

Iowa Status on Coupling with Federal Tax Provisions, the Value of Health Care Coverage for Nonqualified Dependents, and Unemployment Compensation for Tax Year 2010

December 17, 2010

Coupling with Federal Tax Provisions – The Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 passed by Congress in December 2010 contains a number of tax provisions that will be allowed for federal tax purposes for the 2010 tax year. At this time, Iowa is not coupled with these tax provisions that affect the computation of Iowa adjusted gross income. The Iowa legislature during its upcoming 2011 session will make a determination on whether these federal tax provisions will be allowed on the Iowa return for 2010.

Value of Health Care Coverage for Nonqualified Dependents – The federal health care bill passed by Congress in 2010 provided for health care coverage for nonqualified tax dependents through age 26. This federal legislation also provided that the value of this health care coverage is not subject to federal income tax.

Prior to the passage of the federal legislation, Iowa provided for health care coverage for nonqualified dependents through age 24. In addition, Iowa Code §422.7(29A) provided that the value of health care coverage for a nonqualified dependent was not subject to Iowa income tax. A deduction could be claimed on the Iowa income tax return for the value of this coverage that was included in federal income.

The Department has determined that Iowa Code §422.7(29A) provides that the value of health care coverage provided for a nonqualified dependent ages 25 and 26 is not subject to Iowa income tax. This will result in the same treatment of health care coverage for nonqualified dependents for both federal and Iowa income tax purposes. In addition, to the extent the value of health insurance for nonqualified dependents up to age 25 was included as income on the federal return, an adjustment should be made on line 24 of the IA 1040.

Based upon the above information, the first reference to Line 24 in the “New for 2010” section of the following instructions is no longer correct.

January 10, 2011

Unemployment Compensation – The federal deduction for the first \$2,400 in unemployment compensation was eliminated for tax year 2010. The instructions for line 12 of the Iowa 1040 include the phrase “a. Add back any amount of unemployment compensation excluded on your federal return.” This phrase was included prior to the federal decision to eliminate this deduction; therefore, **the reference to a federal exclusion of unemployment compensation in the line 12 instructions should be disregarded.**

Forms/Instructions begin on the next page.