

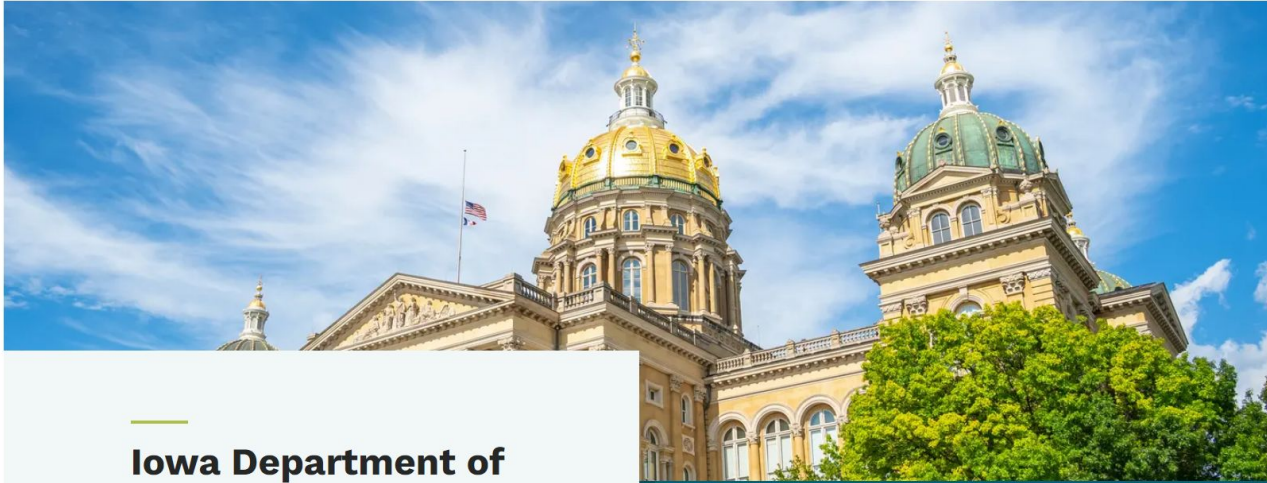


Department of Revenue

2024 Legislative Update

IASourceLink Webinar

August 14, 2024



Iowa Department of Revenue

Our Department's work incorporates established tax administration, alcoholic beverage control, and responsible lottery entertainment.

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<u>Tax</u>		<u>Tobacco</u>	<u>Alcohol</u>	<u>Miscellaneous</u>
<u>SJR2004</u>	<u>HF681</u>	<u>SF345</u>	<u>HF2448</u>	<u>SF2370</u>
<u>HJR2006</u>	<u>HF2649</u>	<u>HF2677</u>	<u>HF2605</u>	<u>SF2385</u>
<u>SF574</u>	<u>HF2661</u>		<u>HF2648</u>	
<u>SF2442</u>	<u>HF2667</u>		<u>HF2669</u>	
<u>HF207</u>	<u>HF2680</u>			
<u>HF664</u>				

Disclaimer

Please be advised that the information in this presentation contains informal opinions and are only applicable to the factual situations referenced and to the statutes in existence as of the date of this presentation.

The Iowa Department of Revenue may take a contrary position in the future to what is stated today. Any oral or written guidance or opinion by Department personnel not pursuant to a Petition for Declaratory Order under Iowa Administrative Code rule 701—7.24 is not binding upon the Department.

Tax

SJR2004

- Proposes an amendment to the Iowa Constitution that would:
 - Require any tax on income or based upon income for individuals to be imposed at a single rate
 - Prohibit more than one income tax rate above zero imposed by the state for state purposes on an individual at any one time
- Requires passage by the legislature in 2025 or 2026
- Then requires a majority of voters to ratify during an election

HJR2006

- Proposes an amendment to the Iowa Constitution that would require two-thirds of the vote in both chambers of the legislature to:
 - Increase the individual income tax rate or corporate income tax rate, or the rate of any other type of tax based upon income or legal and special reserves
 - Establish a new tax on any type of income or legal and special reserves imposed by the state
- Would also require any lawsuit challenging the enactment of a tax bill to be filed no later than 1 year following enactment of the bill
- Requires passage by the legislature in 2025 or 2026
- Then requires a majority of voters to ratify during an election

SF574

- Creates a new Major Economic Growth and Attraction (MEGA) Program administered by the Iowa Economic Development Authority
- Provides tax incentives for up to two businesses primarily engaged in advanced manufacturing, biosciences, or research and development that invest at least \$1 billion in a project on a certified site larger than 250 acres.
- Tax incentives include:
 - Sales and use tax refund for gas, electricity, water, and sewer utility services, tangible personal property, or on services rendered, furnished, or performed to or for a contractor or subcontractors and used in fulfillment of construction or equipping a facility as part of the project
 - Income tax credit of up to 5% of the eligible business's qualifying investment in the project. Tax credit is remitted to eligible business by IDR equally over 5 years.
 - Withholding tax credit of 3% of gross wages paid to each employee in a job created under the program that pays at least the required qualifying wage
 - Property tax exemption for a portion of the actual value added by improvements to real property directly related to the eligible business's created jobs. Exemption can be allowed for a period not to exceed 20 years beginning the year that the improvements are first assessed for taxation.

SF2442

Division I

- Reduces individual income tax rates to a single, flat rate of 3.8% beginning January 1, 2025
 - Also sets the alternate income tax rate at 4.3%

Division III

- Allows financial institutions to elect to have income from investment subsidiaries be subject to the franchise tax instead of the corporate income tax for tax years beginning on or after January 1, 2025.

Division VII

- Beginning January 1, 2025, reduces by 2% annually until January 1, 2029, the percentage of actual value at which public utility companies operating under Iowa Code chapter 428 and pipeline companies operating under Iowa Code chapter 438 are assessed by IDR. For assessments on or after January 1, 2029, property will be assessed at 90 percent.

HF207

- Establishes a property tax exemption for property owned or operated by a public utility that is directly and primarily used for furnishing sanitary sewage or stormwater drainage disposal by piped collection system to the public for compensation
- Effective upon enactment and applies retroactively to assessment years beginning on or after January 1, 2024

HF664

- Exempts from the fee for new registration and from sales and use tax the sales price on the lease or rental of a motor vehicle between affiliates when the lessor or entity providing the motor vehicle for lease or rental has paid the registration fee on the motor vehicle prior to the lease or rental of the vehicle to the affiliate
- “Affiliate” means a lessor or entity providing the motor vehicle for rental that directly or indirectly controls, is controlled with or by, or is under common control with the lessee or renter
- Effective upon enactment (May 17, 2024)
- Refunds of taxes, interest, or penalties for leases or rentals occurring between January 1, 2015 and May 17, 2024 are not allowed

HF681

- Exempts from sales and use tax the sales price of tangible personal property or specified digital products sold, and services furnished, to a county or district fair
- Also makes a county or district fair a designated exempt entity, authorizing the fair to issue special exemption certificates to contractors and subcontractors allowing them to purchase, or withdraw from inventory, building materials for the contract free from sales tax (purchase or withdrawal must occur on or after July 1, 2024)
 - More information on designated exempt entities and processes:
<https://revenue.iowa.gov/taxes/tax-guidance/sales-use-excise-tax/construction-contracts-designated-exempt-entities>

HF2649

- Allows a taxpayer to exclude the net capital gain from the sale of cattle or horses if held by the taxpayer for breeding, draft, dairy, or sporting purposes for more than 24 months, but only if the taxpayer received more than 50 percent of the taxpayer's gross income from farming or ranching operations during the year.
- Allows a taxpayer to exclude the net capital gain from the sale of breeding livestock, *other than cattle or horses*, held by the taxpayer for a period of 12 months or more from the date of acquisition, but only if the taxpayer received more than one-half of the taxpayer's gross income from farming or ranching operations during the tax year.
- Applies retroactively to January 1, 2023 for tax years beginning on or after that date.
 - Can claim for tax year 2023 by filing an amended individual income tax return on paper and including a completed IA 100A (Iowa Capital Gain Deduction – Cattle, Horses, or Breeding Livestock) form.

HF2661

- Creates a new Public Safety Officer Moving Expense Tax Credit for certain individuals who establish residency in Iowa after July 1, 2024, upon taking full-time employment as a public safety officer in Iowa
- Tax credit equals the unreimbursed moving expenses paid or incurred by the taxpayer, not to exceed \$2,000
- Tax credit is refundable and applies to tax years beginning on or after January 1, 2024
- More information:
<https://revenue.iowa.gov/taxes/tax-guidance/tax-credits-deductions-exemption/public-safety-tax-credit>

HF2667

- Increases maximum contribution to a 529 account which may be deducted from state income taxes per beneficiary to \$5,500
- Exempts from state taxation a direct trustee-to-trustee transfer to a Roth individual retirement account (Roth IRA) in accordance with the rules under section 529(c)(3)(E) of the Internal Revenue Code
 - The rollover must be paid through a trustee-to-trustee transfer
 - The rollover amount cannot be more than the Roth IRA annual contribution limit
 - The rollover must be from a 529 account that has been open for more than 15 years
 - Beneficiary of 529 account and owner of Roth IRA must be the same person
 - Rollover can't exceed the amount contributed to the 529 account before the 5-year period before the rollover
 - Lifetime rollover limit \$35,000
 - All rollovers must be completed within 60 days of distribution

HF2680

- Division II: Exempts from the individual income tax pension amounts received by a surviving spouse who is not disabled or 55 years of age or older if the amount is from a protection occupation, sheriffs and deputy sheriffs, fire fighters, or police officers pension
- Applies retroactively to January 1, 2024, for tax years beginning on or after that date

Tobacco

SF345

- Establishes new permitting requirements, sales taxes, and excise taxes on “devices”
 - “Device” means any equipment or product, made in whole or in part of glass or metal, that is designed for use in inhaling through combustion tobacco, hemp, other plant materials, or a controlled substance
- Must obtain a tobacco retailer permit, a device retailer permit, and sell tobacco products in addition to devices
 - May also obtain a device delivery sale permit to sell and deliver devices via mail or a delivery service
- On every sale of a device, the device retailer must collect the new 40% device excise tax, 6% state sales tax, and any local option sales tax
- Effective January 1, 2025
- More information:
<https://revenue.iowa.gov/taxes/tax-guidance/sales-use-excise-tax/glass-and-metal-devices>

HF2677

- Requires the Department to create and maintain a publicly available vapor products directory
 - No vapor products can be sold in the state that are not listed on the directory
 - Vapor products eligible for listing on the directory must meet one of the following:
 - The vapor products manufacturer must have received a marketing authorization or similar order for the vapor product from the FDA;
 - The vapor product was marketed in the US as of August 8, 2016, the vapor products manufacturer submitted a premarket tobacco product application for the vapor product to the FDA on or before September 9, 2020, and the application remains under review by the FDA or a final decision on the application has not otherwise taken effect
- Vapor product manufacturers must submit initial and annual certification forms for each of the manufacturer's vapor products, and update the Department on any material changes to the certification form
- If a vapor product is removed from the directory, retailers, distributors, and wholesalers must remove the vapor product from their inventory within 21 business days
 - The Department must notify retailers, distributors, and wholesalers via electronic communication when a vapor product is removed
- Effective on the date when the directory is first made available for public inspection on the Department's website (targeting January 2, 2025)
- More information: <https://revenue.iowa.gov/taxes/tax-guidance/sales-use-excise-tax/vapor-products-directory>

Alcohol

HF2448

- Allows the director to approve additional training programs that qualify for the affirmative defense when sales of alcohol are made to a minor
 - Application for director consideration
- The affirmative defense can be used once every four years to avoid administrative action being taken against a retailer's license
 - Employee must have a valid certificate of completion from IPACT or other director-approved training program at the time of the violation

HF2605

- Adds provisions to Iowa Code chapter 123 explicitly prohibiting the combination of alcohol and THC, as well as any isomers, derivatives, or analogs of THC, at all three tiers of the three-tier system
 - Allows IDR to take direct administrative action against alcohol licensees found to be in violation
 - Previously had to rely on a criminal citation from law enforcement

HF2648

- Allows native breweries, native wineries, and native distilleries to obtain 5-day retail alcohol licenses for locations not connected to their manufacturing facilities
 - Limited to six 5-day licenses in a calendar year
 - Retail license classifications available are the same as what's available to be connected to the manufacturing facility
 - All licensing requirements still apply to 5-day applications (dramshop insurance, local authority approval, etc.)

HF2648 (cont.)

- Allows native distilleries (class “A” native distilled spirits license holders) to enter into an alternating proprietorship arrangement (APA)
 - APAs allow the sharing of space and equipment between two or more distillers
 - Not allowed for holders of a manufacturing license (CM)
- APAs must be approved by the TTB prior to a state-level license being issued

HF2669

- Allows for the purchase and resale of wine from private collections
 - All wine purchased must be in original, unopened containers and must be labeled indicating it's from a private collection
- Wine wholesalers may purchase wine from private collections and sell the wine to wine retailers
- New Wine Auction Permit
 - Allows the holder to purchase wine from private collections
 - Wine is sold via auction to wine wholesalers or wine retailers (no sales to the public)
 - Up to 24 auctions per 12-month license term
- Tax is due on:
 - Wine sold by wine wholesalers to retailers
 - Wine sold by a wine auction permittee to retailers

Miscellaneous

SF2370

- Codifies portions of Governor Reynolds' Executive Order 10
 - Requires state agencies to issue a regulatory analysis for all proposed rules prior to the submission of a notice of intended action
 - Regulatory analysis provides an estimate of the impacts of the proposed rules (who is affected, probable costs and benefits, potential alternatives to rulemaking)
 - After a regulatory analysis is issued and published in the Iowa Administrative Bulletin (IAB), the agency must provide a 20-day time period for public feedback
 - The agency must also provide an opportunity for oral presentation of feedback on the regulatory analysis at least 20 days after publication in the IAB
 - Requires state agencies to receive preclearance from the administrative rules coordinator prior to submitting a notice of intended action for publication in the IAB
 - Requires state agencies to review all of their administrative rule chapters every five years beginning January 1, 2027
 - All chapters are rescinded and must be readopted

SF2385

- Changes the role of the Alcoholic Beverages Commission from acting as a policy-making body to serving in an advisory capacity to the director and department
 - The commission can no longer review and affirm, reverse, or amend all actions of the director under Iowa Code chapter 123
 - Instead, the commission may “provide advice and make recommendations regarding the actions of the director” under chapter 123
 - The commission is no longer required to approve the adoption of administrative rules carrying out chapter 123
 - Instead, the commission may provide advice on rulemaking
- Changes the Iowa Lottery Board to the Iowa Lottery Commission
- Eliminates quarterly meeting requirements for both commissions

SF2385 (cont.)

- Creates a new State Government Review Committee
 - Purpose: Review the usefulness, performance, and efficacy of each board, commission, committee, council, panel, review team, or foundation of the state (collectively, “board”)
 - 9 members:
 - 3 senators (2 majority party, 1 minority party)
 - 3 representatives (2 majority party, 1 minority party)
 - 1 employee of the Governor’s Office
 - The director of the Department of Management or designee
 - The director of the Department of Inspections, Appeals, and Licensing or designee

SF2385 (cont.)

- Committee must establish a schedule so that one-fourth of all boards are reviewed each calendar year
 - Every board must be reviewed once between 2025 and 2029
 - Every board then reviewed once every 4 years
- Each board bears the burden of demonstrating to the committee a public need for its continued existence

SF2385 (cont.)

- A board scheduled for review must submit a report to the committee 30 days before the scheduled review date including, but not limited to, the following information:
 - The board's primary purpose and its goals and objectives
 - The board's past and anticipated workload, the number of staff required to complete that workload, and the board's total number of staff
 - The board's past and anticipated budgets and its sources of funding
 - The number of members that compose the governing board or other governing entity of the board and member compensation, if any.

SF2385 (cont.)

- After completing a review of a board, the committee must prepare and submit a report of findings and recommendations to the legislature, the governor, and the affected board by **December 21** of each year
 - Report will also be made publicly available on the legislature's website
- Recommendations must indicate how or whether implementation of the recommendations would do each of the following:
 - Improve efficiency in the management of state government
 - Improve services rendered to citizens of the state
 - Provide for the least restrictive regulations by repealing current regulations and replacing them with less restrictive regulation that adequately protect the public
 - Improve the effectiveness of the services performed by the boards of the state
 - Avoid duplication of effort by state agencies or boards



Department of Revenue

Thank you!

Questions?