax years beginning on or after January 1, 2018, but before January 1, 2019 (referred to herein as “tax year 2018”). As a result, the DPAD will be available as a deduction for Iowa tax purposes for tax year 2018, even though this deduction is not available at the federal level. The deduction will not be available for Iowa purposes for tax years beginning on or after January 1, 2019.

Calculating and claiming the DPAD

Prior to its repeal at the federal level, the DPAD was available under section 199 of the Internal Revenue Code (IRC) and was generally equal to a percentage of a business’s net income attributable to certain production activities in the United States. The DPAD was limited by certain items, such as the income of the taxpayer and wages paid by the business that are allocable to domestic production.

Taxpayers should calculate their tax year 2018 DPAD for Iowa tax purposes using federal [form 8903](#) as a worksheet, and should retain a copy of the completed form for their records. However, the DPAD for Iowa tax purposes will generally be calculated using the IRC in effect on January 1, 2015, so nonconformity adjustments may apply.

The most common areas that may require adjustments include:

- The federal bonus depreciation is not allowed for Iowa tax purposes.
- The federal section 179 deduction is limited for Iowa tax purposes.
- Iowa has not conformed to the DPAD changes made in Public Law 114-113 (Protecting Americans from Tax Hikes Act of 2015) relating to the treatment of transportation costs of independent refiners (previous IRC § 199(c)(3)(C)).
- Iowa has not conformed to the DPAD changes made in Public Law 114-113 (Protecting Americans from Tax Hikes Act of 2015) or in Public Law 115-123 (Bipartisan Budget Act of 2018) relating to the extension beyond 2014 of the DPAD allowable with respect to activities in Puerto Rico.

Mission Statement:

The mission of the Iowa Department of Revenue is to serve Iowans and support state government by collecting all taxes required by law, but no more.



To the extent any nonconformity adjustment affects the calculation of the DPAD, including but not limited to the calculation of federal adjusted gross income or federal taxable income on line 11 of federal [form 8903](#), the taxpayer should calculate the DPAD with these adjustments. Taxpayers are responsible for properly calculating the DPAD and for obtaining and keeping adequate records to substantiate their eligibility for the deduction.

For tax year 2018, taxpayers should follow the same procedures for calculating and reporting the DPAD for Iowa tax purposes that were used prior to the federal repeal. This includes:

Pass-through businesses such as partnerships and S corporations that determine the DPAD at the owner level will need to make the same calculations and report the same information to owners as previously required by the IRS to enable each owner to properly calculate the allowable DPAD.

Trusts, estates, and agricultural or horticultural cooperatives that intend to distribute DPAD amounts to beneficiaries and patrons will need to make the same calculations and provide beneficiaries or patrons with the same information as previously required by the IRS to enable each beneficiary or patron to properly calculate the allowable DPAD. See other special instructions below for agricultural or horticultural cooperatives.

An expanded affiliated group of corporations required to compute the DPAD as one taxpayer and then allocate proportionate shares of its total DPAD among members of the expanded affiliated group must calculate the DPAD in the same manner as previously required by the IRS.

An agricultural or horticultural cooperative should take note of the new IRC §199A(g) deduction when calculating, claiming, and allocating the DPAD for Iowa tax purposes for tax year 2018. The federal Consolidated Appropriations Act of 2018 (Public Law 115-141) created this new deduction available to a cooperative and its non-corporate patrons for income attributable to domestic production activities.

Iowa has not conformed to this new IRC §199A(g) deduction for tax year 2018, so it is not an allowable deduction for Iowa tax purposes. It is, however, similar to the DPAD, so a cooperative may be able to calculate its DPAD using similar amounts and calculations as were used in determining a federal IRC §199A(g) deduction for the same tax year, provided the cooperative makes any applicable nonconformity adjustments as discussed above.

Taxpayers who would like to find out more information on the DPAD may reference federal form 8903, as well as the [instructions for federal form 8903](#) as revised in January 2013.

What does this mean?

- The DPAD continues to apply for Iowa tax purposes for tax years beginning prior to January 1, 2019.
- The DPAD will be available as a deduction for Iowa tax purposes for tax year 2018, even though this deduction is not available at the federal level for the same tax year.
- Certain entities like pass-through businesses, trusts, estates, agricultural or horticultural cooperatives, and expanded affiliated groups of corporations will need to make certain calculations and provide certain information to their owners, beneficiaries, patrons, or members in order for those persons to properly calculate and claim the DPAD for Iowa tax purposes for tax year 2018.
- The tax year 2018 DPAD for Iowa tax purposes should be calculated by a taxpayer using federal [form 8903](#) as a worksheet, making any adjustments required because of Iowa's nonconformity with provisions of federal law that affect the DPAD calculation. The taxpayer should retain this worksheet for their records.