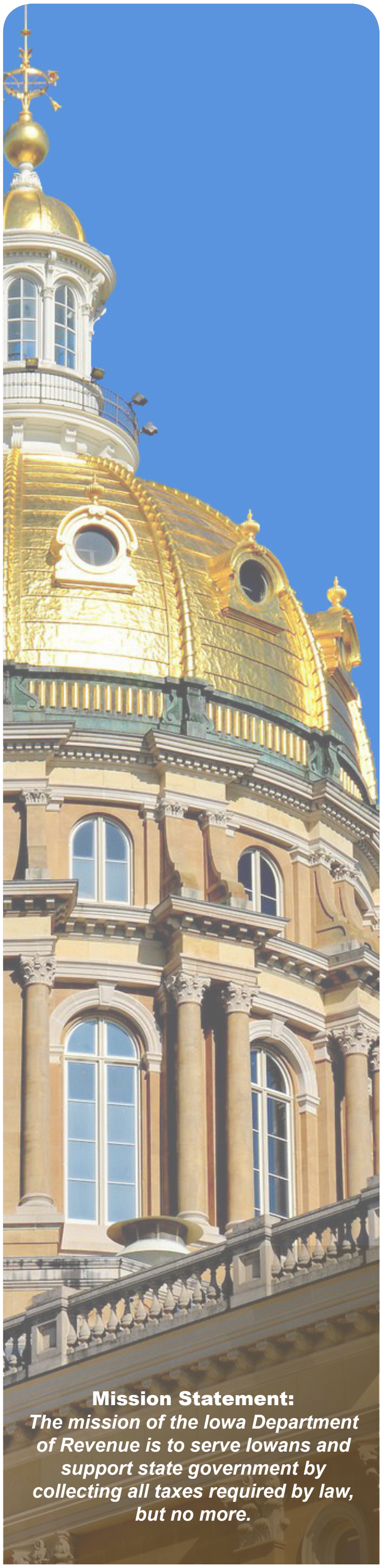

Iowa Tax Reform Guidance: Individual Itemized Deductions for Tax Year 2018

On December 22, 2017, President Donald Trump signed Public Law 115-97, commonly referred to as the Tax Cuts and Jobs Act (TCJA). This law made numerous changes to the itemized deductions claimed by individuals in calculating their individual income taxes.

Iowa Senate File 2417, an extensive state tax reform bill to improve Iowa's tax structure signed by Iowa Governor Kim Reynolds on May 30, 2018, conforms with many provisions of the federal TCJA, but in most cases not until tax years beginning on or after January 1, 2019. As a result, Iowa individual income taxes for tax year 2018 will generally be calculated using the Internal Revenue Code (IRC) in effect on January 1, 2015, so there will be significant differences between federal and Iowa itemized deductions which may require Iowa adjustments.

This guidance highlights and summarizes the major differences between federal and Iowa itemized deductions resulting from Iowa's conformity or nonconformity for tax year 2018 with federal Public Law 114-113 (Protecting Americans from Tax Hikes Act of 2015), the TCJA, Public Law 115-123 (Bipartisan Budget Act of 2018), Public Law 115-141 (Consolidated Appropriations Act of 2018), and certain federal regulation changes.

This guidance is not intended to provide a comprehensive analysis of all itemized deductions available under Iowa law. The Iowa tax treatment of these deductions may be different for tax years 2019 or later.

What are itemized deductions?

Iowa tax law permits individuals to make certain deductions from their Iowa net income when calculating taxable income (income subject to Iowa tax). Individuals are first permitted to deduct the net amount of federal income taxes paid during the year (federal deductibility), and are then permitted to choose between claiming a number of available deductions (itemized deductions) or claiming one standard deduction amount. Taxpayers who choose to forgo the Iowa standard deduction and instead claim itemized deductions do so on the IA 1040, Schedule A.

Please note some important points about these deductions for tax year 2018:

- Federal Deductibility: This has not changed for Iowa tax purposes.
- Iowa Standard Deduction: The amounts are $2,030 for individuals who are single or married filing separately and $5,000 for other taxpayers.
- Standard vs. Itemized Deductions: Taxpayers retain the ability to choose itemized deductions for Iowa tax purposes even if they claim the standard deduction for federal tax purposes.
- Federal Personal Exemption Deduction: The TCJA suspended the federal personal exemption deduction for tax years 2018-2025. That suspension does not affect Iowa taxes. Iowa law provides a separate personal exemption tax credit. These Iowa personal exemption tax credit amounts have not changed.

- Modifications to Deduction Limitations for Iowa Tax Purposes: Some federal itemized deductions have limitations as measured by the adjusted gross income (AGI) of a taxpayer. References are made below to AGI being "modified for Iowa tax purposes" because Iowa law requires that a taxpayer's AGI for Iowa tax purposes be modified by any Iowa net income nonconformity adjustments from line 14 of the IA 1040 including any depreciation/section 179 adjustments, and the moving expense deduction and domestic production activities deduction on lines 22 and 24 of the IA 1040, if any.

What are the differences between the 2018 federal and Iowa itemized deductions?

<table>
<tr><th>Federal Tax Treatment</th><th>Iowa Tax Treatment</th></tr>
<tr><td colspan="2">Medical Expense Deduction Floor Modified</td></tr>
<tr><td>Individuals may deduct qualified medical expenses to the extent they exceed 7.5% of the individual's AGI. This is the medical expense deduction floor.</td><td>The deduction floor is 10% for Iowa tax purposes. Individuals may deduct qualified medical expenses to the extent they exceed 10% of the individual's AGI (as modified for Iowa tax purposes), and to the extent they haven't already been deducted as qualified health insurance premiums in computing Iowa net income on the IA 1040, line 18.</td></tr>
<tr><td colspan="2">State and Local Tax (SALT) Deduction Capped</td></tr>
<tr><td>An individual's total deduction for state and local income taxes or sales taxes, and for state and local real and personal property taxes, shall not exceed $10,000 ($5,000 if married filing separately). In addition, foreign real property taxes are not deductible.</td><td>The SALT deduction cap does not apply for Iowa tax purposes. Individuals may deduct qualifying state and local real and personal property taxes, and qualifying state and local income taxes (except Iowa income taxes) or sales taxes, without limitation from the $10,000 SALT deduction cap. Individuals may also deduct qualifying foreign real property taxes.

Also for 2018, individuals who itemize deductions for Iowa purposes may elect the optional deduction for state sales and use taxes in lieu of the deduction for state and local income taxes, if the same election is made at the federal level. For more information, see the Department's State Sales and Use Tax Deduction guidance.</td></tr>
<tr><td colspan="2">Qualified Home Mortgage Interest Deduction Restricted</td></tr>
<tr><td>The deduction has been restricted for 2018 as follows:

Acquisition loan reduction:

The qualifying acquisition loan amounts upon which interest may be deducted has been reduced from $1 million to $750,000 (or from $500,000 to $375,000 if married filing separately), generally for acquisition loans incurred after December 15, 2017.

Home equity loan interest not deductible:

Individuals generally may not deduct interest on any home equity loan unless the loan qualifies as an "acquisition loan" because the proceeds are used to buy, build, or substantially improve the qualified home that secures the loan.</td><td>The acquisition loan reduction and the restriction on deducting home equity loan interest do not apply for Iowa tax purposes in 2018.

Individuals may generally deduct the following:

• Interest paid during the year on a mortgage incurred on or before October 13, 1987 (including certain refinanced amounts), that is secured by an individual's main home or second home.
• Interest paid during the year on the first $1 million ($500,000 if married filing separately) of acquisition loans, even if the loans were incurred after December 15, 2017. However, this dollar limit is reduced by the amount of the individual's mortgages incurred on or before October 13, 1987.
• Interest paid during the year on the first $100,000 ($50,000 if married filing separately) of home equity loans.

An "acquisition loan" generally includes any mortgage incurred after October 13, 1987, that is secured by an individual's main home or second home and that is used to buy, build, or substantially improve the home that secures the loan.

A "home equity loan" generally includes any mortgage (including a home equity loan, home equity line of credit, or second mortgage) incurred after October 13, 1987, that is secured by an individual's main home or second home, to the extent the loan does not exceed the difference between the fair market value of the home and the amount of other loans on the home. For more information on the home mortgage interest deduction, see 2017 IRS Publication 936.</td></tr>
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Modifications to the Charitable Contribution Deduction	
Federal law made several recent changes to the deduction for charitable contributions including: • *Charitable deduction limitation increase.* The charitable deduction limitation for cash contributions to certain public charities and private foundations is increased to 60% from 50% of an individual's AGI for the year. • *Special rule for California wildfire relief contributions.* Qualifying charitable contributions made between October 8, 2017, and December 31, 2018, to California wildfire relief efforts are not subject to the individual's deduction limitation, but cannot exceed the individual's total AGI. • *College sports ticket rights repeal.* The charitable deduction for 80% of a contribution made to an institution of higher education in return for the receipt (directly or indirectly) of the right to purchase tickets to athletic events is repealed. • *Limitation on contributions in exchange for state and local tax credits.* The Internal Revenue Service issued proposed regulations on August 27, 2018, which would generally deny a charitable deduction for the amount of a contribution made after that date for which the taxpayer receives or expects to receive a state or local tax credit in return for the contribution. • *Qualified conservation contributions.* Taxpayers may claim a charitable deduction of up to 50% of their AGI (100% for certain farmers and ranchers) for qualified conservation contributions made during the tax year. • *Food inventory contributions.* Certain taxpayers are allowed a limited deduction for the donation of food inventory.	Iowa has not conformed to most of the recent federal changes to the charitable contribution deduction, as described below: • *Charitable deduction limitation increase.* This increase does not apply for Iowa tax purposes. If an individual's federal deduction for cash contributions to qualifying public charities and public foundations exceeds 50% of the taxpayer's AGI (as modified for Iowa tax purposes) for the year, the individual must recalculate the charitable deduction to apply the 50% limitation for Iowa purposes. • *Special rule for California wildfire relief contributions.* This special rule does not apply for Iowa tax purposes. If an individual makes a qualifying charitable contribution to California wildfire relief efforts, the regular contribution limitations of the individual (generally 50% of AGI) apply to those contributions. • *College sports ticket rights repeal.* This repeal does not apply for Iowa tax purposes. Individuals may deduct 80% of a qualifying contribution to the extent it doesn't exceed the individual's applicable AGI deduction limitation. • *Limitation on contributions in exchange for state and local tax credits.* This limitation imposed by the proposed regulation, should it take effect, will apply for Iowa tax purposes. To the extent a taxpayer's federal charitable deduction is reduced because the taxpayer receives or expects to receive a state or local tax credit in return, the same reduction shall apply for Iowa tax purposes. However, taxpayers should note that Iowa law already disallows a charitable deduction for any tax credit contribution to School Tuition Organizations, Charitable Conservation Contributions, Endow Iowa Tax Credit contribution, or Farm to Food Donations. • *Qualified conservation contributions.* This increased deduction limitation does not apply for Iowa tax purposes. Taxpayers are only allowed a deduction of up to 30% of their AGI (as modified for Iowa tax purposes) for a qualified conservation contribution. If a taxpayer makes such a contribution, the taxpayer must reduce the amount of the contribution for Iowa tax purposes to no more than 30% of their AGI. However, taxpayers should note that Iowa law disallows a charitable deduction for any Charitable Conservation Contribution Tax Credit contribution. • *Food inventory contributions.* This deduction does not apply for Iowa tax purposes. Taxpayers who make charitable contributions of food inventory must add back to Iowa taxable income any amount deducted for federal tax purposes.
Personal Casualty/Theft Loss Deduction Restricted	
The deduction for casualty and theft losses from personal use property has been restricted for 2018 to losses attributable to a federally declared disaster. Such losses are generally only deductible to the extent they exceed a $100 per-event loss limitation and exceed 10% of a taxpayer's AGI. Special rules permit deduction of losses from certain qualified disasters to the extent the losses exceed a $500 per-event loss limitation, even if they don't exceed 10% of the taxpayer's AGI and even if the taxpayer doesn't itemize deductions.	Iowa has not conformed to the recent federal restrictions and special rules related to the personal casualty and theft loss deduction. Taxpayers may deduct casualty and theft losses from personal use property, even if such losses are not attributable to a federally declared disaster, to the extent the losses exceed a $100 per-event loss limitation and exceed 10% of a taxpayer's AGI (as modified for Iowa tax purposes). The Department has created an IA 4684 Personal Use Property Casualty and Theft Worksheet to assist individuals in calculating and claiming their deductible personal casualty and theft gain or loss for Iowa tax purposes in 2018.

Suspension of Deduction for Miscellaneous Expenses Subject to the 2% AGI Floor	
Under prior federal law, certain miscellaneous expenses were eligible as an itemized deduction to the extent they exceeded 2% of the taxpayer's AGI. These included items such as employee business expenses, tax preparation fees, investment expenses, employment related educational expenses, job search expenses, hobby expenses, safe deposit box fees, and other expenses. For 2018, the ability to deduct each of these miscellaneous expenses subject to the 2% AGI floor has been suspended.	The suspension does not apply for Iowa tax purposes. Taxpayers may deduct these miscellaneous expenses to the extent they exceed 2% of the taxpayer's AGI (as modified for Iowa tax purposes) and were otherwise deductible under the Internal Revenue Code prior to the federal suspension. See 2017 IRS Publication 529 for information about expenses that are and are not deductible for Iowa tax purposes in 2018. The Department has created an IA 2106 Employee Business Expense Worksheet to assist individuals in calculating and claiming their deductible employee business expenses for Iowa tax purposes in 2018.
Suspension of the Overall Itemized Deduction Limitation	
Under prior federal law, the total amount of most itemized deductions was reduced for individuals with AGI in excess of a certain threshold amount. For 2018, this limitation has been suspended, so high-income individuals may deduct their qualifying itemized deductions without reduction because of AGI.	The suspension does not apply for Iowa tax purposes. Individuals with AGI (as modified for Iowa tax purposes) in excess of the applicable threshold must reduce their Iowa itemized deductions (excluding medical expenses, investment interest, or personal casualty and theft losses) by the lesser of 3% of the amount their AGI exceeds the applicable threshold amount, or 80% of their itemized deductions. For 2018, the applicable AGI thresholds are $320,000 if a qualifying widow(er) or married filing jointly, $293,350 if a head of household, $266,700 if single, or $160,000 if married filing separately. As in past tax years, this limitation is calculated on the IA 104 Itemized Deduction Worksheet.