

Davis Brown Tax Law Blog

QBI on Iowa State Tax Returns Starting in 2019 – September 4, 2018

[Courtney A Strutt Todd](#)

The Iowa Legislature adopted new tax law last May relating to the federal Qualified Business Income (or QBI) deduction allowed by the Internal Revenue Code. As discussed in previous posts, the [QBI is a new federal deduction implemented in the 2017 Tax Cuts and Jobs Act](#). In passing [Senate File 2417](#), the Iowa Legislature is effectively allowing the federal QBI deduction to be taken on an Iowa return starting for the 2019 tax year.

Phased Implementation

For 2019 and 2020, the Iowa QBI deduction allowed will be a rate equal to 25% of the federal deduction. During 2021 the Iowa QBI deduction increases to 50% of the federal QBI deduction and during 2022 and thereafter it increases further to 75% of the federal QBI deduction.

Tied to State Revenue Targets

If certain revenue targets are met, then beginning in 2023 and through 2025, 100% of the federal QBI deduction will be allowed on the Iowa return. The revenue targets are that the net general fund revenues for the fiscal year ending June 30, 2022 (i) equal or exceed \$8,314,600; and (ii) equal or exceed 104% of the net general fund revenues for the fiscal year ending June 30, 2021.

Tax Planning for Iowa Businesses

With this ability to deduct Qualified Business Income from both your federal and your state of Iowa tax returns, Iowa businesses can stand to save significantly if tax planning is optimized to take advantage. Some businesses will find that they fall within the category of Specified Service Trades or Businesses (SSTBs) and are not eligible for the deduction, but in working with a qualified tax attorney, you may find opportunities to spin off parts of your business to qualify. More details on [tax planning for SSTBs](#) were covered earlier by my colleague, attorney Bill Hanigan.

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