

February 3, 1955.
Tax Revision.

House File 225

By MILLER of Woodbury, PENDLETON, RING-
GENBERG, COLBURN, LISLE, KUESTER,
GOODE, BROWN, PATRICK, PAUL, DUFFY,
FREY, HENRY, NELSON of Winnebago,
NELSON of Jasper, NOVAK, RIEHM, MOR-
RIS, TATE, STEVENS, SERSLAND, VAN
ZWOL, MILLER of Black Hawk, SANTEE,
CARSON, BUCK, CONN, DARRINGTON,
EDGINGTON, PETRUCCELLI, MILROY,
SWISHER, OPPEDAHL, SMITH, DILLON,
BERGESON, MOOTY, MENSING, McNEAL,
LOSS, THOMPSON, JOHNSON, HENDRIX,
HULTMAN, WATSON, KOSEK, WILSON,
FALVEY, HAGEDORN, JOHANNES, LUCK-
EN, FAIRCHILD, DENMAN, PIM, WHIT-
NEY, PETERSON, FREED, and CURRIE.

Passed House, Date 2-24-55
Vote: Ayes 100 Nays 1
Passed Senate, Date _____
Vote: Ayes _____ Nays _____
Approved April 15, 1955

A BILL FOR

An Act to provide amendments which will utilize federal
definitions of income, deductions and related items
for Iowa income tax purposes.

Be It Enacted by the General Assembly of the State of Iowa:

- 1 Section 1. Section four hundred twenty-two point four
- 2 (422.4), Code 1954, subsection one (1), is amended to read as
- 3 follows: "The words 'taxable income' mean the net income as
- 4 defined in section four hundred twenty-two point seven (422.7)
- 5 of the Code minus the deductions allowed by section four hundred
- 6 twenty-two point nine (422.9) of the Code, in the case of indi-
- 7 viduals; in the case of estates or trusts, the words 'taxable
- 8 income' mean the taxable income (without a deduction for
- 9 personal exemption) as computed for federal income tax purposes

10 under the Internal Revenue Code of 1954, but with the adjustments
11 specified in section four hundred twenty-two point seven (422.7)
12 of the Code.

1 Sec. 2. Section four hundred twenty-two point four (422.4),
2 Code 1954, is amended by striking subsection eleven (11).

1 Sec. 3. Section four hundred twenty-two point four (422.4),
2 Code 1954, subsection twelve (12), is amended to read as follows:
3 "The term 'head of household' shall have the same meaning as pro-
4 vided by the Internal Revenue Code of 1954.

1 Sec. 4. Section four hundred twenty-two point five (422.5),
2 Code 1954, is amended by adding the word "taxable" before the word
3 "income" on line five (5).

1 Sec. 5. Section four hundred twenty-two point six (422.6),
2 Code 1954, is amended to read as follows: "The tax imposed by
3 section four hundred twenty-two point five (422.5) of the Code
4 shall apply to and become a charge against estates and trusts with
5 respect to their taxable income, and the rates shall be the same
6 as those applicable to individuals. The fiduciary shall be
7 responsible for making the return of income for the estate or
8 trust for which he acts, whether such income be taxable to the
9 estate or trust or to the beneficiaries thereon.

1 Sec. 6. Section four hundred twenty-two point seven (422.7),
2 Code 1954, is amended to read as follows: "The term 'net income'
3 means the adjusted gross income as computed for federal income
4 tax purposes under the Internal Revenue Code of 1954, with the fol-
5 lowing adjustments:

6 1. Subtract interest and dividends from federal securities.

7 2. Add interest and dividends from foreign securities and
8 from securities of state and other political subdivisions exempt
9 from federal income tax under the Internal Revenue Code of 1954.

1 Sec. 7. Section four hundred twenty-two point eight (422.8),
2 Code 1954, and the heading thereof, is amended to read as follows:
3 "Allocation of income. Under rules and regulations prescribed by
4 the state tax commission, net income of individuals shall be
5 allocated as follows:

6 1. In the case of resident taxpayers, net income from the
7 operation of a business in a state other than Iowa shall be
8 allocated to such other state if a state income tax has been or
9 will be paid on said net income to said other state and if said
10 other state allows a similar allocation of net income from the
11 operation of a business outside said other state. Net income
12 from the operation of a business, as used in this section, shall
13 not include salaries, commissions, fees or other remuneration for
14 personal or professional services.

15 2. In the case of nonresident taxpayers, if any net income
16 is received from a business, trade, profession, or occupation
17 carried on partly within and partly without the state of Iowa,
18 only such portion of said net income as is fairly and equitably
19 attributable to that part of the business, trade, profession, or
20 occupation carried on within the state of Iowa shall be allocated
21 to Iowa; income from any property, trust, estate or other source
22 within Iowa shall be allocated to Iowa, except that annuities,

23 interest on bank deposits and interest-bearing obligations, and
24 dividends shall be allocated to Iowa only to the extent to which
25 the same are derived from a business, trade, profession, or
26 occupation carried on within the state of Iowa.

27 Taxable income of estates and trusts shall be allocated in
28 the same manner.

1 Sec. 8. Section four hundred twenty-two point nine (422.9),
2 Code 1954, and the heading thereof, is amended to read as follows:

3 "Deductions from net income. In computing taxable income of
4 individuals, there shall be deducted from net income the larger of
5 the following amounts:

6 1. An optional standard deduction of five per cent (5%) of
7 the net income after deduction of federal income tax, not to
8 exceed two hundred fifty dollars (\$250.00).

9 2. The total of contributions, interest, taxes, medical
10 expense, child-care expense, losses and miscellaneous expenses
11 deductible for federal income tax purposes under the Internal
12 Revenue Code of 1954, with the following adjustments:

13 a. Subtract the deduction for Iowa income taxes.

14 b. Add the amount of federal income taxes paid or accrued
15 as the case may be, during the tax year.

16 Provided, however, that where married persons, who have filed a
17 joint federal income tax return, file separately, such total
18 shall be divided between them according to the portion thereof
19 paid or accrued, as the case may be, by each; and provided further
20 that where a taxpayer has used an optional standard deduction on

21 his federal return, he shall use the optional standard deduction
22 provided for above.

23 3. Where married persons file separately, both must use the
24 optional standard deduction if either elects to use it.

25 4. A taxpayer affected by section four hundred twenty-two
26 point eight (422.8) shall, if the optional standard deduction is
27 not used, be permitted to deduct only such portion of the total
28 referred to in subsection two (2) above as is fairly and equitably
29 allocable to Iowa under the rules and regulations prescribed by
30 the state tax commission.

1 Sec. 9. Sections four hundred twenty-two point ten (422.10)
2 and four hundred twenty-two point eleven (422.11), Code 1954, are
3 hereby repealed.

1 Sec. 10. Section four hundred twenty-two point twelve
2 (422.12), Code 1954, is amended by striking from subsection two
3 (2) the phrase "head of a family" and inserting in lieu thereof
4 the phrase "head of household"; and by striking all of said
5 section following subsection two (2) and inserting in lieu thereof
6 the following:

7 "3. For each dependent, an additional seven dollars fifty
8 cents. As used in this section, the term 'dependent' shall have
9 the same meaning as provided by the Internal Revenue Code of
10 1954."

11 For the purpose of this section the determination of whether
12 an individual is married shall be made as of the close of his tax
13 year unless his spouse dies during his tax year, in which case

14 such determination shall be made as of the date of such death. An
15 individual legally separated from his spouse under a decree of
16 divorce or of separate maintenance shall not be considered as
17 married.

1 Sec. 11. Section four hundred twenty-two point thirteen
2 (422.13), subsection one (1), Code 1954, is amended by replacing
3 the comma (,) at the end of line eight (8) with a period and
4 striking lines nine (9), ten (10) and eleven (11).

1 Sec. 12. Section four hundred twenty-two point thirteen
2 (422.13), subsection four (4), Code 1954, is amended to read as
3 follows: A nonresident taxpayer shall file a copy of his federal
4 income tax return for the current tax year with the return
5 required by this section.

1 Sec. 13. Section four hundred twenty-two point fourteen
2 (422.14), subsection one (1), Code 1954, is amended by striking
3 all of said subsection following the words "acts," in line five
4 (5) and inserting in lieu thereof the following: "if the taxable
5 income thereof amounts to six hundred dollars (\$600.00) or more.
6 A non-resident fiduciary shall file a copy of the federal income
7 tax return for the current tax year with the return required by
8 this section."

1 Sec. 14. Section four hundred twenty-two point fourteen
2 (422.14), subsection two (2), Code 1954, is amended by striking
3 the first sentence thereof.

1 Sec. 15. Section four hundred twenty-two point fifteen
2 (422.15), subsection two (2), Code 1954, is amended by striking

3 lines five (5) to ten (10), both inclusive, and inserting in lieu
4 thereof the following: "net income and capital gains (or losses)
5 reported on the federal partnership return, the names and
6 addresses of the partners, and their respective shares in said
7 amounts."

1 Sec. 16. Section four hundred twenty-two point fifteen
2 (422.15), subsection three (3), Code 1954, is amended by striking
3 all of the first sentence after the word "return" in line four
4 (4) and inserting in lieu thereof the following: "the taxable
5 income, the names and addresses of the beneficiaries, and the
6 amounts distributed or distributable to each as reported on the
7 federal fiduciary income tax return."

1 Sec. 17. Section four hundred twenty-two point twenty
2 (422.20), Code 1954, is repealed.

1 Sec. 18. Section four hundred twenty-two point thirty-three
2 (422.33), Code 1954, is amended by striking from lines six (6)
3 and seven (7) the following: "as herein defined,".

1 Sec. 19. Section four hundred twenty-two point thirty-five
2 (422.35), Code 1954, and the heading thereof, is amended to read
3 as follows: "Net income of corporation defined. The term 'net
4 income' means the taxable income less the net operating loss
5 deduction, both as computed for federal income tax purposes under
6 the Internal Revenue Code of 1954, with the following adjustments:

- 7 1. Subtract interest and dividends from federal securities.
- 8 2. Add interest and dividends from foreign securities and
9 from securities of state and other political subdivisions exempt

10 from federal income tax under the Internal Revenue Code of 1954.

11 Provided, however, that a corporation affected by the
12 allocation provisions of section four hundred twenty-two point
13 thirty-three (422.33) shall be permitted to deduct only such
14 portion of the net operating loss deduction as is fairly and
15 equitably allocable to Iowa, under rules and regulations
16 prescribed by the state tax commission.

1 Sec. 20. Section four hundred twenty-two point thirty-six
2 (422.36), Code 1954, is amended by adding a new subsection as
3 follows:

4 "1. Foreign corporations shall file a copy of their federal
5 income tax return for the current tax year with the return
6 required by this section."

1 Sec. 21. This Act shall be used as a basis for computing
2 income tax for all tax years commencing after December 31, 1954.

1 Sec. 22. If any provision of this Act or the application
2 thereof to any taxpayer shall be invalid, such invalidity shall
3 not affect the provisions or application of this Act which can
4 be given effect with the invalid provisions or application, and
5 to this end the provisions of the Act are declared severable.

1 Sec. 23. This Act being deemed of immediate importance
2 shall take effect and be in force from and after its passage and
3 publication in the Sioux City Journal-Tribune, a newspaper published
4 in Sioux City, Iowa, and in the Anthon Herald, a newspaper published
5 in Anthon, Iowa.

EXPLANATION OF H. F. 225

This bill merely provides for the use of federal income tax definitions of various words and phrases (e.g., "adjusted gross income", "taxable income", "dependent", "medical expense", and "head of household") in determining the base to which Iowa income tax rates and credits will be applied. Needless to say, this would greatly simplify the preparation of Iowa income tax returns by individuals, corporations, estates and trusts. After a taxpayer has gone to the trouble of preparing a federal return, with all of the necessary schedules (business, profession, farm, capital gains, etc.), he should not be required to go through the same trouble all over again to get at his Iowa income tax.

The method of adopting federal definitions (as determined under existing law—the Internal Revenue Code of 1954) is constitutionally sound. As long ago as 1933, the Iowa Supreme Court held that the Code of Iowa could cross-reference to a federal statute for this purpose. *Bailard-Hassett Co. v. Local Board of Review*, 215 Iowa 556 (1933). It might be pointed out that the method of merely taking a percentage of the federal income tax in determining the Iowa income tax would be constitutionally unsound as a delegation of legislative powers to another body (Congress), and that is why such a method has not been proposed.

Finally, the savings to taxpayers in time and trouble will find its counterpart in the simplification and speeding up of processing and auditing by the State Tax Commission. It will have an efficient tool to work with in protecting the lifeblood of our state government.

- 1 Amend House File 225 by adding a new subsection to
- 2 section six (6) as follows:
- 3 "3. Where the adjusted gross income includes capital
- 4 gains or losses, or gains or losses from property other than
- 5 capital assets, and such gains or losses have been determined
- 6 by using a basis established prior to January 1, 1934, an
- 7 adjustment may be made, under rules and regulations
- 8 prescribed by the state tax commission, to reflect the
- 9 difference resulting from the use of a basis of cost or
- 10 January 1, 1943, fair market value, whichever is higher."
- 11 Further amend House File 225, section eight (8),
- 12 subsection two (2) by striking the period at the end of the
- 13 word "year" in line fifteen (15), and inserting in lieu
- 14 thereof the following:
- 15 " , adjusted by any federal income tax refunds."
- 16 Further amend House File 225, section nineteen (19),
- 17 by striking all of line fourteen (14), and inserting in lieu
- 18 thereof the words: "portion of the deductions for net
- 19 operating loss and federal income taxes as is fairly and",
- 20 and by inserting after line ten (10) two new subsections as
- 21 follows:
- 22 "3. Where the net income includes capital gains or
- 23 losses, or gains or losses from property other than capital
- 24 assets, and such gains or losses have been determined by using
- 25 a basis established prior to January 1, 1934, an adjustment
- 26 may be made, under rules and regulations prescribed by the
- 27 state tax commission, to reflect the difference resulting from
- 28 the use of a basis of cost or January 1, 1934, fair market
- 29 value, whichever is higher."
- 30 "4. Subtract federal income taxes paid or accrued,
- 31 as the case may be, during the tax year, adjusted by any
- 32 federal income tax refunds."

Filed
February 21, 1955.

MILLER of Woodbury.

- 1 Amend the title to House File 225 by striking from line one (1)
- 2 all after the word Act and insert in lieu thereof the following:
- 3 "to amend chapter four hundred twenty-two (422), Code 1954,
- 4 relating to personal income taxes, and income taxes on corporations."

Offered and Adopted
February 24, 1955.

MILLER of Woodbury.

1 Amend the amendment to House File 225 filed by Miller of
2 Woodbury on February 21 by inserting after the word "value," in
3 line ten (10) the words: "less depreciation allowed or
4 allowable."

5 Further amend the amendment by adding after the word "higher"
6 in line ten (10) the following sentence "Provided that the basis
7 shall be fair market value as of January 1, 1955, less depreciation
8 allowed or allowable, in the case of property acquired prior to
9 that date if use of a prior basis is declared to be invalid."

10 Further amend the amendment by inserting after the word
11 "value," in line twenty-nine (29) the words: "less depreciation
12 allowed or allowable,"

13 Further amend the amendment by adding after the word "higher."
14 in line twenty-nine (29) the following sentence: "Provided that
15 the basis shall be fair market value as of January 1, 1955, less
16 depreciation allowed or allowable, in the case of property
17 acquired prior to that date if use of a prior basis is declared
18 to be invalid."

Filed
February 23, 1955.

MILLER of Woodbury.