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House File 153 substituted 2/17/86

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SENATE FILE 136
BY COMMITTEE ON WAYS AND
MEANS
(formerly SSB 40A)
Approved 2/4 (p. 240)

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

A BILL FOR

1 An Act relating to the state's conforming its income, franchise,
2 and death taxes with the new federal tax provisions by
3 updating references to the Internal Revenue Code, rewriting
4 the state minimum taxes to conform with the federal
5 alternative minimum taxes, rewriting the state generation
6 skipping transfer tax to conform with the federal provisions,
7 striking obsolete and repealed items, clarifying the taxation
8 of regulated investment company dividends and shares,
9 extending the statute of limitations for certain refund
10 claims, providing for waiver of penalty for underpayment of
11 estimated tax, and providing effective dates.

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

SENATE FILE 136

S-3025

- 1 Amend Senate File 136 as follows:
- 2 1. Page 25, line 31, by striking the figure "(2)"
- 3 and inserting the following: "(1)".
- 4 2. Page 32, line 34, by striking the figure "(2)"
- 5 and inserting the following: "(1)".
- 6 3. Page 36, line 18, by striking the word
- 7 "Distributee" and inserting the following:
- 8 "Distributee Transferee".

S-3025

Filed February 11, 1987
Adopted 2/12 (p. 321)

BY CHARLES BRUNER

SF 136

1 Section 1. Section 422.3, subsection 5, Code 1987, is
2 amended by striking the subsection and inserting in lieu
3 thereof the following:

4 5. "Internal Revenue Code" means the Internal Revenue Code
5 of 1954, prior to the date of its redesignation as the
6 Internal Revenue Code of 1986 by the Tax Reform Act of 1986,
7 or means the Internal Revenue Code of 1986 as amended to and
8 including January 1, 1987, whichever is applicable.

9 Sec. 2. Section 422.4, subsections 1, 4, 10, 11, 14, and
10 18, Code 1987, are amended to read as follows:

11 1. The words "taxable income" mean the net income as
12 defined in section 422.7 minus the deductions allowed by
13 section 422.9, in the case of individuals; in the case of
14 estates or trusts, the words "taxable income" mean the taxable
15 income (without a deduction for personal exemption) as
16 computed for federal income tax purposes under the Internal
17 Revenue Code of 1954, but with the adjustments specified in
18 section 422.7 plus the Iowa income tax deducted in computing
19 said taxable income and minus federal income taxes as provided
20 in section 422.9.

21 4. The words "tax year" mean the calendar year, or the
22 fiscal year ending during such calendar year, upon the basis
23 of which the net income is computed under this division.

24 a. If a taxpayer has made the election provided by section
25 441, subsection "f", of the Internal Revenue Code of 1954,
26 "tax year" means the annual period so elected, varying from
27 fifty-two to fifty-three weeks.

28 b. If the effective date or the applicability of a
29 provision of this division is expressed in terms of a tax year
30 beginning, including or ending with reference to a specified
31 date which is the first or last day of a month, a tax year
32 described in paragraph "a" of this subsection shall be treated
33 as beginning with the first day of the calendar month
34 beginning nearest to the first day of the tax year or as
35 ending with the last day of the calendar month ending nearest

1 to the last day of the tax year.

2 c. This subsection is effective for tax years ending on or
3 after December 14, 1975.

4 10. The word "individual" means a natural person; and
5 where an individual is permitted to file as a corporation,
6 ~~under the provisions of the Internal Revenue Code of 1954,~~
7 such fictional status shall not be recognized for purposes of
8 this chapter, and such the individual's taxable income shall
9 be computed as required under ~~the provisions of the Internal~~
10 ~~Revenue Code of 1954~~ relating to individuals not filing as a
11 corporation, with the adjustments allowed by this chapter.

12 11. The term "head of household" shall have the same
13 meaning as provided by the Internal Revenue Code ~~of 1954.~~

14 14. The term "wages" shall have the same meaning as
15 provided by the Internal Revenue Code ~~of 1954.~~

16 ~~18. For purposes of section 422.37 subsection 57 the~~
17 ~~Internal Revenue Code of 1954 shall be interpreted to include~~
18 ~~the provisions of Pub. L. No. 98-47~~

19 Sec. 3. Section 422.5, subsection 1, paragraph o, Code
20 1987, is amended to read as follows:

21 o. There is imposed upon every resident and nonresident of
22 this state, including estates and trusts, the greater of the
23 tax determined in paragraphs "a" through "n" or the state
24 alternative minimum tax equal to nine seventy-five percent of
25 the maximum state individual income tax rate, rounded to the
26 nearest one-tenth of one percent, of the state alternative
27 minimum taxable income of the taxpayer as computed under this
28 paragraph.

29 The state alternative minimum taxable income of a taxpayer
30 is equal to the taxpayer's state taxable income, as computed
31 with the deductions in section 422.9, with the following
32 adjustments:

33 (1) Add items of tax preference included in federal
34 alternative minimum taxable income under section 57, except
35 subsections ~~(a)(8) and (a)(11)~~ (a)(1), (a)(2), and (a)(5), of

1 the Internal Revenue Code of 1954, make the adjustments
2 included in federal alternative minimum taxable income under
3 section 56, except subsections (a)(4), (b)(1)(C)(iii), and
4 (d), of the Internal Revenue Code, and add losses as required
5 by section 58 of the Internal Revenue Code. In the case of an
6 estate or trust, the items of tax preference, adjustments and
7 losses shall be apportioned between the estate or trust and
8 the beneficiaries in accordance with rules prescribed by the
9 director. For purposes of computing the items of tax
10 preference, the gain or loss from the forfeiture of an
11 installment real estate contract, the transfer of real or
12 personal property securing a debt to a creditor in
13 cancellation of that debt or from the sale or exchange of
14 property as a result of actual notice of foreclosure shall not
15 be taken into account in computing net capital gain if all of
16 the following conditions are met:

17 (a) The forfeiture, transfer, or sale or exchange was done
18 for the purpose of establishing a positive cash flow.

19 (b) Immediately before the forfeiture, transfer, or sale
20 or exchange, the taxpayer's debt to asset ratio exceeded
21 seventy-five percent as computed under generally accepted
22 accounting practices.

23 (c) The taxpayer's net worth at the end of the tax year is
24 less than seventy-five thousand dollars.

25 In determining a taxpayer's net worth at the end of the tax
26 year a taxpayer shall include any asset transferred within one
27 hundred twenty days prior to the end of the tax year without
28 adequate and full consideration in money or money's worth. In
29 determining the taxpayer's debt to asset ratio, the taxpayer
30 shall include any asset transferred, within one hundred twenty
31 days prior to such forfeiture, transfer, or sale or exchange,
32 without adequate and full consideration in money or money's
33 worth. For purposes of this subsection, actual notice of
34 foreclosure includes, but is not limited to, bankruptcy or
35 written notice from a creditor of the creditor's intent to

1 foreclose where there is reasonable belief that the creditor
2 can force a sale of the property.

3 (2) Subtract the applicable exemption amount as follows:

4 (a) Seventeen thousand five hundred dollars for a married
5 person who files separately or for an estate or trust.

6 (b) Twenty-six thousand dollars for a single person or an
7 unmarried head of household.

8 (c) Thirty-five thousand dollars for a married couple
9 which files a joint return.

10 (3) In the case of a net operating loss computed for a tax
11 year beginning after December 31, 1982 which is carried back
12 or carried forward to the current taxable year, the net
13 operating loss shall be reduced by the amount of the items of
14 tax preference arising in such year which was taken into
15 account in computing the net operating loss in section 422.9,
16 subsection 3. The deduction for a net operating loss for a
17 tax year beginning after December 31, 1986 which is carried
18 back or carried forward to the current taxable year shall not
19 exceed ninety percent of the alternative minimum taxable
20 income determined without regard for the net operating loss
21 deduction.

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

29 (a) -- "Tax shelter" means the same as defined in section
30 461(i)(3) of the Internal Revenue Code of 1954.

31 (b) -- "Passive activity" means an activity where a
32 substantial portion of the income from the activity is from a
33 trade or business. -- Rents and royalties are income from a
34 trade or business. -- "Passive activity" does not include,
35 except in the case of limited partners, an activity where the

1 taxpayer-or-taxpayer's-spouse-materially-participates-in-the
2 activity-or-provides-substantial-personal-services-for-the
3 activity.--A-loss-incurred-from-a-farming-business,as-defined
4 in-section-464(e)-of-the-Internal-Revenue-Code-of-1954,-will
5 not-be-considered-for-purposes-of-this-subparagraph-to-the
6 extent-that-the-loss-is-used-in-computing-net-income-under
7 section-422.7.

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

16 (d)--A-loss-from-any-activity-shall-be-determined-under-the
17 principles-of-section-465(d)-of-the-Internal-Revenue-Code-of
18 1954-except-that-to-the-extent-that-any-deduction-is-an-item
19 of-tax-preference-in-this-section,-that-deduction-shall-not-be
20 taken-into-account.

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

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

30 The-state-alternative-minimum-tax-of-a-taxpayer-whose-items
31 of-tax-preference-include-the-gain-or-loss-from-the-forfeiture
32 of-an-installment-real-estate-contract,-the-transfer-of-real
33 or-personal-property-securing-a-debt-to-a-creditor-in
34 cancellation-of-that-debt-or-from-the-sale-or-exchange-of
35 property-as-a-result-of-actual-notice-of-foreclosure-where-the

1 fair-market-value-of-the-taxpayer's-assets-exceeds-the
2 taxpayer's-liabilities-immediately-before-such-forfeiture,
3 transfer,-or-sale-or-exchange-shall-not-be-greater-than-such
4 excess,-including-any-asset-transferred-within-one-hundred
5 twenty-days-prior-to-such-forfeiture,-transfer,-or-sale-or
6 exchange.

7 In the case of a resident, including a resident estate or
8 trust, the state's apportioned share of the state alternative
9 minimum tax is one hundred percent of the state alternative
10 minimum tax computed in this subsection. In the case of a
11 nonresident, including a nonresident estate or trust, or an
12 individual, estate or trust that is domiciled in the state for
13 less than the entire tax year, the state's apportioned share
14 of the state alternative minimum tax is the amount of tax
15 computed under this subsection, reduced by the applicable
16 credits in sections 422.10, 422.11, 422.11A and 422.12 and
17 this result multiplied by a fraction with a numerator of the
18 sum of state net income allocated to Iowa as determined in
19 section 422.8, subsection 2, and plus tax preference items,
20 adjustments, and losses under subparagraph (1) attributable to
21 Iowa and with a denominator of the sum of total net income
22 computed under section 422.7 and all tax preference items,
23 adjustments, and losses under subparagraph (1). In computing
24 this fraction, those items excludable under subparagraph (1)
25 shall not be used in computing the tax preference items.
26 Married taxpayers electing to file separate returns or
27 separately on a combined return must allocate the minimum tax
28 computed in this subsection in the proportion that each
29 spouse's respective preference items, under-section-57-of-the
30 Internal-Revenue-Code-of-1954 adjustments, and losses under
31 subparagraph (1) bear to the combined preference items,
32 adjustments, and losses under subparagraph (1) of both
33 spouses.

34 Sec. 4. Section 422.5, subsections 6 and 10, Code 1987,
35 are amended to read as follows:

1 6. A person who is disabled, is sixty-two years of age or
2 older or is the surviving spouse of an individual or survivor
3 having an insurable interest in an individual who would have
4 qualified for the exemption under this paragraph for this tax
5 year and receives one or more annuities from the United States
6 civil service retirement and disability trust fund, and whose
7 net income, as defined in section 422.7, is sufficient to
8 require that the tax be imposed upon it under this section,
9 may determine final taxable income for purposes of imposition
10 of the tax by excluding the amount of annuities received from
11 the United States civil service retirement and disability
12 trust fund, which are not already excluded in determining net
13 income, as defined in section 422.7, up to a maximum each tax
14 year of five thousand five hundred dollars for a person who
15 files a separate state income tax return and eight thousand
16 dollars total for a husband and wife who file a joint state
17 income tax return. However, a surviving spouse who is not
18 disabled or sixty-two years of age or older can only exclude
19 the amount of annuities received as a result of the death of
20 the other spouse. The amount of the exemption shall be
21 reduced by the amount of any social security benefits
22 received. For the purpose of this section, the amount of
23 annuities received from the United States civil service
24 retirement and disability trust fund taxable under the
25 Internal Revenue Code of-1954 shall be included in net income
26 for purposes of determining eligibility under the five
27 thousand dollar or less exclusion.

28 10. In addition to the other taxes imposed by this
29 section, a tax is imposed on the amount of a lump sum
30 distribution for which the taxpayer has elected under section
31 402(e) of the Internal Revenue Code of-1954 to be separately
32 taxed for federal income tax purposes for the tax year. The
33 rate of tax is equal to twenty-five percent of the separate
34 federal tax imposed on the amount of the lump sum
35 distribution. A nonresident is liable for this tax only on

1 that portion of the lump sum distribution allocable to Iowa.
2 The total amount of the lump sum distribution subject to
3 separate federal tax shall be included in net income for
4 purposes of determining eligibility under the five thousand
5 dollar or less exclusion.

6 Sec. 5. Section 422.5, subsection 8, Code 1987, is amended
7 by striking the subsection.

8 Sec. 6. Section 422.6, unnumbered paragraph 2, Code 1987,
9 is amended to read as follows:

10 The beneficiary of a trust who receives an accumulation
11 distribution shall be allowed credit without interest for the
12 Iowa income taxes paid by the trust attributable to such
13 accumulation distribution in a manner corresponding to the
14 provisions for credit under the federal income tax relating to
15 accumulation distributions as contained in the Internal
16 Revenue Code of 1954. The trust shall not be entitled to a
17 refund of taxes paid on the distributions. The trust shall
18 maintain detailed records to verify the computation of the
19 tax.

20 Sec. 7. Section 422.7, Code 1987, is amended to read as
21 follows:

22 422.7 "NET INCOME" -- HOW COMPUTED.

23 The term "net income" means the adjusted gross income as
24 properly computed for federal income tax purposes under the
25 Internal Revenue Code of 1954, with the following adjustments:

26 1. Subtract interest and dividends from federal
27 securities.

28 2. Add interest and dividends from foreign securities and
29 from securities of state and other political subdivisions
30 exempt from federal income tax under the Internal Revenue Code
31 of 1954.

32 3. Where the adjusted gross income includes capital gains
33 or losses, or gains or losses from property other than capital
34 assets, and such gains or losses have been determined by using
35 a basis established prior to January 1, 1934, an adjustment

1 may be made, under rules prescribed by the director, to
2 reflect the difference resulting from the use of a basis of
3 cost or January 1, 1934, fair market value, less depreciation
4 allowed or allowable, whichever is higher. Provided that the
5 basis shall be fair market value as of January 1, 1955, less
6 depreciation allowed or allowable, in the case of property
7 acquired prior to that date if use of a prior basis is
8 declared to be invalid.

9 4. Subtract installment payments received by a beneficiary
10 under an annuity which was purchased under an employee's
11 pension or retirement plan when the commuted value of said
12 installments has been included as a part of the decedent
13 employee's estate for Iowa inheritance tax purposes.

14 ~~5.--Add-the-amount-by-which-the-basis-of-qualified~~
15 ~~depreciable-property-is-required-to-be-increased-for~~
16 ~~depreciation-purposes-under-the-Internal-Revenue-Code~~
17 ~~Amendments-Act-of-1964-to-the-extent-that-such-amount-equals~~
18 ~~the-net-amount-of-the-special-deduction-allowed-on-the-basis~~
19 ~~of-the-amount-by-which-the-depreciable-basis-of-such-qualified~~
20 ~~property-was-required-to-be-reduced-for-depreciation-purposes~~
21 ~~under-the-Internal-Revenue-Code-Amendments-Act-of-1962.--The~~
22 ~~"net-amount-of-the-special-deduction"-shall-be-computed-by~~
23 ~~taking-the-sum-of-the-amounts-by-which-the-basis-of-qualified~~
24 ~~property-was-required-to-be-decreased-for-depreciation~~
25 ~~purposes-for-the-years-1962-and-1963-and-subtracting-from-it~~
26 ~~the-sum-of-the-amounts-by-which-the-basis-of-such-property-was~~
27 ~~required-to-be-increased,-prior-to-1964,-for-depreciation-or~~
28 ~~disposition-purposes-under-the-Internal-Revenue-Code~~
29 ~~Amendments-Act-of-1962.~~

30 6. Individual taxpayers and married taxpayers who file a
31 joint federal income tax return and who elect to file a joint
32 return, separate returns or separate filing on a combined
33 return for Iowa income tax purposes, may avail themselves of
34 the disability income exclusion and shall compute the amount
35 of the disability income exclusion subject to the limitations

1 for joint federal income tax return filers provided by section
2 105(d) of the Internal Revenue Code of-1954. The disability
3 income exclusion provided in section 105(d) of the Internal
4 Revenue Code of-1954, as amended up to and including December
5 31, 1982, continues to apply for state income tax purposes for
6 tax years beginning on or after January 1, 1984.

7 7. Add to the taxable income of trusts, that portion of
8 trust income excluded from federal taxable income under
9 section 641(c) of the Internal Revenue Code of-1954.

10 8. Married taxpayers who file a joint federal income tax
11 return and who elect to file separate returns or separate
12 filing on a combined return for Iowa income tax purposes, may
13 avail themselves of the expensing of business assets and
14 capital loss provisions of sections 179(a) and 1211(b)
15 respectively of the Internal Revenue Code of-1954 and shall
16 compute the amount of expensing of business assets and capital
17 loss subject to the limitations for joint federal income tax
18 return filers provided by sections 179(b) and 1211(b)
19 respectively of the Internal Revenue Code of-1954.

20 9. Subtract the amount of the jobs tax credit allowable
21 for the tax year under section 51 of the Internal Revenue Code
22 of-1954 to the extent that the credit increased federal
23 adjusted gross income.

24 10. Married taxpayers, who file a joint federal income tax
25 return and who elect to file separate returns or separate
26 filing on a combined return for state income tax purposes,
27 shall include in net income any unemployment compensation
28 benefits received subject to the limitations for joint federal
29 income tax return filers provided in section 85 of the
30 Internal Revenue Code of-1954.

31 11. Subtract the amount of the alcohol fuel credit
32 allowable for the tax year under section 40 of the Internal
33 Revenue Code of-1954 to the extent that the credit increased
34 federal adjusted gross income.

35 12. Married taxpayers, who file a joint federal income tax

1 return and who elect to file separate returns or separate
2 filing on a combined return for state income tax purposes, may
3 avail themselves of the dividend exclusion provisions of
4 section 116(a) of the Internal Revenue Code of 1954 and shall
5 compute the dividend exclusion subject to the limitations for
6 joint federal income tax return filers provided by section
7 116(a) of the Internal Revenue Code of 1954.

8 13. The exclusion of interest income provided by section
9 128 of the Internal Revenue Code of 1954 is not applicable in
10 computing Iowa net income for tax years beginning on or after
11 January 1, 1981 and before January 1, 1984.

12 14. The deduction for a married couple where both persons
13 are wage earners which is provided by section 221 of the
14 Internal Revenue Code of 1954 is not applicable in computing
15 Iowa net income for tax years beginning on or after January 1,
16 1982.

17 ~~15.--The deduction allowed under section 162(h) of the~~
18 ~~Internal Revenue Code of 1954 is not applicable in computing~~
19 ~~Iowa net income for any tax year beginning on or before~~
20 ~~December 31, 1980.--The deduction allowed under section 604 of~~
21 ~~the Tax Reform Act of 1976, as amended up to and including~~
22 ~~December 31, 1980, is allowable in computing Iowa net income,~~
23 ~~for tax years beginning on or before December 31, 1980, under~~
24 ~~provisions effective for the year for which the return is~~
25 ~~made.--The deduction allowed under section 162(h) of the~~
26 ~~Internal Revenue Code of 1954 is not applicable in computing~~
27 ~~Iowa net income for any tax year beginning on or after January~~
28 ~~1, 1981.--The deduction allowed under section 604 of the Tax~~
29 ~~Reform Act of 1976, as amended up to and including December~~
30 ~~31, 1980, is allowable in computing Iowa net income for tax~~
31 ~~years beginning on or after January 1, 1981.--The maximum~~
32 ~~allowable deduction, other than for travel expense, shall not~~
33 ~~exceed fifty dollars per day, where the taxpayer elects on the~~
34 ~~Iowa return to be governed by section 604 of the Tax Reform~~
35 ~~Act of 1976, as amended up to and including December 31, 1980,~~

1 ~~unless the taxpayer itemized expenses:~~

2 16. Add the amounts deducted and subtract the amounts
3 included as income as a result of the treatment provided sale-
4 leaseback agreements under section 168(f)(8) of the Internal
5 Revenue Code ~~of 1954~~ for property placed in service by the
6 transferee prior to January 1, 1986 to the extent that the
7 amounts deducted and the amounts included in income are not
8 otherwise deductible or included in income under the Internal
9 Revenue Code ~~of 1954~~ as amended to and including December 31,
10 1985. Entitlement to depreciation on any property included in
11 a sale-leaseback agreement which is placed in service by the
12 transferee prior to January 1, 1986 shall be determined under
13 the Internal Revenue Code ~~of 1954~~ as amended to and including
14 December 31, 1985, excluding section 168(f)(8) in making the
15 determination.

16 ~~17.--Subtract the amount of unemployment compensation to be~~
17 ~~included in Iowa net income for any tax year.--Add back the~~
18 ~~amount of unemployment compensation computed under section 85~~
19 ~~of the Internal Revenue Code of 1954, as amended up to and~~
20 ~~including December 31, 1981.--This subsection is effective~~
21 ~~only for the tax year beginning on or after January 1, 1982~~
22 ~~and before December 31, 1982.~~

23 18. If the adjusted gross income includes income or loss
24 from a small business operated by the taxpayer, an additional
25 deduction shall be allowed in computing the income or loss
26 from the small business if the small business hired for
27 employment in the state during its annual accounting period
28 ending with or during the taxpayer's tax year any of the
29 following:

30 a. A handicapped individual domiciled in this state at the
31 time of the hiring who meets any of the following conditions:

32 (1) Has a physical or mental impairment which
33 substantially limits one or more major life activities.

34 (2) Has a record of that impairment.

35 (3) Is regarded as having that impairment.

1 b. An individual domiciled in this state at the time of
2 the hiring who meets any of the following conditions:

3 (1) Has been convicted of a felony in this or any other
4 state or the District of Columbia.

5 (2) Is on parole pursuant to chapter 906.

6 (3) Is on probation pursuant to chapter 907, for an
7 offense other than a simple misdemeanor.

8 (4) Is in a work release program pursuant to chapter 246,
9 division IX.

10 c. An individual, whether or not domiciled in this state
11 at the time of the hiring, who is on parole or probation and
12 to whom the interstate probation and parole compact under
13 section 907A.1 applies.

14 The amount of the additional deduction is equal to fifty
15 percent of the wages paid to individuals named in paragraphs
16 "a", "b", and "c" who were hired for the first time by that
17 business during the annual accounting period for work done in
18 the state. This additional deduction is allowed for the wages
19 paid to those individuals successfully completing a
20 probationary period during the twelve months following the
21 date of first employment by the business and shall be deducted
22 at the close of the annual accounting period.

23 The additional deduction shall not be allowed for wages
24 paid to an individual who was hired to replace an individual
25 whose employment was terminated within the twelve-month period
26 preceding the date of first employment. However, if the
27 individual being replaced left employment voluntarily without
28 good cause attributable to the employer or if the individual
29 was discharged for misconduct in connection with the
30 individual's employment as determined by the division of job
31 service of the department of employment services, the
32 additional deduction shall be allowed.

33 A taxpayer who is a partner of a partnership or a
34 shareholder of a subchapter S corporation, may deduct that
35 portion of wages qualified under this subsection paid by the

1 partnership or subchapter S corporation based on the
2 taxpayer's pro rata share of the profits or losses from the
3 partnership or subchapter S corporation.

4 For purposes of this subsection, "physical or mental
5 impairment" means any physiological disorder or condition,
6 cosmetic disfigurement, or anatomical loss affecting one or
7 more of the body systems or any mental or psychological
8 disorder, including mental retardation, organic brain
9 syndrome, emotional or mental illness and specific learning
10 disabilities.

11 For purposes of this subsection, "small business" means
12 small business as defined in section 220.1, subsection 28,
13 except that it shall also include the operation of a farm.

14 19. Married taxpayers, who file a joint federal income tax
15 return and who elect to file separate returns or who elect
16 separate filing on a combined return for state income tax
17 purposes, shall include in net income any social security
18 ~~benefits or tier-1-railroad-retirement-benefits~~ received to
19 the same extent as those benefits are taxable on the
20 taxpayer's joint federal return for that year under section 86
21 of the Internal Revenue Code ~~of-1954~~. The benefits included
22 in net income must be allocated between the spouses in the
23 ratio of the social security benefits ~~or-tier-1-railroad~~
24 ~~retirement-benefits~~ received by each spouse to the total of
25 these benefits received by both spouses.

26 ~~20.--Subtract-the-unemployment-compensation-benefits-for~~
27 ~~tax-years-beginning-on-January-1,-1979-to-the-extent-those~~
28 ~~benefits-had-been-included-in-net-income-on-a-return-filed~~
29 ~~before-January-17-1981-and-were-excluded-from-income-under-Act~~
30 ~~section-1075-of-the-Tax-Reform-Act-of-1984.--Notwithstanding~~
31 ~~the-statute-of-limitations-specified-in-section-422-737~~
32 ~~subsection-2,-taxpayers-who-would-be-barred-from-claiming-a~~
33 ~~refund-or-credit-from-an-overpayment-resulting-from-the-change~~
34 ~~made-by-Act-section-1075-of-the-Tax-Reform-Act-of-1984-are~~
35 ~~entitled-to-receive-a-refund-or-credit-if-they-file-a-claim~~

1 with-the-department-on-or-before-June-30,-1986-

2 21. Add the four percent of the basic salary of a judge,
3 who is a member of the judicial retirement system established
4 in chapter 602, article 9, which is exempt from federal income
5 tax under the Internal Revenue Code of-1954.

6 22. Add the combined net losses from passive farming
7 activity in excess of twenty-five thousand dollars that offset
8 income from other sources. Net losses under section 165 of
9 the Internal Revenue Code of-1954, exclusive of net gains
10 incurred passively from the operation of a farming business,
11 as defined in section 464(e) of the Internal Revenue Code of
12 1954, are to be combined from businesses, rents, partnerships,
13 subchapter S corporations, estates or trusts except losses
14 under sections 1211 and 1231 of the Internal Revenue Code of
15 1954. For purposes of this subsection the following apply:

16 a. "Passive activity" means an activity where the taxpayer
17 or a member of the taxpayer's family as defined in section
18 2032A(e)(2) of the Internal Revenue Code of-1954 does not ma-
19 terially participate in the activity or provide substantial
20 personal services to the farming business. A taxpayer who is
21 retired or disabled as described in section 2032A(b)(4) of the
22 Internal Revenue Code of-1954 or is a surviving spouse as
23 described in section 2032A(b)(5) shall be treated as
24 materially participating in the farming business.

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

28 23. Add the amount of intangible drilling and development
29 costs optionally deducted in the year paid or incurred as
30 allowed under section 263(c) of the Internal Revenue Code of
31 1954. This amount may be recovered through cost depletion or
32 depreciation, as appropriate under rules prescribed by the
33 director.

34 24. Add the percentage depletion amount determined with
35 respect to an oil, gas, or geothermal well using methods in

1 section 613 of the Internal Revenue Code of-1954 that is in
2 excess of the cost depletion amount determined under section
3 611 of the Internal Revenue Code of-1954.

4 25. Subtract the income or loss resulting from the
5 forfeiture of an installment real estate contract, the
6 transfer of real or personal property securing a debt to a
7 creditor in cancellation of that debt, or from the sale or
8 exchange of property as a result of actual notice of
9 foreclosure if all of the following conditions are met:

10 a. The forfeiture, transfer, or sale or exchange was done
11 for the purpose of establishing a positive cash flow.

12 b. Immediately before the forfeiture, transfer, or sale or
13 exchange, the taxpayer's debt to asset ratio exceeded ninety
14 percent as computed under generally accepted accounting
15 practices.

16 c. The taxpayer's net worth at the end of the tax year is
17 less than seventy-five thousand dollars. In determining a
18 taxpayer's net worth at the end of the tax year a taxpayer
19 shall include any asset transferred within one hundred twenty
20 days prior to the end of the tax year without adequate and
21 full consideration in money or money's worth. In determining
22 the taxpayer's debt to asset ratio, the taxpayer shall include
23 any asset transferred within one hundred twenty days prior to
24 such forfeiture, transfer, or sale or exchange without
25 adequate and full consideration in money or money's worth.

26 For purposes of this subsection, actual notice of foreclosure
27 includes, but is not limited to, bankruptcy or written notice
28 from a creditor of the creditor's intent to foreclose where
29 there is a reasonable belief that the creditor can force a
30 sale of the asset. For purposes of this subsection, in the
31 case of married taxpayers, except in the case of a husband and
32 wife who live apart at all times during the tax year, the
33 assets and liabilities of both spouses shall be considered for
34 purposes of determining the taxpayer's net worth or the
35 taxpayer's debt to asset ratio.

1 Sec. 8. Section 422.7, subsection 2, Code 1987, is amended
2 to read as follows:

3 2. Add interest and dividends from foreign securities, and
4 from securities of state and other political subdivisions, and
5 from regulated investment companies exempt from federal income
6 tax under the Internal Revenue Code of 1954.

7 Sec. 9. Section 422.7, subsections 10, 12, 13, 14, and 22,
8 Code 1987, are amended by striking the subsections.

9 Sec. 10. Section 422.7, Code 1987, is amended by adding
10 the following new subsection:

11 NEW SUBSECTION. Subtract the loss on the sale or exchange
12 of a share of a regulated investment company held for six
13 months or less to the extent the loss was disallowed under
14 section 852(b)(4)(B) of the Internal Revenue Code.

15 Sec. 11. Section 422.9, subsections 1, 2, and 3, Code
16 1987, are amended to read as follows:

17 1. An optional standard deduction of fifteen percent of
18 the net income after deduction of federal income tax, not to
19 exceed one thousand two hundred dollars for a married person
20 who files separately, one thousand two hundred dollars for a
21 single person or three thousand dollars for a husband and wife
22 who file a joint return, a surviving spouse as defined in
23 section 2 of the Internal Revenue Code of 1954, or an
24 unmarried head of household as defined in the Internal Revenue
25 Code of 1954.

26 A taxpayer who claims the optional standard deduction under
27 this subsection may, after claiming the optional standard
28 deduction, claim the direct charitable contribution as allowed
29 and subject to the same limitations provided under section
30 170(i) of the Internal Revenue Code of 1954 for tax years
31 ending on or before December 31, 1986. However, the deduction
32 shall be computed as provided under section 170(i) of the
33 Internal Revenue Code of 1954 as applied to tax year 1984.
34 Married taxpayers who have filed a joint federal return and
35 who elect to file separate returns or separately on a combined

1 state return must allocate their allowable charitable
2 deduction to each spouse in the proportion that each spouse's
3 respective net income bears to the total combined net income.
4 Taxpayers affected by the allocation provisions of section
5 422.8 shall be permitted a deduction in the amount as is
6 fairly and equitably allocable to Iowa under rules prescribed
7 by the director.

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

12 a. Subtract the deduction for Iowa income taxes.

13 b. Add the amount of federal income taxes paid or accrued
14 as the case may be, during the tax year, adjusted by any
15 federal income tax refunds. Provided, however, that where
16 married persons, who have filed a joint federal income tax
17 return, file separately, such total shall be divided between
18 them according to the portion thereof paid or accrued, as the
19 case may be, by each.

20 c. Add the amount by which expenses paid or incurred in
21 connection with the adoption of a child by the taxpayer exceed
22 three percent of the net income of the taxpayer, or of the
23 taxpayer and spouse in the case of a joint return. The
24 expenses may include medical and hospital expenses of the
25 natural mother which are incident to the child's birth and are
26 paid by the taxpayer, welfare agency fees, legal fees, and all
27 other fees and costs relating to the adoption of a child if
28 the child is placed by a child-placing agency licensed under
29 chapter 238 or by a person making an independent placement
30 according to the provisions of chapter 600.

31 d. Add an additional deduction for mileage incurred by the
32 taxpayer in voluntary work for a charitable organization
33 consisting of the excess of the state employee mileage
34 reimbursement over the amount deductible for federal income
35 tax purposes. The deduction shall be proven by the keeping of

1 a contemporaneous diary by the person throughout the period of
2 the voluntary work in the tax year.

3 e. Subtract the adoption deduction permitted under section
4 222 of the Internal Revenue Code of 1954.

5 f. Add the amount, not to exceed five thousand dollars, of
6 expenses not otherwise deductible under this section actually
7 incurred in the home of the taxpayer for the care of a person
8 who is the grandchild, child, parent, or grandparent of the
9 taxpayer or the taxpayer's spouse and who is unable, by reason
10 of physical or mental disability, to live independently and is
11 receiving, or would be eligible to receive if living in a
12 health care facility licensed under chapter 135C, medical
13 assistance benefits under chapter 249A. In the event that the
14 person being cared for is receiving assistance benefits under
15 chapter 239, the expenses not otherwise deductible shall be
16 the net difference between the expenses actually incurred in
17 caring for the person and the assistance benefits received
18 under chapter 239.

19 3. If after applying all of the adjustments provided for
20 in section 422.7, the allocation provisions of section 422.8
21 and the deductions allowable in this section subject to the
22 modifications provided in section 172(d) of the Internal
23 Revenue Code of 1954, the taxable income results in a net
24 operating loss, the net operating loss shall be deducted as
25 follows:

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

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

33 c. If the election under section 172(b)(3)(C) of the
34 Internal Revenue Code of 1954 is made, the Iowa net operating
35 loss shall be carried forward fifteen taxable years.

1 Sec. 12. Section 422.9, subsection 1, unnumbered paragraph
2 2, Code 1987, is amended by striking the paragraph.

3 Sec. 13. Section 422.9, subsection 2, unnumbered paragraph
4 1, Code 1987, is amended to read as follows:

5 The total of contributions, interest, taxes, medical
6 expense, moving expenses, nonbusiness losses and miscellaneous
7 expenses deductible for federal income tax purposes under the
8 Internal Revenue Code ~~of-1954~~, with the following adjustments:

9 Sec. 14. Section 422.9, subsection 2, paragraph e, Code
10 1987, is amended by striking the paragraph.

11 Sec. 15. Section 422.10, unnumbered paragraph 1, Code
12 1987, is amended to read as follows:

13 The taxes imposed under this division shall be reduced by a
14 state tax credit for increasing research activities in this
15 state. For individuals, the credit ~~shall-equal~~ equals six and
16 one-half percent of the state's apportioned share of the
17 qualifying expenditures for increasing research activities.
18 The state's apportioned share of the qualifying expenditures
19 for increasing research activities is a percent equal to the
20 ratio of qualified research expenditures in this state to
21 total qualified research expenditures. For purposes of this
22 section, an individual may claim a research credit for
23 qualifying research expenditures incurred by a partnership,
24 subchapter S corporation, and estate or trust electing to have
25 the income taxed directly to the individual. The amount
26 claimed by the individual shall be based upon the pro rata
27 share of the individual's earnings of a partnership,
28 subchapter S corporation, or estate or trust. For purposes of
29 this section, "qualifying expenditures for increasing research
30 activities" means the qualifying expenditures as defined for
31 the federal credit for increasing research activities which
32 would be allowable under section ~~30~~ 41 of the Internal Revenue
33 Code ~~of-1954, in-effect-on-January-17-1985~~.

34 Sec. 16. Section 422.12, subsection 1, paragraph c, Code
35 1987, is amended to read as follows:

1 c. For each dependent, an additional ten dollars. As used
2 in this section, the term "dependent" shall have the same
3 meaning as provided by the Internal Revenue Code of-1954.

4 Sec. 17. Section 422.12, subsection 2, unnumbered
5 paragraph 1, Code 1987, is amended to read as follows:

6 A child and dependent care credit equal to forty-five
7 percent of the federal child and dependent care credit
8 provided in section 21 of the Internal Revenue Code of-1954.

9 Sec. 18. Section 422.13, subsection 1, paragraph a, Code
10 1987, is amended to read as follows:

11 a. The individual is required to file a federal income tax
12 return under the Internal Revenue Code of-1954.

13 Sec. 19. Section 422.16, subsection 1, unnumbered
14 paragraph 1, Code 1987, is amended to read as follows:

15 Every withholding agent and every employer as defined in
16 this chapter and further defined in the Internal Revenue Code
17 of-1954, with respect to income tax collected at source,
18 making payment of wages to a nonresident employee working in
19 Iowa, or to a resident employee, shall deduct and withhold
20 from the wages an amount which will approximate the employee's
21 annual tax liability on a calendar year basis, calculated on
22 the basis of tables to be prepared by the department and
23 schedules or percentage rates, based on the wages, to be
24 prescribed by the department. Every employee or other person
25 shall declare to the employer or withholding agent the number
26 of the employee's or other person's personal exemptions and
27 dependency exemptions or credits to be used in applying the
28 tables and schedules or percentage rates. However, no greater
29 number of personal or dependency exemptions or credits may be
30 declared by the employee or other person than the number to
31 which the employee or other person is entitled except as
32 allowed under section 3402(m)(1) of the Internal Revenue Code
33 of-1954. The claiming of exemptions or credits in excess of
34 entitlement is a serious misdemeanor.

35 Sec. 20. Section 422.16, subsection 11, paragraphs a and

1 d, Code 1987, are amended to read as follows:

2 a. Every person or married couple filing a return shall
3 make estimated tax payments if the person's or couple's Iowa
4 income tax attributable to income other than wages subject to
5 withholding can reasonably be expected to amount to fifty
6 dollars or more for the taxable year, except that, in the
7 cases of farmers and fishers, the exceptions provided in the
8 Internal Revenue Code ~~of-1954~~ with respect to making estimated
9 payments shall apply. The estimated tax shall be paid in
10 quarterly installments. The first installment shall be paid
11 on or before the last day of the fourth month of the
12 taxpayer's tax year for which the estimated payments apply.
13 The other installments shall be paid on or before June 30,
14 September 30, and January 31. However, at the election of the
15 person or married couple, any installment of the estimated tax
16 may be paid prior to the date prescribed for its payment. If
17 a person or married couple filing a return has reason to
18 believe that the person's or couple's Iowa income tax may
19 increase or decrease, either for purposes of meeting the
20 requirement to make estimated tax payments or for the purpose
21 of increasing or decreasing estimated tax payments, shall
22 increase or decrease any subsequent estimated tax payments
23 accordingly.

24 d. Any amount of estimated tax paid is a credit against
25 the amount of tax found payable on a final, completed return,
26 as provided in subsection 9, relating to the credit for the
27 tax withheld against the tax found payable on a return
28 properly and correctly prepared under sections 422.5 through
29 422.25, and any overpayment of one dollar or more shall be
30 refunded to the taxpayer and the return constitutes a claim
31 for refund for this purpose. Amounts less than one dollar
32 shall not be refunded. The method provided by the Internal
33 Revenue Code ~~of-1954~~ for determining what is applicable to the
34 addition to tax for underpayment of the tax payable applies to
35 persons required to make payments of estimated tax under this

1 section except the amount to be added to the tax for
2 underpayment of estimated tax is an amount determined at the
3 rate in effect under section 421.7. This addition to tax
4 specified for underpayment of the tax payable is not subject
5 to waiver provisions relating to reasonable cause, except as
6 provided in the Internal Revenue Code of-1954. Underpayment
7 of estimated tax shall be determined in the same manner as
8 provided under the Internal Revenue Code of-1954 and the
9 exceptions in the Internal Revenue Code of-1954 also apply.

10 Sec. 21. Section 422.20, subsection 2, Code 1987, is
11 amended to read as follows:

12 2. It shall be unlawful for any officer, employee, or
13 agent, or former officer, employee, or agent of the state to
14 disclose to any person, except as authorized in subsection 1
15 of this section, any federal tax return or return information
16 as defined in section 6103(b) of the Internal Revenue Code of
17 1954. It shall further be unlawful for any person to whom any
18 federal tax return or return information, as defined in
19 section 6103(b) of the Internal Revenue Code of-1954, is
20 disclosed in a manner unauthorized by subsection 1 of this
21 section to thereafter print or publish in any manner not
22 provided by law any such return or return information. Any
23 person committing an offense against the foregoing provision
24 shall be guilty of a serious misdemeanor.

25 Sec. 22. Section 422.21, unnumbered paragraph 1, Code
26 1987, is amended to read as follows:

27 Returns shall be in the form the director may, from time to
28 time, prescribe, and shall be filed with the department on or
29 before the last day of the fourth month after the expiration
30 of the tax year except that co-operative associations as
31 defined in section 6072(d) of the Internal Revenue Code of
32 1954 shall file their returns on or before the fifteenth day
33 of the ninth month following the close of the taxable year.
34 If, under the Internal Revenue Code of-1954, a corporation is
35 required to file a return covering a tax period of less than

1 twelve months, the state return shall be for the same period
2 and shall be due forty-five days after the due date of the
3 federal tax return, excluding any extension of time to file.
4 In case of sickness, absence, or other disability, or if good
5 cause exists, the director may allow further time for filing
6 returns. The director shall cause to be prepared blank forms
7 for the returns and shall cause them to be distributed
8 throughout the state and to be furnished upon application, but
9 failure to receive or secure the form does not relieve the
10 taxpayer from the obligation of making a return that is
11 required. The department may as far as consistent with the
12 Code draft income tax forms to conform to the income tax forms
13 of the internal revenue department of the United States
14 government. Each return by a taxpayer upon whom a tax is
15 imposed by section 422.57-subsection-17-paragraph-"g" shall
16 show the county of the residence of the taxpayer.

17 Sec. 23. Section 422.25, subsection 1, unnumbered
18 paragraph 1, Code 1987, is amended to read as follows:

19 Within three years after the return is filed or within
20 three years after the return became due, including any
21 extensions of time for filing, whichever time is the later,
22 the department shall examine it and determine the correct
23 amount of tax, and the amount determined by the department is
24 the tax. However, if the taxpayer omits from income an amount
25 which will, under the Internal Revenue Code of-1954, extend
26 the statute of limitations for assessment of federal tax to
27 six years under the federal law, the period for examination
28 and determination is six years. In addition to the applicable
29 period of limitation for examination and determination, the
30 department may make an examination and determination at any
31 time within six months from the date of receipt by the
32 department of written notice from the taxpayer of the final
33 disposition of any matter between the taxpayer and the
34 internal revenue service with respect to the particular tax
35 year. In order to begin the running of the six-months'

1 period, the notice shall be in writing in any form sufficient
2 to inform the department of the final disposition with respect
3 to that year, and a copy of the federal document showing the
4 final disposition or final federal adjustments shall be
5 attached to the notice.

6 Sec. 24. Section 422.32, subsections 4 and 11, Code 1987,
7 are amended to read as follows:

8 4. The term "affiliated group" means a group of
9 corporations as defined in section 1504(a) of the Internal
10 Revenue Code of 1954.

11 ~~11. For purposes of section 422.37, subsection 5, the~~
12 ~~Internal Revenue Code of 1954 shall be interpreted to include~~
13 ~~the provisions of Pub. L. No. 98-4.~~

14 Sec. 25. Section 422.33, subsection 4, Code 1987, is
15 amended by striking the subsection and inserting in lieu
16 thereof the following:

17 4. In addition to all taxes imposed under this division,
18 there is imposed upon each corporation doing business within
19 the state the greater of the tax determined in subsection 1,
20 paragraphs "a" through "d" or the state alternative minimum
21 tax equal to sixty percent of the maximum state corporate
22 income tax rate, rounded to the nearest one-tenth of one
23 percent, of the state alternative minimum taxable income of
24 the taxpayer computed under this subsection.

25 The state alternative minimum taxable income of a taxpayer
26 is equal to the taxpayer's state taxable income as computed
27 with the adjustments in section 422.35 and with the following
28 adjustments:

29 a. Add items of tax preference included in federal
30 alternative minimum taxable income under section 57, except
31 subsections (a)(2) and (a)(5), of the Internal Revenue Code,
32 make the adjustments included in federal alternative minimum
33 taxable income under section 56, except subsections (a)(4) and
34 (d), of the Internal Revenue Code, and add losses as required
35 by section 58 of the Internal Revenue Code. In making the

1 adjustment under section 56(c)(1) of the Internal Revenue
2 Code, interest and dividends from federal securities net of
3 amortization of any discount or premium shall be subtracted.

4 b. Apply the allocation and apportionment provisions of
5 subsection 2.

6 c. Subtract an exemption amount of forty thousand dollars.

7 d. In the case of a net operating loss computed for a tax
8 year beginning after December 31, 1986 which is carried back
9 or carried forward to the current taxable year, the net
10 operating loss shall be reduced by the amount of items of tax
11 preference and adjustments arising in the tax year which is
12 taken into account in computing the net operating loss in
13 section 422.35, subsection 13. The deduction for a net
14 operating loss for a tax year beginning after December 31,
15 1986 which is carried back or carried forward to the current
16 taxable year shall not exceed ninety percent of the
17 alternative minimum taxable income determined without regard
18 for the net operating loss deduction.

19 Sec. 26. Section 422.33, subsection 5, Code 1987, is
20 amended to read as follows:

21 5. The taxes imposed under this division shall be reduced
22 by a state tax credit for increasing research activities in
23 this state equal to six and one-half percent of the state's
24 apportioned share of the qualifying expenditures for
25 increasing research activities. The state's apportioned share
26 of the qualifying expenditures for increasing research
27 activities is a percent equal to the ratio of qualified
28 research expenditures in this state to the total qualified
29 research expenditures. For purposes of this subsection,
30 "qualifying expenditures for increasing research activities"
31 means the qualifying expenditures as defined for the federal
32 credit for increasing research activities which would be
33 allowable under section 30 41 of the Internal Revenue Code of
34 ~~1954, in effect on January 17, 1985.~~

35 Any credit in excess of the tax liability for the taxable

1 year shall be refunded with interest computed under section
2 422.25. In lieu of claiming a refund, a taxpayer may elect to
3 have the overpayment shown on its final, completed return
4 credited to the tax liability for the following taxable year.

5 Sec. 27. Section 422.35, Code 1987, is amended to read as
6 follows:

7 422.35 NET INCOME OF CORPORATION -- HOW COMPUTED.

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

12 1. Subtract interest and dividends from federal
13 securities.

14 2. Add interest and dividends from foreign securities and
15 from securities of state and other political subdivisions
16 exempt from federal income tax under the Internal Revenue Code
17 of 1954.

18 3. Where the net income includes capital gains or losses,
19 or gains or losses from property other than capital assets,
20 and such gains or losses have been determined by using a basis
21 established prior to January 1, 1934, an adjustment may be
22 made, under rules and regulations prescribed by the director,
23 to reflect the difference resulting from the use of a basis of
24 cost or January 1, 1934, fair market value, less depreciation
25 allowed or allowable, whichever is higher. Provided that the
26 basis shall be fair market value as of January 1, 1955, less
27 depreciation allowed or allowable, in the case of property
28 acquired prior to that date if use of a prior basis is
29 declared to be invalid.

30 4. Subtract fifty percent of the federal income taxes paid
31 or accrued, as the case may be, during the tax year, adjusted
32 by any federal income tax refunds; and add the Iowa income tax
33 deducted in computing said taxable income.

34 ~~5. Add the amount by which the basis of qualified~~
35 ~~depreciable property is required to be increased for~~

1 depreciation purposes under the Internal Revenue Code
2 Amendments Act of 1964 to the extent that such amount equals
3 the net amount of the special deduction allowed on the basis
4 of the amount by which the depreciable basis of such qualified
5 property was required to be reduced for depreciation purposes
6 under the Internal Revenue Code Amendments Act of 1962. -- The
7 "net amount of the special deduction" shall be computed by
8 taking the sum of the amounts by which the basis of qualified
9 property was required to be decreased for depreciation
10 purposes for the years 1962 and 1963 and subtracting from it
11 the sum of the amounts by which the basis of such property was
12 required to be increased, prior to 1964, for depreciation or
13 disposition purposes under the Internal Revenue Code
14 Amendments Act of 1962.

15 6. Subtract the amount of the jobs tax credit allowable
16 for the tax year under section 51 of the Internal Revenue Code
17 of 1954 to the extent that the credit increased federal
18 taxable income.

19 7. If the taxpayer is a small business corporation,
20 subtract an amount equal to fifty percent of the wages paid to
21 individuals named in paragraphs "a", "b", and "c" who were
22 hired for the first time by the taxpayer during the tax year
23 for work done in this state:

24 a. A handicapped individual domiciled in this state at the
25 time of the hiring who meets any of the following conditions:

26 (1) Has a physical or mental impairment which
27 substantially limits one or more major life activities.

28 (2) Has a record of that impairment.

29 (3) Is regarded as having that impairment.

30 b. An individual domiciled in this state at the time of
31 the hiring who meets any of the following conditions:

32 (1) Has been convicted of a felony in this or any other
33 state or the District of Columbia.

34 (2) Is on parole pursuant to chapter 906.

35 (3) Is on probation pursuant to chapter 907, for an

1 offense other than a simple misdemeanor.

2 (4) Is in a work release program pursuant to chapter 246,
3 division IX.

4 c. An individual, whether or not domiciled in this state
5 at the time of the hiring, who is on parole or probation and
6 to whom the interstate probation and parole compact under
7 section 907A.1 applies.

8 This deduction is allowed for the wages paid to the
9 individuals successfully completing a probationary period
10 named in paragraphs "a", "b", and "c" during the twelve months
11 following the date of first employment by the taxpayer and
12 shall be deducted in the tax years when paid.

13 For purposes of this subsection, "physical or mental
14 impairment" means any physiological disorder or condition,
15 cosmetic disfigurement, or anatomical loss affecting one or
16 more of the body systems or any mental or psychological
17 disorder, including mental retardation, organic brain
18 syndrome, emotional or mental illness and specific learning
19 disabilities.

20 For purposes of this subsection, "small business" means
21 small business as defined in section 220.1, subsection 28,
22 except that it shall also include the operation of a farm.

23 8. Subtract the amount of the alcohol fuel credit
24 allowable for the tax year under section 40 of the Internal
25 Revenue Code of ~~1954~~ to the extent that the credit increased
26 federal taxable income.

27 9. Add the amounts deducted and subtract the amounts
28 included in income as a result of the treatment provided sale-
29 leaseback agreements under section 168(f)(8) of the Internal
30 Revenue Code of ~~1954~~ for property placed in service by the
31 transferee prior to January 1, 1986 to the extent that the
32 amounts deducted and the amounts included in income are not
33 otherwise deductible or included in income under the other
34 provisions of the Internal Revenue Code of ~~1954~~ as amended to
35 and including December 31, 1985. Entitlement to depreciation

1 on any property involved in a sale-leaseback agreement which
2 is placed in service by the transferee prior to January 1,
3 1986 shall be determined under the Internal Revenue Code of
4 1954 as amended to and including December 31, 1985, excluding
5 section 168(f)(8) in making the determination.

6 10. Add the amount of windfall profits tax deducted under
7 section 164(a) of the Internal Revenue Code ~~of 1954~~.

8 11. Add the combined net losses from passive farming
9 activity in excess of twenty-five thousand dollars that offset
10 income from other sources. Net losses under section 165 of
11 the Internal Revenue Code ~~of 1954~~, exclusive of net gains
12 incurred passively from the operation of a farming business,
13 as defined in section 464(e) of the Internal Revenue Code ~~of~~
14 ~~1954~~, are to be combined from businesses, rents, partnerships,
15 corporations, estates or trusts except losses under sections
16 1211 and 1231 of the Internal Revenue Code ~~of 1954~~. Farming
17 activity is passive if the taxpayer does not materially
18 participate in the activity nor provide substantial services
19 to the farming business. A loss from an activity that is
20 disallowed under this subsection shall be treated as a
21 deduction allowable to that activity in the first succeeding
22 tax year.

23 12. Add the percentage depletion amount determined with
24 respect to an oil, gas, or geothermal well using methods in
25 section 613 of the Internal Revenue Code ~~of 1954~~ that is in
26 excess of the cost depletion amount determined under section
27 611 of the Internal Revenue Code ~~of 1954~~.

28 13. If after applying all of the adjustments provided for
29 in this section and the allocation and apportionment
30 provisions of section 422.33, the Iowa taxable income results
31 in a net operating loss, such net operating loss shall be
32 deducted as follows:

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

1 later.

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

6 c. If the election under section 172(b)(3)(C) of the
7 Internal Revenue Code of 1954 is made, the Iowa net operating
8 loss shall be carried forward fifteen taxable years.

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

12 Provided, however, that a corporation affected by the
13 allocation provisions of section 422.33 shall be permitted to
14 deduct only such portion of the deductions for net operating
15 loss and federal income taxes as is fairly and equitably
16 allocable to Iowa, under rules prescribed by the director.

17 Sec. 28. Section 422.35, subsection 2, Code 1987, is
18 amended to read as follows:

19 2. Add interest and dividends from foreign securities, and
20 from securities of state and other political subdivisions, and
21 from regulated investment companies exempt from federal income
22 tax under the Internal Revenue Code of 1954.

23 Sec. 29. Section 422.35, subsection 11, Code 1987, is
24 amended by striking the subsection.

25 Sec. 30. Section 422.35, Code 1987, is amended by adding
26 the following new subsection:

27 NEW SUBSECTION. Subtract the loss on the sale or exchange
28 of a share of a regulated investment company held for six
29 months or less to the extent the loss was disallowed under
30 section 852(b)(4)(B) of the Internal Revenue Code.

31 Sec. 31. Section 422.36, subsection 5, Code 1987, is
32 amended to read as follows:

33 5. Where a corporation is not subject to income tax and
34 the stockholders of such corporation are taxed on the
35 corporation's income under the provisions of the Internal

1 Revenue Code of-1954, the same tax treatment shall apply to
2 such corporation and such stockholders for Iowa income tax
3 purposes.

4 Sec. 32. Section 422.37, subsection 7, Code 1987, is
5 amended to read as follows:

6 7. The computation of consolidated taxable income for the
7 members of an affiliated group of corporations subject to tax
8 shall be made in the same manner and under the same
9 procedures, including all intercompany adjustments and
10 eliminations, as are required for consolidating the incomes of
11 affiliated corporations for the taxable year for federal
12 income tax purposes in accordance with section 1502 of the
13 Internal Revenue Code of-1954.

14 Sec. 33. Section 422.60, Code 1987, is amended by striking
15 the section and inserting in lieu thereof the following:

16 422.60 IMPOSITION OF TAX.

17 1. A franchise tax according to and measured by net income
18 is imposed on financial institutions for the privilege of
19 doing business in this state as financial institutions.

20 2. In addition to all taxes imposed under this division,
21 there is imposed upon each financial institution doing
22 business within the state the greater of the tax determined in
23 section 422.63 or the state alternative minimum tax equal to
24 sixty percent of the maximum state franchise tax rate, rounded
25 to the nearest one-tenth of one percent, of the state
26 alternative minimum taxable income of the taxpayer computed
27 under this subsection.

28 The state alternative minimum taxable income of a taxpayer
29 is equal to the taxpayer's state taxable income as computed
30 with the adjustments in section 422.61, subsection 4, and with
31 the following adjustments:

32 a. Add items of tax preference included in federal
33 alternative minimum taxable income under section 57, except
34 subsections (a)(2) and (a)(5), of the Internal Revenue Code,
35 make the adjustments included in federal alternative minimum

1 taxable income under section 56, except subsections (a)(4) and
2 (d), of the Internal Revenue Code, and add losses as required
3 by section 58 of the Internal Revenue Code.

4 b. Apply the allocation and apportionment provisions of
5 section 422.60.

6 c. Subtract an exemption amount of forty thousand dollars.

7 d. In the case of a net operating loss beginning after
8 December 31, 1986 which is carried back or carried forward to
9 the current taxable year, the net operating loss shall be
10 reduced by the amount of items of tax preference and
11 adjustments arising in the tax year which was taken into
12 account in computing the net operating loss in section 422.35,
13 subsection 13. The deduction for a net operating loss for a
14 tax year beginning after December 31, 1986 which is carried
15 back or carried forward to the current taxable year shall not
16 exceed ninety percent of the alternative minimum taxable
17 income determined without regard for the net operating loss
18 deduction.

19 Sec. 34. Section 422.61, subsection 2, Code 1987, is
20 amended to read as follows:

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

27 Sec. 35. Section 422.72, subsection 2, Code 1987, is
28 amended to read as follows:

29 2. Federal tax returns, copies of returns, and return
30 information as defined in section 6103(b) of the Internal
31 Revenue Code of 1954, which are required to be filed with the
32 department for the enforcement of the income tax laws of this
33 state, shall be deemed and held as confidential by the
34 department and subject to the disclosure limitations in
35 subsection 1 of this section.

1 Sec. 36. Section 422.73, subsection 4, Code 1987, is
2 amended by striking the subsection.

3 Sec. 37. Section 422.73, Code 1987, is amended by adding
4 the following new subsections:

5 NEW SUBSECTION. Notwithstanding subsection 2, a claim for
6 credit or refund of the income tax paid for a tax year
7 beginning in the 1983 calendar year is considered timely if
8 the claim is filed with the department on or before October
9 22, 1987, if the taxpayer's federal income tax was forgiven
10 under section 692 of the Internal Revenue Code because the
11 taxpayer died, or was missing in action and determined dead,
12 while serving in a combat zone. To the extent the federal
13 income tax was forgiven under section 692 of the Internal
14 Revenue Code for the tax year, the Iowa income tax is also
15 forgiven.

16 NEW SUBSECTION. Notwithstanding subsection 2, a claim for
17 credit or refund of the state alternative minimum tax paid for
18 any tax year beginning on or after January 1, 1982 and before
19 January 1, 1984 is considered timely if the claim is filed
20 with the department on or before October 22, 1987, if the
21 taxpayer's capital gains preference items for purposes of the
22 federal individual alternative minimum tax was reduced as a
23 result of section 13208 of the Consolidated Omnibus Budget
24 Reconciliation Act of 1985 as amended by section 1896 of the
25 Tax Reform Act of 1986.

26 Sec. 38. Section 450.3, subsections 2 and 7, Code 1987,
27 are amended to read as follows:

28 2. By deed, grant, sale, gift or transfer made within
29 three years of the death of the grantor or donor, which is not
30 a bona fide sale for an adequate and full consideration in
31 money or money's worth and which is in excess of the annual
32 gift tax exclusion allowable for each donee under section
33 2503, subsections b and e of the Internal Revenue Code of 1954
34 as defined in section 422.3. If both spouses consent, a gift
35 made by one spouse to a person who is not the other spouse is

1 considered, for the purposes of this subsection, as made one
2 half by each spouse under the same terms and conditions
3 provided for in section 2513 of the Internal Revenue Code of
4 1954 as defined in section 422.3.

5 7. Which qualifies as a qualified terminable interest
6 property as defined in section 2056(b)(7)(B) of the Internal
7 Revenue Code of 1954 as defined in section 422.3, shall, if an
8 election is made, be treated and considered as passing in fee,
9 or its equivalent, to the surviving spouse in the estate of
10 the donor-grantor. Property on which the election is made
11 shall be included in the gross estate of the surviving spouse
12 and shall be deemed to have passed in fee from the surviving
13 spouse to the persons succeeding to the remainder interest,
14 unless the property was sold, distributed, or otherwise
15 disposed of prior to the death of the surviving spouse. A
16 sale, disposition, or disposal of the property prior to the
17 death of the surviving spouse shall void the election, and
18 shall subject the property disposed of, less amounts received
19 or retained by the surviving spouse, to tax in the donor-
20 grantor's estate in the same manner as if the tax had been
21 deferred under sections 450.44 through 450.49.

22 Sec. 39. Section 450.37, subsection 1, paragraph b, Code
23 1987, is amended to read as follows:

24 b. The alternate value of the property, if the personal
25 representative so elects, that has been established for
26 federal estate tax purposes under section 2032 of the Internal
27 Revenue Code of 1954 as defined in section 422.3. The
28 election shall be exercised on the return by the personal
29 representative or other person signing the return, within the
30 time prescribed by law for filing the return or before the
31 expiration of any extension of time granted for filing the
32 return.

33 Sec. 40. Section 450A.1, Code 1987, is amended to read as
34 follows:

35 450A.1 DEFINITIONS.

1 As used in this chapter, unless the context otherwise
2 requires:

3 1. "Generation skipping transfer" means the generation
4 skipping transfer as defined in section 2611 of the Internal
5 Revenue Code of 1954.

6 2. "Internal Revenue Code of 1954" means the same as the
7 term is defined in section 422.3.

8 3. ~~"Deemed transferor" means the deemed transferor as~~
9 ~~defined in section 2612 of the Internal Revenue Code of 1954.~~

10 4. "Director" means the director of the department of
11 revenue and finance.

12 5. ~~"Generation skipping trust" means a generation skipping~~
13 ~~trust as defined in section 2611 of the Internal Revenue Code~~
14 ~~of 1954.~~

15 6. ~~"Generation skipping trust equivalent" means a~~
16 ~~generation skipping trust equivalent as defined in section~~
17 ~~2611 of the Internal Revenue Code of 1954.~~

18 7 4. "Distributee" means a person receiving property in a
19 generation skipping transfer.

20 8 5. "Department" means the department of revenue and
21 finance.

22 6. "Direct skip" means the same as the term is defined in
23 section 2612(c) of the Internal Revenue Code.

24 7. "Taxable termination" means the same as the term is
25 defined in section 2612(a) of the Internal Revenue Code.

26 8. "Taxable distribution" means the same as the term is
27 defined in section 2612(b) of the Internal Revenue Code.

28 9. "Transferor", "trust", "trustee" and "interest" means
29 the same as those respective terms are defined in section 2652
30 of the Internal Revenue Code.

31 Sec. 41. Section 450A.2, Code 1987, is amended to read as
32 follows:

33 450A.2 IMPOSITION OF TAX.

34 A tax is imposed on the transfer of any property, included
35 in a generation skipping transfer, other than a direct skip,

1 occurring at the same time ~~as, or after,~~ and as a result of
2 the death of ~~the deemed transferor~~ an individual, equal to the
3 in an amount of equal to the maximum federal credit allowable
4 under section ~~2602(e)+(5)+(B)~~ 2604 of the Internal Revenue Code
5 ~~of 1954, for that portion of state estate, inheritance,~~
6 ~~legacy, or succession tax~~ the generation skipping transfer tax
7 actually paid to the state in respect of any property included
8 in the generation skipping transfer.

9 Where the ~~deemed~~ transferor is a resident of Iowa and all
10 property included in a generation skipping transfer that is
11 subject to tax under this section has a situs in Iowa, or is
12 subject to the jurisdiction of the courts of Iowa, an amount
13 equal to the total credit as allowed under the Internal
14 Revenue Code ~~of 1954~~ shall be paid to the state of Iowa.

15 Where the ~~deemed~~ transferor is a nonresident or where the
16 property included in a generation skipping transfer that is
17 subject to tax under this section has a situs outside the
18 state of Iowa and not subject to the jurisdiction of Iowa
19 courts, the tax shall be prorated on the basis that the value
20 of Iowa property included in the generation skipping transfer
21 bears to the total value of property included in the
22 generation skipping transfer.

23 Sec. 42. Section 450A.3, Code 1987, is amended to read as
24 follows:

25 450A.3 VALUE OF PROPERTY.

26 The value of property, included in a generation skipping
27 transfer, shall be the same as determined for federal
28 generation skipping transfer tax purposes under the Internal
29 Revenue Code ~~of 1954~~.

30 Sec. 43. Section 450A.4, Code 1987, is amended to read as
31 follows:

32 450A.4 PAYMENT OF THE TAX.

33 The tax imposed by this chapter shall be paid ~~within twelve~~
34 months on or before the last day of the ninth month after the
35 death of the ~~deemed transferor if the transfer occurs at that~~

1 time, or if later, the day which is twelve months after the
2 day on which such generation skipping transfer occurred
3 individual whose death is the event causing the generation
4 skipping transfer which is eligible for the credit for state
5 taxes paid under section 2604 of the Internal Revenue Code.
6 ~~For purposes of this chapter, any property transferred during~~
7 ~~the three-year period ending on the date of the deemed~~
8 ~~transferor's death and which is included in a generation~~
9 ~~skipping transfer under the Internal Revenue Code of 1954~~
10 ~~shall be considered as transferred on the deemed transferor's~~
11 ~~death.~~

12 Sec. 44. Section 450A.5, Code 1987, is amended to read as
13 follows:

14 450A.5 LIABILITY FOR THE TAX.

15 The distributee transferee of the property included in the
16 generation skipping transfer shall be personally liable for
17 the tax to the extent of the fair-market its value, determined
18 under section 2624 of the Internal Revenue Code as of the time
19 of the ~~distribution, of the property received in the~~
20 distribution generation skipping transfer. If the tax is
21 attributable to a taxable termination, as defined in section
22 ~~2613~~ 2612(a) of the Internal Revenue Code ~~of 1954~~, the trustee
23 and the transferee shall be personally liable for the tax to
24 the extent of the value of the property subject to tax under
25 the trustee's control.

26 Sec. 45. Section 450A.6, Code 1987, is amended to read as
27 follows:

28 450A.6 LIEN OF THE TAX.

29 The tax imposed by this chapter shall be a lien on the
30 property subject to the tax for a period of ten years from the
31 time the generation skipping transfer occurs. Full payment of
32 the tax, penalty and interest due ~~and interest, if any,~~ shall
33 release the lien and discharge the distributee transferee and
34 trustee of personal liability. Unless the lien has been
35 perfected by recording, a transfer by the distributee

1 transferee or the trustee to a bona fide purchaser for value
2 shall divest the property of the lien. If the lien is
3 perfected by recording, the rights of the state under the lien
4 have priority over all subsequent mortgages, purchases or
5 judgment creditors. The department may release the lien prior
6 to the payment of the tax due if adequate security for payment
7 of the tax is given.

8 Sec. 46. Section 450A.10, Code 1987, is amended to read as
9 follows:

10 450A.10 DIRECTOR TO ENFORCE COLLECTION.

11 It shall be the duty of the director to enforce collection
12 of the tax imposed by this chapter and shall with all the
13 rights of a party in interest, represent the state in any
14 proceedings to collect the tax. The director shall have the
15 power to bring suit against any person liable for the payment
16 of the tax, penalty, interest and costs and may foreclose the
17 lien of the tax in the same manner as is now prescribed for
18 the foreclosure of real estate mortgages and upon judgment may
19 cause execution to be issued to sell so much of the property
20 necessary to satisfy the tax, penalty, interest and costs due.

21 Sec. 47. Section 450A.11, Code 1987, is amended to read as
22 follows:

23 450A.11 DUTY TO CLAIM MAXIMUM CREDIT.

24 It shall be the duty of any person liable for the payment
25 of the tax to claim the maximum federal credit allowable for
26 that portion of the state estate, inheritance, legacy or
27 succession generation skipping transfer tax paid in respect of
28 any property included in a taxable generation skipping
29 transfer. Claiming on a federal return a sum less than the
30 maximum federal credit allowable shall not relieve any person
31 liable for the tax of the duty to pay the tax imposed under
32 this chapter.

33 If an amended or supplemental return is filed with the
34 internal revenue service which results in a change in the
35 amount of tax owing under this chapter, the persons liable for

1 the payment of the tax shall submit an amended return, on
2 forms prescribed by the director, indicating the amount of the
3 tax then owing as a result of such change.

4 If any federal generation skipping transfer tax has been
5 paid before the enactment of this chapter, the persons liable
6 for the payment of the tax under this chapter shall file an
7 amended federal return claiming the maximum federal credit
8 allowable and file the Iowa returns specified in section
9 450A.8 within six months after the enactment of this chapter
10 or within the time limit provided in section 450A.4 whichever
11 is the later.

12 Sec. 48. Section 450B.1, Code 1987, is amended to read as
13 follows:

14 450B.1 DEFINITIONS.

15 As used in this chapter, unless the context otherwise
16 requires:

17 1. "Internal Revenue Code of-1954" means the same as
18 defined in section 422.3.

19 2. "Taxpayer" means a qualified heir liable for the
20 inheritance tax imposed under chapter 450 on qualified real
21 property.

22 3. "Qualified real property", "qualified use", "cessation
23 of qualified use", and "qualified heir" mean the same as
24 defined in section 2032A of the Internal Revenue Code of-1954.

25 4. For purposes of subsection 1, the Internal Revenue Code
26 of-1954 shall be interpreted to include the provisions of Pub.
27 L. No. 98-4.

28 Sec. 49. Section 450B.2, Code 1987, is amended to read as
29 follows:

30 450B.2 ALTERNATE ELECTION OF VALUE FOR QUALIFIED USE.

31 Notwithstanding section 450.37, the value of qualified real
32 property for the purpose of the tax imposed under chapter 450
33 may, at the election of the taxpayer, be its value for the use
34 under which it qualifies as prescribed by section 2032A of the
35 Internal Revenue Code of-1954. A taxpayer may make an

1 election under this section only if all of the following
2 conditions are met:

3 1. An election for federal estate tax purposes was made
4 with regard to the qualified real property under section 2032A
5 of the Internal Revenue Code of 1954.

6 2. All persons who signed the agreement referred to in
7 section 2032A(d)(2) of the Internal Revenue Code of 1954 make
8 the election under this section and sign an agreement with the
9 department of revenue and finance consenting to the
10 application of section 450B.3 with respect to the qualified
11 real property.

12 3. The total decrease in the value of the qualified real
13 property as a result of the election under this section does
14 not exceed the dollar limitation specified in section
15 2032A(a)(2) of the Internal Revenue Code of 1954.

16 The election under this section shall be made by the
17 taxpayer in the manner as the director of revenue and finance
18 may prescribe by rule. The value for the qualified use under
19 this section shall be the value as determined and accepted for
20 federal estate tax purposes.

21 The definitions and special rules specified in section
22 2032A(e) of the Internal Revenue Code of 1954 shall apply with
23 respect to qualified real property for which an election was
24 made under this section except that rules shall be prescribed
25 by the director of revenue and finance in lieu of the
26 regulations promulgated by the secretary of treasury.

27 The director shall prescribe regulations setting forth the
28 application of this chapter in the case of an interest in a
29 partnership, corporation, or trust which, with respect to the
30 decedent, is an interest in a closely held business within the
31 meaning of section 6166(b)(1) of the Internal Revenue Code of
32 1954. Such regulations shall conform as nearly as possible
33 with the regulations promulgated by the United States
34 secretary of treasury in respect to such interests.

35 Sec. 50. Section 450B.3, Code 1987, is amended to read as

1 follows:

2 450B.3 ADDITIONAL INHERITANCE TAX APPLICABLE.

3 There is imposed upon the qualified heir an additional
4 inheritance tax if, within ten years after the decedent's
5 death and before the death of the qualified heir, the
6 qualified heir disposes of, other than to a member of the
7 family, any interest in qualified real property for which an
8 election under section 450B.2 was made or ceases to use for
9 the qualified use the qualified real property for which an
10 election under section 450B.2 was made as prescribed in
11 section 2032A(c) of the Internal Revenue Code of 1954. The
12 additional inheritance tax shall be the amount computed under
13 section 450B.5 and shall be due six months after the date of
14 the disposition or cessation of qualified use referred to in
15 this section. The amount of the additional inheritance tax
16 shall accrue interest at the rate of ten percent per year from
17 nine months after the decedent's death to the due date of the
18 tax. The tax shall be paid to the department of revenue and
19 finance and shall be deposited into the general fund of the
20 state. Taxes not paid within the time prescribed in this
21 section shall draw interest at the rate of ten percent per
22 annum until paid. There shall not be an additional
23 inheritance tax if the disposition or cessation occurs ten
24 years or more after the decedent's death.

25 Sec. 51. Section 451.1, subsection 8, Code 1987, is
26 amended to read as follows:

27 8. "Internal Revenue Code of 1954" means the same as
28 defined in section 422.3.

29 Sec. 52. Section 451.2, unnumbered paragraph 1, Code 1987,
30 is amended to read as follows:

31 An amount equal to the federal estate tax credit for state
32 death taxes as allowed in the Internal Revenue Code of 1954 is
33 hereby imposed upon every transfer of the net estate of every
34 decedent, being a resident of, or owning property in this
35 state, as herein provided.

1 Sec. 53. Section 451.3, Code 1987, is amended to read as
2 follows:

3 451.3 GROSS AND NET ESTATE.

4 The gross estate shall be the same as finally determined
5 for federal estate tax and the net estate shall be the gross
6 estate less deductions as permitted by federal law, in
7 arriving at the net taxable federal estate, all determined as
8 provided in the Internal Revenue Code of 1954.

9 Sec. 54. Section 450A.13, Code 1987, is repealed.

10 Sec. 55. No addition to the tax shall be made under
11 section 422.16, subsection 11, paragraph "d" or section
12 422.88, relating to the underpayment of estimated tax, for any
13 tax year beginning before January 1, 1987 with respect to any
14 underpayment, to the extent such underpayment was created or
15 increased by any provision of the federal Tax Reform Act of
16 1986 or this Act.

17 Sec. 56. Sections 1, 2, 4, 5, 6, 7, 11, 15 through 24, 26,
18 27, 31, 32, 34, and 35 of this Act are retroactive to January
19 1, 1986 for tax years beginning on or after that date.

20 Sec. 57. Sections 3, 8, 9, 10, 12, 13, 14, 25, 28, 29, 30,
21 and 33 of this Act are retroactive to January 1, 1987 for tax
22 years beginning on or after that date.

23 Sec. 58. Sections 38, 39, 48, 49, 50, 51, 52, and 53 of
24 this Act are retroactive to January 1, 1987 for estates of
25 persons dying on or after that date.

26 Sec. 59. Sections 40 through 47 of this Act are
27 retroactive to October 22, 1986 for generation skipping
28 transfers which are eligible for the credit for state taxes
29 under section 2604 of the Internal Revenue Code and are made
30 after October 22, 1986, subject to the special rules of
31 section 1433(b) of Public Law 99-514.

32 Sec. 60. Section 54 of this Act is retroactive to June 11,
33 1976.

34 Sec. 61. This Act, being deemed of immediate importance,
35 takes effect upon enactment.

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EXPLANATION

The bill provides for the state individual, corporate, franchise and death taxes to couple with changes made in the new federal income tax code, deletes obsolete provisions, defines the expenditures for increasing research for purposes of the research tax credit the same as is defined for federal tax purposes, rewrites the state minimum taxes to conform with the federal alternative tax, provides for the taxation of regulated investment company dividends, waives the penalty for underpayment of estimated tax, and extends the time for filing claims for credits or refunds for MIAs and insolvent farmers who sold real property during the 1982 or 1983 tax year.

The bill provides effective dates.

SSB #40A
Ways & Means
Now
SF 136

SENATE FILE _____
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's conforming its income, franchise,
2 and death taxes with the new federal tax provisions by
3 updating references to the Internal Revenue Code, rewriting
4 the state minimum taxes to conform with the federal
5 alternative minimum taxes, rewriting the state generation
6 skipping transfer tax to conform with the federal provisions,
7 striking obsolete and repealed items, clarifying the taxation
8 of regulated investment company dividends and shares,
9 extending the statute of limitations for certain refund
10 claims, providing for waiver of penalty for underpayment of
11 estimated tax, and providing effective dates.

12 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 1987, is
2 amended by striking the subsection and inserting in lieu
3 thereof the following:

4 5. "Internal Revenue Code" means the Internal Revenue Code
5 of 1954, prior to the date of its redesignation as the
6 Internal Revenue Code of 1986 by the Tax Reform Act of 1986,
7 or means the Internal Revenue Code of 1986 as amended to and
8 including January 1, 1987, whichever is applicable.

9 Sec. 2. Section 422.4, subsections 1, 4, 10, 11, 14, and
10 18, Code 1987, are amended to read as follows:

11 1. The words "taxable income" mean the net income as
12 defined in section 422.7 minus the deductions allowed by
13 section 422.9, in the case of individuals; in the case of
14 estates or trusts, the words "taxable income" mean the taxable
15 income (without a deduction for personal exemption) as
16 computed for federal income tax purposes under the Internal
17 Revenue Code of ~~1954~~, but with the adjustments specified in
18 section 422.7 plus the Iowa income tax deducted in computing
19 said taxable income and minus federal income taxes as provided
20 in section 422.9.

21 4. The words "tax year" mean the calendar year, or the
22 fiscal year ending during such calendar year, upon the basis
23 of which the net income is computed under this division.

24 a. If a taxpayer has made the election provided by section
25 441, subsection "f", of the Internal Revenue Code of ~~1954~~,
26 "tax year" means the annual period so elected, varying from
27 fifty-two to fifty-three weeks.

28 b. If the effective date or the applicability of a
29 provision of this division is expressed in terms of a tax year
30 beginning, including or ending with reference to a specified
31 date which is the first or last day of a month, a tax year
32 described in paragraph "a" of this subsection shall be treated
33 as beginning with the first day of the calendar month
34 beginning nearest to the first day of the tax year or as
35 ending with the last day of the calendar month ending nearest

1 to the last day of the tax year.

2 c. This subsection is effective for tax years ending on or
3 after December 14, 1975.

4 10. The word "individual" means a natural person; and
5 where an individual is permitted to file as a corporation,
6 ~~under the provisions of the Internal Revenue Code of 1954,~~
7 such fictional status shall not be recognized for purposes of
8 this chapter, and such the individual's taxable income shall
9 be computed as required under the provisions of the Internal
10 Revenue Code of 1954 relating to individuals not filing as a
11 corporation, with the adjustments allowed by this chapter.

12 11. The term "head of household" shall have the same
13 meaning as provided by the Internal Revenue Code of 1954.

14 14. The term "wages" shall have the same meaning as
15 provided by the Internal Revenue Code of 1954.

16 ~~18--For purposes of section 422.37, subsection 57, the~~
17 ~~Internal Revenue Code of 1954 shall be interpreted to include~~
18 ~~the provisions of Pub. L. No. 98-4.~~

19 Sec. 3. Section 422.5, subsection 1, paragraph o, Code
20 1987, is amended to read as follows:

21 o. There is imposed upon every resident and nonresident of
22 this state, including estates and trusts, the greater of the
23 tax determined in paragraphs "a" through "n" or the state
24 alternative minimum tax equal to nine seventy-five percent of
25 the maximum state individual income tax rate, rounded to the
26 nearest one-tenth of one percent, of the state alternative
27 minimum taxable income of the taxpayer as computed under this
28 paragraph.

29 The state alternative minimum taxable income of a taxpayer
30 is equal to the taxpayer's state taxable income, as computed
31 with the deductions in section 422.9, with the following
32 adjustments:

33 (1) Add items of tax preference included in federal
34 alternative minimum taxable income under section 57, except
35 subsections ~~(a)(8) and (a)(11)~~ (a)(1), (a)(2), and (a)(5), of

1 the Internal Revenue Code of 1954, make the adjustments
2 included in federal alternative minimum taxable income under
3 section 56, except subsections (a)(4), (b)(1)(C)(iii), and
4 (d), of the Internal Revenue Code, and add losses as required
5 by section 58 of the Internal Revenue Code. In the case of an
6 estate or trust, the items of tax preference, adjustments and
7 losses shall be apportioned between the estate or trust and
8 the beneficiaries in accordance with rules prescribed by the
9 director. For purposes of computing the items of tax
10 preference, the gain or loss from the forfeiture of an
11 installment real estate contract, the transfer of real or
12 personal property securing a debt to a creditor in
13 cancellation of that debt or from the sale or exchange of
14 property as a result of actual notice of foreclosure shall not
15 be taken into account in computing net capital gain if all of
16 the following conditions are met:

17 (a) The forfeiture, transfer, or sale or exchange was done
18 for the purpose of establishing a positive cash flow.

19 (b) Immediately before the forfeiture, transfer, or sale
20 or exchange, the taxpayer's debt-to-asset ratio exceeded
21 seventy-five percent as computed under generally accepted
22 accounting practices.

23 (c) The taxpayer's net worth at the end of the tax year is
24 less than seventy-five thousand dollars.

25 In determining a taxpayer's net worth at the end of the tax
26 year a taxpayer shall include any asset transferred within one
27 hundred twenty days prior to the end of the tax year without
28 adequate and full consideration in money or money's worth. In
29 determining the taxpayer's debt-to-asset ratio, the taxpayer
30 shall include any asset transferred, within one hundred twenty
31 days prior to such forfeiture, transfer, or sale or exchange,
32 without adequate and full consideration in money or money's
33 worth. For purposes of this subsection, actual notice of
34 foreclosure includes, but is not limited to, bankruptcy or
35 written notice from a creditor of the creditor's intent to

1 foreclose where there is reasonable belief that the creditor
2 can force a sale of the property:

3 (2) Subtract the applicable exemption amount as follows:

4 (a) Seventeen thousand five hundred dollars for a married
5 person who files separately or for an estate or trust.

6 (b) Twenty-six thousand dollars for a single person or an
7 unmarried head of household.

8 (c) Thirty-five thousand dollars for a married couple
9 which files a joint return.

10 (3) In the case of a net operating loss computed for a tax
11 year beginning after December 31, 1982 which is carried back
12 or carried forward to the current taxable year, the net
13 operating loss shall be reduced by the amount of the items of
14 tax preference arising in such year which was taken into
15 account in computing the net operating loss in section 422.9,
16 subsection 3. The deduction for a net operating loss for a
17 tax year beginning after December 31, 1986 which is carried
18 back or carried forward to the current taxable year shall not
19 exceed ninety percent of the alternative minimum taxable
20 income determined without regard for the net operating loss
21 deduction.

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

29 (a) -- "Tax shelter" means the same as defined in section
30 461(i)(3) of the Internal Revenue Code of 1954.

31 (b) -- "Passive activity" means an activity where a
32 substantial portion of the income from the activity is from a
33 trade or business. -- Rents and royalties are income from a
34 trade or business. -- "Passive activity" does not include,
35 except in the case of limited partners, an activity where the

1 taxpayer-or-taxpayer's-spouse-materially-participates-in-the
2 activity-or-provides-substantial-personal-services-for-the
3 activity.--A-loss-incurred-from-a-farming-business, as-defined
4 in-section-464(e)-of-the-Internal-Revenue-Code-of-1954, will
5 not-be-considered-for-purposes-of-this-subparagraph-to-the
6 extent-that-the-loss-is-used-in-computing-net-income-under
7 section-422-7.

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

16 (d)--A-loss-from-any-activity-shall-be-determined-under-the
17 principles-of-section-465(d)-of-the-Internal-Revenue-Code-of
18 1954-except-that-to-the-extent-that-any-deduction-is-an-item
19 of-tax-preference-in-this-section, that-deduction-shall-not-be
20 taken-into-account.

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

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

30 The-state-alternative-minimum-tax-of-a-taxpayer-whose-items
31 of-tax-preference-include-the-gain-or-loss-from-the-forfeiture
32 of-an-installment-real-estate-contract, the-transfer-of-real
33 or-personal-property-securing-a-debt-to-a-creditor-in
34 cancellation-of-that-debt-or-from-the-sale-or-exchange-of
35 property-as-a-result-of-actual-notice-of-foreclosure-where-the

1 fair-market-value-of-the-taxpayer's-assets-exceeds-the
 2 taxpayer's-liabilities-immediately-before-such-forfeiture,
 3 transfer, or sale or exchange shall not be greater than such
 4 excess, including any asset transferred within one hundred
 5 twenty-days-prior-to-such-forfeiture, transfer, or sale or
 6 exchange.

7 In the case of a resident, including a resident estate or
 8 trust, the state's apportioned share of the state alternative
 9 minimum tax is one hundred percent of the state alternative
 10 minimum tax computed in this subsection. In the case of a
 11 nonresident, including a nonresident estate or trust, or an
 12 individual, estate or trust that is domiciled in the state for
 13 less than the entire tax year, the state's apportioned share
 14 of the state alternative minimum tax is the amount of tax
 15 computed under this subsection, reduced by the applicable
 16 credits in sections 422.10, 422.11, 422.11A and 422.12 and
 17 this result multiplied by a fraction with a numerator of the
 18 sum of state net income allocated to Iowa as determined in
 19 section 422.8, subsection 2, and plus tax preference items,
 20 adjustments, and losses under subparagraph (1) attributable to
 21 Iowa and with a denominator of the sum of total net income
 22 computed under section 422.7 and all tax preference items,
 23 adjustments, and losses under subparagraph (1). In computing
 24 this fraction, those items excludable under subparagraph (1)
 25 shall not be used in computing the tax preference items.
 26 Married taxpayers electing to file separate returns or
 27 separately on a combined return must allocate the minimum tax
 28 computed in this subsection in the proportion that each
 29 spouse's respective preference items, under-section-57-of-the
 30 Internal-Revenue-Code-of-1954 adjustments, and losses under
 31 subparagraph (1) bear to the combined preference items,
 32 adjustments, and losses under subparagraph (1) of both
 33 spouses.

34 Sec. 4. Section 422.5, subsections 6 and 10, Code 1987,
 35 are amended to read as follows:

1 6. A person who is disabled, is sixty-two years of age or
2 older or is the surviving spouse of an individual or survivor
3 having an insurable interest in an individual who would have
4 qualified for the exemption under this paragraph for this tax
5 year and receives one or more annuities from the United States
6 civil service retirement and disability trust fund, and whose
7 net income, as defined in section 422.7, is sufficient to
8 require that the tax be imposed upon it under this section,
9 may determine final taxable income for purposes of imposition
10 of the tax by excluding the amount of annuities received from
11 the United States civil service retirement and disability
12 trust fund, which are not already excluded in determining net
13 income, as defined in section 422.7, up to a maximum each tax
14 year of five thousand five hundred dollars for a person who
15 files a separate state income tax return and eight thousand
16 dollars total for a husband and wife who file a joint state
17 income tax return. However, a surviving spouse who is not
18 disabled or sixty-two years of age or older can only exclude
19 the amount of annuities received as a result of the death of
20 the other spouse. The amount of the exemption shall be
21 reduced by the amount of any social security benefits
22 received. For the purpose of this section, the amount of
23 annuities received from the United States civil service
24 retirement and disability trust fund taxable under the
25 Internal Revenue Code of-1954 shall be included in net income
26 for purposes of determining eligibility under the five
27 thousand dollar or less exclusion.

28 10. In addition to the other taxes imposed by this
29 section, a tax is imposed on the amount of a lump sum
30 distribution for which the taxpayer has elected under section
31 402(e) of the Internal Revenue Code of-1954 to be separately
32 taxed for federal income tax purposes for the tax year. The
33 rate of tax is equal to twenty-five percent of the separate
34 federal tax imposed on the amount of the lump sum
35 distribution. A nonresident is liable for this tax only on

1 that portion of the lump sum distribution allocable to Iowa.
2 The total amount of the lump sum distribution subject to
3 separate federal tax shall be included in net income for
4 purposes of determining eligibility under the five thousand
5 dollar or less exclusion.

6 Sec. 5. Section 422.5, subsection 8, Code 1987, is amended
7 by striking the subsection.

8 Sec. 6. Section 422.6, unnumbered paragraph 2, Code 1987,
9 is amended to read as follows:

10 The beneficiary of a trust who receives an accumulation
11 distribution shall be allowed credit without interest for the
12 Iowa income taxes paid by the trust attributable to such
13 accumulation distribution in a manner corresponding to the
14 provisions for credit under the federal income tax relating to
15 accumulation distributions as contained in the Internal
16 Revenue Code of-1954. The trust shall not be entitled to a
17 refund of taxes paid on the distributions. The trust shall
18 maintain detailed records to verify the computation of the
19 tax.

20 Sec. 7. Section 422.7, Code 1987, is amended to read as
21 follows:

22 422.7 "NET INCOME" -- HOW COMPUTED.

23 The term "net income" means the adjusted gross income as
24 properly computed for federal income tax purposes under the
25 Internal Revenue Code of-1954, with the following adjustments:

- 26 1. Subtract interest and dividends from federal
27 securities.
- 28 2. Add interest and dividends from foreign securities and
29 from securities of state and other political subdivisions
30 exempt from federal income tax under the Internal Revenue Code
31 of-1954.
- 32 3. Where the adjusted gross income includes capital gains
33 or losses, or gains or losses from property other than capital
34 assets, and such gains or losses have been determined by using
35 a basis established prior to January 1, 1934, an adjustment

1 may be made, under rules prescribed by the director, to
2 reflect the difference resulting from the use of a basis of
3 cost or January 1, 1934, fair market value, less depreciation
4 allowed or allowable, whichever is higher. Provided that the
5 basis shall be fair market value as of January 1, 1955, less
6 depreciation allowed or allowable, in the case of property
7 acquired prior to that date if use of a prior basis is
8 declared to be invalid.

9 4. Subtract installment payments received by a beneficiary
10 under an annuity which was purchased under an employee's
11 pension or retirement plan when the commuted value of said
12 installments has been included as a part of the decedent
13 employee's estate for Iowa inheritance tax purposes.

14 ~~5.--Add-the-amount-by-which-the-basis-of-qualified~~
15 ~~depreciable-property-is-required-to-be-increased-for~~
16 ~~depreciation-purposes-under-the-Internal-Revenue-Code~~
17 ~~Amendments-Act-of-1964-to-the-extent-that-such-amount-equals~~
18 ~~the-net-amount-of-the-special-deduction-allowed-on-the-basis~~
19 ~~of-the-amount-by-which-the-depreciable-basis-of-such-qualified~~
20 ~~property-was-required-to-be-reduced-for-depreciation-purposes~~
21 ~~under-the-Internal-Revenue-Code-Amendments-Act-of-1962.--The~~
22 ~~"net-amount-of-the-special-deduction"-shall-be-computed-by~~
23 ~~taking-the-sum-of-the-amounts-by-which-the-basis-of-qualified~~
24 ~~property-was-required-to-be-decreased-for-depreciation~~
25 ~~purposes-for-the-years-1962-and-1963-and-subtracting-from-it~~
26 ~~the-sum-of-the-amounts-by-which-the-basis-of-such-property-was~~
27 ~~required-to-be-increased, prior-to-1964, for-depreciation-or~~
28 ~~disposition-purposes-under-the-Internal-Revenue-Code~~
29 ~~Amendments-Act-of-1962.~~

30 6. Individual taxpayers and married taxpayers who file a
31 joint federal income tax return and who elect to file a joint
32 return, separate returns or separate filing on a combined
33 return for Iowa income tax purposes, may avail themselves of
34 the disability income exclusion and shall compute the amount
35 of the disability income exclusion subject to the limitations

1 for joint federal income tax return filers provided by section
2 105(d) of the Internal Revenue Code of-1954. The disability
3 income exclusion provided in section 105(d) of the Internal
4 Revenue Code of-1954, as amended up to and including December
5 31, 1982, continues to apply for state income tax purposes for
6 tax years beginning on or after January 1, 1984.

7 7. Add to the taxable income of trusts, that portion of
8 trust income excluded from federal taxable income under
9 section 641(c) of the Internal Revenue Code of-1954.

10 8. Married taxpayers who file a joint federal income tax
11 return and who elect to file separate returns or separate
12 filing on a combined return for Iowa income tax purposes, may
13 avail themselves of the expensing of business assets and
14 capital loss provisions of sections 179(a) and 1211(b)
15 respectively of the Internal Revenue Code of-1954 and shall
16 compute the amount of expensing of business assets and capital
17 loss subject to the limitations for joint federal income tax
18 return filers provided by sections 179(b) and 1211(b)
19 respectively of the Internal Revenue Code of-1954.

20 9. Subtract the amount of the jobs tax credit allowable
21 for the tax year under section 51 of the Internal Revenue Code
22 of-1954 to the extent that the credit increased federal
23 adjusted gross income.

24 10. Married taxpayers, who file a joint federal income tax
25 return and who elect to file separate returns or separate
26 filing on a combined return for state income tax purposes,
27 shall include in net income any unemployment compensation
28 benefits received subject to the limitations for joint federal
29 income tax return filers provided in section 85 of the
30 Internal Revenue Code of-1954.

31 11. Subtract the amount of the alcohol fuel credit
32 allowable for the tax year under section 40 of the Internal
33 Revenue Code of-1954 to the extent that the credit increased
34 federal adjusted gross income.

35 12. Married taxpayers, who file a joint federal income tax

1 return and who elect to file separate returns or separate
2 filing on a combined return for state income tax purposes, may
3 avail themselves of the dividend exclusion provisions of
4 section 116(a) of the Internal Revenue Code of-1954 and shall
5 compute the dividend exclusion subject to the limitations for
6 joint federal income tax return filers provided by section
7 116(a) of the Internal Revenue Code of-1954.

8 13. The exclusion of interest income provided by section
9 128 of the Internal Revenue Code of-1954 is not applicable in
10 computing Iowa net income for tax years beginning on or after
11 January 1, 1981 and before January 1, 1984.

12 14. The deduction for a married couple where both persons
13 are wage earners which is provided by section 221 of the
14 Internal Revenue Code of-1954 is not applicable in computing
15 Iowa net income for tax years beginning on or after January 1,
16 1982.

17 ~~15.--The deduction allowed under section 162(h) of the~~
18 ~~Internal Revenue Code of 1954 is not applicable in computing~~
19 ~~Iowa net income for any tax year beginning on or before~~
20 ~~December 31, 1980.--The deduction allowed under section 604 of~~
21 ~~the Tax Reform Act of 1976, as amended up to and including~~
22 ~~December 31, 1980, is allowable in computing Iowa net income,~~
23 ~~for tax years beginning on or before December 31, 1980, under~~
24 ~~provisions effective for the year for which the return is~~
25 ~~made.--The deduction allowed under section 162(h) of the~~
26 ~~Internal Revenue Code of 1954 is not applicable in computing~~
27 ~~Iowa net income for any tax year beginning on or after January~~
28 ~~1, 1981.--The deduction allowed under section 604 of the Tax~~
29 ~~Reform Act of 1976, as amended up to and including December~~
30 ~~31, 1980, is allowable in computing Iowa net income for tax~~
31 ~~years beginning on or after January 1, 1981.--The maximum~~
32 ~~allowable deduction, other than for travel expense, shall not~~
33 ~~exceed fifty dollars per day, where the taxpayer elects on the~~
34 ~~Iowa return to be governed by section 604 of the Tax Reform~~
35 ~~Act of 1976, as amended up to and including December 31, 1980,~~

1 ~~unless the taxpayer itemized expenses:~~
 2 16. Add the amounts deducted and subtract the amounts
 3 included as income as a result of the treatment provided sale-
 4 leaseback agreements under section 168(f)(8) of the Internal
 5 Revenue Code ~~of 1954~~ for property placed in service by the
 6 transferee prior to January 1, 1986 to the extent that the
 7 amounts deducted and the amounts included in income are not
 8 otherwise deductible or included in income under the Internal
 9 Revenue Code ~~of 1954~~ as amended to and including December 31,
 10 1985. Entitlement to depreciation on any property included in
 11 a sale-leaseback agreement which is placed in service by the
 12 transferee prior to January 1, 1986 shall be determined under
 13 the Internal Revenue Code ~~of 1954~~ as amended to and including
 14 December 31, 1985, excluding section 168(f)(8) in making the
 15 determination.

16 ~~17. Subtract the amount of unemployment compensation to be~~
 17 ~~included in Iowa net income for any tax year. Add back the~~
 18 ~~amount of unemployment compensation computed under section 85~~
 19 ~~of the Internal Revenue Code of 1954, as amended up to and~~
 20 ~~including December 31, 1981. This subsection is effective~~
 21 ~~only for the tax year beginning on or after January 1, 1982~~
 22 ~~and before December 31, 1982.~~

23 18. If the adjusted gross income includes income or loss
 24 from a small business operated by the taxpayer, an additional
 25 deduction shall be allowed in computing the income or loss
 26 from the small business if the small business hired for
 27 employment in the state during its annual accounting period
 28 ending with or during the taxpayer's tax year any of the
 29 following:

- 30 a. A handicapped individual domiciled in this state at the
- 31 time of the hiring who meets any of the following conditions:
- 32 (1) Has a physical or mental impairment which
- 33 substantially limits one or more major life activities.
- 34 (2) Has a record of that impairment.
- 35 (3) Is regarded as having that impairment.

1 b. An individual domiciled in this state at the time of
2 the hiring who meets any of the following conditions:

3 (1) Has been convicted of a felony in this or any other
4 state or the District of Columbia.

5 (2) Is on parole pursuant to chapter 906.

6 (3) Is on probation pursuant to chapter 907, for an
7 offense other than a simple misdemeanor.

8 (4) Is in a work release program pursuant to chapter 246,
9 division IX.

10 c. An individual, whether or not domiciled in this state
11 at the time of the hiring, who is on parole or probation and
12 to whom the interstate probation and parole compact under
13 section 907A.1 applies.

14 The amount of the additional deduction is equal to fifty
15 percent of the wages paid to individuals named in paragraphs
16 "a", "b", and "c" who were hired for the first time by that
17 business during the annual accounting period for work done in
18 the state. This additional deduction is allowed for the wages
19 paid to those individuals successfully completing a
20 probationary period during the twelve months following the
21 date of first employment by the business and shall be deducted
22 at the close of the annual accounting period.

23 The additional deduction shall not be allowed for wages
24 paid to an individual who was hired to replace an individual
25 whose employment was terminated within the twelve-month period
26 preceding the date of first employment. However, if the
27 individual being replaced left employment voluntarily without
28 good cause attributable to the employer or if the individual
29 was discharged for misconduct in connection with the
30 individual's employment as determined by the division of job
31 service of the department of employment services, the
32 additional deduction shall be allowed.

33 A taxpayer who is a partner of a partnership or a
34 shareholder of a subchapter S corporation, may deduct that
35 portion of wages qualified under this subsection paid by the

1 partnership or subchapter S corporation based on the
2 taxpayer's pro rata share of the profits or losses from the
3 partnership or subchapter S corporation.

4 For purposes of this subsection, "physical or mental
5 impairment" means any physiological disorder or condition,
6 cosmetic disfigurement, or anatomical loss affecting one or
7 more of the body systems or any mental or psychological
8 disorder, including mental retardation, organic brain
9 syndrome, emotional or mental illness and specific learning
10 disabilities.

11 For purposes of this subsection, "small business" means
12 small business as defined in section 220.1, subsection 28,
13 except that it shall also include the operation of a farm.

14 19. Married taxpayers, who file a joint federal income tax
15 return and who elect to file separate returns or who elect
16 separate filing on a combined return for state income tax
17 purposes, shall include in net income any social security
18 ~~benefits or tier-1-railroad-retirement-benefits~~ received to
19 the same extent as those benefits are taxable on the
20 taxpayer's joint federal return for that year under section 86
21 of the Internal Revenue Code of-1954. The benefits included
22 in net income must be allocated between the spouses in the
23 ratio of the social security benefits ~~or tier-1-railroad~~
24 ~~retirement-benefits~~ received by each spouse to the total of
25 these benefits received by both spouses.

26 ~~20.--Subtract-the-unemployment-compensation-benefits-for~~
27 ~~tax-years-beginning-on-January-17-1979-to-the-extent-those~~
28 ~~benefits-had-been-included-in-net-income-on-a-return-filed~~
29 ~~before-January-17-1981-and-were-excluded-from-income-under-Act~~
30 ~~section-1075-of-the-Tax-Reform-Act-of-1984.--Notwithstanding~~
31 ~~the-statute-of-limitations-specified-in-section-422-737~~
32 ~~subsection-27-taxpayers-who-would-be-barred-from-claiming-a~~
33 ~~refund-or-credit-from-an-overpayment-resulting-from-the-change~~
34 ~~made-by-Act-section-1075-of-the-Tax-Reform-Act-of-1984-are~~
35 ~~entitled-to-receive-a-refund-or-credit-if-they-file-a-claim~~

1 with-the-department-on-or-before-June-30,1986:

2 21. Add the four percent of the basic salary of a judge,
3 who is a member of the judicial retirement system established
4 in chapter 602, article 9, which is exempt from federal income
5 tax under the Internal Revenue Code of-1954.

6 22. Add the combined net losses from passive farming
7 activity in excess of twenty-five thousand dollars that offset
8 income from other sources. Net losses under section 165 of
9 the Internal Revenue Code of-1954, exclusive of net gains
10 incurred passively from the operation of a farming business,
11 as defined in section 464(e) of the Internal Revenue Code of
12 1954, are to be combined from businesses, rents, partnerships,
13 subchapter S corporations, estates or trusts except losses
14 under sections 1211 and 1231 of the Internal Revenue Code of
15 1954. For purposes of this subsection the following apply:

16 a. "Passive activity" means an activity where the taxpayer
17 or a member of the taxpayer's family as defined in section
18 2032A(e)(2) of the Internal Revenue Code of-1954 does not ma-
19 terially participate in the activity or provide substantial
20 personal services to the farming business. A taxpayer who is
21 retired or disabled as described in section 2032A(b)(4) of the
22 Internal Revenue Code of-1954 or is a surviving spouse as
23 described in section 2032A(b)(5) shall be treated as
24 materially participating in the farming business.

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

28 23. Add the amount of intangible drilling and development
29 costs optionally deducted in the year paid or incurred as
30 allowed under section 263(c) of the Internal Revenue Code of
31 1954. This amount may be recovered through cost depletion or
32 depreciation, as appropriate under rules prescribed by the
33 director.

34 24. Add the percentage depletion amount determined with
35 respect to an oil, gas, or geothermal well using methods in

1 section 613 of the Internal Revenue Code of-1954 that is in
2 excess of the cost depletion amount determined under section
3 611 of the Internal Revenue Code of-1954.

4 25. Subtract the income or loss resulting from the
5 forfeiture of an installment real estate contract, the
6 transfer of real or personal property securing a debt to a
7 creditor in cancellation of that debt, or from the sale or
8 exchange of property as a result of actual notice of
9 foreclosure if all of the following conditions are met:

10 a. The forfeiture, transfer, or sale or exchange was done
11 for the purpose of establishing a positive cash flow.

12 b. Immediately before the forfeiture, transfer, or sale or
13 exchange, the taxpayer's debt to asset ratio exceeded ninety
14 percent as computed under generally accepted accounting
15 practices.

16 c. The taxpayer's net worth at the end of the tax year is
17 less than seventy-five thousand dollars. In determining a
18 taxpayer's net worth at the end of the tax year a taxpayer
19 shall include any asset transferred within one hundred twenty
20 days prior to the end of the tax year without adequate and
21 full consideration in money or money's worth. In determining
22 the taxpayer's debt to asset ratio, the taxpayer shall include
23 any asset transferred within one hundred twenty days prior to
24 such forfeiture, transfer, or sale or exchange without
25 adequate and full consideration in money or money's worth.
26 For purposes of this subsection, actual notice of foreclosure
27 includes, but is not limited to, bankruptcy or written notice
28 from a creditor of the creditor's intent to foreclose where
29 there is a reasonable belief that the creditor can force a
30 sale of the asset. For purposes of this subsection, in the
31 case of married taxpayers, except in the case of a husband and
32 wife who live apart at all times during the tax year, the
33 assets and liabilities of both spouses shall be considered for
34 purposes of determining the taxpayer's net worth or the
35 taxpayer's debt to asset ratio.

1 Sec. 8. Section 422.7, subsection 2, Code 1987, is amended
2 to read as follows:

3 2. Add interest and dividends from foreign securities, and
4 from securities of state and other political subdivisions, and
5 from regulated investment companies exempt from federal income
6 tax under the Internal Revenue Code ~~of-1954~~.

7 Sec. 9. Section 422.7, subsections 10, 12, 13, 14, and 22,
8 Code 1987, are amended by striking the subsections.

9 Sec. 10. Section 422.7, Code 1987, is amended by adding
10 the following new subsection:

11 NEW SUBSECTION. Subtract the loss on the sale or exchange
12 of a share of a regulated investment company held for six
13 months or less to the extent the loss was disallowed under
14 section 852(b)(4)(B) of the Internal Revenue Code.

15 Sec. 11. Section 422.9, subsections 1, 2, and 3, Code
16 1987, are amended to read as follows:

17 1. An optional standard deduction of fifteen percent of
18 the net income after deduction of federal income tax, not to
19 exceed one thousand two hundred dollars for a married person
20 who files separately, one thousand two hundred dollars for a
21 single person or three thousand dollars for a husband and wife
22 who file a joint return, a surviving spouse as defined in
23 section 2 of the Internal Revenue Code ~~of-1954~~, or an
24 unmarried head of household as defined in the Internal Revenue
25 Code ~~of-1954~~.

26 A taxpayer who claims the optional standard deduction under
27 this subsection may, after claiming the optional standard
28 deduction, claim the direct charitable contribution as allowed
29 and subject to the same limitations provided under section
30 170(i) of the Internal Revenue Code ~~of-1954~~ for tax years
31 ending on or before December 31, 1986. However, the deduction
32 shall be computed as provided under section 170(i) of the
33 Internal Revenue Code ~~of-1954~~ as applied to tax year 1984.
34 Married taxpayers who have filed a joint federal return and
35 who elect to file separate returns or separately on a combined

1 state return must allocate their allowable charitable
 2 deduction to each spouse in the proportion that each spouse's
 3 respective net income bears to the total combined net income.
 4 Taxpayers affected by the allocation provisions of section
 5 422.8 shall be permitted a deduction in the amount as is
 6 fairly and equitably allocable to Iowa under rules prescribed
 7 by the director.

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

- 12 a. Subtract the deduction for Iowa income taxes.
- 13 b. Add the amount of federal income taxes paid or accrued
 14 as the case may be, during the tax year, adjusted by any
 15 federal income tax refunds. Provided, however, that where
 16 married persons, who have filed a joint federal income tax
 17 return, file separately, such total shall be divided between
 18 them according to the portion thereof paid or accrued, as the
 19 case may be, by each.

- 20 c. Add the amount by which expenses paid or incurred in
 21 connection with the adoption of a child by the taxpayer exceed
 22 three percent of the net income of the taxpayer, or of the
 23 taxpayer and spouse in the case of a joint return. The
 24 expenses may include medical and hospital expenses of the
 25 natural mother which are incident to the child's birth and are
 26 paid by the taxpayer, welfare agency fees, legal fees, and all
 27 other fees and costs relating to the adoption of a child if
 28 the child is placed by a child-placing agency licensed under
 29 chapter 238 or by a person making an independent placement
 30 according to the provisions of chapter 600.

- 31 d. Add an additional deduction for mileage incurred by the
 32 taxpayer in voluntary work for a charitable organization
 33 consisting of the excess of the state employee mileage
 34 reimbursement over the amount deductible for federal income
 35 tax purposes. The deduction shall be proven by the keeping of

1 a contemporaneous diary by the person throughout the period of
2 the voluntary work in the tax year.

3 e. Subtract the adoption deduction permitted under section
4 222 of the Internal Revenue Code of-1954.

5 f. Add the amount, not to exceed five thousand dollars, of
6 expenses not otherwise deductible under this section actually
7 incurred in the home of the taxpayer for the care of a person
8 who is the grandchild, child, parent, or grandparent of the
9 taxpayer or the taxpayer's spouse and who is unable, by reason
10 of physical or mental disability, to live independently and is
11 receiving, or would be eligible to receive if living in a
12 health care facility licensed under chapter 135C, medical
13 assistance benefits under chapter 249A. In the event that the
14 person being cared for is receiving assistance benefits under
15 chapter 239, the expenses not otherwise deductible shall be
16 the net difference between the expenses actually incurred in
17 caring for the person and the assistance benefits received
18 under chapter 239.

19 3. If after applying all of the adjustments provided for
20 in section 422.7, the allocation provisions of section 422.8
21 and the deductions allowable in this section subject to the
22 modifications provided in section 172(d) of the Internal
23 Revenue Code of-1954, the taxable income results in a net
24 operating loss, the net operating loss shall be deducted as
25 follows:

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

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

33 c. If the election under section 172(b)(3)(C) of the
34 Internal Revenue Code of-1954 is made, the Iowa net operating
35 loss shall be carried forward fifteen taxable years.

1 Sec. 12. Section 422.9, subsection 1, unnumbered paragraph
2 2, Code 1987, is amended by striking the paragraph.

3 Sec. 13. Section 422.9, subsection 2, unnumbered paragraph
4 1, Code 1987, is amended to read as follows:

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

9 Sec. 14. Section 422.9, subsection 2, paragraph e, Code
10 1987, is amended by striking the paragraph.

11 Sec. 15. Section 422.10, unnumbered paragraph 1, Code
12 1987, is amended to read as follows:

13 The taxes imposed under this division shall be reduced by a
14 state tax credit for increasing research activities in this
15 state. For individuals, the credit ~~shall equal~~ equals six and
16 one-half percent of the state's apportioned share of the
17 qualifying expenditures for increasing research activities.
18 The state's apportioned share of the qualifying expenditures
19 for increasing research activities is a percent equal to the
20 ratio of qualified research expenditures in this state to
21 total qualified research expenditures. For purposes of this
22 section, an individual may claim a research credit for
23 qualifying research expenditures incurred by a partnership,
24 subchapter S corporation, and estate or trust electing to have
25 the income taxed directly to the individual. The amount
26 claimed by the individual shall be based upon the pro rata
27 share of the individual's earnings of a partnership,
28 subchapter S corporation, or estate or trust. For purposes of
29 this section, "qualifying expenditures for increasing research
30 activities" means the qualifying expenditures as defined for
31 the federal credit for increasing research activities which
32 would be allowable under section ~~30~~ 41 of the Internal Revenue
33 Code of-1954~~-in-effect-on-january-17-1985~~.

34 Sec. 16. Section 422.12, subsection 1, paragraph c, Code
35 1987, is amended to read as follows:

1 c. For each dependent, an additional ten dollars. As used
2 in this section, the term "dependent" shall have the same
3 meaning as provided by the Internal Revenue Code of-1954.

4 Sec. 17. Section 422.12, subsection 2, unnumbered
5 paragraph 1, Code 1987, is amended to read as follows:

6 A child and dependent care credit equal to forty-five
7 percent of the federal child and dependent care credit
8 provided in section 21 of the Internal Revenue Code of-1954.

9 Sec. 18. Section 422.13, subsection 1, paragraph a, Code
10 1987, is amended to read as follows:

11 a. The individual is required to file a federal income tax
12 return under the Internal Revenue Code of-1954.

13 Sec. 19. Section 422.16, subsection 1, unnumbered
14 paragraph 1, Code 1987, is amended to read as follows:

15 Every withholding agent and every employer as defined in
16 this chapter and further defined in the Internal Revenue Code
17 of-1954, with respect to income tax collected at source,
18 making payment of wages to a nonresident employee working in
19 Iowa, or to a resident employee, shall deduct and withhold
20 from the wages an amount which will approximate the employee's
21 annual tax liability on a calendar year basis, calculated on
22 the basis of tables to be prepared by the department and
23 schedules or percentage rates, based on the wages, to be
24 prescribed by the department. Every employee or other person
25 shall declare to the employer or withholding agent the number
26 of the employee's or other person's personal exemptions and
27 dependency exemptions or credits to be used in applying the
28 tables and schedules or percentage rates. However, no greater
29 number of personal or dependency exemptions or credits may be
30 declared by the employee or other person than the number to
31 which the employee or other person is entitled except as
32 allowed under section 3402(m)(1) of the Internal Revenue Code
33 of-1954. The claiming of exemptions or credits in excess of
34 entitlement is a serious misdemeanor.

35 Sec. 20. Section 422.16, subsection 11, paragraphs a and

1 d, Code 1987, are amended to read as follows:

2 a. Every person or married couple filing a return shall
3 make estimated tax payments if the person's or couple's Iowa
4 income tax attributable to income other than wages subject to
5 withholding can reasonably be expected to amount to fifty
6 dollars or more for the taxable year, except that, in the
7 cases of farmers and fishers, the exceptions provided in the
8 Internal Revenue Code of-1954 with respect to making estimated
9 payments shall apply. The estimated tax shall be paid in
10 quarterly installments. The first installment shall be paid
11 on or before the last day of the fourth month of the
12 taxpayer's tax year for which the estimated payments apply.
13 The other installments shall be paid on or before June 30,
14 September 30, and January 31. However, at the election of the
15 person or married couple, any installment of the estimated tax
16 may be paid prior to the date prescribed for its payment. If
17 a person or married couple filing a return has reason to
18 believe that the person's or couple's Iowa income tax may
19 increase or decrease, either for purposes of meeting the
20 requirement to make estimated tax payments or for the purpose
21 of increasing or decreasing estimated tax payments, shall
22 increase or decrease any subsequent estimated tax payments
23 accordingly.

24 d. Any amount of estimated tax paid is a credit against
25 the amount of tax found payable on a final, completed return,
26 as provided in subsection 9, relating to the credit for the
27 tax withheld against the tax found payable on a return
28 properly and correctly prepared under sections 422.5 through
29 422.25, and any overpayment of one dollar or more shall be
30 refunded to the taxpayer and the return constitutes a claim
31 for refund for this purpose. Amounts less than one dollar
32 shall not be refunded. The method provided by the Internal
33 Revenue Code of-1954 for determining what is applicable to the
34 addition to tax for underpayment of the tax payable applies to
35 persons required to make payments of estimated tax under this

1 section except the amount to be added to the tax for
2 underpayment of estimated tax is an amount determined at the
3 rate in effect under section 421.7. This addition to tax
4 specified for underpayment of the tax payable is not subject
5 to waiver provisions relating to reasonable cause, except as
6 provided in the Internal Revenue Code of-1954. Underpayment
7 of estimated tax shall be determined in the same manner as
8 provided under the Internal Revenue Code of-1954 and the
9 exceptions in the Internal Revenue Code of-1954 also apply.

10 Sec. 21. Section 422.20, subsection 2, Code 1987, is
11 amended to read as follows:

12 2. It shall be unlawful for any officer, employee, or
13 agent, or former officer, employee, or agent of the state to
14 disclose to any person, except as authorized in subsection 1
15 of this section, any federal tax return or return information
16 as defined in section 6103(b) of the Internal Revenue Code of
17 1954. It shall further be unlawful for any person to whom any
18 federal tax return or return information, as defined in
19 section 6103(b) of the Internal Revenue Code of-1954, is
20 disclosed in a manner unauthorized by subsection 1 of this
21 section to thereafter print or publish in any manner not
22 provided by law any such return or return information. Any
23 person committing an offense against the foregoing provision
24 shall be guilty of a serious misdemeanor.

25 Sec. 22. Section 422.21, unnumbered paragraph 1, Code
26 1987, is amended to read as follows:

27 Returns shall be in the form the director may, from time to
28 time, prescribe, and shall be filed with the department on or
29 before the last day of the fourth month after the expiration
30 of the tax year except that co-operative associations as
31 defined in section 6072(d) of the Internal Revenue Code of
32 1954 shall file their returns on or before the fifteenth day
33 of the ninth month following the close of the taxable year.
34 If, under the Internal Revenue Code of-1954, a corporation is
35 required to file a return covering a tax period of less than

1 twelve months, the state return shall be for the same period
 2 and shall be due forty-five days after the due date of the
 3 federal tax return, excluding any extension of time to file.
 4 In case of sickness, absence, or other disability, or if good
 5 cause exists, the director may allow further time for filing
 6 returns. The director shall cause to be prepared blank forms
 7 for the returns and shall cause them to be distributed
 8 throughout the state and to be furnished upon application, but
 9 failure to receive or secure the form does not relieve the
 10 taxpayer from the obligation of making a return that is
 11 required. The department may as far as consistent with the
 12 Code draft income tax forms to conform to the income tax forms
 13 of the internal revenue department of the United States
 14 government. Each return by a taxpayer upon whom a tax is
 15 imposed by section 422.57-subsection-17-paragraph-"g" shall
 16 show the county of the residence of the taxpayer.

17 Sec. 23. Section 422.25, subsection 1, unnumbered
 18 paragraph 1, Code 1987, is amended to read as follows:

19 Within three years after the return is filed or within
 20 three years after the return became due, including any
 21 extensions of time for filing, whichever time is the later,
 22 the department shall examine it and determine the correct
 23 amount of tax, and the amount determined by the department is
 24 the tax. However, if the taxpayer omits from income an amount
 25 which will, under the Internal Revenue Code of-1954, extend
 26 the statute of limitations for assessment of federal tax to
 27 six years under the federal law, the period for examination
 28 and determination is six years. In addition to the applicable
 29 period of limitation for examination and determination, the
 30 department may make an examination and determination at any
 31 time within six months from the date of receipt by the
 32 department of written notice from the taxpayer of the final
 33 disposition of any matter between the taxpayer and the
 34 internal revenue service with respect to the particular tax
 35 year. In order to begin the running of the six-months'

1 period, the notice shall be in writing in any form sufficient
2 to inform the department of the final disposition with respect
3 to that year, and a copy of the federal document showing the
4 final disposition or final federal adjustments shall be
5 attached to the notice.

6 Sec. 24. Section 422.32, subsections 4 and 11, Code 1987,
7 are amended to read as follows:

8 4. The term "affiliated group" means a group of
9 corporations as defined in section 1504(a) of the Internal
10 Revenue Code of 1954.

11 ~~11--For purposes of section 422.37, subsection 5, the~~
12 ~~Internal Revenue Code of 1954 shall be interpreted to include~~
13 ~~the provisions of Pub. L. No. 98-4.~~

14 Sec. 25. Section 422.33, subsection 4, Code 1987, is
15 amended by striking the subsection and inserting in lieu
16 thereof the following:

17 4. In addition to all taxes imposed under this division,
18 there is imposed upon each corporation doing business within
19 the state the greater of the tax determined in subsection 1,
20 paragraphs "a" through "d" or the state alternative minimum
21 tax equal to sixty percent of the maximum state corporate
22 income tax rate, rounded to the nearest one-tenth of one
23 percent, of the state alternative minimum taxable income of
24 the taxpayer computed under this subsection.

25 The state alternative minimum taxable income of a taxpayer
26 is equal to the taxpayer's state taxable income as computed
27 with the adjustments in section 422.35 and with the following
28 adjustments:

29 a. Add items of tax preference included in federal
30 alternative minimum taxable income under section 57, except
31 subsections (a)(2) and (a)(5), of the Internal Revenue Code,
32 make the adjustments included in federal alternative minimum
33 taxable income under section 56, except subsections (a)(4) and
34 (d), of the Internal Revenue Code, and add losses as required
35 by section 58 of the Internal Revenue Code. In making the

1 adjustment under section 56(c)(1) of the Internal Revenue
2 Code, interest and dividends from federal securities net of
3 amortization of any discount or premium shall be subtracted.

4 b. Apply the allocation and apportionment provisions of
5 subsection 2.

6 c. Subtract an exemption amount of forty thousand dollars.

7 d. In the case of a net operating loss computed for a tax
8 year beginning after December 31, 1986 which is carried back
9 or carried forward to the current taxable year, the net
10 operating loss shall be reduced by the amount of items of tax
11 preference and adjustments arising in the tax year which is
12 taken into account in computing the net operating loss in
13 section 422.35, subsection 13. The deduction for a net
14 operating loss for a tax year beginning after December 31,
15 1986 which is carried back or carried forward to the current
16 taxable year shall not exceed ninety percent of the
17 alternative minimum taxable income determined without regard
18 for the net operating loss deduction.

19 Sec. 26. Section 422.33, subsection 5, Code 1987, is
20 amended to read as follows:

21 5. The taxes imposed under this division shall be reduced
22 by a state tax credit for increasing research activities in
23 this state equal to six and one-half percent of the state's
24 apportioned share of the qualifying expenditures for
25 increasing research activities. The state's apportioned share
26 of the qualifying expenditures for increasing research
27 activities is a percent equal to the ratio of qualified
28 research expenditures in this state to the total qualified
29 research expenditures. For purposes of this subsection,
30 "qualifying expenditures for increasing research activities"
31 means the qualifying expenditures as defined for the federal
32 credit for increasing research activities which would be
33 allowable under section ~~30~~ 41 of the Internal Revenue Code of
34 ~~1954~~-in-effect-on-January-17-1985.

35 Any credit in excess of the tax liability for the taxable

1 year shall be refunded with interest computed under section
2 422.25. In lieu of claiming a refund, a taxpayer may elect to
3 have the overpayment shown on its final, completed return
4 credited to the tax liability for the following taxable year.

5 Sec. 27. Section 422.35, Code 1987, is amended to read as
6 follows:

7 422.35 NET INCOME OF CORPORATION -- HOW COMPUTED.

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

12 1. Subtract interest and dividends from federal
13 securities.

14 2. Add interest and dividends from foreign securities and
15 from securities of state and other political subdivisions
16 exempt from federal income tax under the Internal Revenue Code
17 of 1954.

18 3. Where the net income includes capital gains or losses,
19 or gains or losses from property other than capital assets,
20 and such gains or losses have been determined by using a basis
21 established prior to January 1, 1934, an adjustment may be
22 made, under rules and regulations prescribed by the director,
23 to reflect the difference resulting from the use of a basis of
24 cost or January 1, 1934, fair market value, less depreciation
25 allowed or allowable, whichever is higher. Provided that the
26 basis shall be fair market value as of January 1, 1955, less
27 depreciation allowed or allowable, in the case of property
28 acquired prior to that date if use of a prior basis is
29 declared to be invalid.

30 4. Subtract fifty percent of the federal income taxes paid
31 or accrued, as the case may be, during the tax year, adjusted
32 by any federal income tax refunds; and add the Iowa income tax
33 deducted in computing said taxable income.

34 ~~5. Add the amount by which the basis of qualified~~
35 ~~depreciable property is required to be increased for~~

1 depreciation-purposes-under-the-Internal-Revenue-Code
 2 Amendments-Act-of-1964-to-the-extent-that-such-amount-equals
 3 the-net-amount-of-the-special-deduction-allowed-on-the-basis
 4 of-the-amount-by-which-the-depreciable-basis-of-such-qualified
 5 property-was-required-to-be-reduced-for-depreciation-purposes
 6 under-the-Internal-Revenue-Code-Amendments-Act-of-1962--The
 7 "net-amount-of-the-special-deduction"-shall-be-computed-by
 8 taking-the-sum-of-the-amounts-by-which-the-basis-of-qualified
 9 property-was-required-to-be-decreased-for-depreciation
 10 purposes-for-the-years-1962-and-1963-and-subtracting-from-it
 11 the-sum-of-the-amounts-by-which-the-basis-of-such-property-was
 12 required-to-be-increased, prior-to-1964, for-depreciation-or
 13 disposition-purposes-under-the-Internal-Revenue-Code
 14 Amendments-Act-of-1962-

15 6. Subtract the amount of the jobs tax credit allowable
 16 for the tax year under section 51 of the Internal Revenue Code
 17 of-1954 to the extent that the credit increased federal
 18 taxable income.

19 7. If the taxpayer is a small business corporation,
 20 subtract an amount equal to fifty percent of the wages paid to
 21 individuals named in paragraphs "a", "b", and "c" who were
 22 hired for the first time by the taxpayer during the tax year
 23 for work done in this state:

24 a. A handicapped individual domiciled in this state at the
 25 time of the hiring who meets any of the following conditions:

- 26 (1) Has a physical or mental impairment which
- 27 substantially limits one or more major life activities.
- 28 (2) Has a record of that impairment.
- 29 (3) Is regarded as having that impairment.

30 b. An individual domiciled in this state at the time of
 31 the hiring who meets any of the following conditions:

- 32 (1) Has been convicted of a felony in this or any other
- 33 state or the District of Columbia.
- 34 (2) Is on parole pursuant to chapter 906.
- 35 (3) Is on probation pursuant to chapter 907, for an

1 offense other than a simple misdemeanor.

2 (4) Is in a work release program pursuant to chapter 246,
3 division IX.

4 c. An individual, whether or not domiciled in this state
5 at the time of the hiring, who is on parole or probation and
6 to whom the interstate probation and parole compact under
7 section 907A.1 applies.

8 This deduction is allowed for the wages paid to the
9 individuals successfully completing a probationary period
10 named in paragraphs "a", "b", and "c" during the twelve months
11 following the date of first employment by the taxpayer and
12 shall be deducted in the tax years when paid.

13 For purposes of this subsection, "physical or mental
14 impairment" means any physiological disorder or condition,
15 cosmetic disfigurement, or anatomical loss affecting one or
16 more of the body systems or any mental or psychological
17 disorder, including mental retardation, organic brain
18 syndrome, emotional or mental illness and specific learning
19 disabilities.

20 For purposes of this subsection, "small business" means
21 small business as defined in section 220.1, subsection 28,
22 except that it shall also include the operation of a farm.

23 8. Subtract the amount of the alcohol fuel credit
24 allowable for the tax year under section 40 of the Internal
25 Revenue Code ~~of-1954~~ to the extent that the credit increased
26 federal taxable income.

27 9. Add the amounts deducted and subtract the amounts
28 included in income as a result of the treatment provided sale-
29 leaseback agreements under section 168(f)(8) of the Internal
30 Revenue Code ~~of-1954~~ for property placed in service by the
31 transferee prior to January 1, 1986 to the extent that the
32 amounts deducted and the amounts included in income are not
33 otherwise deductible or included in income under the other
34 provisions of the Internal Revenue Code ~~of-1954~~ as amended to
35 and including December 31, 1985. Entitlement to depreciation

1 on any property involved in a sale-leaseback agreement which
2 is placed in service by the transferee prior to January 1,
3 1986 shall be determined under the Internal Revenue Code of
4 1954 as amended to and including December 31, 1985, excluding
5 section 168(f)(8) in making the determination.

6 10. Add the amount of windfall profits tax deducted under
7 section 164(a) of the Internal Revenue Code of-1954.

8 11. Add the combined net losses from passive farming
9 activity in excess of twenty-five thousand dollars that offset
10 income from other sources. Net losses under section 165 of
11 the Internal Revenue Code of-1954, exclusive of net gains
12 incurred passively from the operation of a farming business,
13 as defined in section 464(e) of the Internal Revenue Code of
14 1954, are to be combined from businesses, rents, partnerships,
15 corporations, estates or trusts except losses under sections
16 1211 and 1231 of the Internal Revenue Code of-1954. Farming
17 activity is passive if the taxpayer does not materially
18 participate in the activity nor provide substantial services
19 to the farming business. A loss from an activity that is
20 disallowed under this subsection shall be treated as a
21 deduction allowable to that activity in the first succeeding
22 tax year.

23 12. Add the percentage depletion amount determined with
24 respect to an oil, gas, or geothermal well using methods in
25 section 613 of the Internal Revenue Code of-1954 that is in
26 excess of the cost depletion amount determined under section
27 611 of the Internal Revenue Code of-1954.

28 13. If after applying all of the adjustments provided for
29 in this section and the allocation and apportionment
30 provisions of section 422.33, the Iowa taxable income results
31 in a net operating loss, such net operating loss shall be
32 deducted as follows:

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

1 later.

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

6 c. If the election under section 172(b)(3)(C) of the
7 Internal Revenue Code ~~of-1954~~ is made, the Iowa net operating
8 loss shall be carried forward fifteen taxable years.

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

12 Provided, however, that a corporation affected by the
13 allocation provisions of section 422.33 shall be permitted to
14 deduct only such portion of the deductions for net operating
15 loss and federal income taxes as is fairly and equitably
16 allocable to Iowa, under rules prescribed by the director.

17 Sec. 28. Section 422.35, subsection 2, Code 1987, is
18 amended to read as follows:

19 2. Add interest and dividends from foreign securities, and
20 from securities of state and other political subdivisions, and
21 from regulated investment companies exempt from federal income
22 tax under the Internal Revenue Code ~~of-1954~~.

23 Sec. 29. Section 422.35, subsection 11, Code 1987, is
24 amended by striking the subsection.

25 Sec. 30. Section 422.35, Code 1987, is amended by adding
26 the following new subsection:

27 NEW SUBSECTION. Subtract the loss on the sale or exchange
28 of a share of a regulated investment company held for six
29 months or less to the extent the loss was disallowed under
30 section 852(b)(4)(B) of the Internal Revenue Code.

31 Sec. 31. Section 422.36, subsection 5, Code 1987, is
32 amended to read as follows:

33 5. Where a corporation is not subject to income tax and
34 the stockholders of such corporation are taxed on the
35 corporation's income under the provisions of the Internal

1 Revenue Code of-1954, the same tax treatment shall apply to
2 such corporation and such stockholders for Iowa income tax
3 purposes.

4 Sec. 32. Section 422.37, subsection 7, Code 1987, is
5 amended to read as follows:

6 7. The computation of consolidated taxable income for the
7 members of an affiliated group of corporations subject to tax
8 shall be made in the same manner and under the same
9 procedures, including all intercompany adjustments and
10 eliminations, as are required for consolidating the incomes of
11 affiliated corporations for the taxable year for federal
12 income tax purposes in accordance with section 1502 of the
13 Internal Revenue Code of-1954.

14 Sec. 33. Section 422.60, Code 1987, is amended by striking
15 the section and inserting in lieu thereof the following:

16 422.60 IMPOSITION OF TAX.

17 1. A franchise tax according to and measured by net income
18 is imposed on financial institutions for the privilege of
19 doing business in this state as financial institutions.

20 2. In addition to all taxes imposed under this division,
21 there is imposed upon each financial institution doing
22 business within the state the greater of the tax determined in
23 section 422.63 or the state alternative minimum tax equal to
24 sixty percent of the maximum state franchise tax rate, rounded
25 to the nearest one-tenth of one percent, of the state
26 alternative minimum taxable income of the taxpayer computed
27 under this subsection.

28 The state alternative minimum taxable income of a taxpayer
29 is equal to the taxpayer's state taxable income as computed
30 with the adjustments in section 422.61, subsection 4, and with
31 the following adjustments:

32 a. Add items of tax preference included in federal
33 alternative minimum taxable income under section 57, except
34 subsections (a)(2) and (a)(5), of the Internal Revenue Code,
35 make the adjustments included in federal alternative minimum

1 taxable income under section 56, except subsections (a)(4) and
2 (d), of the Internal Revenue Code, and add losses as required
3 by section 58 of the Internal Revenue Code.

4 b. Apply the allocation and apportionment provisions of
5 section 422.60.

6 c. Subtract an exemption amount of forty thousand dollars.

7 d. In the case of a net operating loss beginning after
8 December 31, 1986 which is carried back or carried forward to
9 the current taxable year, the net operating loss shall be
10 reduced by the amount of items of tax preference and
11 adjustments arising in the tax year which was taken into
12 account in computing the net operating loss in section 422.35,
13 subsection 13. The deduction for a net operating loss for a
14 tax year beginning after December 31, 1986 which is carried
15 back or carried forward to the current taxable year shall not
16 exceed ninety percent of the alternative minimum taxable
17 income determined without regard for the net operating loss
18 deduction.

19 Sec. 34. Section 422.61, subsection 2, Code 1987, is
20 amended to read as follows:

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

27 Sec. 35. Section 422.72, subsection 2, Code 1987, is
28 amended to read as follows:

29 2. Federal tax returns, copies of returns, and return
30 information as defined in section 6103(b) of the Internal
31 Revenue Code ~~of 1954~~, which are required to be filed with the
32 department for the enforcement of the income tax laws of this
33 state, shall be deemed and held as confidential by the
34 department and subject to the disclosure limitations in
35 subsection 1 ~~of this section~~.

1 Sec. 36. Section 422.73, subsection 4, Code 1987, is
2 amended by striking the subsection.

3 Sec. 37. Section 422.73, Code 1987, is amended by adding
4 the following new subsections:

5 NEW SUBSECTION. Notwithstanding subsection 2, a claim for
6 credit or refund of the income tax paid for a tax year
7 beginning in the 1983 calendar year is considered timely if
8 the claim is filed with the department on or before October
9 22, 1987, if the taxpayer's federal income tax was forgiven
10 under section 692 of the Internal Revenue Code because the
11 taxpayer died, or was missing in action and determined dead,
12 while serving in a combat zone. To the extent the federal
13 income tax was forgiven under section 692 of the Internal
14 Revenue Code for the tax year, the Iowa income tax is also
15 forgiven.

16 NEW SUBSECTION. Notwithstanding subsection 2, a claim for
17 credit or refund of the state alternative minimum tax paid for
18 any tax year beginning on or after January 1, 1982 and before
19 January 1, 1984 is considered timely if the claim is filed
20 with the department on or before October 22, 1987, if the
21 taxpayer's capital gains preference items for purposes of the
22 federal individual alternative minimum tax was reduced as a
23 result of section 13208 of the Consolidated Omnibus Budget
24 Reconciliation Act of 1985 as amended by section 1896 of the
25 Tax Reform Act of 1986.

26 Sec. 38. Section 450.3, subsections 2 and 7, Code 1987,
27 are amended to read as follows:

28 2. By deed, grant, sale, gift or transfer made within
29 three years of the death of the grantor or donor, which is not
30 a bona fide sale for an adequate and full consideration in
31 money or money's worth and which is in excess of the annual
32 gift tax exclusion allowable for each donee under section
33 2503, subsections b and e of the Internal Revenue Code ~~of 1954~~
34 as defined in section 422.3. If both spouses consent, a gift
35 made by one spouse to a person who is not the other spouse is

1 considered, for the purposes of this subsection, as made one
2 half by each spouse under the same terms and conditions
3 provided for in section 2513 of the Internal Revenue Code of
4 1954 as defined in section 422.3.

5 7. Which qualifies as a qualified terminable interest
6 property as defined in section 2056(b)(7)(B) of the Internal
7 Revenue Code of 1954 as defined in section 422.3, shall, if an
8 election is made, be treated and considered as passing in fee,
9 or its equivalent, to the surviving spouse in the estate of
10 the donor-grantor. Property on which the election is made
11 shall be included in the gross estate of the surviving spouse
12 and shall be deemed to have passed in fee from the surviving
13 spouse to the persons succeeding to the remainder interest,
14 unless the property was sold, distributed, or otherwise
15 disposed of prior to the death of the surviving spouse. A
16 sale, disposition, or disposal of the property prior to the
17 death of the surviving spouse shall void the election, and
18 shall subject the property disposed of, less amounts received
19 or retained by the surviving spouse, to tax in the donor-
20 grantor's estate in the same manner as if the tax had been
21 deferred under sections 450.44 through 450.49.

22 Sec. 39. Section 450.37, subsection 1, paragraph b, Code
23 1987, is amended to read as follows:

24 b. The alternate value of the property, if the personal
25 representative so elects, that has been established for
26 federal estate tax purposes under section 2032 of the Internal
27 Revenue Code of 1954 as defined in section 422.3. The
28 election shall be exercised on the return by the personal
29 representative or other person signing the return, within the
30 time prescribed by law for filing the return or before the
31 expiration of any extension of time granted for filing the
32 return.

33 Sec. 40. Section 450A.1, Code 1987, is amended to read as
34 follows:

35 450A.1 DEFINITIONS.

1 As used in this chapter, unless the context otherwise
2 requires:

3 1. "Generation skipping transfer" means the generation
4 skipping transfer as defined in section 2611 of the Internal
5 Revenue Code of 1954.

6 2. "Internal Revenue Code of 1954" means the same as the
7 term is defined in section 422.3.

8 3. ~~"Deemed transferor" means the deemed transferor as~~
9 ~~defined in section 2612 of the Internal Revenue Code of 1954.~~

10 4. "Director" means the director of the department of
11 revenue and finance.

12 5. ~~"Generation skipping trust" means a generation skipping~~
13 ~~trust as defined in section 2611 of the Internal Revenue Code~~
14 ~~of 1954.~~

15 6. ~~"Generation skipping trust equivalent" means a~~
16 ~~generation skipping trust equivalent as defined in section~~
17 ~~2611 of the Internal Revenue Code of 1954.~~

18 7 4. "Distributee" means a person receiving property in a
19 generation skipping transfer.

20 8 5. "Department" means the department of revenue and
21 finance.

22 6. "Direct skip" means the same as the term is defined in
23 section 2612(c) of the Internal Revenue Code.

24 7. "Taxable termination" means the same as the term is
25 defined in section 2612(a) of the Internal Revenue Code.

26 8. "Taxable distribution" means the same as the term is
27 defined in section 2612(b) of the Internal Revenue Code.

28 9. "Transferor", "trust", "trustee" and "interest" means
29 the same as those respective terms are defined in section 2652
30 of the Internal Revenue Code.

31 Sec. 41. Section 450A.2, Code 1987, is amended to read as
32 follows:

33 450A.2 IMPOSITION OF TAX.

34 A tax is imposed on the transfer of any property, included
35 in a generation skipping transfer, other than a direct skip,

1 occurring at the same time as, ~~or after,~~ and as a result of
2 the death of the ~~deemed transferor~~ an individual, ~~equal to the~~
3 in an amount of equal to the maximum federal credit allowable
4 under section ~~2602(c)(5)(B)~~ 2604 of the Internal Revenue Code
5 of ~~1954~~, for that ~~portion of state estate, inheritance,~~
6 ~~legacy, or succession tax~~ the generation skipping transfer tax
7 actually paid to the state in respect of any property included
8 in the generation skipping transfer.

9 Where the deemed transferor is a resident of Iowa and all
10 property included in a generation skipping transfer that is
11 subject to tax under this section has a situs in Iowa, or is
12 subject to the jurisdiction of the courts of Iowa, an amount
13 equal to the total credit as allowed under the Internal
14 Revenue Code of ~~1954~~ shall be paid to the state of Iowa.

15 Where the deemed transferor is a nonresident or where the
16 property included in a generation skipping transfer that is
17 subject to tax under this section has a situs outside the
18 state of Iowa and not subject to the jurisdiction of Iowa
19 courts, the tax shall be prorated on the basis that the value
20 of Iowa property included in the generation skipping transfer
21 bears to the total value of property included in the
22 generation skipping transfer.

23 Sec. 42. Section 450A.3, Code 1987, is amended to read as
24 follows:

25 450A.3 VALUE OF PROPERTY.

26 The value of property, included in a generation skipping
27 transfer, shall be the same as determined for federal
28 generation skipping transfer tax purposes under the Internal
29 Revenue Code of ~~1954~~.

30 Sec. 43. Section 450A.4, Code 1987, is amended to read as
31 follows:

32 450A.4 PAYMENT OF THE TAX.

33 The tax imposed by this chapter shall be paid ~~within twelve~~
34 months on or before the last day of the ninth month after the
35 death of the ~~deemed transferor if the transfer occurs at that~~

1 time, or if later, the day which is twelve months after the
2 day on which such generation skipping transfer occurred
3 individual whose death is the event causing the generation
4 skipping transfer which is eligible for the credit for state
5 taxes paid under section 2604 of the Internal Revenue Code.
6 For purposes of this chapter, any property transferred during
7 the three-year period ending on the date of the deemed
8 transferor's death and which is included in a generation
9 skipping transfer under the Internal Revenue Code of 1954
10 shall be considered as transferred on the deemed transferor's
11 death.

12 Sec. 44. Section 450A.5, Code 1987, is amended to read as
13 follows:

14 450A.5 LIABILITY FOR THE TAX.

15 The distributee transferee of the property included in the
16 generation skipping transfer shall be personally liable for
17 the tax to the extent of the fair market its value, determined
18 under section 2624 of the Internal Revenue Code as of the time
19 of the distribution, ~~of the property received in the~~
20 distribution generation skipping transfer. If the tax is
21 attributable to a taxable termination, as defined in section
22 ~~2613~~ 2612(a) of the Internal Revenue Code ~~of 1954~~, the trustee
23 and the transferee shall be personally liable for the tax to
24 the extent of the value of the property subject to tax under
25 the trustee's control.

26 Sec. 45. Section 450A.6, Code 1987, is amended to read as
27 follows:

28 450A.6 LIEN OF THE TAX.

29 The tax imposed by this chapter shall be a lien on the
30 property subject to the tax for a period of ten years from the
31 time the generation skipping transfer occurs. Full payment of
32 the tax, penalty and interest due ~~and interest, if any,~~ shall
33 release the lien and discharge the distributee transferee and
34 trustee of personal liability. Unless the lien has been
35 perfected by recording, a transfer by the distributee

1 transferee or the trustee to a bona fide purchaser for value
2 shall divest the property of the lien. If the lien is
3 perfected by recording, the rights of the state under the lien
4 have priority over all subsequent mortgages, purchases or
5 judgment creditors. The department may release the lien prior
6 to the payment of the tax due if adequate security for payment
7 of the tax is given.

8 Sec. 46. Section 450A.10, Code 1987, is amended to read as
9 follows:

10 450A.10 DIRECTOR TO ENFORCE COLLECTION.

11 It shall be the duty of the director to enforce collection
12 of the tax imposed by this chapter and shall with all the
13 rights of a party in interest, represent the state in any
14 proceedings to collect the tax. The director shall have the
15 power to bring suit against any person liable for the payment
16 of the tax, penalty, interest and costs and may foreclose the
17 lien of the tax in the same manner as is now prescribed for
18 the foreclosure of real estate mortgages and upon judgment may
19 cause execution to be issued to sell so much of the property
20 necessary to satisfy the tax, penalty, interest and costs due.

21 Sec. 47. Section 450A.11, Code 1987, is amended to read as
22 follows:

23 450A.11 DUTY TO CLAIM MAXIMUM CREDIT.

24 It shall be the duty of any person liable for the payment
25 of the tax to claim the maximum federal credit allowable for
26 that portion of the state estate, inheritance, legacy or
27 succession generation skipping transfer tax paid in respect of
28 any property included in a taxable generation skipping
29 transfer. Claiming on a federal return a sum less than the
30 maximum federal credit allowable shall not relieve any person
31 liable for the tax of the duty to pay the tax imposed under
32 this chapter.

33 If an amended or supplemental return is filed with the
34 internal revenue service which results in a change in the
35 amount of tax owing under this chapter, the persons liable for

1 the payment of the tax shall submit an amended return, on
2 forms prescribed by the director, indicating the amount of the
3 tax then owing as a result of such change.

4 If any federal generation skipping transfer tax has been
5 paid before the enactment of this chapter, the persons liable
6 for the payment of the tax under this chapter shall file an
7 amended federal return claiming the maximum federal credit
8 allowable and file the Iowa returns specified in section
9 450A.8 within six months after the enactment of this chapter
10 or within the time limit provided in section 450A.4 whichever
11 is the later.

12 Sec. 48. Section 450B.1, Code 1987, is amended to read as
13 follows:

14 450B.1 DEFINITIONS.

15 As used in this chapter, unless the context otherwise
16 requires:

17 1. "Internal Revenue Code of-1954" means the same as
18 defined in section 422.3.

19 2. "Taxpayer" means a qualified heir liable for the
20 inheritance tax imposed under chapter 450 on qualified real
21 property.

22 3. "Qualified real property", "qualified use", "cessation
23 of qualified use", and "qualified heir" mean the same as
24 defined in section 2032A of the Internal Revenue Code of-1954.

25 4. For purposes of subsection 1, the Internal Revenue Code
26 of-1954 shall be interpreted to include the provisions of Pub.
27 L. No. 98-4.

28 Sec. 49. Section 450B.2, Code 1987, is amended to read as
29 follows:

30 450B.2 ALTERNATE ELECTION OF VALUE FOR QUALIFIED USE.

31 Notwithstanding section 450.37, the value of qualified real
32 property for the purpose of the tax imposed under chapter 450
33 may, at the election of the taxpayer, be its value for the use
34 under which it qualifies as prescribed by section 2032A of the
35 Internal Revenue Code of-1954. A taxpayer may make an

1 election under this section only if all of the following
2 conditions are met:

3 1. An election for federal estate tax purposes was made
4 with regard to the qualified real property under section 2032A
5 of the Internal Revenue Code of ~~1954~~.

6 2. All persons who signed the agreement referred to in
7 section 2032A(d)(2) of the Internal Revenue Code of ~~1954~~ make
8 the election under this section and sign an agreement with the
9 department of revenue and finance consenting to the
10 application of section 450B.3 with respect to the qualified
11 real property.

12 3. The total decrease in the value of the qualified real
13 property as a result of the election under this section does
14 not exceed the dollar limitation specified in section
15 2032A(a)(2) of the Internal Revenue Code of ~~1954~~.

16 The election under this section shall be made by the
17 taxpayer in the manner as the director of revenue and finance
18 may prescribe by rule. The value for the qualified use under
19 this section shall be the value as determined and accepted for
20 federal estate tax purposes.

21 The definitions and special rules specified in section
22 2032A(e) of the Internal Revenue Code of ~~1954~~ shall apply with
23 respect to qualified real property for which an election was
24 made under this section except that rules shall be prescribed
25 by the director of revenue and finance in lieu of the
26 regulations promulgated by the secretary of treasury.

27 The director shall prescribe regulations setting forth the
28 application of this chapter in the case of an interest in a
29 partnership, corporation, or trust which, with respect to the
30 decedent, is an interest in a closely held business within the
31 meaning of section 6166(b)(1) of the Internal Revenue Code of
32 ~~1954~~. Such regulations shall conform as nearly as possible
33 with the regulations promulgated by the United States
34 secretary of treasury in respect to such interests.

35 Sec. 50. Section 450B.3, Code 1987, is amended to read as

1 follows:

2 450B.3 ADDITIONAL INHERITANCE TAX APPLICABLE.

3 There is imposed upon the qualified heir an additional
 4 inheritance tax if, within ten years after the decedent's
 5 death and before the death of the qualified heir, the
 6 qualified heir disposes of, other than to a member of the
 7 family, any interest in qualified real property for which an
 8 election under section 450B.2 was made or ceases to use for
 9 the qualified use the qualified real property for which an
 10 election under section 450B.2 was made as prescribed in
 11 section 2032A(c) of the Internal Revenue Code of-1954. The
 12 additional inheritance tax shall be the amount computed under
 13 section 450B.5 and shall be due six months after the date of
 14 the disposition or cessation of qualified use referred to in
 15 this section. The amount of the additional inheritance tax
 16 shall accrue interest at the rate of ten percent per year from
 17 nine months after the decedent's death to the due date of the
 18 tax. The tax shall be paid to the department of revenue and
 19 finance and shall be deposited into the general fund of the
 20 state. Taxes not paid within the time prescribed in this
 21 section shall draw interest at the rate of ten percent per
 22 annum until paid. There shall not be an additional
 23 inheritance tax if the disposition or cessation occurs ten
 24 years or more after the decedent's death.

25 Sec. 51. Section 451.1, subsection 8, Code 1987, is
26 amended to read as follows:

27 8. "Internal Revenue Code of-1954" means the same as
28 defined in section 422.3.

29 Sec. 52. Section 451.2, unnumbered paragraph 1, Code 1987,
30 is amended to read as follows:

31 An amount equal to the federal estate tax credit for state
 32 death taxes as allowed in the Internal Revenue Code of-1954 is
 33 hereby imposed upon every transfer of the net estate of every
 34 decedent, being a resident of, or owning property in this
 35 state, as herein provided.

1 Sec. 53. Section 451.3, Code 1987, is amended to read as
2 follows:

3 451.3 GROSS AND NET ESTATE.

4 The gross estate shall be the same as finally determined
5 for federal estate tax and the net estate shall be the gross
6 estate less deductions as permitted by federal law, in
7 arriving at the net taxable federal estate, all determined as
8 provided in the Internal Revenue Code of ~~1954~~.

9 Sec. 54. Section 450A.13, Code 1987, is repealed.

10 Sec. 55. No addition to the tax shall be made under
11 section 422.16, subsection 11, paragraph "d" or section
12 422.88, relating to the underpayment of estimated tax, for any
13 tax year beginning before January 1, 1987 with respect to any
14 underpayment, to the extent such underpayment was created or
15 increased by any provision of the federal Tax Reform Act of
16 1986 or this Act.

17 Sec. 56. Sections 1, 2, 4, 5, 6, 7, 11, 15 through 24, 26,
18 27, 31, 32, 34, and 35 of this Act are retroactive to January
19 1, 1986 for tax years beginning on or after that date.

20 Sec. 57. Sections 3, 8, 9, 10, 12, 13, 14, 25, 28, 29, 30,
21 and 33 of this Act are retroactive to January 1, 1987 for tax
22 years beginning on or after that date.

23 Sec. 58. Sections 38, 39, 48, 49, 50, 51, 52, and 53 of
24 this Act are retroactive to January 1, 1987 for estates of
25 persons dying on or after that date.

26 Sec. 59. Sections 40 through 47 of this Act are
27 retroactive to October 22, 1986 for generation skipping
28 transfers which are eligible for the credit for state taxes
29 under section 2604 of the Internal Revenue Code and are made
30 after October 22, 1986, subject to the special rules of
31 section 1433(b) of Public Law 99-514.

32 Sec. 60. Section 54 of this Act is retroactive to June 11,
33 1976.

34 Sec. 61. This Act, being deemed of immediate importance,
35 takes effect upon enactment.

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EXPLANATION

The bill provides for the state individual, corporate, franchise and death taxes to couple with changes made in the new federal income tax code, deletes obsolete provisions, defines the expenditures for increasing research for purposes of the research tax credit the same as is defined for federal tax purposes, rewrites the state minimum taxes to conform with the federal alternative tax, provides for the taxation of regulated investment company dividends, waives the penalty for underpayment of estimated tax, and extends the time for filing claims for credits or refunds for MIAs and insolvent farmers who sold real property during the 1982 or 1983 tax year.

The bill provides effective dates.