

## Income/Franchise:

### Iowa DOR Releases Proposed Rules and Guidance on State Treatment of IRC section 163(j)

*Proposed Regs. Sections 701 – 40.85(422), 50.39(422), 59.31(422) [ARC 5612C]*, Iowa Dept. of Rev. (5/5/21); *Business Interest Expense Conformity for Tax Year 2019 & Later*, Iowa Dept. of Rev. (5/5/21); *Partnership Interest Expense Nonconformity Adjustment*, Iowa Dept. of Rev. (5/3/21). The Iowa Department of Revenue (Department) proposed administrative rules implementing adjustments to income for Iowa individual and corporate income and franchise taxes for interest expense deductions under Internal Revenue Code (IRC) section 163(j), which are limited for federal income tax purposes but which are permitted in full for Iowa purposes for tax years beginning on or after January 1, 2020 [see H.F. 2641 (2020), and *State Tax Matters*, Issue 2020-26, for details on related law changes enacted in 2020]. The proposed rules also cover adjustments that may be needed due to Iowa's changing conformity with these federal business interest expense limitations for tax years 2018 and 2019. Interested parties may submit comments concerning these proposed rule changes by May 25, 2021, which is also the tentative date of the virtual public hearing that may be held if requested.

**URL:** <https://www.legis.iowa.gov/docs/aco/bulletin/05-05-2021.pdf>

**URL:** <https://tax.iowa.gov/business-interest-expense-conformity>

**URL:** <https://tax.iowa.gov/partnership-interest-expense>

**URL:** <https://www.legis.iowa.gov/legislation/BillBook?ga=88&ba=hf2641>

**URL:** [https://newsletters.usdbriefs.com/2020/Tax/STM/200703\\_4.html](https://newsletters.usdbriefs.com/2020/Tax/STM/200703_4.html)

The Department also has updated its administrative guidance involving IRC section 163(j) – explaining that Iowa's conformity with the federal limitations on business interest expense deductions imposed by IRC section 163(j) varies depending on the year. For tax years beginning on or after January 1, 2019, and before January 1, 2020, Iowa conformed with the federal limitation; however, for tax years beginning on or after January 1, 2020, Iowa does *not*. Accordingly, the Department comments that “due to these differences in conformity, some taxpayers will need to make certain adjustments to their federal business interest expense deduction to calculate the correct Iowa deduction amount for a given year.” Similarly, the Department has updated administrative guidance to describe required adjustments and reporting procedures in tax years beginning on or after January 1, 2019 and before January 1, 2020, for partnerships and their partners that had business interest expense that was disallowed as a deduction for federal purposes under IRC section 163(j) in tax year 2018, but that was allowed as a deduction for Iowa purposes in tax year 2018 because of nonconformity. Please contact us with any questions.

— Tim Pyburn (Chicago)  
Senior Manager  
Deloitte Tax LLP  
tpyburn@deloitte.com

Steven Kelly (Chicago)  
Manager  
Deloitte Tax LLP  
stkelly@deloitte.com

This document contains general information only and Deloitte is not, by means of this document, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This document is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte shall not be responsible for any loss sustained by any person who relies on this document.

**About Deloitte**

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. In the United States, Deloitte refers to one or more of the US member firms of DTTL, their related entities that operate using the “Deloitte” name in the United States and their respective affiliates. Certain services may not be available to attest clients under the rules and regulations of public accounting. Please see [www.deloitte.com/about](http://www.deloitte.com/about) to learn more about our global network of member firms.