

HOUSE REPUBLICAN STAFF ANALYSIS

Bill:	House File 715/Senate File 565	House Committee:	PASSED on 4/12/23 (25-0)
Committee:	Ways and Means	House Floor:	
Floor Manager:	Rep. Siegrist	Senate Floor:	PASSED on 4/20/23 (49-0)
Date:	May 1, 2023	Governor:	
Staff:	Kristi Kious (2-5290)		

Department of Revenue Technical Bill

- Department of Revenue Technical Bill.
- Changes due dates related to certain forms when the DOR Director extends filing deadlines.
- Eliminates the filing status of married filing separately on a combined return.
- Reorganizes withholding chapter.
- Allows for homestead credits on leased land.
- Allows for Declaratory Order notices to be sent via GovConnectIowa.

Section by Section Analysis

Division I—Iowa Educational Savings Plan and First-Time Homebuyers Due Dates

Section 1 – “Net income” — how computed (422.7)

This section changes the contribution deadline for Iowa 529s so that contributions for that tax year will be allowed up until the due date of the individual income tax return, in the event that the Director extends the deadline to file.

Sections 2 and 3 – First-time homebuyer savings account (541B.3)

This section changes the due date of two first-time homebuyer savings account forms mentioned above so that they are due at the same time as the individual income tax return in the event that the Director extends the deadline to file.

Division II—Bonus Depreciation and Increased Expensing—Applicability

Section 4 – Applicability

Part of the changes passed as ‘triggers’ in SF 2417 from 2018 (that took effect on January 1 of this year) removed Code sections that prescribed depreciation schedules for years in which Iowa did not conform to the federal treatment of depreciation. After Iowa conformed with the federal treatment in 2020, there are still taxpayers who needed to continue to take depreciation adjustments, as mandated by Iowa Code at the time the asset was placed in service.

This section amends the implementation language for the relevant sections of SF 2417 to make it clear that those subsections are repealed only for property placed in service on or after January 1, 2023, rather than simply being repealed that day. This makes it clear that for property placed in service in prior years, Iowa-specific depreciation deductions are still allowed until the available depreciation is used up.

Section 5 – Effective date

This section makes Division II of the bill effective upon enactment.

Section 6 – Retroactive applicability

This section makes Division II of the bill apply retroactively to tax years beginning on or after January 1, 2023.

Division III—Tax Filing Status Modifications

Section 7 – Tax imposed — exclusions — alternate tax rate (422.5)

[New subsection] This section makes it clear that for tax years beginning on or after January 1, 2023, a taxpayer shall use the same filing status for Iowa as they did for federal.

Section 8 – “Net income” — how computed (422.7)

This section strikes the filing status of married filing separately on a combined return (will no longer be available). This is because the starting point for Iowa’s individual income tax return will be federal taxable income.

Section 9 – “Net income” — how computed (422.7)

This section makes a technical, conforming change.

Section 10 – Earned income tax credit (422.12B)

This section makes a technical, conforming change.

Section 11 – Child and dependent care or early childhood development tax credits (422.12C)

This section makes a technical, conforming change.

Section 12 – Retroactive applicability

This section makes Division II of the bill apply retroactively to tax years beginning on or after January 1, 2023.

Division IV—Withholding

Section 13 – Tax on prizes (99B.8)

This section is just being reorganized and does not reflect a change in current practice.

Section 14 – Withholding tax on winnings (99D.16)

This section is just being reorganized and does not reflect a change in current practice.

Section 15 – Tax on winnings (99D.18)

This section is just being reorganized and does not reflect a change in current practice.

Section 16 – Prizes (99G.31)

This section is just being reorganized and does not reflect a change in current practice.

Section 17 – Withholding of income tax at source — penalties — interest — declaration of estimated tax — bond (422.16)

This section is mostly a reorganization of current law. This section adds a definition of withholding agent (current law). It includes a future updated reference to the flat tax rate taking effect in 2026. Substantively, this section includes changes to allow DOR to restructure the Iowa W-4 to work more like the recently changed federal W-4. This section adds language stating that retirement income does not need to be withheld if it is not subject to Iowa tax.

Section 18 – Prizes (422.16B)

This section is just being reorganized and does not reflect a change in current practice.

Section 19 – Certificate issued by department to make payments without withholding (422.17)

This section is just being reorganized and does not reflect a change in current practice.

Division V—Future Corresponding Change

Section 20 – Withholding of income tax at source — penalties — interest — declaration of estimated tax — bond (422.16)

This section changes the withholding rate on supplemental wages to the highest rate in 422.5A. Currently, the statutory rate is 6 percent, so if this is not changed, next year taxpayers receiving supplemental wages will be withheld at a rate higher than the highest tax rate.

Section 21 – Effective date

This section makes Division V of the bill effective January 1, 2026.

Division VI—Settlement Authority—Notice of Assessment—Estimation of Tax

Section 22 – Settling doubtful claims for taxes (421.5)

Currently, DOR can settle things broadly in appeals. Otherwise, it can only settle tax (not interest or penalty) for reasons of doubtful collectability or doubtful liability. This section gives the department the ability to settle tax, penalty, and interest, amounts paid or unpaid on any basis permitted by 17A and also for reasons of “severe economic hardship” or to “promote effective tax administration” in addition to the existing reasons of “doubtful liability” and “collectability”.

Section 23 – Appeal period — applicability (421.10)

This section makes a technical, conforming change.

Section 24 – Tax procedures and practices (421.60)

This section makes a technical, conforming change.

Section 25 – Director of revenue — powers and duties (421B.11)

This section makes a technical, conforming change.

Section 26 – Computation of tax, interest, and penalties — limitation (422.25)

Currently, when taxpayers do not file returns, DOR may issue billings with estimated amounts using historical information from the taxpayer. This section gives people who receive an estimated billing a special notification in that billing that they must file (under most circumstances) and can do so within the next 3 years. It also makes clear the Department’s authority to examine those late-filed returns.

Section 27 – Statistics — publication (422.75)

This section makes a technical, conforming change.

Section 28 – Liability of persons for payment of sales or use tax (423.33)

This section makes a technical, conforming change.

Section 29 – Liability of persons for payment of sales or use tax (423.33)

This section makes a technical, conforming change.

Section 30 – Failure to file sales or use tax returns — incorrect returns — limitations period (423.37)

This section makes a technical, conforming change.

Section 31 – Failure to file sales or use tax returns — incorrect returns — limitations period (423.37)

This section makes a technical, conforming change.

Section 32 – Refunds — exemption certificates (423.45)

This section makes a technical, conforming change.

Section 33 – Refunds — exemption certificates (423.45)

This section makes a technical, conforming change.

Section 34 – Statutes applicable (423.57)

This section makes a technical, conforming change.

Section 35 – Statutes applicable to motor fuel tax (452A.23)

This section makes a technical, conforming change.

Section 36 – Motor fuel tax – administration by department (452A.66)

This section makes a technical, conforming change.

Section 37 – Assessment of tax by department — interest — penalty (453A.28)

This section makes a technical, conforming change.

Section 38 – Distributors, monthly returns — interest, penalties (453A.46)

This section makes a technical, conforming change.

Section 39 – Repeal

This section repeals Iowa Code section 423.38.

Section 40 – Effective date

This section makes Division VI of the bill effective January 1, 2024.

Division VII—Tax Return Preparers and Persons Authorized to Act for Taxpayers

Section 41 – Power of attorney — authority to act on behalf of taxpayer (421.59)

This section requires a preparer tax identification number on all returns (mirrors federal law). This section allows DOR to create a new line on all returns using a tax return preparer identification number (issued by the IRS) for taxpayers to authorize their accountant/tax return preparer to obtain information related to that

return. The permissions mirror federal law and are for one year and only about that return. This eliminates the need for significant processing time for POAs/third party releases.

Section 42 – Inclusion of preparer tax identification number (421.62)

[New paragraph] This section adds a definition *tax return preparer*.

Division VIII—Setoff

Section 43 – Fees

This section changes the fee for setoff debt from mandatory to permissive. This allows DOR to charge an optional fee to participating public agencies, including other states.

Section 44 – Contingent effective date

This section makes Division VIII of the bill effective on the effective date of the rules adopted by DOR implementing 2020 Iowa Acts, chapter 1064.

Division IX—Homestead Property Tax Credit

Section 45 – Definitions (425.11)

This section allows for homestead credits on leased land. Iowa Code and a Department rule were in conflict—and this section resolves that conflict.

Section 46 – Effective date

This section makes Division IX of the bill effective upon enactment.

Section 47 – Applicability

This section makes Division IX of the bill apply to credits against and property taxes due in fiscal years beginning on or after July 1, 2024.

Division X—Property Tax Credits and Rent Reimbursement

Section 48 – Definitions (425.17)

SF 2417, passed during the 2018 legislative session, and HF 2317, passed during the 2022 legislative session, made significant changes to the calculation of Iowa net income provided in Iowa Code section 422.7. HF 2317 excluded retirement income and income from farm tenancy agreements for retired farmers starting on January 1, 2023. These changes decrease the amount of Iowa net income which is the starting point for the income limits for the property tax credit, the reimbursement for rent constituting property taxes due, and the manufactured and mobile home credit. This section makes it clear that if one's income is lower because of these changes—that fact will not qualify them for the above property tax credits/reimbursements.

Section 49 – Effective date

This section makes Division X of the bill effective upon enactment.

Section 50 – Applicability

This section matches up assessment years with the various changes in this division.

Division XI—Electronic Communications—Rules

Section 51 – Tax procedures and practices (421.60)

Iowa Code Chapter 17A already allows electronic service of most orders but not Declaratory Orders. This section would allow for Declaratory Order notices to be sent via GovConnectIowa.

Division XII—Transfers from 529 to Roth IRA

Section 52 – “Net income” — how computed (422.7)

This section makes a technical change with regard to 529 accounts to ROTH IRA rollovers.

Section 53 – Applicability

This section makes Division XII apply to tax years beginning on or after January 1, 2014.

Division XIII—Composite Return Filing Exclusion for Financial Institutions and Certain Financial Holding Companies

Section 54 – Pass-through entity composite returns (422.16B)

This section would allow a pass-through entity that primarily also pays the Iowa franchise tax an exemption from filing the composite return. If the non-resident share-holder has Iowa tax liability—they would still be required to file a return.

Section 55 – Effective date

This section makes Division XIII of the bill effective upon enactment.

Section 56 – Retroactive applicability

This section provides that Division XIII of the bill applies retroactively to January 1, 2023 for tax years beginning on or after that date.

Division XIV—Retired Farmer Income Exclusions

Sections 57 and 58 – Pass-through entity composite returns (422.16B)

These sections clean up the definition of *materially participated* for purposes of a retired farmer.

Section 59 – Effective date

This section makes Division XIV of the bill effective upon enactment.

Section 60 – Retroactive applicability

This section provides that Division XIV of the bill applies retroactively to January 1, 2023 for tax years beginning on or after that date.

Division XV—Instructional Support Income Surtax

Section 61 – Deposit of instructional support income surtax (257.24)

This section changes the distribution schedule for school income surtax payments made to schools, from annual payments to monthly payments. Additionally, the language removes the requirement that any late payments get reverted to the general fund, and replaces it with a requirement that schools get that money, even if it is late.

Section 62 – Instructional support income surtax certification (257.25)

This section makes a conforming change.

Amendment Analysis

Amendment H-1319 by Siegrist—Conforming amendment to SF 565

This amendment is a conforming amendment to Senate File 565. It adds the following provisions to the bill:

This amendment provides that taxpayers who relied on a certificate of acquittance from the Department in 2022 will not be penalized for not filing a composite return and paying the tax.

This amendment corrects an issue created by last session's Department bill. The Business Property Tax Credit was changed to an automatic exemption for ease of administration for the department. The locals are still reimbursed for the credit-turned-exemption--\$125.0 million annually. Part of that reimbursement goes to the school for their loss of revenue due to the exemption. However, the loss in value also triggered the school aid formula to increase the general fund contribution to schools. This means they were reimbursed twice. This amendment makes sure the schools are in the same position with the business property tax credit being an exemption as they were when it was a credit and that the state isn't reimbursing them twice for the same loss.

The amendment also strikes a technical fix regarding 529 accounts to ROTH IRA rollovers.