

Reprinted 4/23/86

FILED APR 18 1986

SENATE FILE 2294  
BY COMMITTEE ON WAYS AND MEANS  
(formerly SSB 2212A)  
*approved (j. 1291)*

Passed Senate, Date 4 22 86 (j. 1331) Passed House, Date 4/30/86 (P. 1919)  
Vote: Ayes 35 Nays 10 Vote: Ayes 65 Nays 27  
Approved May 28, 1986

A BILL FOR

1 An Act relating to the state individual and corporate income tax  
2 by limiting, modifying, eliminating, and changing certain  
3 deductions and credits in computing the tax liability, and  
4 providing an effective date.

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

SENATE FILE 2294

S-5714

- 1 Amend Senate File 2294 as follows:
- 2 1. Page 5, by striking line 12 and inserting the
- 3 following: "sections 55 to 58, except section
- 4 57(a)(8), of".
- 5 2. By striking page 5, line 31, through page 6,
- 6 line 1.

S-5714 Filed April 18, 1986 BY WELSH  
*Adopted 4/22 (j. 1330)*

S.F. 2294

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

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

24 Sec. 2. Section 56.18, subsections 2 and 3 and unnumbered  
25 paragraphs 1 and 2, Code Supplement 1985, are amended by  
26 striking the subsections and unnumbered paragraphs.

27 Sec. 3. Section 422.5, subsection 1, paragraph o,  
28 subparagraph (1), Code Supplement 1985, is amended to read as  
29 follows:

30 (1) Add items of tax preference included in federal  
31 alternative minimum taxable income under section 57, except  
32 subsections (a)(8) and (a)(11), of the Internal Revenue Code  
33 of 1954. In the case of an estate or trust, the items of tax  
34 preference shall be apportioned between the estate or trust  
35 and the beneficiaries in accordance with rules prescribed by

1 the director. For purposes of computing the items of tax  
2 preference, the gain or loss from the forfeiture of an  
3 installment real estate contract, the transfer of real or  
4 personal property securing a debt to a creditor in  
5 cancellation of that debt or from the sale or exchange of  
6 property as a result of actual notice of foreclosure shall not  
7 be taken into account in computing net capital gain if all of  
8 the following conditions are met:

9     Sec. 4. Section 422.5, subsection 1, paragraph o, Code  
10 Supplement 1985, is amended by adding the following new  
11 subparagraph:

12     NEW SUBPARAGRAPH. (4) Add the amount by which the  
13 aggregate losses from all passive activities, reduced by the  
14 aggregate income from passive activities, exceed the sum of  
15 the taxpayer's cash basis in passive activities which are not  
16 tax shelters plus the lesser of the taxpayer's cash basis in  
17 passive activities which are tax shelters or fifty thousand  
18 dollars. For purposes of this subparagraph the following  
19 apply:

20     (a) "Tax shelter" means the same as defined in section  
21 461(i)(3) of the Internal Revenue Code of 1954.

22     (b) "Passive activity" means an activity where a  
23 substantial portion of the income from the activity is from a  
24 trade or business. Rents and royalties are income from a  
25 trade or business. "Passive activity" does not include,  
26 except in the case of limited partners, an activity where the  
27 taxpayer or taxpayer's spouse materially participates in the  
28 activity or provides substantial personal services for the  
29 activity. A loss incurred from a farming business, as defined  
30 in section 464(e) of the Internal Revenue Code of 1954, will  
31 not be considered for purposes of this subparagraph to the  
32 extent that the loss is used in computing net income under  
33 section 422.7.

34     (c) "Cash basis" means in the case of an interest in a  
35 partnership, the adjusted basis of the taxpayer's interest

1 determined without regard to any liability of or amount  
2 borrowed by the partnership with respect to the partnership  
3 which was secured by any assets of the partnership, and in all  
4 other cases, the adjusted basis of the taxpayer's interest  
5 determined under principles relating to the case of a  
6 partnership.

7 (d) A loss from any activity shall be determined under the  
8 principles of section 465(d) of the Internal Revenue Code of  
9 1954 except that to the extent that any deduction is an item  
10 of tax preference in this section, that deduction shall not be  
11 taken into account.

12 (e) A loss from an activity that is disallowed under this  
13 subparagraph shall be treated as a deduction allowable to that  
14 activity in the first succeeding tax year.

15 (f) If the taxpayer disposes of the taxpayer's entire  
16 interest in a passive activity during a tax year, the amount  
17 of loss attributed to the activity determined after carryovers  
18 in part (e) of this subparagraph, shall be allowed in  
19 computing alternative minimum taxable income and shall not be  
20 treated as a loss for purposes of this subparagraph.

21 Sec. 5. Section 422.7, Code Supplement 1985, is amended by  
22 adding the following new subsections:

23 NEW SUBSECTION. Add the combined net losses from passive  
24 farming activity in excess of twenty-five thousand dollars  
25 that offset income from other sources. Net losses under  
26 section 165 of the Internal Revenue Code of 1954, exclusive of  
27 net gains incurred passively from the operation of a farming  
28 business, as defined in section 464(e) of the Internal Revenue  
29 Code of 1954, are to be combined from businesses, rents,  
30 partnerships, subchapter S corporations, estates or trusts  
31 except losses under sections 1211 and 1231 of the Internal  
32 Revenue Code of 1954. For purposes of this subsection the  
33 following apply:

34 a. "Passive activity" means an activity where the taxpayer  
35 or a member of the taxpayer's family as defined in section

1 2032A(e)(2) of the Internal Revenue Code of 1954 does not ma-  
2 terially participate in the activity or provide substantial  
3 personal services to the farming business. A taxpayer who is  
4 retired or disabled as described in section 2032A(b)(4) of the  
5 Internal Revenue Code of 1954 or is a surviving spouse as  
6 described in section 2032A(b)(5) shall be treated as  
7 materially participating in the farming business.

8 b. A loss from an activity that is disallowed under this  
9 subsection shall be treated as a deduction allowable to that  
10 activity in the first succeeding tax year.

11 NEW SUBSECTION. Add the amount of intangible drilling and  
12 development costs optionally deducted in the year paid or  
13 incurred as allowed under section 263(c) of the Internal  
14 Revenue Code of 1954. This amount may be recovered through  
15 cost depletion or depreciation, as appropriate under rules  
16 prescribed by the director.

17 NEW SUBSECTION. Add the percentage depletion amount  
18 determined with respect to an oil, gas, or geothermal well  
19 using methods in section 613 of the Internal Revenue Code of  
20 1954 that is in excess of the cost depletion amount determined  
21 under section 611 of the Internal Revenue Code of 1954.

22 Sec. 6. Section 422.12, subsection 2, unnumbered paragraph  
23 1, Code 1985, is amended to read as follows:

24 A child and dependent care credit equal to ten forty-five  
25 percent of the qualifying-employment-related-expenses-and  
26 subject-to-the-same-limitations federal child and dependent  
27 care credit provided by in section 44A 21 of the Internal  
28 Revenue Code of 1954.

29 Sec. 7. Section 422.12, subsection 3, Code 1985, is  
30 amended by striking the subsection.

31 Sec. 8. Section 422.33, subsection 4, Code Supplement  
32 1985, is amended to read as follows:

33 4. In addition to all taxes imposed under this division,  
34 there is imposed upon each corporation doing business within  
35 the state a state minimum tax for tax preference equal to

1 seventy percent of the state's apportioned share of the  
2 federal minimum tax. The state's apportioned share of the  
3 federal minimum tax is a percent equal to the ratio of the  
4 federal minimum tax on preferences attributable to Iowa to the  
5 federal minimum tax on all preferences. The director shall  
6 prescribe rules for the determination of the amount of the  
7 federal minimum tax on preferences attributable to Iowa which  
8 shall be based as much as equitably possible on the allocation  
9 and apportionment provisions of subsections 2 and 3. For  
10 purposes of this subsection, "federal minimum tax" means the  
11 federal minimum tax for tax preferences computed under  
12 sections 55 to 58, except sections 57(a)(8) and 57(a)(11), of  
13 the Internal Revenue Code of 1954 for the tax year.

14 Sec. 9. Section 422.35, Code 1985, is amended by adding  
15 the following new subsections:

16 NEW SUBSECTION. Add the combined net losses from passive  
17 farming activity in excess of twenty-five thousand dollars  
18 that offset income from other sources. Net losses under  
19 section 165 of the Internal Revenue Code of 1954, exclusive of  
20 net gains incurred passively from the operation of a farming  
21 business, as defined in section 464(e) of the Internal Revenue  
22 Code of 1954, are to be combined from businesses, rents,  
23 partnerships, corporations, estates or trusts except losses  
24 under sections 1211 and 1231 of the Internal Revenue Code of  
25 1954. Farming activity is passive if the taxpayer does not  
26 materially participate in the activity nor provide substantial  
27 services to the farming business. A loss from an activity  
28 that is disallowed under this subsection shall be treated as a  
29 deduction allowable to that activity in the first succeeding  
30 tax year.

31 NEW SUBSECTION. Add the amount of intangible drilling and  
32 development costs optionally deducted in the year paid or  
33 incurred as allowed under section 263(c) of the Internal  
34 Revenue Code of 1954. This amount may be recovered through  
35 cost depletion or depreciation, as appropriate under rules

1 prescribed by the director.

2 NEW SUBSECTION. Add the percentage depletion amount  
3 determined with respect to an oil, gas, or geothermal well  
4 using methods in section 613 of the Internal Revenue Code of  
5 1954 that is in excess of the cost depletion amount determined  
6 under section 611 of the Internal Revenue Code of 1954.

7 Sec. 10. This Act is retroactive to January 1, 1986, for  
8 tax years beginning on or after that date.

9 EXPLANATION

10 The bill makes changes in the state individual and  
11 corporate income tax by eliminating the part of the political  
12 tax checkoff which is from the tax refund of a taxpayer and  
13 increasing the amount of checkoff to \$1.50, repealing the  
14 political contributions credit, limiting to the first \$25,000  
15 the amount of loss from passive farming activity that can be  
16 offset against other income, eliminating the deduction for  
17 intangible drilling costs and depletion allowances, changing  
18 the child and dependent care credit from 10 percent of  
19 qualifying expenses to 45 percent of the federal credit, and  
20 in computing the minimum tax, limiting the deduction for  
21 certain passive activity losses and eliminating as tax  
22 preference items intangible drilling costs and depletion  
23 allowances since the bill makes these items nondeductible.

24 The bill is retroactive to January 1, 1986, for tax years  
25 beginning on or after that date.

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Ways and Means 4/30

Senate File 2294

Ways and Means: Arnould, Chair; Doderer and De Groot.

4/30 (p. 174)

SENATE FILE 2294  
BY COMMITTEE ON WAYS AND MEANS

(AS AMENDED AND PASSED BY THE SENATE APRIL 22, 1986)

- \_\_\_\_\_ - New Language by the Senate
- \* - Language Stricken by the Senate

Passed Senate, Date 4-22-86 (p. 133) Passed House, Date 4-30-86 (p. 1917)  
 Vote: Ayes 35 Nays 10 Vote: Ayes 65 Nays 27  
 Approved May 28, 1986

A BILL FOR

1 An Act relating to the state individual and corporate income tax  
 2 by limiting, modifying, eliminating, and changing certain  
 3 deductions and credits in computing the tax liability, and  
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5 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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S.F. 2294

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

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

24 Sec. 2. Section 56.18, subsections 2 and 3 and unnumbered  
25 paragraphs 1 and 2, Code Supplement 1985, are amended by  
26 striking the subsections and unnumbered paragraphs.

27 Sec. 3. Section 422.5, subsection 1, paragraph o,  
28 subparagraph (1), Code Supplement 1985, is amended to read as  
29 follows:

30 (1) Add items of tax preference included in federal  
31 alternative minimum taxable income under section 57, except  
32 subsections (a)(8) and (a)(11), of the Internal Revenue Code  
33 of 1954. In the case of an estate or trust, the items of tax  
34 preference shall be apportioned between the estate or trust  
35 and the beneficiaries in accordance with rules prescribed by

1 the director. For purposes of computing the items of tax  
2 preference, the gain or loss from the forfeiture of an  
3 installment real estate contract, the transfer of real or  
4 personal property securing a debt to a creditor in  
5 cancellation of that debt or from the sale or exchange of  
6 property as a result of actual notice of foreclosure shall not  
7 be taken into account in computing net capital gain if all of  
8 the following conditions are met:

9 Sec. 4. Section 422.5, subsection 1, paragraph o, Code  
10 Supplement 1985, is amended by adding the following new  
11 subparagraph:

12 NEW SUBPARAGRAPH. (4) Add the amount by which the  
13 aggregate losses from all passive activities, reduced by the  
14 aggregate income from passive activities, exceed the sum of  
15 the taxpayer's cash basis in passive activities which are not  
16 tax shelters plus the lesser of the taxpayer's cash basis in  
17 passive activities which are tax shelters or fifty thousand  
18 dollars. For purposes of this subparagraph the following  
19 apply:

20 (a) "Tax shelter" means the same as defined in section  
21 461(i)(3) of the Internal Revenue Code of 1954.

22 (b) "Passive activity" means an activity where a  
23 substantial portion of the income from the activity is from a  
24 trade or business. Rents and royalties are income from a  
25 trade or business. "Passive activity" does not include,  
26 except in the case of limited partners, an activity where the  
27 taxpayer or taxpayer's spouse materially participates in the  
28 activity or provides substantial personal services for the  
29 activity. A loss incurred from a farming business, as defined  
30 in section 464(e) of the Internal Revenue Code of 1954, will  
31 not be considered for purposes of this subparagraph to the  
32 extent that the loss is used in computing net income under  
33 section 422.7.

34 (c) "Cash basis" means in the case of an interest in a  
35 partnership, the adjusted basis of the taxpayer's interest

1 determined without regard to any liability of or amount  
2 borrowed by the partnership with respect to the partnership  
3 which was secured by any assets of the partnership, and in all  
4 other cases, the adjusted basis of the taxpayer's interest  
5 determined under principles relating to the case of a  
6 partnership.

7 (d) A loss from any activity shall be determined under the  
8 principles of section 465(d) of the Internal Revenue Code of  
9 1954 except that to the extent that any deduction is an item  
10 of tax preference in this section, that deduction shall not be  
11 taken into account.

12 (e) A loss from an activity that is disallowed under this  
13 subparagraph shall be treated as a deduction allowable to that  
14 activity in the first succeeding tax year.

15 (f) If the taxpayer disposes of the taxpayer's entire  
16 interest in a passive activity during a tax year, the amount  
17 of loss attributed to the activity determined after carryovers  
18 in part (e) of this subparagraph, shall be allowed in  
19 computing alternative minimum taxable income and shall not be  
20 treated as a loss for purposes of this subparagraph.

21 Sec. 5. Section 422.7, Code Supplement 1985, is amended by  
22 adding the following new subsections:

23 NEW SUBSECTION. Add the combined net losses from passive  
24 farming activity in excess of twenty-five thousand dollars  
25 that offset income from other sources. Net losses under  
26 section 165 of the Internal Revenue Code of 1954, exclusive of  
27 net gains incurred passively from the operation of a farming  
28 business, as defined in section 464(e) of the Internal Revenue  
29 Code of 1954, are to be combined from businesses, rents,  
30 partnerships, subchapter S corporations, estates or trusts  
31 except losses under sections 1211 and 1231 of the Internal  
32 Revenue Code of 1954. For purposes of this subsection the  
33 following apply:

34 a. "Passive activity" means an activity where the taxpayer  
35 or a member of the taxpayer's family as defined in section

1 2032A(e)(2) of the Internal Revenue Code of 1954 does not ma-  
2 terially participate in the activity or provide substantial  
3 personal services to the farming business. A taxpayer who is  
4 retired or disabled as described in section 2032A(b)(4) of the  
5 Internal Revenue Code of 1954 or is a surviving spouse as  
6 described in section 2032A(b)(5) shall be treated as  
7 materially participating in the farming business.

8 b. A loss from an activity that is disallowed under this  
9 subsection shall be treated as a deduction allowable to that  
10 activity in the first succeeding tax year.

11 NEW SUBSECTION. Add the amount of intangible drilling and  
12 development costs optionally deducted in the year paid or  
13 incurred as allowed under section 263(c) of the Internal  
14 Revenue Code of 1954. This amount may be recovered through  
15 cost depletion or depreciation, as appropriate under rules  
16 prescribed by the director.

17 NEW SUBSECTION. Add the percentage depletion amount  
18 determined with respect to an oil, gas, or geothermal well  
19 using methods in section 613 of the Internal Revenue Code of  
20 1954 that is in excess of the cost depletion amount determined  
21 under section 611 of the Internal Revenue Code of 1954.

22 Sec. 6. Section 422.12, subsection 2, unnumbered paragraph  
23 1, Code 1985, is amended to read as follows:

24 A child and dependent care credit equal to ~~ten~~ forty-five  
25 percent of the ~~qualifying-employment-related-expenses-and~~  
26 ~~subject-to-the-same-limitations~~ federal child and dependent  
27 care credit provided by in section ~~44A~~ 21 of the Internal  
28 Revenue Code of 1954.

29 Sec. 7. Section 422.12, subsection 3, Code 1985, is  
30 amended by striking the subsection.

31 Sec. 8. Section 422.33, subsection 4, Code Supplement  
32 1985, is amended to read as follows:

33 4. In addition to all taxes imposed under this division,  
34 there is imposed upon each corporation doing business within  
35 the state a state minimum tax for tax preference equal to

1 seventy percent of the state's apportioned share of the  
2 federal minimum tax. The state's apportioned share of the  
3 federal minimum tax is a percent equal to the ratio of the  
4 federal minimum tax on preferences attributable to Iowa to the  
5 federal minimum tax on all preferences. The director shall  
6 prescribe rules for the determination of the amount of the  
7 federal minimum tax on preferences attributable to Iowa which  
8 shall be based as much as equitably possible on the allocation  
9 and apportionment provisions of subsections 2 and 3. For  
10 purposes of this subsection, "federal minimum tax" means the  
11 federal minimum tax for tax preferences computed under  
12 sections 55 to 58, except section 57(a)(8), of the Internal  
13 Revenue Code of 1954 for the tax year.

14 Sec. 9. Section 422.35, Code 1985, is amended by adding  
15 the following new subsections:

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17 farming activity in excess of twenty-five thousand dollars  
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19 section 165 of the Internal Revenue Code of 1954, exclusive of  
20 net gains incurred passively from the operation of a farming  
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22 Code of 1954, are to be combined from businesses, rents,  
23 partnerships, corporations, estates or trusts except losses  
24 under sections 1211 and 1231 of the Internal Revenue Code of  
25 1954. Farming activity is passive if the taxpayer does not  
26 materially participate in the activity nor provide substantial  
27 services to the farming business. A loss from an activity  
28 that is disallowed under this subsection shall be treated as a  
29 deduction allowable to that activity in the first succeeding  
30 tax year.

\*31 NEW SUBSECTION. Add the percentage depletion amount  
32 determined with respect to an oil, gas, or geothermal well  
33 using methods in section 613 of the Internal Revenue Code of  
34 1954 that is in excess of the cost depletion amount determined  
35 under section 611 of the Internal Revenue Code of 1954.

1       Sec. 10. This Act is retroactive to January 1, 1986, for  
2 tax years beginning on or after that date.

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SENATE 7  
April 25, 1986

STATE OF IOWA

**FISCAL NOTE** TO  
SENATE FILE 2294

LSB No. 8210S.  
Staff ID. RJH

REQ. BY BRUNER

In compliance with a written request received April 17, 1986, a fiscal note for SENATE FILE 2294 is hereby submitted pursuant to Joint Rule 17. Data used in developing fiscal note are available from the Legislative Fiscal Bureau to members of the Legislature upon request.

Senate File 2294 makes several changes to the state individual and corporate income tax. The political checkoff is increased from \$1.00 to \$1.50 for those taxpayers who direct that a portion of their tax liability be paid to the Iowa Election Campaign Fund when their state income tax return is filed. In addition, the bill repeals the additional political checkoff of \$2.00 and repeals the political contribution credit.

The bill also removes the percentage depletion amount and intangible drilling costs from those tax preference items included in federal alternative minimum taxable income for the purpose of calculating Iowa alternative minimum taxable income. Senate File 2294 requires that the amount by which the aggregate loss from all passive investment activity exceeds the lesser of the taxpayer's cash basis or \$50,000 be included for Iowa individual minimum tax purposes.

Losses from passive farming activities that can be offset against other income are limited to the first \$25,000 under the bill. This provision applies to the passive income of individuals, subchapter S corporations, partnerships, estates, trusts, and corporations. In addition, the amount of intangible drilling and development costs deducted in the year paid and the percentage depletion amount are added to the calculation of net income.

The bill also changes the child and dependent care credit allowed under section 422.12 of the Code from 10 percent of the qualifying employment related expenses to 45 percent of federal child and dependent care credit provided in Section 21 of the Internal Revenue Code of 1954.

**FISCAL EFFECT: Political Funding.** Based on returns filed in 1985, the net effect of the change is estimated to be a \$140,000 increase to the General Fund in fiscal year 1987 and subsequent fiscal years.

**Excess Passive Activity Losses.** The data required to estimate the fiscal effect are not available.

**Intangible Drilling and Development Costs.** For individual returns, it is estimated that General Fund receipts would increase between \$1.0 and \$2.0 million in fiscal year 1987 and subsequent years. The impact due to corporate returns is unknown.

**Percentage Depletion.** General Fund receipts are estimated to increase by less than \$1 million in fiscal year 1987 and subsequent years for individual returns. The impact due to corporate returns, while unknown, is expected to be much less.

**Child Care Credit.** No increase or decrease in General Fund revenues is expected. However, some shifting will occur between individual taxpayers which will cause some to gain and others to lose.

SOURCE: Department of Revenue

(LSB 8210S.2, RJH)

Filed by the Sec. of the Senate April 24, 1986

  
Fiscal Director  
Legislative Fiscal Bureau  
Date: 4/22/86

SSB 2212  
LSB

WAYS AND MEANS: Bruner, Chair; Boswell, Riordan, Hester and Hoyt

*New SF 2294*

SENATE FILE 2294  
BY (PROPOSED COMMITTEE ON WAYS  
AND MEANS BILL)

Passed Senate, Date \_\_\_\_\_ Passed House, Date \_\_\_\_\_  
Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_  
Approved \_\_\_\_\_

**A BILL FOR**

1 An Act relating to the state individual income tax by limiting,  
2 modifying, eliminating, and changing certain deductions and  
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1 Section 1. Section 56.18, Code Supplement 1985, is amended  
2 by striking the section and inserting in lieu thereof the  
3 following:

4 56.18 CHECKOFF -- INCOME TAX.

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

22 The action taken by a person for the checkoff is  
23 irrevocable.

24 However, before a checkoff pursuant to this section is  
25 permitted, all liabilities on the books of the department of  
26 revenue, and accounts identified as owing under section 421.17  
27 shall be satisfied.

28 Sec. 2. Section 422.5, subsection 1, paragraph o,  
29 unnumbered paragraph 5, Code Supplement 1985, is amended to  
30 read as follows:

31 In the case of a resident, including a resident estate or  
32 trust, the state's apportioned share of the state alternative  
33 minimum tax is one hundred percent of the state alternative  
34 minimum tax computed in this subsection. In the case of a  
35 nonresident, including a nonresident estate or trust, or an

1 individual, estate or trust that is domiciled in the state for  
2 less than the entire tax year, the state's apportioned share  
3 of the state alternative minimum tax is the amount of tax  
4 computed under this subsection, reduced by the applicable  
5 credits in sections 422.10, ~~422.11~~, 422.11A and 422.12 and  
6 this result multiplied by a fraction with a numerator of the  
7 sum of state net income allocated to Iowa as determined in  
8 section 422.8, subsection 2, and tax preference items  
9 attributable to Iowa and with a denominator of the sum of  
10 total net income computed under section 422.7 and all tax  
11 preference items. In computing this fraction, those items  
12 excludable under subparagraph (1) shall not be used in  
13 computing the tax preference items. Married taxpayers  
14 electing to file separate returns or separately on a combined  
15 return must allocate the minimum tax computed in this  
16 subsection in the proportion that each spouse's respective  
17 preference items under section 57 of the Internal Revenue Code  
18 of 1954 bear to the combined preference items of both spouses.

19 Sec. 3. Section 422.5, subsection 1, paragraph o, Code  
20 Supplement 1985, is amended by adding the following new  
21 subparagraph:

22 NEW SUBPARAGRAPH. (4) Add the amount of loss from each  
23 passive investment in a partnership or subchapter S corpora-  
24 tion computed and deducted for the tax year which exceeds the  
25 lesser of fifty thousand dollars or the actual cash  
26 contribution to that investment.

27 Sec. 4. Section 422.6, unnumbered paragraph 1, Code 1985,  
28 is amended to read as follows:

29 The tax imposed by section 422.5 less the ~~credits~~ credit  
30 allowed under section 422.10, ~~section 422.11~~, and the personal  
31 exemption credit allowed under section 422.12 apply to and are  
32 a charge against estates and trusts with respect to their  
33 taxable income, and the rates are the same as those applicable  
34 to individuals. The fiduciary shall make the return of income  
35 for the estate or trust for which the fiduciary acts, whether

1 the income is taxable to the estate or trust or to the  
2 beneficiaries.

3 Sec. 5. Section 422.7, Code Supplement 1985, is amended by  
4 adding the following new subsection:

5 NEW SUBSECTION. Add one-half of the amount by which each  
6 meal expense deducted exceeds twenty-five dollars and add the  
7 amount deducted as a business expense for the providing of  
8 tickets or other admission fees.

9 Sec. 6. Section 422.7, Code Supplement 1985, is amended by  
10 adding the following new subsection:

11 NEW SUBSECTION. If the adjusted gross income includes a  
12 loss from the operation of an agricultural-related business or  
13 a farm, the taxpayer may offset only the first fifty thousand  
14 dollars of such loss against income from other sources.

15 Sec. 7. Section 422.7, Code Supplement 1985, is amended by  
16 adding the following new subsection:

17 NEW SUBSECTION. Add the amount deducted for intangible  
18 drilling and development costs or for allowance for depletion.

19 Sec. 8. Section 422.9, subsection 2, Code 1985, is amended  
20 by adding the following new paragraph:

21 NEW PARAGRAPH. Subtract the amount of the deduction for  
22 interest paid on residential mortgages which is in excess of  
23 ten thousand dollars.

24 Sec. 9. Section 422.11A, Code Supplement 1985, is amended  
25 to read as follows:

26 422.11A NEW JOBS TAX CREDIT.

27 The taxes imposed under this division, less credits allowed  
28 under sections 422.10~~7~~-422.1~~1~~ and 422.12, shall be reduced by  
29 a new jobs tax credit. An industry which has entered into an  
30 agreement under chapter 280B and which has increased its base  
31 employment level by at least ten percent within the time set  
32 in the agreement or, in the case of an industry without a base  
33 employment level, adds new jobs within the time set in the  
34 agreement is entitled to this new jobs tax credit for the tax  
35 year selected by the industry. In determining if the industry

1 has increased its base employment level by ten percent or  
2 added new jobs, only those new jobs directly resulting from  
3 the project covered by the agreement and those directly  
4 related to those new jobs shall be counted. The amount of  
5 this credit is equal to the product of six percent of the  
6 taxable wages upon which an employer is required to contribute  
7 to the state unemployment compensation fund, as defined in  
8 section 96.19, subsection 20, times the number of new jobs  
9 existing in the tax year that directly result from the project  
10 covered by the agreement or new jobs that directly result from  
11 those new jobs. The tax year chosen by the industry shall  
12 either begin or end during the period beginning with the date  
13 of the agreement and ending with the date by which the project  
14 is to be completed under the agreement. An individual may  
15 claim the new jobs tax credit allowed a partnership,  
16 subchapter S corporation, or estate or trust electing to have  
17 the income taxed directly to the individual. The amount  
18 claimed by the individual shall be based upon the pro rata  
19 share of the individual's earnings of a partnership,  
20 subchapter S corporation, or estate or trust. Any credit in  
21 excess of the tax liability for the tax year may be credited  
22 to the tax liability for the following ten tax years or until  
23 depleted, whichever is the earlier. For purposes of this  
24 section, "agreement", "industry", "new job" and "project" mean  
25 the same as defined in section 280B.2 and "base employment  
26 level" means the number of full-time jobs an industry employs  
27 at the plant site which is covered by an agreement under  
28 chapter 280B on the date of that agreement.

29 Sec. 10. Section 422.12, subsection 2, unnumbered para-  
30 graph 1, Code 1985, is amended to read as follows:

31 A child and dependent care credit equal to ten forty  
32 percent of the qualifying-employment-related-expenses-and  
33 subject-to-the-same-limitations federal child and dependent  
34 care credit provided by in section 44A 21 of the Internal  
35 Revenue Code of 1954.

1 Sec. 11. Section 422.12, subsection 3, Code 1985, is  
2 amended by striking the subsection.

3 Sec. 12. Section 442.15, unnumbered paragraph 2, Code  
4 1985, is amended to read as follows:

5 The school district income surtax shall be imposed on the  
6 state individual income tax for the calendar year during which  
7 the school's budget year begins, or for a taxpayer's fiscal  
8 year ending during the second half of that calendar year or  
9 the first half of the succeeding calendar year, and shall be  
10 imposed on all individuals residing in the school district on  
11 the last day of the applicable tax year. As used in this  
12 section, "state individual income tax" means the tax computed  
13 under section 422.5, less the deductions allowed in sections  
14 422.10~~7~~-~~422.11~~ and 422.12.

15 Sec. 13. Section 422.11, Code 1985, is repealed.

16 Sec. 14. This Act is effective January 1 following enact-  
17 ment for tax years beginning on or after that date.

18 EXPLANATION

19 The bill makes changes in the state individual income tax  
20 by eliminating the political tax checkoff as a deduction from  
21 the tax liability and making it payable from any refunds due  
22 the taxpayer, repealing the political contributions credit,  
23 limiting the amount of meal expenses that may be deducted to  
24 twenty-five dollars plus one-half of the excess, eliminating  
25 deduction for providing tickets or other admission fees,  
26 limiting to the first \$50,000 the amount of loss of a farm or  
27 agriculture-related business that can be offset against other  
28 income, eliminating the deduction for intangible drilling  
29 costs and depletion allowances, limiting to \$10,000 the amount  
30 of interest paid on a residential mortgage that can be  
31 deducted, changing the child and dependent care credit from 10  
32 percent of qualifying expenses to 40 percent of the federal  
33 credit, repealing the credit for investment in the initial  
34 offering of securities of the Iowa venture capital fund  
35 corporation, and in computing the minimum tax, limiting the

1 deduction for certain tax shelter losses to the lesser of  
2 \$50,000 or the cash actually invested.

3 The bill takes effect January 1 following enactment for tax  
4 years beginning on or after that date.

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SENATE FILE 2294

AN ACT

RELATING TO THE STATE INDIVIDUAL AND CORPORATE INCOME TAX BY LIMITING, MODIFYING, ELIMINATING, AND CHANGING CERTAIN DEDUCTIONS AND CREDITS IN COMPUTING THE TAX LIABILITY, AND PROVIDING AN EFFECTIVE DATE.

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

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

1--Any A person whose state income tax liability for any taxable year is one dollar and fifty cents or more may direct that one dollar and fifty cents of such that 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 three dollars or more, each spouse may direct that one dollar and fifty cents be paid to the fund. The director of revenue shall draft the income tax form to provide spaces on the tax return 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. The action taken by a person for the checkoff is irrevocable.

Sec. 2. Section 56.18, subsections 2 and 3 and unnumbered paragraphs 1 and 2, Code Supplement 1985, are amended by striking the subsections and unnumbered paragraphs.

Sec. 3. Section 422.5, subsection 1, paragraph o, subparagraph (1), Code Supplement 1985, is amended to read as follows:

(1) Add items of tax preference included in federal alternative minimum taxable income under section 57, except subsections (a)(8) and (a)(11), of the Internal Revenue Code of 1954. In the case of an estate or trust, the items of tax preference shall be apportioned between the estate or trust and the beneficiaries in accordance with rules prescribed by the director. For purposes of computing the items of tax preference, the gain or loss from the forfeiture of an installment real estate contract, the transfer of real or personal property securing a debt to a creditor in cancellation of that debt or from the sale or exchange of property as a result of actual notice of foreclosure shall not be taken into account in computing net capital gain if all of the following conditions are met:

Sec. 4. Section 422.5, subsection 1, paragraph o, Code Supplement 1985, is amended by adding the following new subparagraph:

NEW SUBPARAGRAPH. (4) Add the amount by which the aggregate losses from all passive activities, reduced by the aggregate income from passive activities, exceed the sum of the taxpayer's cash basis in passive activities which are not tax shelters plus the lesser of the taxpayer's cash basis in passive activities which are tax shelters or fifty thousand dollars. For purposes of this subparagraph the following apply:

(a) "Tax shelter" means the same as defined in section 461(i)(3) of the Internal Revenue Code of 1954.

(b) "Passive activity" means an activity where a substantial portion of the income from the activity is from a trade or business. Rents and royalties are income from a trade or business. "Passive activity" does not include, except in the case of limited partners, an activity where the taxpayer or taxpayer's spouse materially participates in the

activity or provides substantial personal services for the activity. A loss incurred from a farming business, as defined in section 464(e) of the Internal Revenue Code of 1954, will not be considered for purposes of this subparagraph to the extent that the loss is used in computing net income under section 422.7.

(c) "Cash basis" means in the case of an interest in a partnership, the adjusted basis of the taxpayer's interest determined without regard to any liability of or amount borrowed by the partnership with respect to the partnership which was secured by any assets of the partnership, and in all other cases, the adjusted basis of the taxpayer's interest determined under principles relating to the case of a partnership.

(d) A loss from any activity shall be determined under the principles of section 465(d) of the Internal Revenue Code of 1954 except that to the extent that any deduction is an item of tax preference in this section, that deduction shall not be taken into account.

(e) A loss from an activity that is disallowed under this subparagraph shall be treated as a deduction allowable to that activity in the first succeeding tax year.

(f) If the taxpayer disposes of the taxpayer's entire interest in a passive activity during a tax year, the amount of loss attributed to the activity determined after carryovers in part (e) of this subparagraph, shall be allowed in computing alternative minimum taxable income and shall not be treated as a loss for purposes of this subparagraph.

Sec. 5. Section 422.7, Code Supplement 1985, is amended by adding the following new subsections:

NEW SUBSECTION. Add the combined net losses from passive farming activity in excess of twenty-five thousand dollars that offset income from other sources. Net losses under section 165 of the Internal Revenue Code of 1954, exclusive of net gains incurred passively from the operation of a farming business, as defined in section 464(e) of the Internal Revenue

Code of 1954, are to be combined from businesses, rents, partnerships, subchapter S corporations, estates or trusts except losses under sections 1211 and 1231 of the Internal Revenue Code of 1954. For purposes of this subsection the following apply:

a. "Passive activity" means an activity where the taxpayer or a member of the taxpayer's family as defined in section 2032A(e)(2) of the Internal Revenue Code of 1954 does not materially participate in the activity or provide substantial personal services to the farming business. A taxpayer who is retired or disabled as described in section 2032A(b)(4) of the Internal Revenue Code of 1954 or is a surviving spouse as described in section 2032A(b)(5) shall be treated as materially participating in the farming business.

b. A loss from an activity that is disallowed under this subsection shall be treated as a deduction allowable to that activity in the first succeeding tax year.

NEW SUBSECTION. Add the amount of intangible drilling and development costs optionally deducted in the year paid or incurred as allowed under section 263(c) of the Internal Revenue Code of 1954. This amount may be recovered through cost depletion or depreciation, as appropriate under rules prescribed by the director.

NEW SUBSECTION. Add the percentage depletion amount determined with respect to an oil, gas, or geothermal well using methods in section 613 of the Internal Revenue Code of 1954 that is in excess of the cost depletion amount determined under section 611 of the Internal Revenue Code of 1954.

Sec. 6. Section 422.12, subsection 2, unnumbered paragraph 1, Code 1985, is amended to read as follows:

A child and dependent care credit equal to ten forty-five percent of the qualifying-employment-related-expenses-and subject-to-the-same-limitations federal child and dependent care credit provided by in section 44A 21 of the Internal Revenue Code of 1954.

Sec. 7. Section 422.12, subsection 3, Code 1985, is amended by striking the subsection.

Sec. 8. Section 422.33, subsection 4, Code Supplement 1985, is amended to read as follows:

4. In addition to all taxes imposed under this division, there is imposed upon each corporation doing business within the state a state minimum tax for tax preference equal to seventy percent of the state's apportioned share of the federal minimum tax. The state's apportioned share of the federal minimum tax is a percent equal to the ratio of the federal minimum tax on preferences attributable to Iowa to the federal minimum tax on all preferences. The director shall prescribe rules for the determination of the amount of the federal minimum tax on preferences attributable to Iowa which shall be based as much as equitably possible on the allocation and apportionment provisions of subsections 2 and 3. For purposes of this subsection, "federal minimum tax" means the federal minimum tax for tax preferences computed under sections 55 to 58, except section 57(a)(8), of the Internal Revenue Code of 1954 for the tax year.

Sec. 9. Section 422.35, Code 1985, is amended by adding the following new subsections:

NEW SUBSECTION. Add the combined net losses from passive farming activity in excess of twenty-five thousand dollars that offset income from other sources. Net losses under section 165 of the Internal Revenue Code of 1954, exclusive of net gains incurred passively from the operation of a farming business, as defined in section 464(e) of the Internal Revenue Code of 1954, are to be combined from businesses, rents, partnerships, corporations, estates or trusts except losses under sections 1211 and 1231 of the Internal Revenue Code of 1954. Farming activity is passive if the taxpayer does not materially participate in the activity nor provide substantial services to the farming business. A loss from an activity that is disallowed under this subsection shall be treated as a deduction allowable to that activity in the first succeeding tax year.

NEW SUBSECTION. Add the percentage depletion amount determined with respect to an oil, gas, or geothermal well using methods in section 613 of the Internal Revenue Code of 1954 that is in excess of the cost depletion amount determined under section 611 of the Internal Revenue Code of 1954.

Sec. 10. This Act is retroactive to January 1, 1986, for tax years beginning on or after that date.

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ROBERT T. ANDERSON  
President of the Senate

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DONALD D. AVENSON  
Speaker of the House

I hereby certify that this bill originated in the Senate and is known as Senate File 2294, Seventy-first General Assembly.

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K. MARIE THAYER  
Secretary of the Senate

Approved May 28, 1986

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TERRY E. BRANSTAD  
Governor