

## **Iowa Small Business Relief Program - Income and Franchise Tax Exemption**

On June 29, 2020, Governor Kim Reynolds signed 2020 Iowa Acts, House File 2641. Sections 118-121 of that legislation exempt from Iowa income and franchise tax the following:

*“[T]he amount of any financial assistance grant provided to an eligible small business by the economic development authority under the Iowa small business relief grant program created during 2020 to provide financial assistance to eligible small businesses economically impacted by the COVID-19 pandemic.”*

The exemption applies only to the extent the eligible grant was included in your federal income, and only for eligible grants received during a tax year that ends on or after March 23, 2020.

- **What is the Iowa Small Business Relief Grant Program?**

The Iowa Small Business Relief Grant Program was announced by Governor Kim Reynolds in March, 2020, to provide financial assistance to small businesses economically impacted by the COVID-19 pandemic. Eligible small businesses include those employing between 2-25 employees prior to March 17, 2020, that have a physical location within Iowa, and that are economically impacted by COVID-19. The program offered grants ranging from \$5,000-\$25,000. According to the Iowa Economic Development Authority, the application window closed March 31, 2020, funds have been exhausted, and a new application round will not be opened.

- **Which grants qualify for the Iowa income and franchise tax exemption?**

Only grants labeled as an “Iowa small business relief grant” and issued by the Iowa Economic Development Authority under the Iowa Small Business Relief Grant Program will qualify for the exemption.

The Iowa small business relief grant must be included in the federal income of the taxpayer as reported on the taxpayer’s Iowa tax return. Any grant exempt from federal income tax, and thus not included in the taxpayer’s base Iowa net income, will not qualify for an additional deduction on the taxpayer’s Iowa tax return. Federal tax law determines whether or not an Iowa small business relief grant is subject to, or exempt from, federal income tax.

To qualify for the exemption from Iowa income or franchise tax, the Iowa small business relief grant must be received by the taxpayer during a tax year that ends on or after March 23, 2020. For calendar year taxpayers, an Iowa small business relief grant received during calendar year 2020 will be eligible for the exemption on the taxpayer’s 2020 income tax return. For fiscal year taxpayers, an Iowa small business relief grant received during calendar year 2020

will be eligible for the exemption on the taxpayer's 2019 or 2020 income tax return, depending on the date the taxpayer's fiscal year ends.

The Iowa Economic Development Authority, Iowa Finance Authority, Iowa Department of Agriculture & Land Stewardship, and other state agencies also provide economic relief to persons affected by COVID-19 through a number of other relief programs, funds, and grants that do not qualify for the tax exemption. These non-qualifying programs, funds, and grants include but are not limited to the movie theater relief grants, the county fair relief fund, the residential utility disruption prevention program, the eviction and foreclosure prevention program, the small business utility disruption prevention program, the COVID-19 business disruption relief program, the beginning farmer debt relief fund, the livestock producer relief fund, the biofuels relief program, the nonprofit recovery fund, the targeted small business sole operator fund, the meat processing expansion and development program, the local produce and protein program, the Iowa renewable fuel retail recovery program, the "pack the pantry" program, the Iowa disposal assistance program, the beef up Iowa program, and the "pass the pork" program.

## • How is the exemption claimed?

The Iowa deduction for the amount of the Iowa small business relief grant originally included in income on the Iowa tax return is claimed as follows:

- **Individuals:** On the IA 1040, line 24, using code "II"
- **Trusts & Estates:** On the IA 1041, line 8
- **Corporations:** On the IA 1120, Schedule A, line 16
- **S-Corporations:** On the IA 1120S, line 7
- **Partnerships:** On the IA 1065, line 6
- **Financial Institutions:** On the IA 1120F, Schedule D, line 7

---

**Source URL:** <https://tax.iowa.gov/iowa-small-business-relief-program-income-and-franchise-tax-exemption>