





EY Payroll NewsFlash

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Iowa Department of Revenue confirms changes to individual income tax provisions apply starting in 2023

The Iowa Department of Revenue [announced](#) that various changes to the state's personal income tax under recently enacted under [HF 2317](#) will apply to tax years beginning on and after January 1, 2023 and will have no impact on tax returns due on May 2, 2022 or May 1, 2023.

As we previously reported, HF 2317 gradually reduces individual income tax rates over the next four years to a flat rate of 3.9% by tax year 2026. (See [EY Tax Alert 2022-0351](#).)

Under current law, Iowa does not tax Social Security income or retirement income of \$6,000 or less. For tax years beginning in 2023, HF 2317 excludes from taxable income the retirement income of someone who meets one or more of the following conditions:

- Is disabled
- Is at least 55 years old
- Is the surviving spouse of an individual who would have qualified for the exclusion

Retirement income is defined as the total amount received from all governmental or other pension or retirement plans, including defined benefit or contribution plans, annuities, individual retirement accounts, plans maintained or contributed to by an employer or by a self-employed person as an employer, and deferred compensation plans.

HF 2317 also grants an employee-owner of a qualified corporation one irrevocable lifetime election to exclude from state individual income tax the net capital gain from the sale of the qualified corporation's capital stock. This exclusion will phase in over three years, beginning in 2023.

Retired farmers also will receive a similar capital gain exclusion as well as a lease income exclusion.

Contact us for more information

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