

HOUSE REPUBLICAN STAFF ANALYSIS

Bill:	House File 976	House Committee:	PASSED on 3/20/25 (24-0)
Committee:	Ways and Means	House Floor:	
Floor Manager:	Rep. Sexton	Senate Floor:	
Date:	May 8, 2025	Governor:	
Staff:	Kristi Kious (2-5290)		

Department of Revenue Technical Bill

- Adds circumstances where DOR can release confidential information.
- Eliminates unnecessary reports.
- Makes changes to late property tax payment options.
- Clarifies who qualifies for the farm tenancy income exclusion.
- Updates remittance frequency for sales tax.
- Makes changes to required motor fuel reports.
- Increases the expected annual tax liability threshold for making estimated payments from \$200 to \$1,000.
- Modifies the sales and use tax exemptions related to web search portal businesses and data center businesses.
- **Fiscal Impact:**

The total fiscal impact of HF 976 is estimated to reduce State revenue by the amounts shown in **Figure 2**.

Figure 2 — State Revenue Impact (in Millions)

	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>	<u>FY 2030</u>
Division IX — Lump Sum Distribution of Retirement Income — General Fund	\$ -0.0	\$ -0.0	\$ -0.0	\$ -0.0	\$ -0.0
Division XII — Sales Tax Exemptions and Refunds — General Fund	-6.7	-1.5	-1.5	-2.3	-5.2
Division XII — Sales Tax Exemptions and Refunds — SAVE	-1.3	-0.3	-0.3	-0.3	-0.7
Total State Revenue Change	\$ -8.0	\$ -1.8	\$ -1.8	\$ -2.6	\$ -5.9

The Bill is estimated to reduce local government revenue by the amounts shown in **Figure 3**.

Figure 3 — Local Government Revenue Impact (in Millions)

	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>	<u>FY 2030</u>
Division XII — Sales Tax Exemptions and Refunds — Property Tax Exemptions	\$ -1.3	\$ -0.3	\$ -0.3	\$ -2.8	\$ -5.5

Section by Section Analysis

Division I—Disclosure of Tax Information

Sections 1 and 2 – Counsel – disclosures authorized (421.19)

Current law allows DOR to release confidential taxpayer information to a federal, state, or local law enforcement authority if DOR has information that indicates a taxpayer intentionally filed a false claim, affidavit, return, or other information with intent to evade tax or to obtain a refund, credit, or other benefit from DOR.

This section would allow DOR to also release confidential taxpayer information to a law enforcement authority if they had indication that a taxpayer has willfully failed to file or that the person has committed an act or omission designated as a criminal offense under Title X of the Iowa Code.

Section 3 – Information confidential – redactions – penalty (422.20)

This section allows DOR to share confidential taxpayer information with the State Treasurer for the limited purpose of assisting in identifying in the apparent owner of unclaimed property.

Section 4 – Information deemed confidential – informational exchange agreement – redactions – subpoenas (422.72)

This section allows DOR to share confidential taxpayer information with the State Treasurer for the limited purpose of assisting in identifying in the apparent owner of unclaimed property.

Section 5 – Effective date

This section provides that Division I is effective upon enactment.

Division II—Annual Reporting

Section 6 – Tax procedures and practices (421.60)

Iowa Code section 421.60(2)(k) requires DOR to submit an annual report to the Legislature showing all areas of recurrent taxpayer noncompliance with rules or guidelines issued by DOR and providing recommendations concerning noncompliance. This section eliminates the requirement for the report. DOR will continue providing the Legislature with recommendations as needed to address areas of recurring noncompliance.

Section 7 – Statistics – publication (422.75)

This section makes a conforming change to section 6.

Division III—Property Tax – Changes

Section 8 – Filing dates – affidavit – extension (425.20)

Current law contains a property tax credit late claim mechanism by which late claimants apply to DOR. Eligible claimants receive a payment directly from DOR. This section eliminates DOR's authority to receive and pay late property tax credit claims. Claimants can still file credit claims with their county treasurer through March 31 of the fiscal year during which the property taxes are due in the case of sickness, absence, other disability, or if good cause exists. This change does not impact late rent reimbursement claims received by DHHS.

Section 9 – Refunding erroneous tax (445.60)

This section clarifies that a two-year statute of limitations also applies to appeals made to the DOR director on centrally assessed properties.

Section 10 – Effective date

This section provides that section 9 is effective upon enactment.

Division IV—Farm Tenancy Income Tax Exclusion

Sections 11 and 12 – “Net income” — how computed (422.7)

Iowa Code section 422.7(14) provides retired farmers an option to elect to exclude farm tenancy income from their Iowa taxable income. Retired farmers must hold the land for 10 years and must materially participate in a farming business for 10 years to be eligible for the exclusion. These sections clarify the definition of “held” for purposes of determining the holding period and clarifies that 10 years of material participation means 10 years in the aggregate for purposes of this exclusion.

Division V—Pass-Through Entities

Section 13 – Partnership and pass-through entity audits and examinations — consistent treatment of entity-level items — binding actions — amended returns (422.25C)

Last year Senate File 565 modified the procedures for assessing Iowa tax in the case of a person who has failed to file a required Iowa tax return. These procedures provide, in part, that an estimated notice of assessment is not appealable under Iowa Code sections 422.28 or 422.29, except to appeal the determination that the person is required to file a return. This section clarifies that those limitations on appealing an estimated notice of assessment also apply to a pass-through entity (partnership, S corporation, estate, or trust) that is issued an estimated final notice of adjustment under Iowa Code 422.25C.

Section 14 – Effective date

This section makes Division V effective upon enactment.

Section 15 – Retroactive applicability

This section makes Division V apply retroactively to January 1, 2024.

Division VI—Sales Tax Changes

Section 16 – Taxes imposed (423.2)

This section rewrites the code section and breaks it into subparagraphs for clarity and makes no changes to taxability.

Section 17 – Permits required to collect sales or use tax — applications — revocation (423.36)

Iowa Code section 423.36(9) references semimonthly information for direct pay permit holders who remit sales or use tax directly to DOR rather than the seller. This section strikes the reference to semimonthly periods and replaces it with monthly. Tax thresholds are also adjusted accordingly. This aligns with the frequency applicable to other sales and excise tax permit holders.

Division VII—Motor Fuel Taxes

Sections 18 and 19 – Levy of excise tax (452A.3)

DOR determines fuel tax rates based on the number of gallons of fuel distributed within the state each year as reported by fuel retailers. The proposed change would allow DOR to recalculate fuel tax rates up to a certain date due to a mistake, late report, or if DOR has any other reason to believe the rates are not accurate.

Section 20 – Transportation reports — refinery and pipeline and marine terminal reports (452A.15)

Iowa Code section 452A.15 provides for a penalty for entities that fail to file their transportation reports. This section inserts the word “timely” into Iowa Code section 452A.15(5) to clarify that the penalty attaches even if the required transportation report is submitted late.

Section 21 – Reporting requirements (452A.33)

This section makes a conforming change.

Section 22 – Levy and collection of excise tax on electric fuel (452A.41)

Electric fuel dealers and users are required to file electric fuel tax returns for 6-month intervals. The second interval is for the period July 1 through December 30, with the report due on January 30. This section changes the December 30 and January 30 dates to December 31 and January 31. This will conform with the filing dates for other tax types, which typically land on the last day of the month.

Section 23 – Refunds (452A.41)

(New subsection) This section allows a purchaser to complete and provide an exemption certificate when electric fuel is sold or dispensed for a nontaxable purpose, such as sales to an Iowa political subdivision, the U.S. government, or an Iowa urban transit system.

Division VIII—Inheritance Tax—Future Code Changes Due to Repeal

Sections 24 through 54 – various code sections

House File 2552 in 2022 required DOR to review references to Iowa Code chapters 450 and 450B and submit proposed corrections to such references during the 2024 legislative session in advance of the repeal of the state’s inheritance tax on January 1, 2025. This division contains those proposed corrections.

Division IX—Lump Sum Distribution of Retirement Income

Section 55 – Tax imposed — exclusions — alternate tax rate (422.5)

This section provides that lump sum pension payments are exempt from tax if the recipient is qualified for the pension exemption.

Section 56 – Effective date

This section makes Division IX effective upon enactment.

Section 57 – Retroactive applicability

This section makes Division IX apply retroactively to tax years beginning on or after January 1, 2025.

Division X—Estimated Tax Threshold

Section 58 – Withholding of income tax at source — penalties — interest — declaration of estimated tax — bond (422.16)

This section increases the expected annual tax liability threshold for making estimated payments from \$200 to \$1,000.

Section 59 – Effective date

This section makes Division XII effective on January 1, 2026.

Section 60 – Applicability

This section makes Division XII apply to tax years beginning on or after January 1, 2026.

Division XI—Tax Expenditure Review

Sections 61 through 64 – Review of tax incentive programs (2.48)

This section removes repealed or expired tax credit programs from the review list and clarifies that reviews are not necessary for tax expenditures that are repealed or expired.

Section 65 – Effective date

This section amends the Acts to align the review of the Chemical Production Tax Credit with the future repeal of the renewable chemical tax program.

Division XII—Limitations on Sales Tax Exemptions and Refunds and Transfers to the Energy Infrastructure Revolving Fund

Sections 66 through 86 – various code sections

Currently, sales tax exemptions apply to the sale of computers and equipment for the maintenance and operation of a data center, the sale of backup power generation fuel, and the sale of electricity for use in the data center, without any limitations. These sections do not change the exemptions available for data centers that began operating prior to the effective date.

These sections limit the exemptions for newly constructed data centers or additions upon existing property completed on or after the effective date, to the first 10 years of operation, if the property is located entirely or partly within a city having a population of more than 30,000.

They also limit the exemptions for newly constructed data centers or additions upon existing property completed on or after the effective date, to the first 15 years of operation, if the property is not located entirely or partly within a city having a population of more than 30,000.

These sections require a data center to register with the department of revenue beginning January 31, 2026, and file an annual report with the department describing the backup power generation fuel and electricity used to obtain the exemption and describe any other information the department of revenue may require. They require a data center to present an exemption certificate, issued annually to the data center after filing the annual report, to the retailer selling the backup power generation fuel and the electricity to the data center.

They provide that a business leasing space to operate a data center as a lessee is eligible to qualify for an exemption. A data center includes the lease of a business facility leased by an entity operating a data center at the location of the data center. After the data center exemption period expires, these sections require the portion of sales tax revenue attributable to the previously exempted sale of backup power generation fuel and electricity be transferred to the energy infrastructure revolving loan fund in Code section 476.46A.
