

Iowa Volunteer First Responder Tax Credit for Reserve Law Enforcement Officers

Being an enrolled agent with 21 years of tax experience, a state certified reserve officer and ISRLOA president, I wanted to put together the facts and share with fellow reserves and departments the workings of this valuable credit. After Governor Branstad signed the tax credit bill into law, I met with Arlen Ciechanowski, Director of the Iowa Law Enforcement Academy and Jim McNulty, Program Manager, Policy & Communications Division of the Iowa Department of Revenue to review the aspects of the new credit and how it affects reserve law enforcement officers in Iowa. Prior to me sending this out, both Arlen and Jim will have the opportunity to review this to insure that their respective areas of expertise are accurately presented.

How this credit affects the individual Reserve

This is a \$100 tax credit, not a deduction from income. It is a use it or lose it, non-refundable, non-transferable, only 1 volunteer position per person credit. It is retroactive to January 1, 2014. What this means is, you need to have enough taxable income to generate \$100 of Iowa income tax, or you won't use the whole credit. In 2014 it would take approximately the first \$7170 taxable income to generate a \$100 tax liability, after the taxpayer's personal exemption. It cannot be refunded, but it will reduce your tax, so if you have had withholding or paid estimates, it will increase your refund or if you still owe tax, it will reduce the amount owed. It also comes in before school district surtax, so it will reduce your total tax bill by the \$100 credit plus whatever your school district surtax rate is (up to 20%). It cannot be transferred, even if you file a married filing separate on a combined return, the reserve can't use the spouse's tax liability to use the credit, it has to be the reserve's tax liability. You can't be both a reserve and a volunteer firefighter or volunteer EMT and get twice the credit amount, it is only good for one volunteer position. I discussed with Arlen who would qualify for the credit, he called in ILEA legal counsel Russell Rigdon, and between the three of us reading the bill and Chapter 80D, it is our interpretation that only state certified reserves will qualify for the credit. I asked Jim McNulty the same question and he said IDR would follow the statute. 12 months of qualifying in the calendar year qualifies for \$100 credit. A portion of a month constitutes a whole month, if a reserve becomes state certified on December 31st, he/she would qualify for a month or 1/12 of the credit. Any reserve officer who was certified on or before January 31, 2014 and maintained certification for all of 2014 qualifies for 12 months of credit. See calculation and table later.

Qualifying and Maintaining Qualification

If you are not already state certified, you need to become a state certified reserve officer. After acceptance onto a reserve unit, you have 18 months to complete the 80 hours of module training and testing and log 40 hours of supervised patrol, along with firearms training. Maintaining certification consists of 12 hours of training/year (36 hours every 3 years) plus firearms qualification, maintain CPR certification and mental health training. Pre-July 1, 2007 reserves who have not yet become state certified but have qualified under the old 150 hour rule have two options. As long as you stay with the reserve unit that you were with on June 30, 2007, you have an unlimited amount of time to become

state certified. You do not have a supervised patrol requirement, you can either go through the modules and take the tests, or fill out a written application for certification by examination and submit it to ILEA. If the ILEA director accepts the application, ILEA will provide you with study materials and you can take the test(s). Maintaining state certification is the same for all reserve officers. It is ultimately up to the reserve officer to insure that they maintain the requirements of certification. Remember, the Iowa State Reserve Law Officers Association provides 12 hours of training annually. It is also the reserve's responsibility to get the required statement from their department and get that statement to their tax preparer. This statement is required to take the credit. I didn't allow my physical next door neighbor to take the volunteer firefighter credit when he didn't get a statement, stating to his firefighter chief, "Bob knows I'm a firefighter". That isn't the point. As a tax preparer, I can get in trouble for taking the credit without the statement. Be sure to get the statement to your tax preparer. When I asked Jim McNulty what IDR is doing to audit this credit's use, he said (shaking his head no), "I don't know that the Department is actively doing anything, at \$50 it may not have triggered our mainstream attention, but (nodding his head yes) at \$100 we very well may be more aggressive in matching and auditing." I am paraphrasing here, but noting the body language, everyone wants to dot their I's and cross their T's with this credit and everyone will be happy! IDR can fairly easily acquire a list of qualified individuals for this credit and do a cross-match.

Departmental Responsibilities

It is the department's responsibility, as it always has been, to train their reserves and maintain a log of their training records. Make sure your new reserves become certified in the first 18 months. As a side note, JoAnn Hively is retiring on June 19 after many years of dedicated service to ILEA and the reserve program. Lori Bolsenga will be taking over the reserve program. For module testing, be sure to call ILEA during regular business hours, M-F, to request a module exam. The only thing this credit changes is that now you need to provide each reserve with a year-end statement telling them how many months of the past year they qualified for the credit and maintain copies of those statements through October 30th of four years from the year the statement is prepared for (copies of year 2014 statements kept until after October 30, 2018). Why October 30? That is the due date of Iowa tax returns on extension and IDR typically has 3 years to audit returns from their due date. As stated earlier, it is the interpretation of Arlen, ILEA legal counsel and myself, in deciphering the law, only state certified reserves qualify for the credit. Thus, certification date is more important, and resignation dates of state certified reserves are more important. Partial months of certification count as a whole month, so if an individual qualifies on December 31st, they qualify for a whole month. If a state certified reserve turns in his/her resignation on January 2, the following January the department needs to provide them with a statement stating that they qualified for one month. IDR won't get around to requesting records for at least a year, probably 2, so my opinion would be to maintain a list of all reserves in the unit for the entire year, state the number of months they qualified in the year, and if not 12, why they didn't qualify all year. Then if you are asked, you have a report along with copies of your statements stating why each reserve did or didn't qualify for the months reported on the statement that was provided to each reserve. I did ask Jim McNulty if this "statement" was a tax form, and he said no, it is just a statement.

"Statement" Requirements

Reserves claiming the credit are required to have a written statement from the department head or other appropriate supervisor verifying the individual was a qualifying individual for the number of months claimed. IDR recommends that the statement contain the following information: Volunteer Name, Reserve LEO Department Name, Number of Months of Qualifying Service for the Year, the Year the credit is for, Amount of Qualifying Credit (see note below), and the Name, Title and Signature of the official authorizing the credit. Iowa Department of Revenue should have their website updated to the \$100 credit and adding reserve LEOs to it sometime this fall. If you go to the website and look at the table, be sure that it is updated to the \$100 credit, not the 2013 \$50 credit. Simply doubling the monthly \$50 credit amounts IS NOT correct, due to rounding. Visiting with Jim McNulty, I expressed my concern that the table did not state QUALIFIED months of service. I feel this could lead to misinterpretation for anyone who might not read the entire webpage. As a tax preparer, I am also concerned with department heads/supervisors listing both the number of qualifying months and allowable credit. If you prepare a statement stating the number of months of qualified service (required) and then misread the table and put some other month's credit amount down, if that statement comes to my desk for tax preparation, I will exercise my due diligence and have the taxpayer return the statement to you for correction. My opinion, why do you want to be in the tax preparation business? State the qualified months and put the tax credit calculation on the tax preparer's shoulders. Cut and paste the correct table from the IDR webpage to the bottom of your statement template.

Calculating the Tax Credit

Note: The IDR webpage will probably not be updated until fall. When looking at the webpage, be sure the amount for the 12 months of qualified service is \$100. Do NOT just double the credit amount listed on the \$50 credit table!

Equation: (Maximum amount of credit/12 months in the year) rounded to the nearest dollar.

The credit is \$100 for 2014, divided by 12 months, each month is worth \$8.33 of credit, then round to the nearest dollar, so MY calculations:

No. of Months of Qualified Service	Tax Credit	No. of Months of Qualified Service	Tax Credit
1	\$8	7	\$58
2	\$17	8	\$67
3	\$25	9	\$75
4	\$33	10	\$83
5	\$42	11	\$92
6	\$50	12	\$100

I hope this is informative and answers a lot of questions. I wanted to do this because I understand the majority of all sides of this opportunity probably more than anyone else and my goal is to make sure everyone is informed and handles this credit correctly. The Iowa State Reserve Law Officers Association

has worked very hard over the years to acquire this tax credit for reserve law enforcement officers in Iowa. This is a large improvement over a dollar a year for those who make the sacrifices associated with volunteering to wear the badge.

Be safe out there,
Bob McHugh, EA
2014 ISRLOA President