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Iowa: Department proposes rules to adopt part of MTC guidance on P.L. 86-272.

The Iowa Department of Revenue proposed amendments to its corporate income tax rules that would incorporate portions of the Multistate Tax Commission's (MTC) updated interpretation of P.L. 86-272 addressing internet-based activities. Iowa would join Massachusetts, New Jersey, and New York as states adopting a portion of the MTC interpretation by administrative rule.

P.L. 86-272 generally prohibits a state from imposing a net income tax on an out-of-state business whose only in-state activity is the solicitation of orders for tangible personal property. The proposed rules would provide that every corporation doing business within Iowa that derive income from sources consisting of property located or having a situs within Iowa are required to file an Iowa corporate income tax return. Activities directed at Iowa customers would be considered activities within Iowa, including activities conducted through websites or applications. However, a corporation will not be subject to Iowa corporate income tax if it is protected under P.L. 86-272. Iowa's current guidance generally describes P.L. 86-272 as protecting a corporation when its only Iowa business activity consists of soliciting qualifying orders for tangible personal property.

Consistent with the updated MTC approach, the proposed rules identify various internet activities that would not be considered as protected under P.L. 86-272. These include providing post-sale assistance to Iowa customers through electronic chat or email; soliciting and receiving applications for a branded credit card through a website; using cookies to gather customer information for purposes such as adjusting inventory or developing new products; remotely fixing or upgrading previously purchased products; selling extended warranties; and maintaining inventory at an Iowa fulfillment center through a marketplace facilitator. The proposed rules also preserve P.L. 86-272 protection for certain activities considered ancillary to solicitation. The proposed rules retain a de minimis exception for unprotected activities that when taken together establish only a trivial connection with Iowa. Comments on the proposal are due December 1, 2026, when the Department will also hold a public hearing. Reports suggest that the rules could be finalized as soon as March 24, 2027.

Contact Dale Busacker with questions about R.A. 26-399.

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