

Withdrawn 10/27 (p. 14)

H. F. 689 substituted 10/27 (p. 14)

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SENATE FILE 524  
BY COMMITTEE ON WAYS AND MEANS  
*Approved (p. 5)*

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

**A BILL FOR**

1 An Act relating to the state's individual income tax for income  
2 tax years beginning in the 1987 calendar year and making it  
3 retroactive.

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

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SF 524

1 Section 1. Section 422.4, Code Supplement 1987, is amended  
2 by adding the following new subsections:

3 NEW SUBSECTION. 19. For purposes of tax years beginning  
4 in the 1987 calendar year, the definition of the Internal  
5 Revenue Code of 1954 in section 422.3, subsection 5, shall be  
6 interpreted to include provisions of the Tax Reform Act of  
7 1986, Pub. L. No. 99-514 which amended the Internal Revenue  
8 Code of 1954, unless the context otherwise requires.

9 NEW SUBSECTION. 20. "Internal Revenue Code of 1986" means  
10 the Internal Revenue Code of 1954 as amended by the Tax Reform  
11 Act of 1986, Pub. L. No. 99-514.

12 Sec. 2. Section 422.5, Code Supplement 1987, is amended by  
13 adding after subsection 1 the following new subsection:

14 NEW SUBSECTION. 1A. In lieu of subsection 1, for tax  
15 years beginning in the 1987 calendar year only, a tax is  
16 imposed upon every resident and nonresident of the state which  
17 tax shall be levied, collected, and paid annually upon and  
18 with respect to the entire taxable income as defined in this  
19 division at rates as follows:

20 a. On all taxable income from zero through one thousand  
21 dollars, four-tenths of one percent.

22 b. On all taxable income exceeding one thousand dollars  
23 but not exceeding two thousand dollars, eight-tenths of one  
24 percent.

25 c. On all taxable income exceeding two thousand dollars  
26 but not exceeding four thousand dollars, two and seven-tenths  
27 percent.

28 d. On all taxable income exceeding four thousand dollars  
29 but not exceeding nine thousand dollars, five percent.

30 e. On all taxable income exceeding nine thousand dollars  
31 but not exceeding fifteen thousand dollars, six and eight-  
32 tenths percent.

33 f. On all taxable income exceeding fifteen thousand  
34 dollars but not exceeding twenty thousand dollars, seven and  
35 two-tenths percent.

1 g. On all taxable income exceeding twenty thousand dollars  
2 but not exceeding thirty thousand dollars, seven and fifty-  
3 five hundredths percent.

4 h. On all taxable income exceeding thirty thousand dollars  
5 but not exceeding forty-five thousand dollars, eight and  
6 eight-tenths percent.

7 i. On all taxable income exceeding forty-five thousand  
8 dollars, nine and ninety-eight hundredths percent.

9 j. The tax imposed upon the taxable income of a  
10 nonresident shall be computed by reducing the amount  
11 determined pursuant to paragraphs "a" through "i" by the  
12 amounts of nonrefundable credits under this division and by  
13 multiplying this resulting amount by a fraction of which the  
14 nonresident's net income allocated to Iowa, as determined in  
15 section 422.8, subsection 2, is the numerator and the  
16 nonresident's total net income computed under section 422.7 is  
17 the denominator. This provision also applies to individuals  
18 who are residents of Iowa for less than the entire tax year.

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

4145 27 The state alternative minimum taxable income of a taxpayer  
28 is equal to the taxpayer's state taxable income, as computed  
29 with the deductions in section 422.9, except for the net  
30 capital gain deduction, with the following adjustments:

31 (1) Add items of tax preference included in federal  
32 alternative minimum taxable income under section 57, except  
33 subsections (a)(1), (a)(2), and (a)(5), of the Internal  
34 Revenue Code of 1986, make the adjustments included in federal  
35 alternative minimum taxable income under section 56, except

1 subsections (a)(4), (b)(1)(C)(iii), and (d), of the Internal  
2 Revenue Code of 1986, and add losses as required by section 58  
3 of the Internal Revenue Code of 1986. In the case of an  
4 estate or trust, the items of tax preference, adjustments, and  
5 losses shall be apportioned between the estate or trust and  
6 the beneficiaries in accordance with rules prescribed by the  
7 director.

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

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

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

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

15 (d) The exemption amount shall be reduced, but not below  
16 zero, by an amount equal to twenty-five percent of the amount  
17 by which the alternative minimum taxable income of the  
18 taxpayer, computed without regard to the exemption amount in  
19 this subparagraph, exceeds the following:

20 (i) Seventy-five thousand dollars in the case of a  
21 taxpayer described in subparagraph part (a).

22 (ii) One hundred twelve thousand five hundred dollars in  
23 the case of a taxpayer described in subparagraph part (b).

24 (iii) One hundred fifty thousand dollars in the case of a  
25 taxpayer described in subparagraph part (c).

26 (3) In the case of a net operating loss computed for a tax  
27 year beginning after December 31, 1982 which is carried back  
28 or carried forward to the current taxable year, the net  
29 operating loss shall be reduced by the amount of the items of  
30 tax preference arising in such year which was taken into  
31 account in computing the net operating loss in section 422.9,  
32 subsection 3. The deduction for a net operating loss for a  
33 tax year beginning after December 31, 1986 which is carried  
34 back or carried forward to the current taxable year shall not  
35 exceed ninety percent of the alternative minimum taxable

1 income determined without regard for the net operating loss  
2 deduction.

3 The state alternative minimum tax of a taxpayer whose net  
4 capital gain deduction includes the gain or loss 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 where the fair market value of the taxpayer's  
10 assets exceeds the taxpayer's liabilities immediately before  
11 such forfeiture, transfer, or sale or exchange shall not be  
12 greater than such excess, including any asset transferred  
13 within one hundred twenty days prior to such forfeiture,  
14 transfer, or sale or exchange.

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

1 computed in this subsection in the proportion that each  
2 spouse's respective preference items, adjustments, and losses  
3 under subparagraph (1) bear to the combined preference items,  
4 adjustments, and losses under subparagraph (1) of both  
5 spouses.

6 Sec. 3. Section 422.5, subsection 2, Code Supplement 1987,  
7 is amended by adding the following new unnumbered paragraph:

8 NEW UNNUMBERED PARAGRAPH. However, for tax years beginning  
9 in the 1987 calendar year only, for unmarried head of  
10 households, references in this subsection and subsections 6  
11 and 10 to five thousand dollars shall be interpreted to mean  
12 ten thousand dollars. In addition, for tax years beginning in  
13 the 1987 calendar year only, if the resident or nonresident's  
14 net income exceeds five thousand dollars or ten thousand  
15 dollars, as applicable, the regular tax imposed under this  
16 division shall be the lesser of the maximum state individual  
17 income tax rate times the portion of the net income in excess  
18 of the appropriate threshold amount or the regular tax  
19 liability computed without regard to this sentence.

20 Sec. 4. Section 422.7, Code Supplement 1987, is amended by  
21 adding after subsection 16 the following new subsection:

22 NEW SUBSECTION. 16A. Notwithstanding any other provision,  
23 for tax years beginning in the 1987 calendar year only, add  
24 the amounts deducted and subtract the amounts included as  
25 income as a result of the treatment provided sale-leaseback  
26 agreements under section 168(f)(8) of the Internal Revenue  
27 Code of 1954 for property placed in service by the transferee  
28 prior to January 1, 1986 to the extent that the amounts  
29 deducted and the amounts included in income are not otherwise  
30 deductible or included in income under the Internal Revenue  
31 Code of 1954 as amended to and including December 31, 1985.  
32 Entitlement to depreciation on any property included in a  
33 sale-leaseback agreement which is placed in service by the  
34 transferee prior to January 1, 1986 shall be determined under  
35 the Internal Revenue Code of 1954 as amended to and including

1 December 31, 1985, excluding section 168(f)(8) in making the  
2 determination.

3 Sec. 5. Section 422.7, subsections 23 and 24, Code  
4 Supplement 1987, are amended to read as follows:

5 23. Add the amount of intangible drilling and development  
6 costs optionally deducted in the year paid or incurred as  
7 allowed under section 263(c) of the Internal Revenue Code of  
8 1954. This amount may be recovered through cost depletion or  
9 depreciation, as appropriate under rules prescribed by the  
10 director. However, for tax years beginning in the 1987  
11 calendar year only, the amount to be added equals the amount  
12 optionally deducted in the year paid or accrued as described  
13 in section 57(a)(2) of the Internal Revenue Code of 1986.

14 24. Add the percentage depletion amount determined with  
15 respect to an oil, gas, or geothermal well using methods in  
16 section 613 of the Internal Revenue Code of 1954 that is in  
17 excess of the cost depletion amount determined under section  
18 611 of the Internal Revenue Code of 1954. However, for tax  
19 years beginning in the 1987 calendar year only, the amount to  
20 be added equals the percentage depletion amount determined  
21 with respect to an oil, gas, or geothermal well as described  
22 in section 57(a)(1) of the Internal Revenue Code of 1986.

23 Sec. 6. Section 422.7, Code Supplement 1987, is amended by  
443 24 adding the following new subsection:

25 NEW SUBSECTION. 27. For tax years beginning in the 1987  
26 calendar year only, add interest and dividends from regulated  
27 investment companies exempt from federal income tax under the  
28 Internal Revenue Code of 1986 and subtract the loss on the  
29 sale or exchange of a share of a regulated investment company  
30 held for six months or less to the extent the loss was  
31 disallowed under section 852(b)(4)(B) of the Internal Revenue  
32 Code of 1986.

33 Sec. 7. Section 422.9, subsection 1, unnumbered paragraph  
34 1, Code Supplement 1987, is amended to read as follows:

35 An optional standard deduction of fifteen percent of the

1 net income after deduction of federal income tax, not to  
2 exceed one thousand two hundred dollars for a married person  
3 who files separately, one thousand two hundred dollars for a  
4 single person or three thousand dollars for a husband and wife  
5 who file a joint return, a surviving spouse as defined in  
6 section 2 of the Internal Revenue Code of 1954, or an  
7 unmarried head of household as defined in the Internal Revenue  
8 Code of 1954 or for tax years beginning in the 1987 calendar  
9 year only, an optional standard deduction after deduction of  
10 federal income tax equal to one thousand two hundred thirty  
11 dollars for a married person who files separately or a single  
12 person or equal to three thousand thirty dollars for a husband  
13 and wife who file a joint return, a surviving spouse, or an  
14 unmarried head of household. The optional standard deduction  
15 shall not exceed the amount remaining after deduction of the  
16 federal income tax.

17 Sec. 8. Section 422.9, subsection 2, unnumbered paragraph  
18 1, Code Supplement 1987, is amended to read as follows:

19 The total of contributions, interest, taxes, medical  
20 expense, nonbusiness losses and miscellaneous expenses; and  
21 for tax years beginning in the 1987 calendar year only, moving  
22 expenses; deductible for federal income tax purposes under the  
23 Internal Revenue Code of 1954, with the following adjustments:

4143 24 Sec. 9. Section 422.9, Code Supplement 1987, is amended by  
25 adding the following new subsection:

26 NEW SUBSECTION. 6. For tax years beginning in the 1987  
27 calendar year only, the taxpayer may recompute the taxpayer's  
28 income tax liability for the tax year by subtracting from the  
29 taxpayer's taxable income, as computed without regard to this  
30 subsection, sixty percent of the net capital gain as computed  
31 in section 1202 of the Internal Revenue Code of 1986 in effect  
32 for tax years beginning in the 1986 calendar year. For  
33 purposes of determining the amount to be subtracted, the net  
34 capital gain shall not exceed seventeen thousand five hundred  
35 dollars. Married taxpayers who elect separate filing on a

1 combined return for state tax purposes are treated as one  
2 taxpayer and the amount of net capital gain to be used to  
3 determine the total amount to be subtracted by them shall not  
4 exceed seventeen thousand five hundred dollars in the  
5 aggregate. Married taxpayers who file jointly or separately  
6 on a combined return shall prorate the seventeen thousand five  
7 hundred dollar limitation between them based on the ratio of  
8 each spouse's net capital gain to the total net capital gain  
9 of both spouses. In the case of married taxpayers filing  
10 separate returns, the amount of net capital gain to be used to  
11 determine the amount to be subtracted by each spouse shall not  
12 exceed eight thousand seven hundred and fifty dollars. To the  
13 extent that the adjusted gross income reflects capital gain  
14 treatment for sales of dairy cattle made between January 1,  
15 1987, and September 1, 1987, under the federal milk production  
16 termination program, the capital gains from such sales shall  
17 not be used in computing net capital gain for purposes of this  
18 subsection. Any income or loss resulting from the forfeiture,  
19 transfer, or sale or exchange described in section 422.7,  
20 subsection 25, shall not be used in computing net capital gain  
21 for purposes of this subsection.

41.3 22 In order for the taxpayer to claim this capital gain  
23 deduction, the taxpayer must completely fill out the return,  
24 determine the taxpayer's income tax liability without this  
25 deduction, and pay the amount of tax that is owed. The  
26 taxpayer shall recompute the taxpayer's income tax liability,  
27 with this deduction, on a special return. This special return  
28 shall be filed with the regular return and constitutes a claim  
29 for refund of the difference between the amount of tax the  
30 taxpayer paid as determined without the net capital gain  
31 deduction and the amount of tax determined with the net  
32 capital gain deduction. If the taxpayer has a school district  
33 income surtax liability, the amount of this liability is  
34 considered part of the tax and the surtax liability shall be  
35 recomputed along with the regular tax for purposes of

1 determining the amount of the claim for refund only and does  
2 not affect the amount of surtax to be paid to the school  
3 district. In recomputing the taxpayer's alternative minimum  
4 tax liability, the amount of net capital gain deduction taken  
5 shall be treated as a tax preference item for purposes of the  
6 recomputation only.

7 857 The provisions of this subsection shall not affect the  
8 amount of the taxpayer's checkoff to the Iowa election  
9 campaign fund under section 56.18, the checkoff for the fish  
10 and game protection fund in section 107.16, the credits from  
11 tax provided in sections 422.10, 422.11A, and 422.12 and the  
12 allocation of these credits between spouses if the taxpayers  
13 filed separate returns or separately on combined returns, or  
14 the amount of the taxpayer's school district income surtax  
15 liability under section 442.15 as these items were properly  
16 computed or claimed on taxpayers' returns.

17 For the tax year the total amount of refund claims that  
18 shall be paid shall not exceed eight million dollars. If the  
19 total amount of the claims for refund does exceed that amount,  
20 each claim for refund shall be paid on a pro rata basis so  
21 that the total amount paid for the tax year does not exceed  
22 eight million dollars. In the case where refund claims are  
23 not paid in full, the amount of the refund to which the  
24 taxpayer is entitled under this subsection is the pro rata  
25 amount that was paid and the taxpayer is not entitled to a  
26 refund for the unpaid portion and is not entitled to carry  
27 that amount forward or backward to another tax year.

28 Taxpayers shall not use refunds as estimated payments for the  
29 succeeding tax year. Taxpayers whose tax years begin on  
30 January 1 must file their refund claims by October 31, 1988,  
31 to be eligible for refunds. Taxpayers whose tax years begin  
32 on a date in 1987 other than January 1 must file their refund  
33 claims by the end of the sixth month following the end of  
34 their tax years. The department shall determine on February  
35 1, 1989, if the total amount of claims for refund exceeds

1 eight million dollars for the tax year. Notwithstanding any  
2 other provision, interest shall not be due on any refund  
3 claims that are paid by February 28, 1989. If the claim is  
4 not payable on February 28, 1989 because the taxpayer is a  
5 fiscal year filer, then the amount of the claim allowed shall  
6 be in the same ratio as refund claims available on February 1,  
7 1989. These claims shall be funded by moneys appropriated for  
8 payment of refunds of individual income tax.

9 Sec. 10. Section 422.10, unnumbered paragraph 1, Code  
10 1987, is amended to read as follows:

11 The taxes imposed under this division shall be reduced by a  
12 state tax credit for increasing research activities in this  
13 state. For individuals, the credit shall equal six and one-  
14 half percent of the state's apportioned share of the  
15 qualifying expenditures for increasing research activities.  
16 The state's apportioned share of the qualifying expenditures  
17 for increasing research activities is a percent equal to the  
18 ratio of qualified research expenditures in this state to  
19 total qualified research expenditures. For purposes of this  
20 section, an individual may claim a research credit for  
21 qualifying research expenditures incurred by a partnership,  
22 subchapter S corporation, and estate or trust electing to have  
23 the income taxed directly to the individual. The amount  
24 claimed by the individual shall be based upon the pro rata  
25 share of the individual's earnings of a partnership,  
26 subchapter S corporation, or estate or trust. For purposes of  
27 this section, "qualifying expenditures for increasing research  
28 activities" means the qualifying expenditures as defined for  
29 the federal credit for increasing research activities which  
30 would be allowable under section 30 of the Internal Revenue  
31 Code of 1954, in effect on January 1, 1985 or, for tax years  
32 beginning in the 1987 calendar year only, which would be  
33 allowable under section 41 of the Internal Revenue Code of  
34 1986.

35 Sec. 11. Section 422.21, Code Supplement 1987, is amended

1 by adding the following new unnumbered paragraph:

2 NEW UNNUMBERED PARAGRAPH. For the tax years beginning in  
3 the 1987 calendar year, the department shall prepare and make  
4 available a special return for filing a tax refund claim  
5 resulting from the net capital gain deduction authorized in  
6 section 422.9, subsection 6. The special returns shall be  
7 designed so that the department will be able to compile data  
8 that identifies the source and type of the capital gains and  
9 losses and the geographical location of the transactions  
10 involving the capital gains and losses. By January 15, 1989,  
11 the department shall make available to the general assembly  
12 the data compiled from the special returns filed during the  
13 previous calendar year.

14 Sec. 12. Section 422.73, Code 1987, is amended by adding  
15 the following new subsections:

16 NEW SUBSECTION. Notwithstanding subsection 2, a claim for  
17 credit or refund of the income tax paid for a tax year  
18 beginning in the 1983 calendar year is considered timely if  
19 the claim is filed with the department on or before April 30,  
20 1988, if the taxpayer's federal income tax was forgiven under  
21 section 692 of the Internal Revenue Code of 1986 because the  
22 taxpayer died, or was missing in action and determined dead,  
23 while serving in a combat zone. To the extent the federal  
24 income tax was forgiven under section 692 of the Internal  
25 Revenue Code of 1986 for the tax year, the Iowa income tax is  
26 also forgiven.

27 NEW SUBSECTION. Notwithstanding subsection 2, a claim for  
28 credit or refund of the state alternative minimum tax paid for  
29 any tax year beginning on or after January 1, 1982 and before  
30 January 1, 1984 is considered timely if the claim is filed  
31 with the department on or before April 30, 1988, if the  
32 taxpayer's capital gains preference items for purposes of the  
33 federal individual alternative minimum tax was reduced as a  
34 result of section 13208 of the Consolidated Omnibus Budget  
35 Reconciliation Act of 1985 as amended by section 1896 of the

1 Tax Reform Act of 1986.

2 Sec. 13. For tax years beginning in the 1987 calendar year  
3 only, section 422.7, subsections 10, 12, 14, 15, 22, and 26,  
4 section 422.9, subsection 2, paragraph "e", and section  
5 422.21, unnumbered paragraph 4, do not apply.

6 Sec. 14. For tax years beginning in the 1987 calendar year  
7 only, references in section 422.8 and in any other provision  
8 of law to section 422.5, subsection 1 shall be interpreted to  
9 mean the corresponding provision of section 422.5, subsection  
10 1A.

11 Sec. 15. No addition to the tax shall be made under  
12 section 422.16, subsection 11, paragraph "d" or section  
13 422.88, relating to the underpayment of estimated tax, for any  
14 tax year beginning before January 1, 1988 with respect to any  
15 underpayment, to the extent such underpayment was created or  
16 increased by any provision of the federal Tax Reform Act of  
17 1986 or this Act.

18 Sec. 16. Sections 1 through 10, 13, and 14 of this Act are  
19 retroactive to January 1, 1987 for tax years beginning in the  
20 1987 calendar year only.

21 Sec. 17. This Act, being deemed of immediate importance,  
22 takes effect upon enactment.

23 EXPLANATION

24 The bill provides for the state individual income tax to be  
25 coupled with the federal individual income tax for tax years  
26 beginning in the 1987 calendar year only. The tax rates are  
27 reduced and range from four-tenths of one percent on the first  
28 \$1000, to nine and ninety-eight hundredths percent on income  
29 over \$45,000.

30 The deduction for federal income taxes and married separate  
31 filing on a combined return are retained. The standard  
32 deduction is increased by thirty dollars for each filer and  
33 the limit on the deduction to fifteen percent of net income  
34 after the federal tax deduction has been eliminated. The  
35 amount of income below which no tax is imposed is increased

1 from \$5,000 to \$10,000 for unmarried head of households. The  
2 bill also contains a provision clarifying the taxation of  
3 interest and dividends from regulated investment companies and  
4 the loss from the sale of certain shares of such companies.

5 The bill provides for the sixty percent deduction of the  
6 net capital gains of the taxpayer not to exceed \$10,500 in  
7 deduction. To take this deduction the taxpayer must first  
8 determine the tax liability without any net capital gain  
9 deduction and then determine the tax liability with this  
10 deduction. The taxpayer files on a special return a claim for  
11 a refund for the taxes originally paid equal to the difference  
12 between the original tax liability and the tax liability  
13 determined with the net capital gain deduction. Not more than  
14 \$8,000,000 in refunds will be paid. If the claims exceed that  
15 amount the claims will be paid on a pro rata basis.

16 The bill is effective upon enactment and retroactive to  
17 January 1, 1987, for tax years beginning in the 1987 calendar  
18 year.

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SENATE FILE 524

1 Amend Senate File 524 as follows:

2 1. By striking everything after the enacting  
3 clause and inserting the following:

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

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

13 Sec. 2. Section 422.4, subsections 1, 4, 10, 11,  
14 14, 17, and 18, Code Supplement 1987, are amended to  
15 read as follows:

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

27 4. The words "tax year" mean the calendar year, or  
28 the fiscal year ending during such calendar year, upon  
29 the basis of which the net income is computed under  
30 this division.

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

35 b. If the effective date or the applicability of a  
36 provision of this division is expressed in terms of a  
37 tax year beginning, including or ending with reference  
38 to a specified date which is the first or last day of  
39 a month, a tax year described in paragraph "a" of this  
40 subsection shall be treated as beginning with the  
41 first day of the calendar month beginning nearest to  
42 the first day of the tax year or as ending with the  
43 last day of the calendar month ending nearest to the  
44 last day of the tax year.

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

47 10. The word "individual" means a natural person;  
48 and where an individual is permitted to file as a  
49 corporation, under ~~the-provisions-of~~ the Internal  
50 Revenue Code ~~of-1954,~~ such fictional status shall not

1 be recognized for purposes of this chapter, and such  
2 the individual's taxable income shall be computed as  
3 required under ~~the provisions of~~ the Internal Revenue  
4 Code of ~~1954~~ relating to individuals not filing as a  
5 corporation, with the adjustments allowed by this  
6 chapter.

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

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

12 17. a. "Annual inflation factor" ~~means an index,~~  
13 ~~expressed as a percentage, determined by the~~  
14 ~~department each year to reflect the purchasing power~~  
15 ~~of the dollar as a result of inflation during the~~  
16 ~~preceding calendar year. For the 1981 and subsequent~~  
17 ~~calendar years, "annual inflation factor" means an~~  
18 index, expressed as a percentage, determined by the  
19 department by October 15 of the calendar year  
20 preceding the calendar year for which the factor is  
21 determined to reflect the purchasing power of the  
22 dollar as a result of inflation during the fiscal year  
23 ending in the calendar year preceding the calendar  
24 year for which the factor is determined. In  
25 determining the annual inflation factor, the  
26 department shall use the annual percent change, but  
27 not less than zero percent, in the implicit price  
28 deflator for the gross national product computed for  
29 ~~the whole calendar year or for the second quarter of~~  
30 ~~the calendar year, in the case of the annual inflation~~  
31 ~~factor for the 1981 and subsequent calendar years,~~ by  
32 the bureau of economic analysis of the United States  
33 department of commerce and shall add two-fourths for  
34 ~~the 1980 and subsequent calendar years~~ of that percent  
35 change to one hundred percent. ~~The annual inflation~~  
36 ~~factor for the 1979 calendar year is one hundred two~~  
37 ~~point three percent.~~ The annual inflation factor and  
38 the cumulative inflation factor shall each be  
39 expressed as a percentage rounded to the nearest one-  
40 tenth of one percent. The annual inflation factor  
41 shall not be less than one hundred percent.

42 b. "Cumulative inflation factor" means the product  
43 of the annual inflation factor for the 1978 1988  
44 calendar year and all annual inflation factors for  
45 subsequent calendar years as determined pursuant to  
46 this subsection. The cumulative inflation factor  
47 applies to all tax years beginning on or after January  
48 1 of the calendar year for which the latest annual  
49 inflation factor has been determined.

50 c. The annual inflation factor for the 1978 1988

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1 calendar year is one hundred percent. Notwithstanding  
2 ~~the computation of the annual inflation factor under~~  
3 ~~paragraph "a", the annual inflation factor for the~~  
4 ~~1987 calendar year is one hundred percent.~~

5 d. Notwithstanding the computation of the annual  
6 inflation factor under paragraph "a" of this  
7 subsection, the annual inflation factor is one hundred  
8 percent for any calendar year in which the unobligated  
9 state general fund balance on June 30 as certified by  
10 the director of revenue and finance by September 10 of  
11 the fiscal year beginning in that calendar year is  
12 less than sixty million dollars. However, for the  
13 1981 and subsequent calendar years, the annual  
14 inflation factor is one hundred percent for any  
15 calendar year if the unobligated state general fund  
16 balance on June 30 of the calendar year preceding the  
17 calendar year for which the factor is determined, as  
18 certified by the director of revenue and finance by  
19 October 10, is less than sixty million dollars.

20 ~~18. For purposes of section 422.3, subsection 5,~~  
21 ~~the Internal Revenue Code of 1954 shall be interpreted~~  
22 ~~to include the provisions of Pub. L. No. 98-4.~~

23 Sec. 3. Section 422.5, subsection 1, paragraphs a  
24 through m, Code Supplement 1987, are amended by  
25 striking the paragraphs and inserting in lieu thereof  
26 the following:

27 a. On all taxable income from zero through ten  
28 thousand dollars, one and one-half percent.

29 b. On all taxable income exceeding ten thousand  
30 dollars, five and three-fourths percent.

31 Sec. 4. Section 422.5, subsection 1, paragraphs n  
32 and o, Code Supplement 1987, are amended to read as  
33 follows:

34 n c. The tax imposed upon the taxable income of a  
35 nonresident shall be computed by reducing the amount  
36 determined pursuant to paragraphs "a" through "m" and  
37 "b" by the amounts of nonrefundable credits under this  
38 division and by multiplying this resulting amount by a  
39 fraction of which the nonresident's net income  
40 allocated to Iowa, as determined in section 422.8,  
41 subsection 2, is the numerator and the nonresident's  
42 total net income computed under section 422.7 is the  
43 denominator. This provision also applies to  
44 individuals who are residents of Iowa for less than  
45 the entire tax year.

46 o d. There is imposed upon every resident and  
47 nonresident of this state, including estates and  
48 trusts, the greater of the tax determined in  
49 paragraphs "a" through "n" "c" or the state  
50 alternative minimum tax equal to nine seventy-five

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1 percent of the maximum state individual income tax  
2 rate, rounded to the nearest one-tenth of one percent,  
3 of the state alternative minimum taxable income of the  
4 taxpayer as computed under this paragraph.

5 The state alternative minimum taxable income of a  
6 taxpayer is equal to the taxpayer's state taxable  
7 income, as computed with one deductions in section  
8 422.9, with the following adjustments:

9 (1) Add items of tax preference included in  
10 federal alternative minimum taxable income under  
11 section 57, except subsections ~~(a)(8) and (a)(11)~~  
12 ~~(a)(1), (a)(2), and (a)(5),~~ of the Internal Revenue  
13 Code of 1954, make the adjustments included in federal  
14 alternative minimum taxable income under section 56,  
15 except subsections (a)(4), (b)(1)(C)(iii), and (d), of  
16 the Internal Revenue Code, and add losses as required  
17 by section 58 of the Internal Revenue Code. In the  
18 case of an estate or trust, the items of tax  
19 preference, adjustments and losses shall be

20 apportioned between the estate or trust and the  
21 beneficiaries in accordance with rules prescribed by  
22 the director. For purposes of computing the items of  
23 tax preference, the gain or loss from the forfeiture  
24 of an installment real estate contract, the transfer  
25 of real or personal property securing a debt to a  
26 creditor in cancellation of that debt or from the sale  
27 or exchange of property as a result of actual notice  
28 of foreclosure shall not be taken into account in  
29 computing net capital gain if all of the following  
30 conditions are met:

31 ~~(a) -- The forfeiture, transfer, or sale or exchange~~  
32 ~~was done for the purpose of establishing a positive~~  
33 ~~cash flow.~~

34 ~~(b) -- Immediately before the forfeiture, transfer,~~  
35 ~~or sale or exchange, the taxpayer's debt-to-asset~~  
36 ~~ratio exceeded seventy-five percent as computed under~~  
37 ~~generally accepted accounting practices.~~

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

40 ~~In determining a taxpayer's net worth at the end of~~  
41 ~~the tax year a taxpayer shall include any asset~~  
42 ~~transferred within one hundred twenty days prior to~~  
43 ~~the end of the tax year without adequate and full~~  
44 ~~consideration in money or money's worth. -- In~~  
45 ~~determining the taxpayer's debt-to-asset ratio, the~~  
46 ~~taxpayer shall include any asset transferred, within~~  
47 ~~one hundred twenty days prior to such forfeiture,~~  
48 ~~transfer, or sale or exchange, without adequate and~~  
49 ~~full consideration in money or money's worth. -- For~~  
50 ~~purposes of this subsection, actual notice of~~

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~~1 foreclosure includes, but is not limited to,  
2 bankruptcy or written notice from a creditor of the  
3 creditor's intent to foreclose where there is  
4 reasonable belief that the creditor can force a sale  
5 of the property.~~

6 (2) Subtract the applicable exemption amount as  
7 follows:

8 (a) Seventeen thousand five hundred dollars for a  
9 married person who files separately or for an estate  
10 or trust.

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

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

15 (d) The exemption amount shall be reduced, but not  
16 below zero, by an amount equal to twenty-five percent  
17 of the amount by which the alternative minimum taxable  
18 income of the taxpayer, computed without regard to the  
19 exemption amount in this subparagraph, exceeds the  
20 following:

21 (i) Seventy-five thousand dollars in the case of a  
22 taxpayer described in subparagraph part (a).

23 (ii) One hundred twelve thousand five hundred  
24 dollars in the case of a taxpayer described in  
25 subparagraph part (b).

26 (iii) One hundred fifty thousand dollars in the  
27 case of a taxpayer described in subparagraph part (c).

28 (3) In the case of a net operating loss computed  
29 for a tax year beginning after December 31, 1982 which  
30 is carried back or carried forward to the current  
31 taxable year, the net operating loss shall be reduced  
32 by the amount of the items of tax preference arising  
33 in such year which was taken into account in computing  
34 the net operating loss in section 422.9, subsection 3.  
35 The deduction for a net operating loss for a tax year  
36 beginning after December 31, 1986 which is carried  
37 back or carried forward to the current taxable year  
38 shall not exceed ninety percent of the alternative  
39 minimum taxable income determined without regard for  
40 the net operating loss deduction.

41 The state alternative minimum tax of a taxpayer  
42 whose items-of-tax-preference net capital gain  
43 deduction include the gain or loss from the forfeiture  
44 of an installment real estate contract, the transfer  
45 of real or personal property securing a debt to a  
46 creditor in cancellation of that debt or from the sale  
47 or exchange of property as a result of actual notice  
48 of foreclosure where the fair market value of the  
49 taxpayer's assets exceeds the taxpayer's liabilities  
50 immediately before such forfeiture, transfer, or sale

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1 or exchange shall not be greater than such excess,  
2 including any asset transferred within one hundred  
3 twenty days prior to such forfeiture, transfer, or  
4 sale or exchange.

5 (4) Add the amount of the net capital gain  
6 deduction taken under section 422.7, subsection 17.

7 In the case of a resident, including a resident  
8 estate or trust, the state's apportioned share of the  
9 state alternative minimum tax is one hundred percent  
10 of the state alternative minimum tax computed in this  
11 subsection. In the case of a nonresident, including a  
12 nonresident estate or trust, or an individual, estate  
13 or trust that is domiciled in the state for less than  
14 the entire tax year, the state's apportioned share of  
15 the state alternative minimum tax is the amount of tax  
16 computed under this subsection, reduced by the  
17 applicable credits in sections 422.10, 422.11, 422.11A  
18 and 422.12 and this result multiplied by a fraction  
19 with a numerator of the sum of state net income  
20 allocated to Iowa as determined in section 422.8,  
21 subsection 2, and plus tax preference items,  
22 adjustments, and losses under subparagraph (1) and net  
23 capital gain deduction under subparagraph (4)  
24 attributable to Iowa and with a denominator of the sum  
25 of total net income computed under section 422.7 and  
26 all tax preference items, adjustments, and losses  
27 under subparagraph (1) and net capital gain deduction  
28 under subparagraph (4). In computing this fraction,  
29 those items excludable under subparagraph (1) shall  
30 not be used in computing the tax preference items.  
31 Married taxpayers electing to file separate returns or  
32 separately on a combined return must allocate the  
33 minimum tax computed in this subsection in the  
34 proportion that each spouse's respective preference  
35 items, ~~under section 57 of the Internal Revenue Code~~  
36 ~~of 1954~~ adjustments, and losses under subparagraph (1)  
37 and net capital gain deduction under subparagraph (4)  
38 bear to the combined preference items, adjustments,  
39 and losses under subparagraph (1) and net capital gain  
40 deduction under subparagraph (4) of both spouses.

41 Sec. 5. Section 422.5, subsections 6, 7, 8, and  
42 10, Code Supplement 1987, are amended to read as  
43 follows:

44 6. A person who is disabled, is sixty-two years of  
45 age or older or is the surviving spouse of an  
46 individual or survivor having an insurable interest in  
47 an individual who would have qualified for the  
48 exemption under this paragraph for this tax year and  
49 receives one or more annuities from the United States  
50 civil service retirement and disability trust fund,

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

26 7. Upon determination of the latest cumulative  
27 inflation factor, the director shall multiply each  
28 dollar amount set forth in subsection 1, paragraphs  
29 "a" through-"m" and "b" of this section, and each  
30 dollar amount specified in this section as the maximum  
31 amount of annuities received which may be excluded in  
32 determining final taxable income, by this cumulative  
33 inflation factor, shall round off the resulting  
34 product to the nearest one dollar, and shall  
35 incorporate the result into the income tax forms and  
36 instructions for each tax year.

37 ~~8.--Income-of-an-individual-which-is-excluded-from~~  
38 ~~gross-income-under-the-Internal-Revenue-Code-of-1954~~  
39 ~~as-a-result-of-the-provisions-of-the-Hostage-Relief~~  
40 ~~Act-of-1980,94-stat.-1967, shall-not-be-included-as~~  
41 ~~income-in-computing-the-tax-imposed-by-this-section.~~

42 10. In addition to the other taxes imposed by this  
43 section, a tax is imposed on the amount of a lump sum  
44 distribution for which the taxpayer has elected under  
45 section 402(e) of the Internal Revenue Code of-1954 to  
46 be separately taxed for federal income tax purposes  
47 for the tax year. The rate of tax is equal to twenty-  
48 five percent of the separate federal tax imposed on  
49 the amount of the lump sum distribution. A  
50 nonresident is liable for this tax only on that

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

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

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

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

21 422.7 "NET INCOME" -- HOW COMPUTED.

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

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

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

33 3. Where the adjusted gross income includes  
34 capital gains or losses, or gains or losses from  
35 property other than capital assets, and such gains or  
36 losses have been determined by using a basis  
37 established prior to January 1, 1934, an adjustment  
38 may be made, under rules prescribed by the director,  
39 to reflect the difference resulting from the use of a  
40 basis of cost or January 1, 1934, fair market value,  
41 less depreciation allowed or allowable, whichever is  
42 higher. Provided that the basis shall be fair market  
43 value as of January 1, 1955, less depreciation allowed  
44 or allowable, in the case of property acquired prior  
45 to that date if use of a prior basis is declared to be  
46 invalid.

47 4. Subtract installment payments received by a  
48 beneficiary under an annuity which was purchased under  
49 an employee's pension or retirement plan when the  
50 commuted value of said installments has been included

1 as a part of the decedent employee's estate for Iowa  
2 inheritance tax purposes.

3 ~~5. Add the amount by which the basis of qualified~~  
4 ~~depreciable property is required to be increased for~~  
5 ~~depreciation purposes under the Internal Revenue Code~~  
6 ~~Amendments Act of 1964 to the extent that such amount~~  
7 ~~equals the net amount of the special deduction allowed~~  
8 ~~on the basis of the amount by which the depreciable~~  
9 ~~basis of such qualified property was required to be~~  
10 ~~reduced for depreciation purposes under the Internal~~  
11 ~~Revenue Code Amendments Act of 1962. The "net amount~~  
12 ~~of the special deduction" shall be computed by taking~~  
13 ~~the sum of the amounts by which the basis of qualified~~  
14 ~~property was required to be decreased for depreciation~~  
15 ~~purposes for the years 1962 and 1963 and subtracting~~  
16 ~~from it the sum of the amounts by which the basis of~~  
17 ~~such property was required to be increased, prior to~~  
18 ~~1964, for depreciation or disposition purposes under~~  
19 ~~the Internal Revenue Code Amendments Act of 1962.~~

20 6 5. Individual taxpayers and married taxpayers  
21 who file a joint federal income tax return and who  
22 elect to file a joint return, separate returns or  
23 separate filing on a combined return for Iowa income  
24 tax purposes, may avail themselves of the disability  
25 income exclusion and shall compute the amount of the  
26 disability income exclusion subject to the limitations  
27 for joint federal income tax return filers provided by  
28 section 105(d) of the Internal Revenue Code of 1954.  
29 The disability income exclusion provided in section  
30 105(d) of the Internal Revenue Code of 1954, as  
31 amended up to and including December 31, 1982,  
32 continues to apply for state income tax purposes for  
33 tax years beginning on or after January 1, 1984.

34 7 6. Add to the taxable income of trusts, that  
35 portion of trust income excluded from federal taxable  
36 income under section 641(c) of the Internal Revenue  
37 Code of 1954.

38 8 7. Married taxpayers who file a joint federal  
39 income tax return and who elect to file separate  
40 returns or separate filing on a combined return for  
41 Iowa income tax purposes, may avail themselves of the  
42 expensing of business assets and capital loss  
43 provisions of sections 179(a) and 1211(b) respectively  
44 of the Internal Revenue Code of 1954 and shall compute  
45 the amount of expensing of business assets and capital  
46 loss subject to the limitations for joint federal  
47 income tax return filers provided by sections 179(b)  
48 and 1211(b) respectively of the Internal Revenue Code  
49 of 1954.

50 9 8. Subtract the amount of the jobs tax credit

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1 allowable for the tax year under section 51 of the  
2 Internal Revenue Code of 1954 to the extent that the  
3 credit increased federal adjusted gross income.

4 ~~10--Married taxpayers, who file a joint federal  
5 income tax return and who elect to file separate  
6 returns or separate filing on a combined return for  
7 state income tax purposes, shall include in net income  
8 any unemployment compensation benefits received  
9 subject to the limitations for joint federal income  
10 tax return filers provided in section 85 of the  
11 Internal Revenue Code of 1954.~~

12 ~~11 9. Subtract the amount of the alcohol fuel  
13 credit allowable for the tax year under section 40 of  
14 the Internal Revenue Code of 1954 to the extent that  
15 the credit increased federal adjusted gross income.~~

16 ~~12--Married taxpayers, who file a joint federal  
17 income tax return and who elect to file separate  
18 returns or separate filing on a combined return for  
19 state income tax purposes, may avail themselves of the  
20 dividend exclusion provisions of section 116(a) of the  
21 Internal Revenue Code of 1954 and shall compute the  
22 dividend exclusion subject to the limitations for  
23 joint federal income tax return filers provided by  
24 section 116(a) of the Internal Revenue Code of 1954.~~

25 ~~13--The exclusion of interest income provided by  
26 section 128 of the Internal Revenue Code of 1954 is  
27 not applicable in computing Iowa net income for tax  
28 years beginning on or after January 17, 1981 and before  
29 January 17, 1984.~~

30 ~~14--The deduction for a married couple where both  
31 persons are wage earners which is provided by section  
32 221 of the Internal Revenue Code of 1954 is not  
33 applicable in computing Iowa net income for tax years  
34 beginning on or after January 17, 1982.~~

35 ~~15--The deduction allowed under section 162(h) of  
36 the Internal Revenue Code of 1954 is not applicable in  
37 computing Iowa net income for any tax year beginning  
38 on or before December 31, 1980--The deduction allowed  
39 under section 604 of the Tax Reform Act of 1976, as  
40 amended up to and including December 31, 1980, is  
41 allowable in computing Iowa net income, for tax years  
42 beginning on or before December 31, 1980, under  
43 provisions effective for the year for which the return  
44 is made--The deduction allowed under section 162(h)  
45 of the Internal Revenue Code of 1954 is not applicable  
46 in computing Iowa net income for any tax year  
47 beginning on or after January 17, 1981--The deduction  
48 allowed under section 604 of the Tax Reform Act of  
49 1976, as amended up to and including December 31,  
50 1980, is allowable in computing Iowa net income for~~

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1 tax-years-beginning-on-or-after-January-17-1981.--The  
2 maximum-allowable-deduction, other than for travel  
3 expense, shall not exceed fifty dollars per day, where  
4 the taxpayer elects on the Iowa return to be governed  
5 by section 604 of the Tax Reform Act of 1976, as  
6 amended up to and including December 31, 1980, unless  
7 the taxpayer itemized expenses.

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

24 17.-- Subtract the amount of unemployment  
25 compensation to be included in Iowa net income for any  
26 tax year.--Add back the amount of unemployment  
27 compensation computed under section 85 of the Internal  
28 Revenue Code of 1954, as amended up to and including  
29 December 31, 1981.--This subsection is effective only  
30 for the tax year beginning on or after January 17, 1982  
31 and before December 31, 1982.

32 18 11. If the adjusted gross income includes  
33 income or loss from a small business operated by the  
34 taxpayer, an additional deduction shall be allowed in  
35 computing the income or loss from the small business  
36 if the small business hired for employment in the  
37 state during its annual accounting period ending with  
38 or during the taxpayer's tax year any of the  
39 following:

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

43 (1) Has a physical or mental impairment which  
44 substantially limits one or more major life  
45 activities.

46 (2) Has a record of that impairment.

47 (3) Is regarded as having that impairment.

48 b. An individual domiciled in this state at the  
49 time of the hiring who meets any of the following  
50 conditions:

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

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

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

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

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

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

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

34 A taxpayer who is a partner of a partnership or a  
35 shareholder of a subchapter S corporation, may deduct  
36 that portion of wages qualified under this subsection  
37 paid by the partnership or subchapter S corporation  
38 based on the taxpayer's pro rata share of the profits  
39 or losses from the partnership or subchapter S  
40 corporation.

41 For purposes of this subsection, "physical or  
42 mental impairment" means any physiological disorder or  
43 condition, cosmetic disfigurement, or anatomical loss  
44 affecting one or more of the body systems or any  
45 mental or psychological disorder, including mental  
46 retardation, organic brain syndrome, emotional or  
47 mental illness and specific learning disabilities.

48 For purposes of this subsection, "small business"  
49 means small business as defined in section 220.1,  
50 subsection 28, except that it shall also include the

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1 operation of a farm.

2 ~~19~~ 12. Married taxpayers, who file a joint federal  
3 income tax return and who elect to file separate  
4 returns or who elect separate filing on a combined  
5 return for state income tax purposes, shall include in  
6 net income any social security benefits ~~or-tier-1~~  
7 ~~railroad-retirement-benefits~~ received to the same  
8 extent as those benefits are taxable on the taxpayer's  
9 joint federal return for that year under section 86 of  
10 the Internal Revenue Code ~~of-1954~~. The benefits  
11 included in net income must be allocated between the  
12 spouses in the ratio of the social security benefits  
13 ~~or-tier-1-railroad-retirement-benefits~~ received by  
14 each spouse to the total of these benefits received by  
15 both spouses.

16 ~~20--Subtract-the-unemployment-compensation~~  
17 ~~benefits-for-tax-years-beginning-on-January-17-1979-to~~  
18 ~~the-extent-those-benefits-had-been-included-in-net~~  
19 ~~income-on-a-return-filed-before-January-17-1981-and~~  
20 ~~were-excluded-from-income-under-Act-section-1075-of~~  
21 ~~the-Tax-Reform-Act-of-1984--Notwithstanding-the~~  
22 ~~statute-of-limitations-specified-in-section-422.73,~~  
23 ~~subsection-27,-taxpayers-who-would-be-barred-from~~  
24 ~~claiming-a-refund-or-credit-from-an-overpayment~~  
25 ~~resulting-from-the-change-made-by-Act-section-1075-of~~  
26 ~~the-Tax-Reform-Act-of-1984-are-entitled-to-receive-a~~  
27 ~~refund-or-credit-if-they-file-a-claim-with-the~~  
28 ~~department-on-or-before-June-30,-1986.~~

29 ~~21~~ 13. Add the four percent of the basic salary of  
30 a judge, who is a member of the judicial retirement  
31 system established in chapter 602, article 9, which is  
32 exempt from federal income tax under the Internal  
33 Revenue Code ~~of-1954~~.

34 ~~22--Add-the-combined-net-losses-from-passive~~  
35 ~~farming-activity-in-excess-of-twenty-five-thousand~~  
36 ~~dollars-that-offset-income-from-other-sources--Net~~  
37 ~~losses-under-section-165-of-the-Internal-Revenue-Code~~  
38 ~~of-1954,-exclusive-of-net-gains-incurred-passively~~  
39 ~~from-the-operation-of-a-farming-business,-as-defined~~  
40 ~~in-section-464(e)-of-the-Internal-Revenue-Code-of~~  
41 ~~1954,-are-to-be-combined-from-businesses,-rents,~~  
42 ~~partnerships,-subchapter-S-corporations,-estates-or~~  
43 ~~trusts-except-losses-under-sections-1211-and-1231-of~~  
44 ~~the-Internal-Revenue-Code-of-1954.--For-purposes-of~~  
45 ~~this-subsection-the-following-apply:~~

46 ~~a:--"Passive-activity"-means-an-activity-where-the~~  
47 ~~taxpayer-or-a-member-of-the-taxpayer's-family-as~~  
48 ~~defined-in-section-2032A(e)(2)-of-the-Internal-Revenue~~  
49 ~~Code-of-1954-does-not-materially-participate-in-the~~  
50 ~~activity-or-provide-substantial-personal-services-to~~

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1 the farming business. A taxpayer who is retired or  
2 disabled as described in section 2032A(b)(4) of the  
3 Internal Revenue Code of 1954 or is a surviving spouse  
4 as described in section 2032A(b)(5) shall be treated  
5 as materially participating in the farming business.

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

10 23 14. Add the amount of intangible drilling and  
11 development costs optionally deducted in the year paid  
12 or incurred as allowed under section 263(c) described  
13 in section 57(a)(2) of the Internal Revenue Code of  
14 1954. This amount may be recovered through cost  
15 depletion or depreciation, as appropriate under rules  
16 prescribed by the director.

17 24 15. Add the percentage depletion amount  
18 determined with respect to an oil, gas, or geothermal  
19 well using methods as described in section 613  
20 57(a)(1) of the Internal Revenue Code of 1954 that is  
21 in excess of the cost depletion amount determined  
22 under section 611 of the Internal Revenue Code of  
23 1954.

24 25 16. Subtract the income or loss resulting from  
25 the forfeiture of an installment real estate contract,  
26 the transfer of real or personal property securing a  
27 debt to a creditor in cancellation of that debt, or  
28 from the sale or exchange of property as a result of  
29 actual notice of foreclosure if all of the following  
30 conditions are met:

31 a. The forfeiture, transfer, or sale or exchange  
32 was done for the purpose of establishing a positive  
33 cash flow.

34 b. Immediately before the forfeiture, transfer, or  
35 sale or exchange, the taxpayer's debt to asset ratio  
36 exceeded ninety percent as computed under generally  
37 accepted accounting practices.

38 c. The taxpayer's net worth at the end of the tax  
39 year is less than seventy-five thousand dollars. In  
40 determining a taxpayer's net worth at the end of the  
41 tax year a taxpayer shall include any asset  
42 transferred within one hundred twenty days prior to  
43 the end of the tax year without adequate and full  
44 consideration in money or money's worth. In  
45 determining the taxpayer's debt to asset ratio, the  
46 taxpayer shall include any asset transferred within  
47 one hundred twenty days prior to such forfeiture,  
48 transfer, or sale or exchange without adequate and  
49 full consideration in money or money's worth. For  
50 purposes of this subsection, actual notice of

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1 foreclosure includes, but is not limited to,  
2 bankruptcy or written notice from a creditor of the  
3 creditor's intent to foreclose where there is a  
4 reasonable belief that the creditor can force a sale  
5 of the asset. For purposes of this subsection, in the  
6 case of married taxpayers, except in the case of a  
7 husband and wife who live apart at all times during  
8 the tax year, the assets and liabilities of both  
9 spouses shall be considered for purposes of  
10 determining the taxpayer's net worth or the taxpayer's  
11 debt to asset ratio.

12 ~~26. In determining the taxpayer's net income, the~~  
13 ~~adjusted gross income computed for federal tax~~  
14 ~~purposes shall be adjusted to reflect the following:~~

15 ~~a. BUSINESS MEALS, TRAVEL, AND ENTERTAINMENT:~~

16 ~~Deductions for expenses incurred for meals, travel,~~  
17 ~~and entertainment for business purposes shall be~~  
18 ~~determined under sections 170 and 274 of the Internal~~  
19 ~~Revenue Code in effect on January 17, 1987 and all~~  
20 ~~other provisions of the Internal Revenue Code in~~  
21 ~~effect on January 17, 1987 relating to such deductions.~~

22 ~~b. DEPRECIATION: Deductions for depreciation for~~  
23 ~~property used for business purposes shall be~~  
24 ~~determined under sections 467, 167, 178, 179, 280, 291,~~  
25 ~~312, 465, 467, 514, 751, 1245, 4162, 6111, and 7701 of~~  
26 ~~the Internal Revenue Code in effect on January 17, 1987~~  
27 ~~and all other provisions of the Internal Revenue Code~~  
28 ~~in effect on January 17, 1987 relating to such~~  
29 ~~deductions.~~

30 ~~c. CAPITALIZATION RULES: Capitalization rules for~~  
31 ~~inventory, construction, and development costs as they~~  
32 ~~relate to business activities shall be determined~~  
33 ~~under sections 48, 263A, 312, 471, 267, 447, and 464~~  
34 ~~of the Internal Revenue Code in effect on January 17,~~  
35 ~~1987 and all other provisions of the Internal Revenue~~  
36 ~~Code in effect on January 17, 1987 relating to such~~  
37 ~~capitalization rules.~~

38 ~~d. PASSIVE INVESTMENT ACTIVITIES: Deductions for~~  
39 ~~passive investment activities shall be determined~~  
40 ~~under section 469 of the Internal Revenue Code in~~  
41 ~~effect on January 17, 1987 and all other provisions of~~  
42 ~~the Internal Revenue Code in effect on January 17, 1987~~  
43 ~~relating to passive investment activities.~~

44 ~~e. LONG-TERM CONTRACTS: Rules for determining the~~  
45 ~~amount of deductions for long-term contracts relating~~  
46 ~~to business activities shall be determined under~~  
47 ~~sections 460 and 804 of the Internal Revenue Code in~~  
48 ~~effect on January 17, 1987 and all other provisions of~~  
49 ~~the Internal Revenue Code in effect on January 17, 1987~~  
50 ~~relating to such long-term contracts.~~

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1 ~~f.--DISCHARGE-OF-INDEBTEDNESS.--Treatment-of-income~~  
2 ~~of-a-farmer-resulting-from-the-discharge-of-the~~  
3 ~~farmer's-indebtedness-shall-be-determined-under~~  
4 ~~section-108(g)-of-the-Internal-Revenue-Code-in-effect~~  
5 ~~on-January-1,-1987-~~

6 17. Subtract sixty percent of the net capital gain  
7 as computed in section 1202 of the Internal Revenue  
8 Code in effect for tax years beginning in the 1986  
9 calendar year. However, to the extent that the  
10 adjusted gross income reflects capital gain treatment  
11 for sales of dairy cattle made between January 1,  
12 1987, and September 1, 1987, under the federal milk  
13 production termination program, the capital gains from  
14 such sales shall not be used in computing net capital  
15 gain for purposes of this subsection. Any income or  
16 loss resulting from the forfeiture, transfer, or sale  
17 or exchange described in section 422.7, subsection 16,  
18 shall not be used in computing net capital gain for  
19 purposes of this subsection.

20 18. Subtract the loss on the sale or exchange of a  
21 share of a regulated investment company held for six  
22 months or less to the extent the loss was disallowed  
23 under section 852(b)(4)(B) of the Internal Revenue  
24 Code.

25 Sec. 8. Section 422.8, subsection 2, Code 1987, is  
26 amended to read as follows:

27 2. Nonresident's net income allocated to Iowa is  
28 the net income, or portion thereof, which is derived  
29 from a business, trade, profession, or occupation  
30 carried on within this state or income from any  
31 property, trust, estate, or other source within Iowa.  
32 If any business, trade, profession, or occupation is  
33 carried on partly within and partly without the state,  
34 only the portion of the net income which is fairly and  
35 equitably attributable to that part of the business,  
36 trade, profession, or occupation carried on within the  
37 state is allocated to Iowa for purposes of section  
38 422.5, subsection 1, paragraph "c" and section  
39 422.13 and income from any property, trust, estate, or  
40 other source partly within and partly without the  
41 state is allocated to Iowa in the same manner, except  
42 that annuities, interest on bank deposits and  
43 interest-bearing obligations, and dividends are  
44 allocated to Iowa only to the extent to which they are  
45 derived from a business, trade, profession, or  
46 occupation carried on within the state. However,  
47 income received by an individual who is a resident of  
48 another state is not allocated to Iowa if the income  
49 is subject to an income tax imposed by the state where  
50 the individual resides, and if the state of residence

1 allows a similar exclusion for income received in that  
2 state by residents of Iowa. In order to implement the  
3 exclusions, the director shall designate by rule the  
4 states which allow a similar exclusion for income  
5 received by residents of Iowa, and may enter into  
6 agreements with other states to provide that similar  
7 exclusions will be allowed, and to provide suitable  
8 withholding requirements in each state.

9 Sec. 9. Section 422.9, subsections 1, 2, and 3,  
10 Code Supplement 1987, are amended to read as follows:

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

22 However, for tax years beginning on or after  
23 January 1, 1988, but before January 1, 1989, the  
24 taxpayer shall deduct, before deduction of the  
25 standard deduction, the amount of federal income tax  
26 paid during the tax year for the previous tax year.  
27 Federal income tax paid in estimated tax payments  
28 during the tax year for the previous tax year shall  
29 not be deducted. For tax years beginning on or after  
30 January 1, 1988 but before January 1, 1989, the  
31 taxpayer shall add, before deduction of the standard  
32 deduction, the amount of federal income tax refund  
33 received during the tax year to the extent that the  
34 federal income tax that was refunded had been deducted  
35 on a return for a tax year beginning prior to January  
36 1, 1988. Married persons who have filed a joint  
37 federal income tax return and who have filed separate  
38 state returns shall divide the federal income tax paid  
39 or the federal income tax refund between the spouses  
40 in the ratio of the federal adjusted gross income of  
41 each spouse to the adjusted gross income of both  
42 spouses for the tax year which resulted in the income  
43 tax payment or the income tax refund.

44 ~~A taxpayer who claims the optional standard~~  
45 ~~deduction under this subsection may, after claiming~~  
46 ~~the optional standard deduction, claim the direct~~  
47 ~~charitable contribution as allowed and subject to the~~  
48 ~~same limitations provided under section 170(i) of the~~  
49 ~~Internal Revenue Code of 1954 for tax years ending on~~  
50 ~~or before December 31, 1986. -- However, the deduction~~

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1 shall-be-computed-as-provided-under-section-170(i)-of  
2 the-internal-Revenue-Code-of-1954-as-applied-to-tax  
3 year-1984.--Married-taxpayers-who-have-filed-a-joint  
4 federal-return-and-who-elect-to-file-separate-returns  
5 or-separately-on-a-combined-state-return-must-allocate  
6 their-allowable-charitable-deduction-to-each-spouse-in  
7 the-proportion-that-each-spouse's-respective-net  
8 income-bears-to-the-total-combined-net-income.  
9 Taxpayers-affected-by-the-allocation-provisions-of  
10 section-422-8-shall-be-permitted-a-deduction-in-the  
11 amount-as-is-fairly-and-equitably-allocable-to-Iowa  
12 under-rules-prescribed-by-the-director.

13 2. The total of contributions, interest, taxes,  
14 medical expense, moving expenses, nonbusiness losses  
15 and miscellaneous expenses deductible for federal  
16 income tax purposes under the Internal Revenue Code of  
17 1954, with the following adjustments:

18 a. Subtract the deduction for Iowa income taxes.

19 b.--Add-the-amount-of-federal-income-taxes-paid-or  
20 accrued-as-the-case-may-be,-during-the-tax-year  
21 adjusted-by-any-federal-income-tax-refunds.--Provided,  
22 however,-that-where-married-persons,-who-have-filed-a  
23 joint-federal-income-tax-return,-file-separately,-such  
24 total-shall-be-divided-between-them-according-to-the  
25 portion-thereof-paid-or-accrued,-as-the-case-may-be,  
26 by-each.

27 b. For tax years beginning on or after January 1,  
28 1988, but before January 1, 1989, add the amount of  
29 federal income tax paid during the tax year for the  
30 previous tax year except for federal income tax paid  
31 in estimated tax payments. For tax years beginning on  
32 or after January 1, 1988, but before January 1, 1989,  
33 subtract the amount of federal income tax refund  
34 received during the tax year to the extent that the  
35 federal income tax that was refunded had been deducted  
36 on a return for a tax year beginning prior to January  
37 1, 1988. Married persons who have filed a joint  
38 federal income tax return and who have filed separate  
39 state returns shall divide the federal income tax paid  
40 or the federal income tax refund between the spouses  
41 in the ratio of the federal adjusted gross income of  
42 each spouse to the adjusted gross income of both  
43 spouses for the tax year which resulted in the income  
44 tax payment or the income tax refund.

45 c. Add the amount by which expenses paid or  
46 incurred in connection with the adoption of a child by  
47 the taxpayer exceed three percent of the net income of  
48 the taxpayer, or of the taxpayer and spouse in the  
49 case of a joint return. The expenses may include  
50 medical and hospital expenses of the natural mother

1 which are incident to the child's birth and are paid  
2 by the taxpayer, welfare agency fees, legal fees, and  
3 all other fees and costs relating to the adoption of a  
4 child if the child is placed by a child-placing agency  
5 licensed under chapter 238 or by a person making an  
6 independent placement according to the provisions of  
7 chapter 600.

8 d. Add an additional deduction for mileage  
9 incurred by the taxpayer in voluntary work for a  
10 charitable organization consisting of the excess of  
11 the state employee mileage reimbursement over the  
12 amount deductible for federal income tax purposes.  
13 The deduction shall be proven by the keeping of a  
14 contemporaneous diary by the person throughout the  
15 period of the voluntary work in the tax year.

16 ~~e. Subtract the adoption deduction permitted under~~  
17 ~~section 222 of the Internal Revenue Code of 1954.~~

18 f e. Add the amount, not to exceed five thousand  
19 dollars, of expenses not otherwise deductible under  
20 this section actually incurred in the home of the  
21 taxpayer for the care of a person who is the  
22 grandchild, child, parent, or grandparent of the  
23 taxpayer or the taxpayer's spouse and who is unable,  
24 by reason of physical or mental disability, to live  
25 independently and is receiving, or would be eligible  
26 to receive if living in a health care facility  
27 licensed under chapter 135C, medical assistance  
28 benefits under chapter 249A. In the event that the  
29 person being cared for is receiving assistance  
30 benefits under chapter 239, the expenses not otherwise  
31 deductible shall be the net difference between the  
32 expenses actually incurred in caring for the person  
33 and the assistance benefits received under chapter  
34 239.

35 g f. Add the amount the taxpayer has paid to  
36 others, not to exceed one thousand dollars for each  
37 dependent in grades kindergarten through twelve, for  
38 tuition and textbooks of each dependent in attending  
39 an elementary or secondary school situated in Iowa,  
40 which school is accredited or approved under section  
41 256.11, which is not operated for profit, and which  
42 adheres to the provisions of the United States Civil  
43 Rights Act of 1964 and chapter 601A. As used in this  
44 lettered paragraph, "textbooks" means books and other  
45 instructional materials and equipment used in  
46 elementary and secondary schools in teaching only  
47 those subjects legally and commonly taught in public  
48 elementary and secondary schools in this state and  
49 does not include instructional books and materials  
50 used in the teaching of religious tenets, doctrines,

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1 or worship, the purpose of which is to inculcate those  
2 tenets, doctrines, or worship, and does not include  
3 books or materials for extracurricular activities  
4 including sporting events, musical or dramatic events,  
5 speech activities, driver's education, or programs of  
6 a similar nature. The deduction in this paragraph  
7 does not apply to a taxpayer whose adjusted gross  
8 income, as properly computed for federal tax purposes,  
9 is forty-five thousand dollars or more. In the case  
10 where the taxpayer is married, whether filing jointly  
11 or separately, the deduction does not apply if the  
12 combined adjusted gross income of the taxpayer and  
13 spouse is forty-five thousand dollars or more.

14 As used in this lettered paragraph, "tuition" means  
15 any charges for the expenses of personnel, buildings,  
16 equipment and materials other than textbooks, and  
17 other expenses of elementary or secondary schools  
18 which relate to the teaching only of those subjects  
19 legally and commonly taught in public elementary and  
20 secondary schools in this state and which do not  
21 relate to the teaching of religious tenets, doctrines,  
22 or worship, the purpose of which is to inculcate those  
23 tenets, doctrines, or worship, and which do not relate  
24 to extracurricular activities including sporting  
25 events, musical or dramatic events, speech activities,  
26 driver's education, or programs of a similar nature.

27 3. If after applying all of the adjustments  
28 provided for in section 422.7, the allocation  
29 provisions of section 422.8 and the deductions  
30 allowable in this section subject to the modifications  
31 provided in section 172(d) of the Internal Revenue  
32 Code of 1954, the taxable income results in a net  
33 operating loss, the net operating loss shall be  
34 deducted as follows:

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

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

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

47 Sec. 10. Section 422.10, unnumbered paragraph 1,  
48 Code 1987, is amended to read as follows:

49 The taxes imposed under this division shall be  
50 reduced by a state tax credit for increasing research

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1 activities in this state. For individuals, the credit  
2 ~~shall equal~~ equals six and one-half percent of the  
3 state's apportioned share of the qualifying  
4 expenditures for increasing research activities. The  
5 state's apportioned share of the qualifying  
6 expenditures for increasing research activities is a  
7 percent equal to the ratio of qualified research  
8 expenditures in this state to total qualified research  
9 expenditures. For purposes of this section, an  
10 individual may claim a research credit for qualifying  
11 research expenditures incurred by a partnership,  
12 subchapter S corporation, and estate or trust electing  
13 to have the income taxed directly to the individual.  
14 The amount claimed by the individual shall be based  
15 upon the pro rata share of the individual's earnings  
16 of a partnership, subchapter S corporation, or estate  
17 or trust. For purposes of this section, "qualifying  
18 expenditures for increasing research activities" means  
19 the qualifying expenditures as defined for the federal  
20 credit for increasing research activities which would  
21 be allowable under section 30 41 of the Internal  
22 Revenue Code ~~of 1954 in effect on January 17, 1985.~~

23 Sec. 11. Section 422.12, subsection 1, paragraph  
24 c, Code Supplement 1987, is amended to read as  
25 follows:

26 c. For each dependent, an additional ten dollars.  
27 As used in this section, the term "dependent" shall  
28 have the same meaning as provided by the Internal  
29 Revenue Code ~~of 1954.~~

30 Sec. 12. Section 422.12, subsection 2, unnumbered  
31 paragraph 1, Code Supplement 1987, is amended to read  
32 as follows:

33 A child and dependent care credit equal to forty-  
34 five percent of the federal child and dependent care  
35 credit provided in section 21 of the Internal Revenue  
36 Code ~~of 1954.~~

37 Sec. 13. Section 422.13, subsection 1, paragraph  
38 a, Code Supplement 1987, is amended to read as  
39 follows:

40 a. The individual is required to file a federal  
41 income tax return under the Internal Revenue Code ~~of~~  
42 ~~1954.~~

43 Sec. 14. Section 422.16, subsection 1, unnumbered  
44 paragraph 1, Code Supplement 1987, is amended to read  
45 as follows:

46 Every withholding agent and every employer as  
47 defined in this chapter and further defined in the  
48 Internal Revenue Code ~~of 1954,~~ with respect to income  
49 tax collected at source, making payment of wages to a  
50 nonresident employee working in Iowa, or to a resident

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1 employee, shall deduct and withhold from the wages an  
2 amount which will approximate the employee's annual  
3 tax liability on a calendar year basis, calculated on  
4 the basis of tables to be prepared by the department  
5 and schedules or percentage rates, based on the wages,  
6 to be prescribed by the department. Every employee or  
7 other person shall declare to the employer or  
8 withholding agent the number of the employee's or  
9 other person's personal exemptions and dependency  
10 exemptions or credits to be used in applying the  
11 tables and schedules or percentage rates. However, no  
12 greater number of personal or dependency exemptions or  
13 credits may be declared by the employee or other  
14 person than the number to which the employee or other  
15 person is entitled except as allowed under section  
16 3402(m)(1) of the Internal Revenue Code of 1954. The  
17 claiming of exemptions or credits in excess of  
18 entitlement is a serious misdemeanor.

19 Sec. 15. Section 422.16, subsection 11, paragraphs  
20 a and d, Code Supplement 1987, are amended to read as  
21 follows:

22 a. Every person or married couple filing a return  
23 shall make estimated tax payments if the person's or  
24 couple's Iowa income tax attributable to income other  
25 than wages subject to withholding can reasonably be  
26 expected to amount to fifty dollars or more for the  
27 taxable year, except that, in the cases of farmers and  
28 fishers fishermen, the exceptions provided in the  
29 Internal Revenue Code of 1954 with respect to making  
30 estimated payments apply. The estimated tax shall be  
31 paid in quarterly installments. The first installment  
32 shall be paid on or before the last day of the fourth  
33 month of the taxpayer's tax year for which the  
34 estimated payments apply. The other installments  
35 shall be paid on or before June 30, September 30, and  
36 January 31. However, at the election of the person or  
37 married couple, any installment of the estimated tax  
38 may be paid prior to the date prescribed for its  
39 payment. If a person or married couple filing a  
40 return has reason to believe that the person's or  
41 couple's Iowa income tax may increase or decrease,  
42 either for purposes of meeting the requirement to make  
43 estimated tax payments or for the purpose of  
44 increasing or decreasing estimated tax payments, the  
45 person or married couple shall increase or decrease  
46 any subsequent estimated tax payments accordingly.

47 d. Any amount of estimated tax paid is a credit  
48 against the amount of tax found payable on a final,  
49 completed return, as provided in subsection 9,  
50 relating to the credit for the tax withheld against

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1 the tax found payable on a return properly and  
2 correctly prepared under sections 422.5 through  
3 422.25, and any overpayment of one dollar or more  
4 shall be refunded to the taxpayer and the return  
5 constitutes a claim for refund for this purpose.  
6 Amounts less than one dollar shall not be refunded.  
7 The method provided by the Internal Revenue Code of  
8 ~~1954~~ for determining what is applicable to the  
9 addition to tax for underpayment of the tax payable  
10 applies to persons required to make payments of  
11 estimated tax under this section except the amount to  
12 be added to the tax for underpayment of estimated tax  
13 is an amount determined at the rate in effect under  
14 section 421.7. This addition to tax specified for  
15 underpayment of the tax payable is not subject to  
16 waiver provisions relating to reasonable cause, except  
17 as provided in the Internal Revenue Code of ~~1954~~.  
18 Underpayment of estimated tax shall be determined in  
19 the same manner as provided under the Internal Revenue  
20 Code of ~~1954~~ and the exceptions in the Internal  
21 Revenue Code of ~~1954~~ also apply.

22 Sec. 16. Section 422.20, subsection 2, Code  
23 Supplement 1987, is amended to read as follows:

24 2. It shall be unlawful for any officer, employee,  
25 or agent, or former officer, employee, or agent of the  
26 state to disclose to any person, except as authorized  
27 in subsection 1 of this section, any federal tax  
28 return or return information as defined in section  
29 6103(b) of the Internal Revenue Code of ~~1954~~. It  
30 shall further be unlawful for any person to whom any  
31 federal tax return or return information, as defined  
32 in section 6103(b) of the Internal Revenue Code of  
33 ~~1954~~, is disclosed in a manner unauthorized by  
34 subsection 1 of this section to thereafter print or  
35 publish in any manner not provided by law any such  
36 return or return information. Any person committing  
37 an offense against the foregoing provision shall be  
38 guilty of a serious misdemeanor.

39 Sec. 17. Section 422.21, unnumbered paragraph 4,  
40 Code Supplement 1987, is amended to read as follows:

41 The director shall determine for the ~~1979~~ 1989 and  
42 subsequent calendar years the annual and cumulative  
43 inflation factors for those calendar years to be  
44 applied to tax years beginning on or after January 1  
45 of that calendar year. The director shall compute the  
46 new dollar amounts as specified therein to be adjusted  
47 in section 422.5 by the latest cumulative inflation  
48 factor and round off the result to the nearest one  
49 dollar. The annual and cumulative inflation factors  
50 determined by the director are not rules as defined in

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1 section 17A.2, subsection 7.

2 Sec. 18. Section 422.25, subsection 1, unnumbered  
3 paragraph 1, Code 1987, is amended to read as follows:  
4 Within three years after the return is filed or  
5 within three years after the return became due,  
6 including any extensions of time for filing, whichever  
7 time is the later, the department shall examine it and  
8 determine the correct amount of tax, and the amount  
9 determined by the department is the tax. However, if  
10 the taxpayer omits from income an amount which will,  
11 under the Internal Revenue Code of 1954, extend the  
12 statute of limitations for assessment of federal tax  
13 to six years under the federal law, the period for  
14 examination and determination is six years. In  
15 addition to the applicable period of limitation for  
16 examination and determination, the department may make  
17 an examination and determination at any time within  
18 six months from the date of receipt by the department  
19 of written notice from the taxpayer of the final  
20 disposition of any matter between the taxpayer and the  
21 internal revenue service with respect to the  
22 particular tax year. In order to begin the running of  
23 the six-months' period, the notice shall be in writing  
24 in any form sufficient to inform the department of the  
25 final disposition with respect to that year, and a  
26 copy of the federal document showing the final  
27 disposition or final federal adjustments shall be  
28 attached to the notice.

29 Sec. 19. Section 422.32, subsection 11, Code  
30 Supplement 1987, is amended by striking the  
31 subsection.

32 Sec. 20. Section 422.43, subsections 1, 2, 6, and  
33 10, Code Supplement, 1987, are amended to read as  
34 follows:

35 1. There is imposed a tax of ~~four~~ five percent  
36 upon the gross receipts from all sales of tangible  
37 personal property, consisting of goods, wares, or  
38 merchandise, except as otherwise provided in this  
39 division, sold at retail in the state to consumers or  
40 users; a like rate of tax upon the gross receipts from  
41 the sales, furnishing or service of gas, electricity,  
42 water, heat, and communication service, including the  
43 gross receipts from such sales by any municipal  
44 corporation furnishing gas, electricity, water, heat,  
45 and communication service to the public in its  
46 proprietary capacity, except as otherwise provided in  
47 this division, when sold at retail in the state to  
48 consumers or users; a like rate of tax upon the gross  
49 receipts from all sales of tickets or admissions to  
50 places of amusement, fairs, and athletic events except

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1 those of elementary and secondary educational  
2 institutions; and a like rate of tax upon that part of  
3 private club membership fees or charges paid for the  
4 privilege of participating in any athletic sports  
5 provided club members.

6 2. There is imposed a tax-of-four-percent like  
7 rate of tax upon the gross receipts derived from the  
8 operation of all forms of amusement devices and games  
9 of skill, games of chance, raffles, and bingo games as  
10 defined in chapter 99B, operated or conducted within  
11 the state of Iowa, the tax to be collected from the  
12 operator in the same manner as is provided for the  
13 collection of taxes upon the gross receipts of tickets  
14 or admission fees as provided in this section. The  
15 tax shall also be imposed upon the gross receipts  
16 derived from the sale of lottery tickets or shares  
17 pursuant to chapter 99E. The tax on the lottery  
18 tickets or shares shall be included in the sales price  
19 and distributed to the general fund as provided in  
20 section 99E.10.

21 6. There is imposed a tax-of-four-percent like  
22 rate of tax upon the gross receipts from the sales of  
23 optional service or warranty contracts which provide  
24 for the furnishing of labor and materials and require  
25 the furnishing of any taxable service enumerated under  
26 this section. The gross receipts are subject to tax  
27 even if some of the services furnished are not  
28 enumerated under this section. For the purpose of  
29 this division, the sale of an optional service or  
30 warranty contract is a sale of tangible personal  
31 property. Additional sales, services, or use tax  
32 shall not be levied on services, parts, or labor  
33 provided under optional service or warranty contracts  
34 which are subject to tax under this section.

35 10. There is imposed a tax of four five percent  
36 upon the gross receipts from the rendering,  
37 furnishing, or performing of services as defined in  
38 section 422.42.

39 Sec. 21. Section 422.47, Code Supplement 1987, is  
40 amended by adding the following new subsection:

41 NEW SUBSECTION. Construction contractors may make  
42 application to the department for a refund of the  
43 additional one percent tax paid under this division or  
44 the additional one percent tax paid under chapter 423  
45 by reason of the increase in the tax from four to five  
46 percent for taxes paid on goods, wares, or merchandise  
47 under the following conditions:

48 a. The goods, wares, or merchandise are  
49 incorporated into an improvement to real estate in  
50 fulfillment of a written contract fully executed prior

1 to June 1, 1987. The refund shall not apply to  
2 equipment transferred in fulfillment of a mixed  
3 construction contract.

4 b. The contractor has paid to the department or to  
5 a retailer the full five percent tax.

6 c. The claim is filed on forms provided by the  
7 department and is filed within one year of the date  
8 the tax is paid.

9 A contractor who makes an erroneous application for  
10 refund is liable for payment of the excess refund paid  
11 plus interest at the rate in effect under section  
12 421.7. In addition, a contractor who willfully makes  
13 a false application for refund is guilty of a simple  
14 misdemeanor and is liable for a penalty equal to  
15 seventy-five percent of the excess refund claimed.  
16 Excess refunds, penalties, and interest due under this  
17 subsection may be enforced and collected in the same  
18 manner as the tax imposed by this division.

19 Sec. 22. Section 423.2, Code 1987, is amended to  
20 read as follows:

21 423.2 IMPOSITION OF TAX.

22 An excise tax is imposed on the use in this state  
23 of tangible personal property purchased for use in  
24 this state, at the rate of four five percent of the  
25 purchase price of the property. The excise tax is  
26 imposed upon every person using the property within  
27 this state until the tax has been paid directly to the  
28 county treasurer or the state department of  
29 transportation, to a retailer, or to the department.  
30 An excise tax is imposed on the use in this state of  
31 services enumerated in section 422.43 at the rate of  
32 four five percent. This tax is applicable where  
33 services are rendered, furnished, or performed in this  
34 state or where the product or result of the service is  
35 used in this state. This tax is imposed on every  
36 person using the services or the product of the  
37 services in this state until the user has paid the tax  
38 either to an Iowa use tax permit holder or to the  
39 department.

40 Sec. 23. This section applies in regard to the  
41 increase in the state sales, services, and use tax  
42 from four to five percent under sections 20 and 22.  
43 The use tax rate of five percent applies to motor  
44 vehicles subject to registration which are registered  
45 on or after January 1, 1988. The five percent use tax  
46 rate will apply to the use of property when the first  
47 taxable use in this state occurs on or after January  
48 1, 1988. The five percent rate will apply to the  
49 gross receipts from the sale, furnishing, or service  
50 of gas, electricity, water, heat, and communication

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1 service if the date of billing the customer is on or  
2 after January 1, 1988. In the case of a service  
3 contract entered into prior to January 1, 1988, which  
4 contract calls for periodic payments, the five percent  
5 rate will apply to those payments made or due on or  
6 after January 1, 1988. This periodic payment would  
7 apply, but not be limited to, tickets of admissions,  
8 private club membership fees, sources of amusement,  
9 equipment rental, dry cleaning, reducing salons, dance  
10 schools, and all other services subject to tax, except  
11 the aforementioned utility services which are subject  
12 to a special transitional rule. Unlike periodic  
13 payment under service contracts, installments sales of  
14 goods, wares, and merchandise are subject to the full  
15 amount of sales or use tax when the sales contract is  
16 entered into or the property is used in Iowa.

17 Sec. 24. Section 422.72, subsection 2, Code  
18 Supplement 1987, is amended to read as follows:

19 2. Federal tax returns, copies of returns, and  
20 return information as defined in section 6103(b) of  
21 the Internal Revenue Code of 1954, which are required  
22 to be filed with the department for the enforcement of  
23 the income tax laws of this state, shall be deemed and  
24 held as confidential by the department and subject to  
25 the disclosure limitations in subsection 1 of this  
26 section.

27 Sec. 25. Section 422.73, subsection 4, Code 1987,  
28 is amended by striking the subsection.

29 Sec. 26. Section 422.73, Code 1987, is amended by  
30 adding the following new subsections:

31 NEW SUBSECTION. Notwithstanding subsection 2, a  
32 claim for credit or refund of the income tax paid for  
33 a tax year beginning in the 1983 calendar year is  
34 considered timely if the claim is filed with the  
35 department on or before April 30, 1988, if the  
36 taxpayer's federal income tax was forgiven under  
37 section 692 of the Internal Revenue Code because the  
38 taxpayer died, or was missing in action and determined  
39 dead, while serving in a combat zone. To the extent  
40 the federal income tax was forgiven under section 692  
41 of the Internal Revenue Code for the tax year, the  
42 Iowa income tax is also forgiven.

43 NEW SUBSECTION. Notwithstanding subsection 2, a  
44 claim for credit or refund of the state alternative  
45 minimum tax paid for any tax year beginning on or  
46 after January 1, 1982 and before January 1, 1984 is  
47 considered timely if the claim is filed with the  
48 department on or before April 30, 1988, if the  
49 taxpayer's capital gains preference items for purposes  
50 of the federal individual alternative minimum tax was

1 reduced as a result of section 13208 of the  
2 Consolidated Omnibus Budget Reconciliation Act of 1985  
3 as amended by section 1896 of the Tax Reform Act of  
4 1986.

5 Sec. 27. There is appropriated for the fiscal year  
6 beginning July 1, 1987, and ending June 30, 1988, the  
7 sum of one hundred thousand (100,000) dollars, or so  
8 much as is necessary, to the department of management  
9 for the purpose of hiring an independent auditing firm  
10 to study state finances.

11 Sec. 28. Sections 1 through 19 and 24 of this Act  
12 are effective January 1, 1988, for tax years beginning  
13 on or after that date.

14 Sec. 29. Sections 20 through 23 of this Act are  
15 effective January 1, 1988.

16 Sec. 30. This Act, being deemed of immediate  
17 importance, takes effect upon enactment."

18 2. Title page, by striking lines 1 through 3 and  
19 inserting the following: "An Act relating to the  
20 state's conforming its individual income taxes with  
21 the new federal tax provisions by updating references  
22 to the Internal Revenue Code, rewriting the state  
23 minimum taxes to conform with the federal alternative  
24 minimum taxes, maintaining the deduction for capital  
25 gains, increasing the standard deduction, decreasing  
26 the tax rates, striking obsolete and repealed items,  
27 extending the statute of limitations for certain  
28 refund claims, increasing the state sales, services,  
29 and use tax, making an appropriation to hire an  
30 independent auditing firm to study state finances, and  
31 providing effective dates."

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Filed October 27, 1987 Lost (p. 6)

BY GEORGE KINLEY  
JACK RIFE  
DAVID READINGER  
JOHN E. SOORHOLTZ

SENATE FILE 524

S-4136

- 1 Amend Senate File 524 as follows:
- 2 1. Page 6, by striking lines 23 through 32
- 3 2. By renumbering as necessary.

S-4136

Filed October 27, 1987 Lost (p. 10)

BY EDGAR HOLDEN

OCTOBER 27, 1987

S-4143

## SENATE FILE 524

1 Amend Senate File 524 as follows:

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2 1. Page 2, lines 29 and 30, by striking the words  
3 "except for the net capital gain deduction,".

4 2. Page 6, line 24, by striking the word  
5 "subsection:" and inserting the following:  
6 "subsections:".

7 3. Page 6, by inserting after line 32 the  
8 following:

9 "NEW SUBSECTION. 28. Subtract sixty percent of  
10 the net capital gains from each of the following types  
11 of property used in a trade or business in which the  
12 taxpayer or the taxpayer's spouse materially  
13 participates:

14 a. From sales of breeding livestock or timber.  
15 Not more than thirty thousand dollars may be deducted  
16 by the taxpayer under this paragraph.

17 b. From the sales of real estate used in the trade  
18 or business for at least five years and in which the  
19 taxpayer had an interest for at least ten years. Not  
20 more than one hundred twenty thousand dollars may be  
21 deducted by the taxpayer under this paragraph.

A  
22 For purposes of this subsection, "net capital  
23 gains" means the excess of long-term capital gain over  
24 long-term capital loss as would be determined solely  
25 for the type of property involved under section 1231  
26 of the Internal Revenue Code. Material participation  
27 shall be determined in a manner similar to the manner  
28 used for purposes of paragraph (1) of section 1402(a)  
29 of the Internal Revenue Code relating to net earnings  
30 from self-employment. A taxpayer who is retired as  
31 described in section 2032A(b)(4) of the Internal  
32 Revenue Code of 1986 shall be treated as materially  
33 participating in the trade or business. Any income or  
34 loss resulting from the forfeiture, transfer, or sale  
35 or exchange described in section 422.7, subsection 25,  
36 shall not be used in computing net capital gain for  
37 purposes of this subsection.

38 The deduction allowed by this subsection shall  
39 apply to computing the income of subchapter S  
40 corporations and of income attributable to individual  
41 members of a partnership, as long as the individual  
42 taxpayer materially participated and held the  
43 partnership interest or the shareholder interest for  
44 the entire applicable period."

45 4. By striking page 7, line 24 through page 10,  
46 line 8.

47 5. By striking page 10, line 35 through page 11,  
48 line 13.

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49 6. Page 12, by inserting after line 17 the  
50 following:

1

2 "Sec.

3 1. Effective January 1, 1988, the department of  
4 human services shall establish the schedule of basic  
5 needs for the aid to families with dependent children  
6 program at not less than the following amounts: for  
7 one person at one hundred sixty-eight dollars, for two  
8 persons at three hundred thirty-two dollars, for three  
9 persons at three hundred ninety-two dollars, for four  
10 persons at four hundred fifty-six dollars, for five  
11 persons at five hundred five dollars, for six persons  
12 at five hundred sixty-one dollars, for seven persons  
13 at six hundred seventeen dollars, for eight persons at  
14 six hundred seventy-three dollars, for nine persons at  
15 seven hundred twenty-eight dollars, for ten persons at  
16 seven hundred ninety-six dollars, and for each  
17 additional person at seventy-nine dollars.

18 2. Effective January 1, 1988, the department of  
19 human services shall establish the following medical  
20 assistance provider reimbursement rates at no less  
21 than the following rates:

22 a. The basis for establishing the maximum medical  
23 assistance rate for intermediate care facilities shall  
24 be the sixty-first percentile of all facility per  
25 diems as calculated from the January 1, 1988,  
26 unaudited compilation of cost and statistical data.

27 b. Skilled nursing facility and rural health  
28 clinic payment rates shall be increased by two  
29 percent.

30 c. The three and eighty-five hundredths percent  
31 reduction shall no longer be applied to residential  
32 care facilities. Furthermore, the maximum  
33 reimbursement rate for residential care facilities  
34 shall be increased by two percent making the maximum  
35 rate seventeen dollars and sixty-two cents. The new  
36 flat rate for facilities electing not to file cost  
37 reports shall be twelve dollars and sixty cents.

38 d. The three and eighty-five hundredths percent  
39 reduction shall not be applied to the in-home health  
40 related care program. Furthermore, the maximum  
41 reimbursement rate for the in-home health related care  
42 program shall be increased by two percent.

43 e. For services given by social service providers,  
44 reductions to invoices or rates shall be discontinued.  
45 Furthermore, rates shall be automatically increased by  
46 two percent over the unreduced rates in effect on June  
47 30, 1987. Rates for foster group care and shelter  
48 care services shall not exceed sixty-eight dollars and  
49 eighty cents per day. This automatic increase is  
50 intended to be a one-time exception to policy for the

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1 fiscal period beginning January 1, 1988, and ending  
2 June 30, 1988 only and is not intended to eliminate  
3 regular submission of cost reports.

4 3. The department of human services may transfer  
5 funds to the office of the attorney general for the  
6 fiscal period beginning January 1, 1988, and ending  
7 June 30, 1988, for the legal assistance to farmers  
8 program."

9 7. Title page, line 3, by inserting after the  
10 word "retroactive" the following: ", and to the  
11 state's use of revenue for certain human services  
12 programs".

13 8. By renumbering as necessary.

S-4143 A-LOST B-OUT OF ORDER (p. 11) BY  
Filed October 27, 1987

CHARLES RRIINER  
BEVERLY A. HANNON  
JAMES R. RIORDAN  
AL STURGEON  
RICHARD VARN  
JEAN LLOYD-JONES  
THOMAS MANN, JR.

SENATE FILE 524

S-4138

1 Amend Senate File 524 as follows:

2 1. Page 8, by striking line 32 through page 9,  
3 line 3 and inserting in lieu thereof the following:  
4 "capital gain deduction. In recomputing the  
5 taxpayer's alternative minimum".

6 2. Page 9, by striking lines 13 through 15 and  
7 inserting in lieu thereof the following: "filed  
8 separate returns or separately on combined returns, as  
9 these items were properly".

S-4138 A-Adopted B-Withdrawn (p. 13)

Filed October 27, 1987

BY WILLIAM DIELEMAN

SENATE FILE 524

EMIL J. HUSAK

S-4139

1 Amend Senate File 524 as follows:

2 1. Page 10, by inserting after line 8 the  
3 following:

4 "Sec. \_\_\_\_ . Section 422.9, subsection 2, paragraph  
5 g, Code Supplement 1987, is amended by striking  
6 paragraph g."

7 2. Page 10, by inserting after line 34 the  
8 following:

9 "Sec. \_\_\_\_ . Section 422.12, subsection 3, Code  
10 Supplement 1987, is amended by striking subsection 3."

11 3. Renumber sections and correct internal  
12 references as necessary in accordance with this  
13 amendment.

S-4139

ed October 27, 1987

Lost (p. 13)

BY THOMAS MANN, JR.

DAVID READINGER

OCTOBER 27, 1987

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## SENATE FILE 524

1 Amend Senate File 524 as follows:

2 1. Page 1, by striking lines 3 and 4 and  
3 inserting the following:

4 "NEW SUBSECTION. 19. The definition of the  
5 Internal".

6 2. Page 1, lines 14 and 15, by striking the  
7 following: "for tax years beginning in the 1987  
8 calendar year only,".

9 3. Page 5, lines 8 and 9, by striking the follow-  
10 ing: "for tax years beginning in the 1987 calendar  
11 year only,".

12 4. Page 5, lines 12 and 13, by striking the  
13 following: "for tax years beginning in the 1987  
14 calendar year only,".

15 5. Page 5, line 23, by striking the following:  
16 "for tax years beginning in the 1987 calendar year  
17 only,".

18 6. Page 6, by striking lines 5 through 22 and in-  
19 serting the following:

20 "23. Add the amount of intangible drilling and  
21 development costs optionally deducted in the year paid  
22 or incurred as ~~allowed under section 263(e)~~ described  
23 in section 57(a)(2) of the Internal Revenue Code of  
24 1954. This amount may be recovered through cost  
25 depletion or depreciation, as appropriate under rules  
26 prescribed by the director.

27 24. Add the percentage depletion amount determined  
28 with respect to an oil, gas, or geothermal well using  
29 methods as described in section 613 57(a)(1) of the  
30 Internal Revenue Code of 1954 that is in excess of the  
31 cost-depletion amount determined under section 611 of  
32 the Internal Revenue Code of 1954."

33 7. Page 6, by striking lines 25 and 26 and in-  
34 serting the following:

35 "NEW SUBSECTION. 27. Add interest and dividends  
36 from regulated".

37 8. Page 7, lines 8 and 9, by striking the follow-  
38 ing: "for tax years beginning in the 1987 calendar  
39 year only,".

40 9. Page 7, line 21, by striking the following:  
41 "for tax years beginning in the 1987 calendar year  
42 only,".

43 10. Page 7, by striking lines 26 and 27 and in-  
44 serting the following:

45 "NEW SUBSECTION. 6. The taxpayer may recompute  
46 the taxpayer's".

47 11. Page 10, lines 31 and 32, by striking the  
48 following: ", for tax years beginning in the 1987  
49 calendar year only,".

50 12. Page 11, by striking lines 2 and 3 and in-

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Div.  
B

- 1serting the following:
- 2 "NEW UNNUMBERED PARAGRAPH. The department shall
- 3 prepare and make".
- 4 13. Page 12, by striking lines 2 and 3 and in-
- 5serting the following:
- 6 "Sec. 13. Section 422.7, subsections 10, 12, 14,
- 7 15, 22, and 26,".
- 8 14. Page 12, by striking lines 6 and 7 and in-
- 9serting the following:
- 10 "Sec. 14. References in section 422.8 and in any
- 11 other provision".
- 12 15. Page 12, by striking line 20 and inserting
- 13 the following: "1987 and 1988 calendar years only."
- 14 16. Title page, line 2, by striking the words
- 15 "calendar year" and inserting the following: "and
- 16 1988 calendar years".

S-4141 A-Withdrawn B-Lost (p. 2)

Filed October 27, 1987

BY JOE WELSH  
LARRY MURPHY

SENATE FILE 524

S-4142

- 1 Amend Senate File 524 as follows:
- 2 1. Page 6, by inserting after line 22 the fol-
- 3 lowing:
- 4 "Sec. 50. Section 422.7, subsection 2, Code
- 5 Supplement 1987, is amended to read as follows:
- 6 2. Add interest and dividends from foreign
- 7 securities and from securities of state and other
- 8 political subdivisions, except interest from general
- 9 obligation bonds issued by political subdivisions of
- 10 Iowa, exempt from federal income tax under the
- 11 Internal Revenue Code of 1954."
- 12 2. Page 12, line 18, by inserting after the
- 13 figure "10," the following: "50,".
- 14 3. By renumbering as necessary.

S-4142

Filed October 27, 1987

Lost (p. 2)

BY EDGAR H. HOLDEN

## SENATE FILE 524

1 Amend Senate File 524 as follows:

2 1. Page 1, by striking lines 3 and 4 and  
3 inserting the following:

4 "NEW SUBSECTION. 19. The definition of the  
5 Internal".

6 2. Page 1, lines 14 and 15, by striking the  
7 following: "for tax years beginning in the 1987  
8 calendar year only,".

9 3. Page 5, by striking lines 8 through 19 and  
10 inserting the following:

11 "NEW UNNUMBERED PARAGRAPH. However, for married  
12 persons filing jointly or filing separately on a  
13 combined return, unmarried heads of household, and  
14 surviving spouses, references in this subsection and  
15 subsections 6 and 10 to five thousand dollars shall be  
16 interpreted to mean seven thousand five hundred  
17 dollars. In addition, if the married persons filing  
18 jointly or filing separately on a combined return,  
19 unmarried head of household, or surviving spouse's net  
20 income exceeds seven thousand five hundred dollars the  
21 regular tax imposed under this division shall be the  
22 lesser of the maximum state individual income tax rate  
23 times the portion of the net income in excess of seven  
24 thousand five hundred dollars or the regular tax  
25 liability computed without regard to this sentence.  
26 Taxpayers electing to file separately shall compute  
27 the alternate tax described in this paragraph using  
28 the total net income of the husband and wife."

29 4. Page 5, line 23, by striking the following:  
30 "for tax years beginning in the 1987 calendar year  
31 only,".

32 5. Page 6, by striking lines 5 through 22 and in-  
33 serting the following:

34 "23. Add the amount of intangible drilling and  
35 development costs optionally deducted in the year paid  
36 or incurred as ~~allowed under section 263(c)~~ described  
37 in section 57(a)(2) of the Internal Revenue Code of  
38 1954. This amount may be recovered through cost  
39 depletion or depreciation, as appropriate under rules  
40 prescribed by the director.

41 24. Add the percentage depletion amount determined  
42 with respect to an oil, gas, or geothermal well using  
43 methods as described in section 613 57(a)(1) of the  
44 Internal Revenue Code of 1954 that-is-in-excess-of-the  
45 cost-depletion-amount-determined-under-section-611-of  
46 the-Internal-Revenue-Code-of-1954."

47 6. Page 6, by striking lines 25 and 26 and in-  
48 serting the following:

49 "NEW SUBSECTION. 27. Add interest and dividends  
50 from regulated".

27, 1987

2

1 7. Page 7, lines 8 and 9, by striking the follow-  
2 ing: "for tax years beginning in the 1987 calendar  
3 year only,".

4 8. Page 7, line 21, by striking the following:  
5 "for tax years beginning in the 1987 calendar year  
6 only,".

7 9. Page 7, by striking lines 26 and 27 and in-  
8 serting the following:

9 "NEW SUBSECTION. 6. The taxpayer may recompute  
10 the taxpayer's".

11 10. Page 10, lines 31 and 32, by striking the  
12 following: ", for tax years beginning in the 1987  
13 calendar year only,".

14 11. Page 11, by striking line 1 and inserting the  
15 following: "by adding the following new unnumbered  
16 paragraphs:

17 NEW UNNUMBERED PARAGRAPH. The department shall  
18 provide on income forms or in the instruction booklets  
19 in a manner that will be noticeable to the taxpayers a  
20 statement to the extent that even though the taxpayer  
21 may not have any federal or state income tax liability  
22 that the taxpayer may be eligible for the federal  
23 earned income tax credit. The statement shall also  
24 contain notice of where the taxpayer may check on the  
25 taxpayer's eligibility for this credit."

26 12. Page 11, by striking lines 2 and 3 and in-  
27 serting the following:

28 "NEW UNNUMBERED PARAGRAPH. The department shall  
29 prepare and make".

30 13. Page 12, by striking lines 2 and 3 and in-  
31 serting the following:

32 "Sec. 13. Section 422.7, subsections 10, 12, 14,  
33 15, 22, and 26,".

34 14. Page 12, by striking lines 6 and 7 and in-  
35 serting the following:

36 "Sec. 14. References in section 422.8 and in any  
37 other provision".

38 15. Title page, line 3, by inserting after the  
39 word "retroactive" the following: "and providing for  
40 it to be effective upon enactment".

S-4140

Filed October 27, 1987 Adopted (p. 12)

BY CHARLES BRUNER  
BILL HUTCHINS  
CALVIN HULTMAN

OCTOBER 27, 1987

S-4144

## SENATE FILE 524

1 Amend Senate File 524 as follows:

2 1. Page 10, by inserting after line 34 the  
3 following:

4 "Sec. \_\_\_\_\_. Section 422.16, subsection 11,  
5 paragraph b, Code Supplement 1987, is amended to read  
6 as follows:

7 b. In the case of persons or married couples  
8 filing jointly, the total balance of the tax payable  
9 after credits for taxes paid through withholding, as  
10 provided in subsection 1 of this section, or through  
11 payment of estimated tax, or a combination of  
12 withholding and estimated tax payments is due and  
13 payable on or before April 30 following the close of  
14 the calendar year, or if the return is to be made on  
15 the basis of a fiscal year, then on or before the last  
16 day of the fourth month following the close of the  
17 fiscal year. However, for tax years beginning in the  
18 1987 calendar year, the due date for payment of  
19 withholding or estimated tax payments is May 15 or the  
20 fifteenth day of the fifth month following the close  
21 of the fiscal year, whichever is applicable.

22 Sec. \_\_\_\_\_. Section 422.21, unnumbered paragraph 1,  
23 Code Supplement 1987, is amended to read as follows:

24 Returns shall be in the form the director  
25 prescribes, and shall be filed with the department on  
26 or before the last day of the fourth month, except for  
27 tax years beginning in the 1987 calendar year the date  
28 is the fifteenth day of the fifth month, after the  
29 expiration of the tax year except that co-operative  
30 associations as defined in section 6072(d) of the  
31 Internal Revenue Code shall file their returns on or  
32 before the fifteenth day of the ninth month following  
33 the close of the taxable year. If, under the Internal  
34 Revenue Code, a corporation is required to file a  
35 return covering a tax period of less than twelve  
36 months, the state return shall be for the same period  
37 and is due forty-five days after the due date of the  
38 federal tax return, excluding any extension of time to  
39 file. In case of sickness, absence, or other  
40 disability, or if good cause exists, the director may  
41 allow further time for filing returns. The director  
42 shall cause to be prepared blank forms for the returns  
43 and shall cause them to be distributed throughout the  
44 state and to be furnished upon application, but  
45 failure to receive or secure the form does not relieve  
46 the taxpayer from the obligation of making a return  
47 that is required. The department may as far as  
48 consistent with the Code draft income tax forms to  
49 conform to the income tax forms of the internal  
50 revenue department of the United States government.

SENATE 38

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1 Each return by a taxpayer upon whom a tax is imposed  
2 by section 422.5 shall show the county of the  
3 residence of the taxpayer."

4 2. Renumber sections and correct internal  
5 references as necessary in accordance with this  
6 amendment.

S-4144

Filed October 27, 1987 Withdrawn BY LARRY MURPHY

S-4145

SENATE FILE 524

1 Amend Senate File 524 as follows:

2 1. Page 12, line 3, by striking the figure "15,".

S-4145

BY DALE L. TIEDEN  
JULIA GENTLEMAN  
JIM LIND  
EDGAR H. HOLDEN

Filed October 27, 1987 Lost (p. 12)