

See Ways & Means 4/10 Amended for 6201 - Do Pass 4/21 (p. 177E)

Senate File 2210

Ways and Means: Jochum. Chair: Hines, Bina, Pavich, West, Clark of Lee and Thompson.

FILED MAR 23 1978

SENATE FILE 2210

By COMMITTEE ON WAYS AND MEANS

Passed Senate, Date 4-4-78 (p. 724) Passed House, Date 4-26-78 (p. 1232)

Vote: Ayes 42 Nays 0 Vote: Ayes 86 Nays 2

Approved May 9 1978

*Passed Senate for amendment 5692
5-1-78 (p. 1121)*

43 - C

A BILL FOR

1 An Act relating to the method of deducting net operating
2 losses in computing the income tax liability of individuals
3 and corporations.

4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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1 Section 1. Section four hundred twenty-two point nine
2 (422.9), subsection two (2), Code 1977, as amended by Acts
3 of the Sixty-seventh General Assembly, 1977 Session, chapter
4 one hundred nineteen (119), sections four (4) and five (5),
5 is amended to read as follows:

6 2. The total of contributions, interest, taxes, medical
7 expense, nonbusiness losses and miscellaneous expenses de-
8 ductible for federal income tax purposes under the Internal
9 Revenue Code of 1954, with the following adjustments:

10 Sec. 2. Section four hundred twenty-two point nine (422.9),
11 subsection two (2), Code 1977, as amended by Acts of the
12 Sixty-seventh General Assembly, 1977 session, chapter one
13 hundred nineteen (119), sections four (4) and five (5), is
14 amended by adding the following new subsection:

15 NEW SUBSECTION. If after applying all of the adjustments
16 provided for in section four hundred twenty-two point seven
17 (422.7) of the Code, the allocation provisions of section
18 four hundred twenty-two point eight (422.8) of the Code and
19 the deductions allowable in this section subject to the
20 modifications provided in section one hundred seventy-two
21 d (172(d)) of the Internal Revenue Code of 1954, the taxable
22 income results in a net operating loss, the net operating
23 loss shall be deducted as follows:

24 a. The Iowa net operating loss shall be carried back three
25 taxable years or to the taxable year in which the individual
26 first earned income in Iowa whichever year is the later.

27 b. The Iowa net operating loss remaining after being car-
28 ried back as required in paragraph a of this subsection or
29 if not required to be carried back shall be carried forward
30 seven taxable years.

31 c. If the election under section one hundred seventy-two
32 b three E (172 (b) (3) (E)) of the Internal Revenue Code of
33 1954 is made, the Iowa net operating loss shall be carried
34 forward seven taxable years.

35 d. No portion of a net operating loss which was incurred

1 without the state by a nonresident of this state shall be
2 deducted.

3 e. Estates and trusts subject to tax under section four
4 hundred twenty-two point six (422.6) of the Code shall be
5 subject to the above net operating loss provisions.

6 Sec. 3. Section four hundred twenty-two point thirty-
7 five (422.35), unnumbered paragraph one (1), Code 1977, is
8 amended to read as follows:

9 The term "net income" means the taxable income ~~less~~ before
10 the net operating loss deduction, both as properly computed
11 for federal income tax purposes under the Internal Revenue
12 Code of 1954, with the following adjustments:

13 Sec. 4. Section four hundred twenty-two point thirty-five
14 (422.35), Code 1977, as amended by House File two thousand
15 thirty-seven (2037), enacted by the Sixty-seventh General
16 Assembly, 1978 Session, section four (4), is amended by adding
17 the following new subsection:

18 NEW SUBSECTION. If after applying all of the adjustments
19 provided for in this section and the allocation and apportion-
20 ment provisions of section four hundred twenty-two point
21 thirty-three (422.33) of the Code, the Iowa taxable income
22 results in a net operating loss, such net operating loss shall
23 be deducted as follows:

24 a. The Iowa net operating loss shall be carried back three
25 taxable years or to the taxable year in which the corporation
26 first commenced doing business in this state, whichever is
27 later.

28 b. The Iowa net operating loss remaining after being car-
29 ried back as required in paragraph a of this subsection or
30 if not required to be carried back shall be carried forward
31 seven taxable years.

32 c. If the election under section one hundred seventy-two
33 b three E (172 (b) (3) (E)) of the Internal Revenue Code of
34 1954 is made, the Iowa net operating loss shall be carried
35 forward seven taxable years.

1 d. No portion of a net operating loss which was sustained
2 from that portion of the trade or business carried on outside
3 the state of Iowa shall be deducted.

4 Sec. 5. The provisions of this Act are retroactive to
5 January 1, 1978 for Iowa net operating losses sustained in
6 tax years beginning on or after January 1, 1978 and to this
7 extent the provisions of this Act are retroactive.

8 Sec. 6. This Act, being deemed of immediate importance,
9 shall take effect and be in force from and after its publica-
10 tion in The Waterloo Courier, a newspaper published in
11 Waterloo, Iowa, and in the Fayette County Union, a newspaper
12 published in West Union, Iowa.

13 EXPLANATION

14 The bill provides for the computation of the net operating
15 loss deduction for individual and corporate income tax pur-
16 poses.

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SENATE FILE 2210

H-6207

- 1 Amend Senate File 2210, as passed by the Senate,
- 2 as follows:
- 3 1. Page 2, line 10, by striking the word "both"
- 4 and inserting in lieu thereof the word "both".

H-6207 FILED *Adopted* BY COMMITTEE ON WAYS AND MEANS
APRIL 24, 1978 *4/24/78* (188) NORLAND of Worth, Chair

SENATE FILE 2210

H-6330

- 1 Amend Senate File 2210, as passed by the Senate,
- 2 as follows:
- 3 1. Page 1, by inserting after line 9 the following
- 4 new section:
- 5 "Sec. ____ . Section four hundred twenty-two point
- 6 nine (422.9), subsection two (2), paragraph c, Code
- 7 1977, is amended to read as follows:
- 8 c. Add the amount donated ~~to a political party~~
- 9 ~~or parties as defined by section 43.2~~ as a political
- 10 contribution as defined in section forty-one c (41
- 11 (c) of the Internal Revenue Code of 1954, not to
- 12 exceed one hundred dollars or two hundred dollars
- 13 in the case of a married couple filing a joint return."
- 14 2. Renumber sections and correct internal
- 15 references as are necessary in accordance with this
- 16 amendment.
- 17 3. Amend the title, line 2, by inserting after
- 18 the word "losses" the words "and political
- 19 contributions".

H-6330 FILED *Adopted 4/26* BY NORLAND of Worth
APRIL 25, 1978 *P. 188* WEST of Marshall

HOUSE AMENDMENT TO SENATE FILE 2210

S-5692

1 Amend Senate File 2210 as passed by the Senate,
2 as follows:

3 1. Page 1, by inserting after line 9 the following
4 new section:

5 "Sec. _____. Section four hundred twenty-two point
6 nine (422.9), subsection two (2), paragraph c, Code
7 1977, is amended to read as follows:

8 c. Add the amount donated ~~to a political party~~
9 ~~or parties as defined by section 43-2~~ as a political
10 contribution as defined in section forty-one c (41
11 (c)) of the Internal Revenue Code of 1954, not to
12 exceed one hundred dollars or two hundred dollars
13 in the case of a married couple filing a joint return."

14 2. Page 2, line 10, by striking the word "both"
15 and inserting in lieu thereof the word "each".

16 3. Renumber sections and correct internal
17 references as are necessary in accordance with this
18 amendment.

19 4. Amend the title, line 2, by inserting after
20 the word "losses" the words "and political
21 contributions".

S-5692 FILED

APRIL 27, 1978

RECEIVED FROM THE HOUSE

Senate covered 5/1 (p. 1131)

FISCAL NOTE

SENATE FILE 2210

Requested by Representative Norland

April 25, 1978

In compliance with a written request, there is submitted
a Fiscal Note for S.F. 2210, pursuant to Joint Rule 16:
Senate File 2210, An Act relating to the method of deducting net
operating losses in computing the income tax liability of
individuals and corporations.

The intent of the proposed legislation is to eliminate inconsistencies
between current Department of Revenue regulations and a recent Iowa
Supreme Court decision as they pertain to the amount of net operat-
ing loss which may be properly determined for Iowa tax purposes.
The Supreme Court ruled the Iowa statutes require the use of the
federal net operating loss in computing Iowa taxable income without
giving consideration to certain adjustments provided for in
Sections 422.7 to 422.9, or 422.33 and 422.35.

To the extent that the legislation will simply be providing for
the continuation of current Department practices relating to the
computation of the net operating loss deduction, the proposal will
not result in an increase or decrease in state revenues. If the
legislation were not enacted, it is felt that the use of net
operating loss as determined for federal purposes could affect
the state revenue. However, the extent of the revenue impact
would tend to be one in which additional taxes due from a tax-
payer would be offset by a reduction in the taxes for another
taxpayer. An estimate of the magnitude of the net effects cannot
be provided.

Source: Department of Revenue

FILED

MAY 1, 1978

GERRY D. RANKIN

LEGISLATIVE FISCAL BUREAU

SENATE FILE 2210

AN ACT

RELATING TO THE METHOD OF DEDUCTING NET OPERATING LOSSES AND POLITICAL CONTRIBUTIONS IN COMPUTING THE INCOME TAX LIABILITY OF INDIVIDUALS AND CORPORATIONS.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

Section 1. Section four hundred twenty-two point nine (422.9), subsection two (2), Code 1977, as amended by Acts of the Sixty-seventh General Assembly, 1977 Session, chapter one hundred nineteen (119), sections four (4) and five (5), is amended to read as follows:

2. The total of contributions, interest, taxes, medical expense, nonbusiness losses and miscellaneous expenses deductible for federal income tax purposes under the Internal Revenue Code of 1954, with the following adjustments:

Sec. 2. Section four hundred twenty-two point nine (422.9), subsection two (2), paragraph c, Code 1977, is amended to read as follows:

c. Add the amount donated ~~to a political party or parties as defined by section 432~~ as a political contribution as defined in section forty-one c (41 (c)) of the Internal Revenue Code of 1954, not to exceed one hundred dollars or two hundred dollars in the case of a married couple filing a joint return.

Sec. 3. Section four hundred twenty-two point nine (422.9), subsection two (2), Code 1977, as amended by Acts of the Sixty-seventh General Assembly, 1977 Session, chapter one hundred nineteen (119), sections four (4) and five (5), is amended by adding the following new subsection:

NEW SUBSECTION. If after applying all of the adjustments

provided for in section four hundred twenty-two point seven (422.7) of the Code, the allocation provisions of section four hundred twenty-two point eight (422.8) of the Code and the deductions allowable in this section subject to the modifications provided in section one hundred seventy-two d (172(d)) of the Internal Revenue Code of 1954, the taxable income results in a net operating loss, the net operating loss shall be deducted as follows:

a. The Iowa net operating loss shall be carried back three taxable years or to the taxable year in which the individual first earned income in Iowa whichever year is the later.

b. The Iowa net operating loss remaining after being carried back as required in paragraph a of this subsection or if not required to be carried back shall be carried forward seven taxable years.

c. If the election under section one hundred seventy-two b three E (172 (b) (3) (E)) of the Internal Revenue Code of 1954 is made, the Iowa net operating loss shall be carried forward seven taxable years.

d. No portion of a net operating loss which was incurred without the state by a nonresident of this state shall be deducted.

e. Estates and trusts subject to tax under section four hundred twenty-two point six (422.6) of the Code shall be subject to the above net operating loss provisions.

Sec. 4. Section four hundred twenty-two point thirty-five (422.35), unnumbered paragraph one (1), Code 1977, is amended to read as follows:

The term "net income" means the taxable income ~~less~~ before the net operating loss deduction, ~~both~~ as properly computed for federal income tax purposes under the Internal Revenue Code of 1954, with the following adjustments:

Sec. 5. Section four hundred twenty-two point thirty-five (422.35), Code 1977, as amended by House File two thousand thirty-seven (2037), enacted by the Sixty-seventh General Assembly, 1978 Session, section four (4), is amended by adding the following new subsection:

NEW SUBSECTION. If after applying all of the adjustments provided for in this section and the allocation and apportionment provisions of section four hundred twenty-two point thirty-three (422.33) of the Code, the Iowa taxable income results in a net operating loss, such net operating loss shall be deducted as follows:

a. The Iowa net operating loss shall be carried back three taxable years or to the taxable year in which the corporation first commenced doing business in this state, whichever is later.

b. The Iowa net operating loss remaining after being carried back as required in paragraph a of this subsection or if not required to be carried back shall be carried forward seven taxable years.

c. If the election under section one hundred seventy-two b three E (172 (b) (3) (E)) of the Internal Revenue Code of 1954 is made, the Iowa net operating loss shall be carried forward seven taxable years.

d. No portion of a net operating loss which was sustained from that portion of the trade or business carried on outside the state of Iowa shall be deducted.

Sec. 6. The provisions of this Act are retroactive to January 1, 1978 for Iowa net operating losses sustained in tax years beginning on or after January 1, 1978 and to this extent the provisions of this Act are retroactive.

Sec. 7. This Act, being deemed of immediate importance, shall take effect and be in force from and after its publica-

tion in The Waterloo Courier, a newspaper published in Waterloo, Iowa, and in the Fayette County Union, a newspaper published in West Union, Iowa.

ARTHUR A. NEU
President of the Senate

DALE M. COCHRAN
Speaker of the House

I heroby certify that this bill originated in the Senate and is known as Senate File 2210, Sixty-seventh General Assembly.

KEVIN P. LIGHT
Acting Secretary of the Senate

Approved *May 9*, 1978

ROBERT D. RAY
Governor