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Reform: The Department's Involvement

Guidance:

- Tax Reform Information at tax.iowa.gov/iowa-tax-reform
  - Includes specialized topics, key effective dates, and videos
  - Updated as more guidance becomes available

Reform:
Your Involvement

The Department of Revenue welcomes questions and input from taxpayers, tax professionals, and other stakeholders to help us to provide better guidance

Please submit any questions online

tax.iowa.gov/iowa-tax-reform

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Top Issues from Tax Reform Impacting Iowa Real Estate

Impacts to Iowa Realtors and Homebuyers

Tax Reform in General

- **Federal**: Tax Cuts and Jobs Act, Public Law 115-97, December 22, 2017
- **Iowa:** Senate File 2417, May 30, 2018
- **Supreme Court:** *South Dakota v. Wayfair*, June 21, 2018

Federal Tax Reform: Tax Cuts and Jobs Act

Individual: *Temporarily (for tax years 2018 - 2025)* reduces rates, increases standard deduction and eliminates personal exemption deduction, suspends several itemized deductions, increases child tax credit, provides deduction for income earned from passthrough businesses (those not subject to separate corporate income tax)

Federal Tax Reform: Tax Cuts and Jobs Act

Business: *Permanently* reduces corporate tax rate and repeals corporate Alternative Minimum Tax (AMT), increases and extends deductions on business assets, limitations on interest expense deductions, significant changes to taxation of multinational businesses

Iowa Tax Reform: Senate File 2417

On May 30, Iowa Governor Kim Reynolds signed an extensive tax reform bill into law to improve the tax structure and modernize and simplify Iowa’s tax laws.

Iowa Tax Reform: Senate File 2417

- **Individual Income Tax** - Rate reductions in 2018, conforms to most recent federal tax code changes over several years, possibility of future rate reductions, and additional simplification and conformity with federal law in future tax years
- **Corporate Income Tax** - Conforms to most recent federal tax code changes over several years, reduces rates in 2021, possibility of additional simplification and conformity with federal law in future tax years
- **Sales and Use Tax** - Expands types of businesses that must collect tax, expands tax base to include certain new economy services and digitally delivered products
- **Hotel/Motel and Vehicle Excise Taxes** - Modernizes tax bases and expands types of businesses that must collect taxes

Iowa Tax Reform: Income Tax "Conformity" Explained

Act of matching Iowa's tax laws and calculations with the federal Internal Revenue Code. Historically done in Iowa on a year-by-year basis.

- Conformity enhances simplification in Iowa tax calculation
- **Iowa Tax Year 2018:** Generally not conformed to federal tax changes since 2015 (including new federal tax reform Tax Cuts and Jobs Act)
- **Iowa Tax Year 2019:** Conform with most recent federal tax changes
- **Iowa Tax Year 2020 and beyond:** Iowa adopts "rolling" conformity
- **Iowa Tax Year 2023 or later (trigger year):** Iowa adopts additional similarities to federal tax calculation (federal standard deduction and itemized deduction)

Iowa Department of Revenue

Tax Reform Issues in Iowa

Federal Standard Deduction

Old Federal Law 2018 Standard Deduction

- Single filer: $6,500
- Married Filing Jointly: $13,000

New Law 2018 Standard Deduction

- Single filer: $12,000
- Married Filing Jointly: $24,000

Iowa Standard Deduction

- No change to Iowa Standard Deduction in near future
- Individual may choose to itemize deductions on Iowa tax return even if they chose standard deduction on federal return
- 2018 Iowa Standard Deduction (indexed to inflation)
  - Single filer: $2,030
  - Married Filing Jointly: $5,000
- Tax year 2023 or later (when trigger is met), Iowa will move more in line with federal tax calculation
  - Iowa standard and itemized deductions same as federal amount
  - No more ability to independently choose standard deduction or itemized on Iowa return, must be the same deduction as chosen on federal return

Itemized Deductions - State and Local Tax (SALT) Deduction

Previous federal law: Full deduction for any state and local property tax, and state and local income tax (or sales tax) paid by taxpayer during year.

New federal law tax years 2018-2025: Property/income/sales tax deduction limited to $10,000 per household.

- Dollar limitation does not apply to taxes paid in carrying on a trade or business (only personal taxes)

Itemized Deductions - State and Local Tax (SALT) Deduction

Application to Iowa: Iowa has not conformed to this federal dollar limitation until tax year 2023 or later (when trigger is met).

- For at least tax years 2018-2022, individuals may deduct state and local taxes (except Iowa income taxes) on Iowa tax return without regard to federal $10K limitation
- In tax year 2023 or later (when trigger is met), individuals may deduct state and local taxes in the same amount they did on federal return, including $10K limitation (unless it expires in 2026)

Itemized Deductions - Mortgage Interest Deduction

Previous federal law: Deduction allowed for interest paid on qualifying mortgage or qualifying home equity loan.

- Qualifying mortgage: First $1 million on combined debt for principal residence + one other home (debt to acquire, construct, or substantially improve residence)
- Qualifying home equity loan: First $100,000 of combined debt for principal resident + one other home

New federal law tax years 2018-2025: Modified deduction allowed for interest paid on qualifying mortgage. No deduction for home equity loan interest.

- Qualifying mortgage: Maximum qualifying mortgage reduced to $750,000 (reduction doesn't apply to debt incurred before 12/15/17)
- Home equity loan: interest not deductible

Itemized Deductions - Mortgage Interest Deduction

Application to Iowa:

- Tax Year 2018: Iowa has not conformed to new federal limitation. Individuals may deduct qualifying mortgage and home equity interest on their Iowa tax return in the same manner as allowed under previous federal law
- Tax Year 2019 or later: Mortgage interest deduction on Iowa tax return subject to new federal law limitations above

Itemized Deductions - Personal Casualty/Theft Loss Deduction

Previous federal law: Deduction for casualty or theft losses not compensated by insurance. Generally only allowed to extent loss exceeds $ limitation, and exceed 10% of taxpayer's income (unless incurred from federally declared disaster). Losses from certain federal disasters can be deducted regardless of taxpayer's income or whether they choose to itemize.

New federal law tax years 2018-2025: Deduction only allowed for losses in a federally declared disaster area. Losses from many federally declared disasters still deductible regardless of taxpayer's income or whether they choose to itemize.

Itemized Deductions - Personal Casualty/Theft Loss Deduction

Application to Iowa:

- Tax Year 2018: Iowa has not conformed to new federal limitation. Individuals may deduct casualty/theft losses on their Iowa tax return in the same manner as allowed under previous federal law, except for provisions related to special deduction rules for certain federal disasters
- Tax Year 2019 or later: Casualty/theft losses on Iowa tax return subject to new federal limitations above

Other Deductions - Moving Expense Deduction

Previous federal law: Above-the-line deduction allowed for certain moving expenses related to moving at least 50 miles away from your old commuting distance for a new full-time job, or for a required move by a member of the military.

New federal law tax years 2018-2025: Deduction only allowed for required moves by a military member.

Other Deductions -
Moving Expense Deduction

Application to Iowa:

- Tax Year 2018: Iowa has not conformed to new federal limitation. Individuals may deduct on Iowa tax return moving expenses in the same manner as allowed under previous federal law for moves within or into Iowa
- Tax Year 2019 or later: moving expense deduction on Iowa return for moves within or into Iowa subject to new federal limitation above

Exclusion of Gain on Sale of Principal Residence

- NOT modified or repealed by federal tax reform
- Retained: $250,000/$500,000 of gain on sale of home used as principal residence during at least two of last five years

Iowa Hotel/Motel Tax Changes

- State/Local excise tax on short-term rental of lodging in Iowa
- SF 2417 clarification that "lodging" includes rooms in a cabin, apartment, or any other residential property
  - Clarification means it's not a new tax imposition
  - Change intended to apply to rentals before and after enactment of SF 2417
- Also expanded types of businesses that must collect hotel/motel tax to include people who facilitate rentals and operate rental platforms (digital or otherwise) that allow owners to offer properties for rent
- Residential homeowners who offer or plan to offer rentals should be cognizant of hotel/motel tax and possible collection responsibilities

First-Time Homebuyers Savings Account

2017 Iowa Acts, ch. 116 (Senate File 505)

Iowa Code Chapter 541B

First-Time Homebuyer Savings Account

- The First-Time Homebuyers Savings Account (FTHSA) is a special type of tax-preferred savings account that helps Iowans save for their first home
- Account owners open and establish first-time homebuyer savings accounts, designate beneficiaries, make tax-deductible contributions, and make eligible withdrawals for qualifying home purchases

First-Time Homebuyer Savings Account

Who may establish an account?

- Account holder may be any individual
  - No Iowa residency requirement
  - No homeownership requirement
- May be opened individually, or jointly if married couple who file joint Iowa individual income tax return
  - Married couple who file separate Iowa tax returns, or separately on a combined return, may not establish or maintain FTHSAs
- No limit on number of FTHSAs an account holder may establish

First-Time Homebuyer Savings Account

What types of accounts are eligible to become a FTHSA ?

- Opened on or after 1/1/18
- Interest-bearing savings account
  - Must meet requirements of “savings deposit” in 12 C.F.R. 204.2(d)
- At financial institution in Iowa
  - state or federally chartered bank, savings and loan association, credit union, or trust company

First-Time Homebuyer Savings Account

How is account established as FTHSA?

- File a completed Account Holder and Designated Beneficiary Form with the Department no later than April 30th following the calendar year you opened the account.
  - Ex: Account opened 1/2/18, form is due no later than 4/30/19
- Form must name **one** designated beneficiary of the account

First-Time Homebuyer Savings Account

What is a "designated beneficiary"?

- Must be a resident of Iowa
- Must not currently own, either individually or jointly, any residence (single-family or multifamily) in Iowa or any other location
- First-time homebuyer: Must not have owned any residence for at least 3 years prior to both of the following:
  - The date the individual is named as the designated beneficiary
  - The date the beneficiary purchases a home with the FTHSA funds
- Failure to meet or maintain any of these requirements disqualifies individual as a designated beneficiary

First-Time Homebuyer Savings Account

Additional rules related to designated beneficiaries

- Account holder may name himself or herself as designated beneficiary
- Account holder may change designated beneficiary of account at any time
- Account holder may not have more than one FTHSA for the same beneficiary

First-Time Homebuyer Savings Account

FTHSA maintenance and time limitation

- Any person may make cash contribution to FTHSA
- No limit on amount of contributions that may be made to or retained in FTHSA
- Account holder must file annual report for each FTHSA documenting account activity for the year
  - Filed with account holder's Iowa tax return
  - On forms provided by the Department
- 10-year limitation on <u>all</u> FTHSAs of an account holder
  - measured by first year account holder opens an account
  - has consequences for withdrawals and tax benefits

First-Time Homebuyer Savings Account

Withdrawing funds from a FTHSA (qualified v. nonqualified withdrawal)

- Money may be withdrawn from FTHSA in any amount at any time.
- **Qualified withdrawal:**
  - Funds withdrawn **before** expiration of 10-year limitation
  - Account holder completes and files a withdrawal report with the Department within 90 days, on forms provided by the Department
  - Funds used for payment or reimbursement of the designated beneficiary's eligible home costs in connection with a qualified home purchase.
    - CAUTION: home purchase cannot occur until at least 90 days AFTER account holder first opens a FTHSA
    - Eligible home costs: Down payment, closing costs listed on settlement statements
  - Withdrawn funds must be used for qualifying purpose within 60 days of withdrawal
  - Designated beneficiary must occupy home as principal residence within 90 days of withdrawal

First-Time Homebuyer Savings Account

Withdrawing funds from a FTHSA (qualified v. nonqualified withdrawal)

- **Nonqualified withdrawal:** withdrawal from account for <u>any</u> other purpose or reason other than qualified withdrawal
  - even withdrawals not initiated by account holder, such as death, garnishment, levy, bankruptcy, etc.
- Once nonqualified withdrawal occurs, cannot be cured by returning money to account
- Financial institution account fees, and third-party transfers between different FTHSAs of account holder not considered withdrawals

First-Time Homebuyer Savings Account

Tax benefits of a FTHSA

- **Contribution deduction:** Iowa tax deduction of first $2,000 ($4,000 for joint account) of contributions made by account holder to <u>ALL</u> FTHSAs of an account holder during each year of the account holder's 10-year limitation
  - Ex: Single account holder has 5 FTHSAs and contributes $2,000 to each account in 2018 for a total of $10,000. The total 2018 tax deduction for account holder is $2,000.
  - Tax deduction adjusted annually for inflation
- **Interest exclusion:** Interest earned in a FTHSA exempt from Iowa individual income tax (likely subject to federal income tax)
- **Lifetime limitation on tax benefits:** Total lifetime tax benefit (contribution deduction + interest exclusion) of an account holder may not exceed 10 times contribution deduction limitation for year account holder opened first FTHSA
  - Ex: Single account holder opens first FTHSA in 2018. Therefore, lifetime tax benefit limitation (contribution deduction + interest exclusion) equals $20,000 ($2,000 x 10)

First-Time Homebuyer Savings Account

Tax Penalties of a FTHSA - Nonqualified Withdrawals

- Amounts must be added back to income to extent previously deducted
  - including 10% penalty on amount added back unless nonqualified withdrawal occurred because of death, garnishment, levy, bankruptcy, etc.
- Account holder no longer eligible to claim tax deductions in future tax years on <u>any</u> FTHSA, still required to use remaining funds for eligible home purchase of designated beneficiary to avoid additional penalties
- Amounts in any FTHSA after 10 years from when account first opened considered immediately withdrawn (nonqualified withdrawal)

First-Time Homebuyer Savings Account

RECAP: Responsibilities and Pitfalls

- Account holders responsible for administering FTHSA
  - Financial institution has no obligations, may treat account like normal savings account
  - Account holder solely responsible for:
    - Filing designation forms, annual reports, withdrawal reports
    - Maintaining adequate receipts and records to support FTHSA contributions and distributions
    - Ensuring beneficiary's eligibility as a first-time homebuyer
    - Ensuring withdrawn funds used in connection with qualified home purchase

First-Time Homebuyer Savings Account

RECAP: Responsibilities and Pitfalls

- Avoid Ineligible withdrawals
  - beneficiary’s home purchase cannot occur until at least 90 days after first FTHSA opened (the Department has already received several withdrawal reports that violate this rule)
  - From date of withdrawal: funds must pass to designated beneficiary within 60 days, designated beneficiary must occupy home within 90 days
  - Withdrawals initiated by other parties
    - Levy, bank offsets, other people with account privileges
      - Financial institution not legally obligated to treated FTHSA as anything more than a regular savings account. FTHSA’s don’t carry same protections as other tax-preferred accounts
- Purchase of undeveloped land for future build of home does not qualify as qualified home purchase

First-Time Homebuyer Savings Account

Find full program information including required forms on the Department's website.

Visit: tax.iowa.gov/first-time-homebuyers-savings-account

Iowa Department of Revenue

Questions?