

House Means 4/23/85 (H. 4030) De Groot 4/24/85

Senate File 561

Ways and Means: Osterberg, Chair: De Groot, Doderer, Rosenberg and Schnekloth.

SENATE FILE 561

BY COMMITTEE ON WAYS AND MEANS
Formerly SSB 190
Approved 8/4/85 (p. 1258)

FILED APR 9 1985

Passed Senate, Date 4-22-85 (p. 1552) Passed House, Date 4-26-85 (p. 1965)

Vote: Ayes 43 Nays 1 Vote: Ayes 92 Nays 0

Approved May 30, 1985

Proposed Senate 4-29-85 (p. 1741)
41-1

A BILL FOR

1 An Act relating to taxation by updating references to the internal
 2 revenue code; providing for a refund of individual income tax
 3 for the 1979 tax year resulting from the inclusion of unemploy-
 4 ment benefits; making technical corrections to the individual
 5 and corporate income tax concerning the credit for increasing
 6 research activities in the state; eliminating the requirement
 7 that the election campaign fund and fish and game protection
 8 fund checkoffs be on the face of the return immediately
 9 above the signature line; providing a due date of corporate
 10 income tax and franchise tax returns under certain conditions;
 11 allowing for the destruction of all useless records and reports
 12 and other papers filed by taxpayers after certain periods of
 13 time after the filing of these reports with the department of
 14 revenue; providing for a refund of individual income tax where
 15 the taxpayer died after November 17, 1978 as a result of wounds
 16 or injury incurred due to military or terroristic action out-
 17 side the United States; making technical corrections to the
 18 inheritance tax concerning the taxation of gifts made within
 19 three years of death; and providing effective dates.

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

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87561

1 Section 1. Section 56.18, subsection 1, Code 1985, is
2 amended to read as follows:

3 1. Any person whose state income tax liability for any
4 taxable year is one dollar or more may direct that one dollar
5 of such liability be paid over to the Iowa election campaign
6 fund when submitting the person's state income tax return to
7 the department of revenue. In the case of a joint return of
8 husband and wife having a state income tax liability of two
9 dollars or more, each spouse may direct that one dollar be
10 paid to the fund. The director of revenue shall revise draft
11 the income tax form to provide spaces on ~~the-face-of~~ the tax
12 return ~~and-immediately-above-the-signature-lines~~ which the
13 taxpayer may use to designate that contributions made under
14 this section be credited to a specified political party as
15 defined by section 43.2, or to the Iowa election campaign fund
16 as a contribution to be shared by all such political parties
17 in the manner prescribed by section 56.19. The form shall
18 inform the taxpayer of the consequences of the choices
19 provided under this section, but this information may be
20 contained in a footnote or other suitable form if the director
21 of revenue finds it is not feasible to place the information
22 immediately above the signature line.

23 Sec. 2. Section 107.16, unnumbered paragraph 3, Code 1985,
24 is amended to read as follows:

25 The director of revenue shall revise draft the income tax
26 form to allow the designation of contributions to the state
27 fish and game protection fund on ~~the-face-of~~ the tax return
28 ~~and-above-the-signature-lines~~.

29 Sec. 3. Section 422.3, subsection 5, Code 1985, is amended
30 to read as follows:

31 5. "Internal Revenue Code of 1954" means the Internal
32 Revenue Code of 1954, as amended to and including January 1,
33 ~~1984~~ 1985.

34 Sec. 4. Section 422.7, Code 1985, is amended by adding the
35 following new subsection:

1 NEW SUBSECTION. 20. Subtract the unemployment
2 compensation benefits for tax years beginning on January 1,
3 1979 to the extent those benefits had been included in net
4 income on a return filed before January 1, 1981 and were
5 excluded from income under Act section 1075 of the Tax Reform
6 Act of 1984. Notwithstanding the statute of limitations
7 specified in section 422.73, subsection 2, taxpayers who would
8 be barred from claiming a refund or credit from an overpayment
9 resulting from the change made by Act section 1075 of the Tax
10 Reform Act of 1984 are entitled to receive a refund or credit
11 if they file a claim with the department on or before June 30,
12 1986.

13 Sec. 5. Section 422.10, unnumbered paragraph 1, Code 1985,
14 is amended to read as follows:

15 The taxes imposed under this division shall be reduced by a
16 state tax credit for increasing research activities in this
17 state. For individuals, the credit shall equal six and one-
18 half percent of the state's apportioned share of the
19 qualifying expenditures for increasing research activities.
20 The state's apportioned share of the qualifying expenditures
21 for increasing research activities is a percent equal to the
22 ratio of qualified research expenditures in this state to
23 total qualified research expenditures. For purposes of this
24 section, an individual may claim a research credit for
25 qualifying research expenditures incurred by a partnership,
26 subchapter S corporation, and estate or trust electing to have
27 the income taxed directly to the individual. The amount
28 claimed by the individual shall be based upon the pro rata
29 share of the individual's earnings of a partnership,
30 subchapter S corporation, or estate or trust. For purposes of
31 this section, "qualifying expenditures for increasing research
32 activities" means the qualifying expenditures as defined for
33 the federal credit for increasing research activities computed
34 which would be allowable under section 44P 30 of the Internal
35 Revenue Code of 1954, as amended to and including in effect on

1 January 1, ~~1983~~ 1985.

2 Sec. 6. Section 422.21, unnumbered paragraph 1, Code 1985,
3 is amended to read as follows:

4 Returns shall be in ~~such~~ the form as the director may, from
5 time to time, prescribe, and shall be filed with the
6 department on or before the last day of the fourth month after
7 the expiration of the tax year except that co-operative
8 associations as defined in section 6072(d) of the Internal
9 Revenue Code of 1954 shall file their returns on or before the
10 fifteenth day of the ninth month following the close of the
11 taxable year. If, under the Internal Revenue Code of 1954, a
12 corporation is required to file a return covering a tax period
13 of less than twelve months, the state return shall be for the
14 same period and shall be due forty-five days after the due
15 date of the federal tax return, excluding any extension of
16 time to file. In case of sickness, absence, or other
17 disability, or ~~whenever~~ if good cause exists, the director may
18 allow further time for filing returns. The director shall
19 cause to be prepared blank forms for ~~said~~ the returns and
20 shall cause them to be distributed throughout the state and to
21 be furnished upon application, but failure to receive or
22 secure the form ~~shall~~ does not relieve the taxpayer from the
23 obligations obligation of making any a return herein that is
24 required. The department may as far as consistent with the
25 ~~provisions of~~ the Code ~~so~~ draft income tax forms as to conform
26 to the income tax forms of the internal revenue department of
27 the United States government. Each return by a taxpayer upon
28 whom a tax is imposed by section 422.5, subsection 7, shall
29 show the county of the residence of the taxpayer.

30 Sec. 7. Section 422.33, subsection 5, unnumbered paragraph
31 1, Code 1985, is amended to read as follows:

32 The taxes imposed under this division shall be reduced by a
33 state tax credit for increasing research activities in this
34 state equal to six and one-half percent of the state's
35 apportioned share of the qualifying expenditures for

1 increasing research activities. The state's apportioned share
2 of the qualifying expenditures for increasing research
3 activities is a percent equal to the ratio of qualified
4 research expenditures in this state to the total qualified
5 research expenditures. For purposes of this subsection,
6 "qualifying expenditures for increasing research activities"
7 means the qualifying expenditures as defined for the federal
8 credit for increasing research activities computed which would
9 be allowable under section 44F 30 of the Internal Revenue Code
10 of 1954, ~~as amended to and including~~ in effect on January 1,
11 ~~1983~~ 1985.

12 Sec. 8. Section 422.61, subsection 2, Code 1985, is
13 amended to read as follows:

14 2. "Taxable year" means the calendar year or the fiscal
15 year ending during a calendar year, for which the tax is
16 payable. "Fiscal year" includes a tax period of less than
17 twelve months if, under the Internal Revenue Code of 1954, a
18 corporation is required to file a tax return covering a tax
19 period of less than twelve months.

20 Sec. 9. Section 422.62, Code 1985, is amended to read as
21 follows:

22 422.62 WHEN DUE.

23 The franchise tax is due and payable on the first day
24 following the end of the taxable year of each financial
25 institution, and is delinquent after the last day of the
26 fourth month following the due date or forty-five days after
27 the due date of the federal tax return, excluding extensions
28 of time to file, whichever is the later. Every financial
29 institution shall file a return as prescribed by the director
30 on or before the delinquency date. ~~The provisions of this~~
31 ~~This~~ section shall ~~become~~ is effective for all taxable years
32 ending on or after January 1, 1970. As to fiscal years ending
33 prior to May 9, 1970, the time for filing a return is extended
34 to the last day of the fourth month following such that date.

35 Sec. 10. Section 422.68, subsection 3, Code 1985, is

1 amended to read as follows:

2 3. The director ~~shall have the power to~~ may destroy any
3 ~~and all~~ useless records and ~~all~~ returns, reports, and
4 communications of any taxpayer filed with or kept by the
5 department after ~~such~~ those returns, records, reports, or
6 communications ~~shall~~ have been in the custody of the
7 department for a period of not less than ~~five~~ three years;
8 ~~provided, however, or such time as the director prescribes by~~
9 rule. However, after the accounts of ~~any a~~ person ~~shall~~ have
10 been examined by the director and the amount of tax and
11 penalty due ~~shall~~ have been finally determined, ~~then~~ the
12 director may order the destruction of any records previously
13 filed by ~~such~~ that taxpayer, notwithstanding the fact that
14 ~~such~~ those records ~~shall~~ have been in the custody of the
15 department for a period less than ~~five~~ three years. Such
16 These records and documents shall be destroyed in ~~such~~ the
17 manner ~~as shall be~~ prescribed by the director.

18 Sec. 11. Section 422.73, Code 1985, is amended by adding
19 the following new subsection:

20 NEW SUBSECTION. Notwithstanding subsection 2, a claim for
21 credit or refund of the income tax paid is considered timely
22 if the claim is filed with the department on or before June
23 30, 1986, if the taxpayer's federal income tax was forgiven
24 under section 692(c) of the Internal Revenue Code of 1954
25 because the taxpayer died after November 17, 1978 as a result
26 of wounds or injury incurred due to military or terroristic
27 action outside the United States. To the extent the federal
28 income tax was forgiven under section 692(c) of the Internal
29 Revenue Code of 1954 for the tax year, the Iowa income tax is
30 also forgiven.

31 Sec. 12. Section 450.3, subsection 2, Code 1985, is
32 amended to read as follows:

33 2. By deed, grant, sale, gift or transfer made within
34 three years of the death of the grantor or donor, which is not
35 a bona fide sale for an adequate and full consideration in

1 money or money's worth and which is in excess of the annual
2 gift tax exclusion allowable for each donee under section
3 2503, subsections a b and e of the Internal Revenue Code of
4 1954 as defined in section 422.3. If both spouses consent, a
5 gift made by one spouse to a person who is not the other
6 spouse is considered, for the purposes of this subsection, as
7 made one half by each spouse under the same terms and
8 conditions provided for in section 2513 of the Internal
9 Revenue Code of 1954 as defined in section 422.3.

10 Sec. 13. Section 3 of this Act is retroactive to January
11 1, 1984 for tax years beginning on or after that date.

12 Sec. 14. Sections 1, 2, 5, 6, 7, 8, and 9 of this Act are
13 retroactive to January 1, 1985 for tax years beginning on or
14 after that date.

15 Sec. 15. Section 12 of this Act is retroactive to July 1,
16 1984 for estates of persons dying on or after that date.

17 Sec. 16. This Act, being deemed of immediate importance,
18 takes effect from and after its publication in the Dallas
19 County News, a newspaper published in Adel, Iowa, and in The
20 Lamoni Chronicle, a newspaper published in Lamoni, Iowa.

21 EXPLANATION

22 Sections 1 and 2 of this bill remove the requirements that
23 the checkoffs for the election campaign fund and the fish and
24 game protection fund appear on the face of the income tax
25 return and immediately above the signature line. These
26 sections are retroactive to January 1, 1985 for tax years
27 beginning on or after that date.

28 Section 3 of this bill updates the references to the
29 Internal Revenue Code to incorporate the Tax Reform Act of
30 1984 for individual and corporate income tax, franchise tax
31 and inheritance tax. This section is retroactive to January
32 1, 1984 for tax years beginning on or after that date.

33 Section 4 of this bill allows a refund of individual income
34 tax paid on unemployment compensation benefits in 1979 which
35 were attributable to weeks of unemployment before December 1,

1 1978. The Tax Reform Act of 1984 excluded this income from
2 federal income tax and allowed a refund of the federal income
3 tax. Iowa has a three-year statute of limitations to claim a
4 refund and this bill extends this statute of limitations for
5 those affected persons who file an Iowa claim for refund on or
6 before June 30, 1986.

7 Sections 5 and 7 provide corrective language for the state
8 credit for increasing research activities in the state under
9 the state individual and corporate income taxes. These
10 sections are retroactive to January 1, 1985 for tax years
11 beginning on or after that date.

12 Sections 6, 8, and 9 of this bill establish a tax period of
13 less than twelve months for corporate income tax and franchise
14 tax. In certain circumstances where there are mergers of one
15 corporation into another or an acquisition of one corporation
16 by another or for certain types of reorganizations the
17 Internal Revenue Code requires a short period return be filed.
18 The Internal Revenue Code also establishes a due date for the
19 short period return which is different than the normal federal
20 due date of two and one-half months after the close of the tax
21 period. These sections establish the requirement that a short
22 period Iowa return be filed when a short period federal return
23 is filed and establish a due date that is consistent with the
24 normal Iowa due date of forty-five days after the federal due
25 date. These sections are retroactive to January 1, 1985 for
26 tax years beginning on or after that date.

27 Section 10 of this bill changes the period of time that
28 records have to be in custody of the department before they
29 can be destroyed. The time period is changed from five years
30 to three years or such longer or shorter time as the director
31 may determine by rule.

32 Section 11 of this bill allows a refund of individual
33 income tax if the federal income tax was forgiven under
34 section 692(c) of the Internal Revenue Code because the
35 taxpayer died after November 17, 1978 as a result of wounds or

1 injury incurred due to military or terroristic action outside
2 the United States. Iowa has a three-year statute of
3 limitations to claim a refund and this bill extends this
4 statute of limitations for those affected taxpayers if an Iowa
5 refund claim is filed on or before June 30, 1986.

6 Section 12 of this bill corrects an erroneous reference to
7 the Internal Revenue Code in section 450.3, subsection 2,
8 which relates to the taxation of gifts made within three years
9 of death. The correct reference should be to section 2503(b)
10 rather than 2503(a) of the Internal Revenue Code. This bill
11 also specifically permits a husband and wife to make split
12 gifts. Section 450.3, subsection 2, is not clear on this
13 point. The bill would conform the inheritance tax treatment
14 with the federal gift tax law which allows a \$10,000 annual
15 exclusion per donee from gift tax. The bill would also permit
16 a husband and wife to split a gift and treat it as being made
17 one half by each spouse. This section is retroactive to July
18 1, 1984 for estates of persons dying on or after that date.

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SENATE FILE 561

H-4030

1 Amend Senate File 561 as passed by the Senate as
2 follows:

3 1. Page 2, by inserting after line 12 the
4 following:

5 "Sec. 30. Section 422.7, Code 1985, is amended by
6 adding the following new subsection:

7 NEW SUBSECTION. 21. Add sixty percent of the
8 gains from the sales or exchanges of capital assets
9 held for more than six months but not more than twelve
10 months."

11 2. By striking page 2, line 33 through page 3,
12 line 1 and inserting the following: "the federal

13 credit for increasing research activities computed
14 under section 44F of the Internal Revenue Code of
15 1954, as amended to and including January 1, 1983.

16 The research activities credit is applicable for
17 taxable years beginning after December 31, 1985 to the
18 same extent that the credit is applicable for federal
19 income tax purposes for taxable years beginning after
20 December 31, 1985."

21 3. Page 4, by striking lines 8 through 11 and
22 inserting the following: "credit for increasing
23 research activities computed under section 44F of the
24 Internal Revenue Code of 1954, as amended to and
25 including January 1, 1983. The research activities
26 credit is applicable for taxable years beginning after
27 December 31, 1985 to the same extent that the credit
28 is applicable for federal income tax purposes for
29 taxable years beginning after December 31, 1985."

30 4. Page 6, line 12, by striking the word and
31 figure "and 9" and inserting the following: "9 and
32 30".

33 5. Title page, line 9, by inserting after the
34 word "line;" the following: "maintaining the re-
35 quirement for long-term capital gains that the capital
36 asset be held for longer than twelve months;"

H-4030 FILED APRIL 24, 1985 BY COMMITTEE ON WAYS AND MEANS

B - w/d 4/26/85 (p. 1964) C - w/d (p. 1964)

A - Adopted 4/26/85 (p. 1964)

SENATE FILE 561

H-4087

1 Amend amendment H-4030 to Senate File 561 as passed
2 by the Senate as follows:

3 1. Page 1, line 14, by striking the numeral "44F"
4 and inserting the numeral "30".

5 2. Page 1, line 23, by striking the numeral "44F"
6 and inserting the numeral "30".

H-4087 FILED APRIL 26, 1985 BY OSTERBERG of Linn
ADOPTED BY UNANIMOUS CONSENT (p. 1964)

HOUSE AMENDMENT TO
SENATE FILE 561

1 Amend Senate File 561 as passed by the Senate as
 2 follows:
 3 1. By striking page 2, line 33 through page 3,
 4 line 1 and inserting the following: "the federal
 5 credit for increasing research activities computed
 6 under section 30 of the Internal Revenue Code of 1954,
 7 as amended to and including January 1, 1983. The
 8 research activities credit is applicable for taxable
 9 years beginning after December 31, 1985 to the same
 10 extent that the credit is applicable for federal
 11 income tax purposes for taxable years beginning after
 12 December 31, 1985."
 13 2. Page 4, by striking lines 8 through 11 and
 14 inserting the following: "credit for increasing
 15 research activities computed under section 30 of the
 16 Internal Revenue Code of 1954, as amended to and
 17 including January 1, 1983. The research activities
 18 credit is applicable for taxable years beginning after
 19 December 31, 1985 to the same extent that the credit
 20 is applicable for federal income tax purposes for
 21 taxable years beginning after December 31, 1985."

4095 Filed April 26, 1985

RECEIVED FROM THE HOUSE

Smith covered 4-29-85 (J.1740)

FILED APR 22 1985

FISCAL NOTE

SENATE FILE 561

In compliance with a written request received April 22, 1985, a fiscal note for SENATE FILE 561 is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note are available from the Legislative Fiscal Bureau to members of the Legislature upon request.

Senate File 561 updates reference to the Internal Revenue Code and makes several adjustments in the tax statutes relative to the income tax.

Sections 1 and 2 remove the requirement that checkoffs for the ELECTION CAMPAIGN FUND and the FISH AND WILDLIFE PROTECTION FUND appear on the face of the income tax return immediately above the signature line.

FISCAL EFFECT: This change is expected to give the Department of Revenue more flexibility in designing the income tax forms. No significant fiscal effect is anticipated.

Section 3 updates references in the IRC to reflect changes made through January 1, 1985, and refer to the TAX REFORM ACT OF 1984 adopted by Congress (TRA). The following table summarizes the most significant of the several hundred provisions in the TRA.

FISCAL EFFECT: (dollars in millions)

PROVISION

A. Direct Iowa Impact		
Taxable Income Definitions	<u>FY 1986</u>	<u>FY 1987</u>
1. Provisions with Impact Primarily on Individual		
a. Capital Gains	Less Than \$ 0.5 Reduction	Less Than \$ 1.0 Reduction
b. Net Interest Exclusion	\$ 8.0 to \$ 10.0 Increase	\$ 8.0 to \$ 10.0 Increase
2. Provisions with Impact Primarily on Business		
a. ACRS Corporate and Individual Combined	Less Than \$ 2.0 Increase	Less Than \$ 4.0 Increase
b. Corporate Tax Preference and Corporate Minimum Tax	Minimal	Minimal
c. Finance Lease	Unknown Impact	Unknown Impact
d. Leasing to Tax Exempt Entities	No Estimate Possible	No Estimate Possible
e. Construction Period Interest	Minimal	Minimal

FISCAL NOTELSB No. 2877SStaff ID. RJH

SF 561 cont.

8 Indirect Iowa Impact
Federal Tax Deduction

Income Averaging	\$ 3.0 to \$ 4.0 <u>Reduction</u>	\$ 3.0 to \$ 4.0 <u>Reduction</u>
NET EFFECT TO GENERAL FUND	\$ 6.5 to \$ 7.5 <u>Increase</u>	\$ 8.0 to \$ 9.0 <u>Increase</u>

Section 4 of the bill allows a refund of individual income tax paid on UNEMPLOYMENT COMPENSATION BENEFITS in 1979 which were attributable to weeks of unemployment before December 1, 1978. Currently, Iowa has a three-year statute of limitations to claim a refund; this section extends the statute of limitations for those affected persons who file an Iowa claim for refund on or before June 30, 1986.

FISCAL EFFECT: A minimal reduction in tax receipts is expected.

Sections 5 and 7 provide corrective language for the state CREDIT FOR RESEARCH ACTIVITIES in the state under the state corporate and individual income taxes. These sections are retroactive to January 1, 1985 for tax years beginning on or after that date.

FISCAL EFFECT: None

Sections 6, 8, and 9 establish a tax period of less than twelve months for CORPORATE INCOME TAX AND FRANCHISE TAX. These sections establish the requirement that a short period Iowa return be filed when a short period federal return is filed and establish a due date that is consistent with the normal Iowa due date of 45 days after the federal due date. These sections are retroactive to January 1, 1985 for tax years beginning on or after that date.

FISCAL EFFECT: The impact on state corporate income tax revenue in any specific fiscal year is not expected to be significant.

Section 10 changes the period of time that records have to be in custody of the Revenue Department before the records may be destroyed. The time period is changed from five years to three years or such longer or shorter time as the director may determine by rule.

FISCAL EFFECT: The change will have no measurable impact on tax receipts. According to the department, elimination of unnecessary storage requirements will permit improved efficiency and service to taxpayers.

Section 11 of the bill allows a refund of individual income tax if the federal income tax was forgiven under section 692(c) of the Internal Revenue Code because the taxpayer died after November 17, 1978 as a result of wounds or injury sustained due to military or terroristic action outside the United States. Iowa has a three-year statute of limitations to claim a refund; this section extends the statute of limitations for those affected taxpayers if an Iowa refund claim is filed on or before June 30, 1986.

FISCAL EFFECT: The impact on tax receipts will be insignificant.

Section 12 clarifies provisions which permit a husband wife to make split gifts, and corrects an erroneous reference to the Internal Revenue Code in section 450.3, subsection 2 of the Code. This section of the bill is retroactive to July 1, 1984 for the estates of persons dying on or after that date.

FISCAL EFFECT: The impact on inheritance and estate tax is not expected to be significant.

SSB 190
Ways & Means

New
SF 561

SENATE HOUSE FILE 561

BY (PREFILED DEPARTMENT OF REVENUE BILL)

Passed Senate, Date _____ Passed House, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act relating to taxation by updating references to the
2 internal revenue code; providing for a refund of
3 individual income tax for the 1979 tax year resulting
4 from the inclusion of unemployment benefits; providing
5 a due date of corporate income tax and franchise tax
6 returns under certain conditions; allowing for the destruc-
7 tion of all useless records and reports and other papers
8 filed by taxpayers after certain periods of time after
9 the filing of these reports with the department of revenue;
10 providing for a refund of individual income tax where the
11 taxpayer died after November 17, 1978 as a result of wounds
12 or injury incurred due to military or terroristic action
13 outside the United States; making technical corrections
14 to the inheritance tax concerning the taxation of gifts
15 made within three years of death; and providing effective
16 dates.

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

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1 Section 1. Section 422.3, subsection 5, Code 1985, is
2 amended to read as follows:

3 5. "Internal Revenue Code of 1954" means the Internal
4 Revenue Code of 1954, as amended to and including January 1,
5 ~~1984~~ 1985.

6 Sec. 2. Section 422.7, Code 1985, is amended by adding the
7 following new subsection:

8 NEW SUBSECTION. 20. Subtract the unemployment
9 compensation benefits for tax years beginning on January 1,
10 1979 to the extent those benefits had been included in net
11 income on a return filed before January 1, 1981 and were
12 excluded from income under Act section 1075 of the Tax Reform
13 Act of 1984. Notwithstanding the statute of limitations
14 specified in section 422.73, subsection 2, taxpayers who would
15 be barred from claiming a refund or credit from an overpayment
16 resulting from the change made by Act section 1075 of the Tax
17 Reform Act of 1984 are entitled to receive a refund or credit
18 if they file a claim with the department on or before June 30,
19 1986.

20 Sec. 3. Section 422.21, unnumbered paragraph 1, Code 1985,
21 is amended to read as follows:

22 Returns shall be in such the form as the director may, from
23 time to time, prescribe, and shall be filed with the
24 department on or before the last day of the fourth month after
25 the expiration of the tax year except that co-operative
26 associations as defined in section 6072(d) of the Internal
27 Revenue Code of 1954 shall file their returns on or before the
28 fifteenth day of the ninth month following the close of the
29 taxable year. If, under the Internal Revenue Code of 1954, a
30 corporation is required to file a return covering a tax period
31 of less than twelve months, the state return shall be for the
32 same period and shall be due forty-five days after the due
33 date of the federal tax return, excluding any extension of
34 time to file. In case of sickness, absence, or other
35 disability, or whenever if good cause exists, the director may

1 allow further time for filing returns. The director shall
2 cause to be prepared blank forms for ~~said~~ the returns and
3 shall cause them to be distributed throughout the state and to
4 be furnished upon application, but failure to receive or
5 secure the form ~~shall~~ does not relieve the taxpayer from the
6 ~~obligations~~ obligation of making any a return herein that is
7 required. The department may as far as consistent with the
8 ~~provisions-of~~ the Code ~~so~~ draft income tax forms as to conform
9 to the income tax forms of the internal revenue department of
10 the United States government. Each return by a taxpayer upon
11 whom a tax is imposed by section 422.5, subsection 7, shall
12 show the county of the residence of the taxpayer.

13 Sec. 4. Section 422.61, subsection 2, Code 1985, is
14 amended to read as follows:

15 2. "Taxable year" means the calendar year or the fiscal
16 year ending during a calendar year, for which the tax is
17 payable. "Fiscal year" includes a tax period of less than
18 twelve months if, under the Internal Revenue Code of 1954, a
19 corporation is required to file a tax return covering a tax
20 period of less than twelve months.

21 Sec. 5. Section 422.62, Code 1985, is amended to read as
22 follows:

23 422.62 WHEN DUE.

24 The franchise tax is due and payable on the first day
25 following the end of the taxable year of each financial
26 institution, and is delinquent after the last day of the
27 fourth month following the due date or forty-five days after
28 the due date of the federal tax return, excluding extensions
29 of time to file, whichever is the later. Every financial
30 institution shall file a return as prescribed by the director
31 on or before the delinquency date. ~~The-provisions-of-this~~
32 This section shall-become is effective for all taxable years
33 ending on or after January 1, 1970. As to fiscal years ending
34 prior to May 9, 1970, the time for filing a return is extended
35 to the last day of the fourth month following ~~such~~ that date.

S.F. _____ H.F. _____

1 Sec. 6. Section 422.68, subsection 3, Code 1985, is
2 amended to read as follows:

3 3. The director ~~shall have the power to~~ may destroy any
4 ~~and all~~ useless records and ~~all~~ returns, reports, and
5 communications of any taxpayer filed with or kept by the
6 department after ~~such~~ those returns, records, reports, or
7 communications ~~shall~~ have been in the custody of the
8 department for a period of not less than ~~five~~ three years;
9 ~~provided, however, or such time as the director prescribes by~~
10 rule. However, after the accounts of any a person shall have
11 been examined by the director and the amount of tax and
12 penalty due shall have been finally determined, then the
13 director may order the destruction of any records previously
14 filed by such that taxpayer, notwithstanding the fact that
15 such those records shall have been in the custody of the
16 department for a period less than five three years. Such
17 These records and documents shall be destroyed in such the
18 manner as shall be prescribed by the director.

19 Sec. 7. Section 422.73, Code 1985, is amended by adding
20 the following new subsection:

21 NEW SUBSECTION. Notwithstanding subsection 2, a claim for
22 credit or refund of the income tax paid is considered timely
23 if the claim is filed with the department on or before June
24 30, 1986, if the taxpayer's federal income tax was forgiven
25 under section 692(c) of the Internal Revenue Code of 1954
26 because the taxpayer died after November 17, 1978 as a result
27 of wounds or injury incurred due to military or terroristic
28 action outside the United States. To the extent the federal
29 income tax was forgiven under section 692(c) of the Internal
30 Revenue Code of 1954 for the tax year, the Iowa income tax is
31 also forgiven.

32 Sec. 8. Section 450.3, subsection 2, Code 1985, is amended
33 to read as follows:

34 2. By deed, grant, sale, gift or transfer made within
35 three years of the death of the grantor or donor, which is not

1 a bona fide sale for an adequate and full consideration in
2 money or money's worth and which is in excess of the annual
3 gift tax exclusion allowable for each donee under section
4 2503, subsections a b and e of the Internal Revenue Code of
5 1954 as defined in section 422.3. If both spouses consent, a
6 gift made by one spouse to a person who is not the other
7 spouse is considered, for the purposes of this subsection, as
8 made one-half by each spouse under the same terms and
9 conditions provided for in section 2513 of the Internal
10 Revenue Code of 1954 as defined in section 422.3.

11 Sec. 9. Section 1 of this Act is retroactive to January 1,
12 1984 for tax years beginning on or after that date.

13 Sec. 10. Sections 3, 4, and 5 of this Act are retroactive
14 to January 1, 1985 for tax years beginning on or after that
15 date.

16 Sec. 11. Section 8 of this Act is retroactive to July 1,
17 1984 for estates of persons dying on or after that date.

18 Sec. 12. This Act, being deemed of immediate importance,
19 takes effect from and after its publication in _____
20 _____, a newspaper published in _____,
21 Iowa, and in _____, a newspaper published in
22 _____, Iowa.

23 EXPLANATION

24 Section 1 of this bill updates the references to the
25 Internal Revenue Code to incorporate the Tax Reform Act of
26 1984 for individual and corporate income tax, franchise tax
27 and inheritance tax. This section is retroactive to January
28 1, 1984 for tax years beginning on or after that date.

29 Section 2 of this bill allows a refund of individual income
30 tax paid on unemployment compensation benefits in 1979 which
31 were attributable to weeks of unemployment before December 1,
32 1978. The Tax Reform Act of 1984 excluded this income from
33 federal income tax and allowed a refund of the federal income
34 tax. Iowa has a three-year statute of limitations to claim a
35 refund and this bill extends this statute of limitations for

1 those affected persons who file an Iowa claim for refund on or
2 before June 30, 1986.

3 Sections 3, 4, and 5 of this bill establish a tax period of
4 less than twelve months for corporate income tax and franchise
5 tax. In certain circumstances where there are mergers of one
6 corporation into another or an acquisition of one corporation
7 by another or for certain types of reorganizations the
8 Internal Revenue Code requires a short period return be filed.
9 The Internal Revenue Code also establishes a due date for the
10 short period return which is different than the normal federal
11 due date of two and one-half months after the close of the tax
12 period. These sections establish the requirement that a short
13 period Iowa return be filed when a short period federal return
14 is filed and establish a due date that is consistent with the
15 normal Iowa due date of forty-five days after the federal due
16 date. These sections are retroactive to January 1, 1985 for
17 tax years beginning on or after that date.

18 Section 6 of this bill changes the period of time that
19 records have to be in custody of the department before they
20 can be destroyed. The time period is changed from five years
21 to three years or such longer or shorter time as the director
22 may determine by rule.

23 Section 7 of this bill allows a refund of individual income
24 tax if the federal income tax was forgiven under section
25 692(c) of the Internal Revenue Code because the taxpayer died
26 after November 17, 1978 as a result of wounds or injury
27 incurred due to military or terroristic action outside the
28 United States. Iowa has a three-year statute of limitations
29 to claim a refund and this bill extends this statute of
30 limitations for those affected taxpayers if an Iowa refund
31 claim is filed on or before June 30, 1986.

32 Section 8 of this bill corrects an erroneous reference to
33 the Internal Revenue Code in section 450.3, subsection 2,
34 which relates to the taxation of gifts made within three years
35 of death. The correct reference should be to section 2503(b)

1 rather than 2503(a) of the Internal Revenue Code. This bill
2 also specifically permits a husband and wife to make split
3 gifts. Section 450.3, subsection 2, is not clear on this
4 point. The bill would conform the inheritance tax treatment
5 with the federal gift tax law which allows a \$10,000 annual
6 exclusion per donee from gift tax. The bill would also permit
7 a husband and wife to split a gift and treat it as being made
8 one-half by each spouse. This section is retroactive to July
9 1, 1984 for estates of persons dying on or after that date.

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SENATE FILE 561

AN ACT

RELATING TO TAXATION BY UPDATING REFERENCES TO THE INTERNAL REVENUE CODE; PROVIDING FOR A REFUND OF INDIVIDUAL INCOME TAX FOR THE 1979 TAX YEAR RESULTING FROM THE INCLUSION OF UNEMPLOYMENT BENEFITS; MAKING TECHNICAL CORRECTIONS TO THE INDIVIDUAL AND CORPORATE INCOME TAX CONCERNING THE CREDIT FOR INCREASING RESEARCH ACTIVITIES IN THE STATE; ELIMINATING THE REQUIREMENT THAT THE ELECTION CAMPAIGN FUND AND FISH AND GAME PROTECTION FUND CHECKOFFS BE ON THE FACE OF THE RETURN IMMEDIATELY ABOVE THE SIGNATURE LINE; PROVIDING A DUE DATE OF CORPORATE INCOME TAX AND FRANCHISE TAX RETURNS UNDER CERTAIN CONDITIONS; ALLOWING FOR THE DESTRUCTION OF ALL USELESS RECORDS AND REPORTS AND OTHER PAPERS FILED BY TAXPAYERS AFTER CERTAIN PERIODS OF TIME AFTER THE PILING OF THESE REPORTS WITH THE DEPARTMENT OF REVENUE; PROVIDING FOR A REFUND OF INDIVIDUAL INCOME TAX WHERE THE TAXPAYER DIED AFTER NOVEMBER 17, 1978 AS A RESULT OF WOUNDS OR INJURY INCURRED DUE TO MILITARY OR TERRORISTIC ACTION OUTSIDE THE UNITED STATES; MAKING TECHNICAL CORRECTIONS TO THE INHERITANCE TAX CONCERNING THE TAXATION OF GIFTS MADE WITHIN THREE YEARS OF DEATH; AND PROVIDING EFFECTIVE DATES.

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

Section 1. Section 56.18, subsection 1, Code 1985, is amended to read as follows:

1. Any person whose state income tax liability for any taxable year is one dollar or more may direct that one dollar of such liability be paid over to the Iowa election campaign fund when submitting the person's state income tax return to the department of revenue. In the case of a joint return of husband and wife having a state income tax liability of two dollars or more, each spouse may direct that one dollar be

paid to the fund. The director of revenue shall revise draft the income tax form to provide spaces on the face-of the tax return and-immediately-above-the-signature-lines which the taxpayer may use to designate that contributions made under this section be credited to a specified political party as defined by section 43.2, or to the Iowa election campaign fund as a contribution to be shared by all such political parties in the manner prescribed by section 56.19. The form shall inform the taxpayer of the consequences of the choices provided under this section, but this information may be contained in a footnote or other suitable form if the director of revenue finds it is not feasible to place the information immediately above the signature line.

Sec. 2. Section 107.16, unnumbered paragraph 3, Code 1985, is amended to read as follows:

The director of revenue shall revise draft the income tax form to allow the designation of contributions to the state fish and game protection fund on the face-of the tax return and-above-the-signature-lines.

Sec. 3. Section 422.3, subsection 5, Code 1985, is amended to read as follows:

5. "Internal Revenue Code of 1954" means the Internal Revenue Code of 1954, as amended to and including January 1, ~~1984~~ 1985.

Sec. 4. Section 422.7, Code 1985, is amended by adding the following new subsection:

NEW SUBSECTION. 20. Subtract the unemployment compensation benefits for tax years beginning on January 1, 1979 to the extent those benefits had been included in net income on a return filed before January 1, 1981 and were excluded from income under Act section 1075 of the Tax Reform Act of 1984. Notwithstanding the statute of limitations specified in section 422.73, subsection 2, taxpayers who would be barred from claiming a refund or credit from an overpayment resulting from the change made by Act section 1075 of the Tax Reform Act of 1984 are entitled to receive a refund or credit

if they file a claim with the department on or before June 30, 1986.

Sec. 5. Section 422.10, unnumbered paragraph 1, Code 1985, is amended to read as follows:

The taxes imposed under this division shall be reduced by a state tax credit for increasing research activities in this state. For individuals, the credit shall equal six and one-half percent of the state's apportioned share of the qualifying expenditures for increasing research activities. The state's apportioned share of the qualifying expenditures for increasing research activities is a percent equal to the ratio of qualified research expenditures in this state to total qualified research expenditures. For purposes of this section, an individual may claim a research credit for qualifying research expenditures incurred by a partnership, subchapter S corporation, and estate or trust electing to have the income taxed directly to the individual. The amount claimed by the individual shall be based upon the pro rata share of the individual's earnings of a partnership, subchapter S corporation, or estate or trust. For purposes of this section, "qualifying expenditures for increasing research activities" means the qualifying expenditures as defined for the federal credit for increasing research activities computed under section 30 of the Internal Revenue Code of 1954, as amended to and including January 1, 1983. The research activities credit is applicable for taxable years beginning after December 31, 1985 to the same extent that the credit is applicable for federal income tax purposes for taxable years beginning after December 31, 1985.

Sec. 6. Section 422.21, unnumbered paragraph 1, Code 1985, is amended to read as follows:

Returns shall be in such the form as the director may, from time to time, prescribe, and shall be filed with the department on or before the last day of the fourth month after the expiration of the tax year except that co-operative associations as defined in section 6072(d) of the Internal

Revenue Code of 1954 shall file their returns on or before the fifteenth day of the ninth month following the close of the taxable year. If, under the Internal Revenue Code of 1954, a corporation is required to file a return covering a tax period of less than twelve months, the state return shall be for the same period and shall be due forty-five days after the due date of the federal tax return, excluding any extension of time to file. In case of sickness, absence, or other disability, or whenever if good cause exists, the director may allow further time for filing returns. The director shall cause to be prepared blank forms for said the returns and shall cause them to be distributed throughout the state and to be furnished upon application, but failure to receive or secure the form shall does not relieve the taxpayer from the obligations obligation of making any a return herein that is required. The department may as far as consistent with the provisions of the Code so draft income tax forms as to conform to the income tax forms of the internal revenue department of the United States government. Each return by a taxpayer upon whom a tax is imposed by section 422.5, subsection 7, shall show the county of the residence of the taxpayer.

Sec. 7. Section 422.33, subsection 5, unnumbered paragraph 1, Code 1985, is amended to read as follows:

The taxes imposed under this division shall be reduced by a state tax credit for increasing research activities in this state equal to six and one-half percent of the state's apportioned share of the qualifying expenditures for increasing research activities. The state's apportioned share of the qualifying expenditures for increasing research activities is a percent equal to the ratio of qualified research expenditures in this state to the total qualified research expenditures. For purposes of this subsection, "qualifying expenditures for increasing research activities" means the qualifying expenditures as defined for the federal credit for increasing research activities computed under section 30 of the Internal Revenue Code of 1954, as amended to

and including January 1, 1983. The research activities credit is applicable for taxable years beginning after December 31, 1985 to the same extent that the credit is applicable for federal income tax purposes for taxable years beginning after December 31, 1985.

Sec. 8. Section 422.61, subsection 2, Code 1985, is amended to read as follows:

2. "Taxable year" means the calendar year or the fiscal year ending during a calendar year, for which the tax is payable. "Fiscal year" includes a tax period of less than twelve months if, under the Internal Revenue Code of 1954, a corporation is required to file a tax return covering a tax period of less than twelve months.

Sec. 9. Section 422.62, Code 1985, is amended to read as follows:

422.62 WHEN DUE.

The franchise tax is due and payable on the first day following the end of the taxable year of each financial institution, and is delinquent after the last day of the fourth month following the due date or forty-five days after the due date of the federal tax return, excluding extensions of time to file, whichever is the later. Every financial institution shall file a return as prescribed by the director on or before the delinquency date. ~~The provisions of this~~ This section shall become is effective for all taxable years ending on or after January 1, 1970. As to fiscal years ending prior to May 9, 1970, the time for filing a return is extended to the last day of the fourth month following such that date.

Sec. 10. Section 422.60, subsection 3, Code 1985, is amended to read as follows:

3. ~~The director shall have the power to may~~ may destroy any ~~and all~~ useless records and ~~all~~ returns, reports, and communications of any taxpayer filed with or kept by the department after such those returns, records, reports, or communications shall have been in the custody of the department for a period of not less than five three years:

~~provided, however, or such time as the director prescribes by rule. However,~~ after the accounts of any a person shall have been examined by the director and the amount of tax and penalty due shall have been finally determined, then the director may order the destruction of any records previously filed by such that taxpayer, notwithstanding the fact that such those records shall have been in the custody of the department for a period less than five three years. Such These records and documents shall be destroyed in such the manner ~~as shall be~~ prescribed by the director.

Sec. 11. Section 422.73, Code 1985, is amended by adding the following new subsection:

NEW SUBSECTION. Notwithstanding subsection 2, a claim for credit or refund of the income tax paid is considered timely if the claim is filed with the department on or before June 30, 1986, if the taxpayer's federal income tax was forgiven under section 692(c) of the Internal Revenue Code of 1954 because the taxpayer died after November 17, 1978 as a result of wounds or injury incurred due to military or terroristic action outside the United States. To the extent the federal income tax was forgiven under section 692(c) of the Internal Revenue Code of 1954 for the tax year, the Iowa income tax is also forgiven.

Sec. 12. Section 450.3, subsection 2, Code 1985, is amended to read as follows:

2. By deed, grant, sale, gift or transfer made within three years of the death of the grantor or donor, which is not a bona fide sale for an adequate and full consideration in money or money's worth and which is in excess of the annual gift tax exclusion allowable for each donee under section 2503, subsections a b and e of the Internal Revenue Code of 1954 as defined in section 422.3. If both spouses consent, a gift made by one spouse to a person who is not the other spouse is considered, for the purposes of this subsection, as made one half by each spouse under the same terms and conditions provided for in section 2513 of the Internal Revenue Code of 1954 as defined in section 422.3.

Sec. 13. Section 3 of this Act is retroactive to January 1, 1984 for tax years beginning on or after that date.

Sec. 14. Sections 1, 2, 5, 6, 7, 8, and 9 of this Act are retroactive to January 1, 1985 for tax years beginning on or after that date.

Sec. 15. Section 12 of this Act is retroactive to July 1, 1984 for estates of persons dying on or after that date.

Sec. 16. This Act, being deemed of immediate importance, takes effect from and after its publication in the Dallas County News, a newspaper published in Adel, Iowa, and in The Lamoni Chronicle, a newspaper published in Lamoni, Iowa.

ROBERT T. ANDERSON
President of the Senate

DONALD D. AVENSON
Speaker of the House

I hereby certify that this bill originated in the Senate and is known as Senate File 561, Seventy-first General Assembly.

K. MARIE THAYER
Secretary of the Senate

Approved May 30, 1985

TERRY E. BRANSTAD
Governor