

Ms Kibben  
Johnson  
Delaney

SSB-3036

Ways & Means

SENATE/HOUSE FILE SF/HF 2424  
BY (PROPOSED DEPARTMENT OF  
REVENUE AND FINANCE BILL)

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

**A BILL FOR**

1 An Act updating the Iowa Code references to the Internal Revenue  
2 Code, amending the earned income credit, amending requirements  
3 for nonresident taxpayers, providing tax benefits to military  
4 personnel in hazardous duty areas, and providing effective and  
5 retroactive applicability dates.

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

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1 Section 1. Section 15.335, unnumbered paragraph 1, Code  
2 Supplement 1999, is amended to read as follows:

3 An eligible business may claim a corporate tax credit for  
4 increasing research activities in this state during the period  
5 the eligible business is participating in the program. The  
6 credit equals six and one-half percent of the state's  
7 apportioned share of the qualifying expenditures for  
8 increasing research activities. The state's apportioned share  
9 of the qualifying expenditures for increasing research  
10 activities is a percent equal to the ratio of qualified  
11 research expenditures in this state to total qualified  
12 research expenditures. The credit allowed in this section is  
13 in addition to the credit authorized in section 422.33,  
14 subsection 5. If the eligible business is a partnership,  
15 subchapter S corporation, limited liability company, or estate  
16 or trust electing to have the income taxed directly to the  
17 individual, an individual may claim the tax credit allowed.  
18 The amount claimed by the individual shall be based upon the  
19 pro rata share of the individual's earnings of the  
20 partnership, subchapter S corporation, limited liability  
21 company, or estate or trust. For purposes of this section,  
22 "qualifying expenditures for increasing research activities"  
23 means the qualifying expenditures as defined for the federal  
24 credit for increasing research activities which would be  
25 allowable under section 41 of the Internal Revenue Code in  
26 effect on January 1, ~~1999~~ 2000.

27 Sec. 2. Section 15A.9, subsection 8, unnumbered paragraph  
28 2, Code Supplement 1999, is amended to read as follows:

29 For the purposes of this section, "qualifying expenditures  
30 for increasing research activities" means the qualifying  
31 expenditures as defined for the federal credit for increasing  
32 research activities which would be allowable under section 41  
33 of the Internal Revenue Code in effect on January 1, ~~1999~~  
34 2000. The credit authorized in this subsection is in lieu of  
35 the credit authorized in section 422.33, subsection 5.

1 Sec. 3. Section 422.3, subsection 4, Code Supplement 1999,  
2 is amended to read as follows:

3 4. "Internal Revenue Code" means the Internal Revenue Code  
4 of 1954, prior to the date of its redesignation as the  
5 Internal Revenue Code of 1986 by the Tax Reform Act of 1986,  
6 or means the Internal Revenue Code of 1986 as amended to and  
7 including January 1, ~~1999~~ 2000, whichever is applicable.

8 Sec. 4. Section 422.10, unnumbered paragraph 1, Code  
9 Supplement 1999, is amended to read as follows:

10 The taxes imposed under this division shall be reduced by a  
11 state tax credit for increasing research activities in this  
12 state. For individuals, the credit equals six and one-half  
13 percent of the state's apportioned share of the qualifying  
14 expenditures for increasing research activities. The state's  
15 apportioned share of the qualifying expenditures for  
16 increasing research activities is a percent equal to the ratio  
17 of qualified research expenditures in this state to total  
18 qualified research expenditures. For purposes of this  
19 section, an individual may claim a research credit for  
20 qualifying research expenditures incurred by a partnership,  
21 subchapter S corporation, estate, or trust electing to have  
22 the income taxed directly to the individual. The amount  
23 claimed by the individual shall be based upon the pro rata  
24 share of the individual's earnings of a partnership,  
25 subchapter S corporation, estate, or trust. For purposes of  
26 this section, "qualifying expenditures for increasing research  
27 activities" means the qualifying expenditures as defined for  
28 the federal credit for increasing research activities which  
29 would be allowable under section 41 of the Internal Revenue  
30 Code in effect on January 1, ~~1999~~ 2000.

31 Sec. 5. Section 422.12B, subsection 1, Code 1999, is  
32 amended to read as follows:

33 1. The taxes imposed under this division less the credits  
34 allowed under section 422.12 shall be reduced by an earned  
35 income credit equal to six and one-half percent of the federal

1 ~~basic~~ earned income credit ~~and the health insurance credit~~  
2 provided in section 32 of the Internal Revenue Code. Any  
3 credit in excess of the tax liability is nonrefundable.

4 Sec. 6. Section 422.13, subsection 1, paragraph c, Code  
5 Supplement 1999, is amended to read as follows:

6 c. However, if that part of the net income of a  
7 nonresident which is allocated to Iowa pursuant to section  
8 422.8, subsection 2, is less than one thousand dollars the  
9 nonresident is not required to make and sign a return except  
10 when the nonresident is subject to the state alternative  
11 minimum tax imposed pursuant to section 422.5, subsection 1,  
12 paragraph "k".

13 Sec. 7. Section 422.21, unnumbered paragraph 2, Code  
14 Supplement 1999, is amended to read as follows:

15 An individual in the armed forces of the United States  
16 serving in an area designated by the president of the United  
17 States or the United States Congress as a combat zone or as a  
18 qualified hazardous duty area, or an individual serving in  
19 support of those forces, is allowed the same additional time  
20 period after leaving the combat zone or the qualified  
21 hazardous duty area, or after a period of continuous  
22 hospitalization, to file a state income tax return or perform  
23 other acts related to the department, as would constitute  
24 timely filing of the return or timely performance of other  
25 acts described in section 7508(a) of the Internal Revenue  
26 Code. For the purposes of this paragraph, "other acts related  
27 to the department" includes filing claims for refund for any  
28 tax administered by the department, making tax payments other  
29 than withholding payments, filing appeals on the tax matters,  
30 filing other tax returns, and performing other acts described  
31 in the department's rules. The additional time period allowed  
32 applies to the spouse of the individual described in this  
33 paragraph to the extent the spouse files jointly or separately  
34 on the combined return form with the individual or when the  
35 spouse is a party with the individual to any matter for which

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1 the additional time period is allowed. ~~For the purposes of~~  
2 ~~this paragraph, the Internal Revenue Code shall be interpreted~~  
3 ~~to include the provisions of Pub. L. No. 102-2.~~

4 Sec. 8. Section 422.33, subsection 5, unnumbered paragraph  
5 1, Code Supplement 1999, is amended to read as follows:

6 The taxes imposed under this division shall be reduced by a  
7 state tax credit for increasing research activities in this  
8 state equal to six and one-half percent of the state's  
9 apportioned share of the qualifying expenditures for  
10 increasing research activities. The state's apportioned share  
11 of the qualifying expenditures for increasing research  
12 activities is a percent equal to the ratio of qualified  
13 research expenditures in this state to the total qualified  
14 research expenditures. For purposes of this subsection,  
15 "qualifying expenditures for increasing research activities"  
16 means the qualifying expenditures as defined for the federal  
17 credit for increasing research activities which would be  
18 allowable under section 41 of the Internal Revenue Code in  
19 effect on January 1, ~~1999~~ 2000.

20 Sec. 9. RETROACTIVE AND APPLICABILITY. Sections 1 through  
21 5, 7, and 8 of this Act apply retroactively to January 1,  
22 1999, for tax years beginning on or after that date.

23 Sec. 10. RETROACTIVE AND APPLICABILITY. Section 6 of this  
24 Act applies retroactively to January 1, 2000, for tax years  
25 beginning on or after that date.

26 Sec. 11. EFFECTIVE DATE. This Act, being deemed of  
27 immediate importance, takes effect upon enactment.

28 EXPLANATION

29 This bill updates the references to the Internal Revenue  
30 Code to make the federal income tax revisions enacted by  
31 congress in 1999 applicable for Iowa income tax purposes.

32 Code sections 15.335, 15A.9, 422.10, and 422.33 are amended  
33 to update the Iowa Code references to the state research  
34 activities credit for individuals, corporations, corporations  
in economic development areas, and corporations in quality

1 jobs enterprise zones to include the 1999 federal changes in  
2 the research activities credit.

3 Code section 422.3 is amended to update the reference in  
4 the Iowa Code to January 1, 2000, to include the federal  
5 income tax revisions made by congress in the 1999 calendar  
6 year, making those revisions applicable for Iowa income tax  
7 purposes.

8 Code section 422.12B is amended to delete extraneous  
9 language relating to a health insurance credit from the  
10 statute for the earned income credit.

11 Code section 422.13 is amended to require nonresident  
12 taxpayers to file state income tax returns if the taxpayers  
13 are subject to the alternative minimum tax.

14 Code section 422.21 is amended to provide tax benefits to  
15 military personnel who serve in hazardous duty areas.

16 All but one of the provisions in the bill apply  
17 retroactively to January 1, 1999, for tax years beginning on  
18 or after that date. The provision amending Code section  
19 422.13 relating to nonresident taxpayers applies retroactively  
20 to January 1, 2000, for tax years beginning on or after that  
21 date.

22 The bill takes effect upon enactment.

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DEPARTMENT OF REVENUE AND FINANCE  
GERALD D. BAIR, DIRECTOR

TO: MEMBERS OF THE 2000 GENERAL ASSEMBLY  
FROM: THE IOWA DEPARTMENT OF REVENUE AND FINANCE  
DATE: NOVEMBER 1, 1999  
RE: THE BILL RELATING TO UPDATING THE IOWA CODE TO INCLUDE THE FEDERAL INCOME TAX CHANGES MADE IN 1999 AND PROVIDING EFFECTIVE AND RETROACTIVE APPLICABILITY DATES FOR THE PROVISIONS.

This is the annual bill proposed by the Department of Revenue and Finance to include into Iowa income tax law, the federal income tax changes enacted by Congress in 1999. The bill updates the provisions in the Iowa Code for the Iowa research activities credit to include possible revisions in the federal research credit, which is the basis for the Iowa research activities credits. The Iowa code section which defines the Internal Revenue Code for Iowa income tax purposes is also updated so that all the 1999 federal changes which affect the computation of Iowa net income for individuals and the computation of taxable income for corporate taxpayers are adopted.

Congress enacted only one tax bill in 1999. This was the bill that created the Kosovo hazardous duty area and provided certain federal tax benefits for individuals who served in this area. Section 7 of this bill grants state tax benefits to persons who served in the Kosovo hazardous duty area and will provide state tax benefits to other persons who serve in areas designated in the future as hazardous duty areas.

The bill removes language in the statute for the Iowa earned income credit relating to a health insurance credit that was previously deleted from the federal statute for that credit.

The bill also provides that nonresidents of Iowa are required to file Iowa returns if the nonresidents are subject to Iowa alternative minimum tax even if the taxpayer's Iowa net incomes are less than \$1,000.

H. 3/28/00 W. & means  
H. 3/28/00 Do Pass

FILED MAR 9'00

SENATE FILE 2424  
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO SSB 3036)

Passed Senate, Date 3-27-00 (P. 872)  
Vote: Ayes 48 Nays 0  
Approved 4-26-00  
Passed House, Date 4-6-00 (P. 1306)  
Vote: Ayes 97 Nays 0

A BILL FOR

1 An Act updating the Iowa Code references to the Internal Revenue  
2 Code, amending the earned income credit, amending requirements  
3 for nonresident taxpayers, providing tax benefits to military  
4 personnel in hazardous duty areas, and providing effective and  
5 retroactive applicability dates.

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

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SC 2424

1 Section 1. Section 15.335, unnumbered paragraph 1, Code  
2 Supplement 1999, is amended to read as follows:

3 An eligible business may claim a corporate tax credit for  
4 increasing research activities in this state during the period  
5 the eligible business is participating in the program. The  
6 credit equals six and one-half percent of the state's  
7 apportioned share of the qualifying expenditures for  
8 increasing research activities. The state's apportioned share  
9 of the qualifying expenditures for increasing research  
10 activities is a percent equal to the ratio of qualified  
11 research expenditures in this state to total qualified  
12 research expenditures. The credit allowed in this section is  
13 in addition to the credit authorized in section 422.33,  
14 subsection 5. If the eligible business is a partnership,  
15 subchapter S corporation, limited liability company, or estate  
16 or trust electing to have the income taxed directly to the  
17 individual, an individual may claim the tax credit allowed.  
18 The amount claimed by the individual shall be based upon the  
19 pro rata share of the individual's earnings of the  
20 partnership, subchapter S corporation, limited liability  
21 company, or estate or trust. For purposes of this section,  
22 "qualifying expenditures for increasing research activities"  
23 means the qualifying expenditures as defined for the federal  
24 credit for increasing research activities which would be  
25 allowable under section 41 of the Internal Revenue Code in  
26 effect on January 1, ~~1999~~ 2000.

27 Sec. 2. Section 15A.9, subsection 8, unnumbered paragraph  
28 2, Code Supplement 1999, is amended to read as follows:

29 For the purposes of this section, "qualifying expenditures  
30 for increasing research activities" means the qualifying  
31 expenditures as defined for the federal credit for increasing  
32 research activities which would be allowable under section 41  
33 of the Internal Revenue Code in effect on January 1, ~~1999~~  
34 2000. The credit authorized in this subsection is in lieu of  
35 the credit authorized in section 422.33, subsection 5.

1     Sec. 3. Section 422.3, subsection 4, Code Supplement 1999,  
2 is amended to read as follows:

3     4. "Internal Revenue Code" means the Internal Revenue Code  
4 of 1954, prior to the date of its redesignation as the  
5 Internal Revenue Code of 1986 by the Tax Reform Act of 1986,  
6 or means the Internal Revenue Code of 1986 as amended to and  
7 including January 1, ~~1999~~ 2000, whichever is applicable.

8     Sec. 4. Section 422.10, unnumbered paragraph 1, Code  
9 Supplement 1999, is amended to read as follows:

10     The taxes imposed under this division shall be reduced by a  
11 state tax credit for increasing research activities in this  
12 state. For individuals, the credit equals six and one-half  
13 percent of the state's apportioned share of the qualifying  
14 expenditures for increasing research activities. The state's  
15 apportioned share of the qualifying expenditures for  
16 increasing research activities is a percent equal to the ratio  
17 of qualified research expenditures in this state to total  
18 qualified research expenditures. For purposes of this  
19 section, an individual may claim a research credit for  
20 qualifying research expenditures incurred by a partnership,  
21 subchapter S corporation, estate, or trust electing to have  
22 the income taxed directly to the individual. The amount  
23 claimed by the individual shall be based upon the pro rata  
24 share of the individual's earnings of a partnership,  
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26 this section, "qualifying expenditures for increasing research  
27 activities" means the qualifying expenditures as defined for  
28 the federal credit for increasing research activities which  
29 would be allowable under section 41 of the Internal Revenue  
30 Code in effect on January 1, ~~1999~~ 2000.

31     Sec. 5. Section 422.12B, subsection 1, Code 1999, is  
32 amended to read as follows:

33     1. The taxes imposed under this division less the credits  
34 allowed under section 422.12 shall be reduced by an earned  
35 income credit equal to six and one-half percent of the federal

1 ~~basic earned income credit and the health insurance credit~~  
2 provided in section 32 of the Internal Revenue Code. Any  
3 credit in excess of the tax liability is nonrefundable.

4 Sec. 6. Section 422.13, subsection 1, paragraph c, Code  
5 Supplement 1999, is amended to read as follows:

6 c. However, if that part of the net income of a  
7 nonresident which is allocated to Iowa pursuant to section  
8 422.8, subsection 2, is less than one thousand dollars the  
9 nonresident is not required to make and sign a return except  
10 when the nonresident is subject to the state alternative  
11 minimum tax imposed pursuant to section 422.5, subsection 1,  
12 paragraph "k".

13 Sec. 7. Section 422.21, unnumbered paragraph 2, Code  
14 Supplement 1999, is amended to read as follows:

15 An individual in the armed forces of the United States  
16 serving in an area designated by the president of the United  
17 States or the United States Congress as a combat zone or as a  
18 qualified hazardous duty area, or an individual serving in  
19 support of those forces, is allowed the same additional time  
20 period after leaving the combat zone or the qualified  
21 hazardous duty area, or after a period of continuous  
22 hospitalization, to file a state income tax return or perform  
23 other acts related to the department, as would constitute  
24 timely filing of the return or timely performance of other  
25 acts described in section 7508(a) of the Internal Revenue  
26 Code. For the purposes of this paragraph, "other acts related  
27 to the department" includes filing claims for refund for any  
28 tax administered by the department, making tax payments other  
29 than withholding payments, filing appeals on the tax matters,  
30 filing other tax returns, and performing other acts described  
31 in the department's rules. The additional time period allowed  
32 applies to the spouse of the individual described in this  
33 paragraph to the extent the spouse files jointly or separately  
34 on the combined return form with the individual or when the  
35 spouse is a party with the individual to any matter for which

1 the additional time period is allowed. ~~For the purposes of~~  
2 ~~this paragraph, the Internal Revenue Code shall be interpreted~~  
3 ~~to include the provisions of Pub. L. No. 102-2.~~

4 Sec. 8. Section 422.33, subsection 5, unnumbered paragraph  
5 1, Code Supplement 1999, is amended to read as follows:

6 The taxes imposed under this division shall be reduced by a  
7 state tax credit for increasing research activities in this  
8 state equal to six and one-half percent of the state's  
9 apportioned share of the qualifying expenditures for  
10 increasing research activities. The state's apportioned share  
11 of the qualifying expenditures for increasing research  
12 activities is a percent equal to the ratio of qualified  
13 research expenditures in this state to the total qualified  
14 research expenditures. For purposes of this subsection,  
15 "qualifying expenditures for increasing research activities"  
16 means the qualifying expenditures as defined for the federal  
17 credit for increasing research activities which would be  
18 allowable under section 41 of the Internal Revenue Code in  
19 effect on January 1, 1999 2000.

20 Sec. 9. RETROACTIVE APPLICABILITY. Sections 1 through 5,  
21 7, and 8 of this Act apply retroactively to January 1, 1999,  
22 for tax years beginning on or after that date.

23 Sec. 10. RETROACTIVE APPLICABILITY. Section 6 of this Act  
24 applies retroactively to January 1, 2000, for tax years  
25 beginning on or after that date.

26 Sec. 11. EFFECTIVE DATE. This Act, being deemed of  
27 immediate importance, takes effect upon enactment.

28 EXPLANATION

29 This bill updates the references to the Internal Revenue  
30 Code to make the federal income tax revisions enacted by  
31 congress in 1999 applicable for Iowa income tax purposes.

32 Code sections 15.335, 15A.9, 422.10, and 422.33 are amended  
33 to update the Iowa Code references to the state research  
34 activities credit for individuals, corporations, corporations  
35 in economic development areas, and corporations in quality

1 jobs enterprise zones to include the 1999 federal changes in  
2 the research activities credit.

3 Code section 422.3 is amended to update the reference in  
4 the Iowa Code to January 1, 2000, to include the federal  
5 income tax revisions made by congress in the 1999 calendar  
6 year, making those revisions applicable for Iowa income tax  
7 purposes.

8 Code section 422.12B is amended to delete extraneous  
9 language relating to a health insurance credit from the  
10 statute for the earned income credit.

11 Code section 422.13 is amended to require nonresident  
12 taxpayers to file state income tax returns if the taxpayers  
13 are subject to the alternative minimum tax.

14 Code section 422.21 is amended to provide tax benefits to  
15 military personnel who serve in hazardous duty areas.

16 All but one of the provisions in the bill apply  
17 retroactively to January 1, 1999, for tax years beginning on  
18 or after that date. The provision amending Code section  
19 422.13 relating to nonresident taxpayers applies retroactively  
20 to January 1, 2000, for tax years beginning on or after that  
21 date.

22 The bill takes effect upon enactment.

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## SENATE FILE 2424

H-8635

1 Amend Senate File 2424, as passed by the Senate, as  
2 follows:

3 1. Page 4, by inserting after line 19 the  
4 following:

5 "Sec. \_\_\_\_\_. Section 426A.11, subsection 2, Code  
6 Supplement 1999, is amended to read as follows:

7 2. The property, not to exceed one thousand eight  
8 hundred fifty-two dollars in taxable value of an  
9 honorably separated, retired, furloughed to a reserve,  
10 placed on inactive status, or discharged veteran, ~~as~~  
11 ~~defined in section 35-1~~. For the purposes of this  
12 subsection, "veteran" means any resident of this state  
13 who served on active duty in the armed forces of the  
14 United States at any time after November 11, 1918, and  
15 was discharged under honorable conditions.

16 Sec. \_\_\_\_\_. Section 426A.12, subsections 1, 2, and  
17 3, Code Supplement 1999, are amended to read as  
18 follows:

19 1. The spouse, or surviving spouse remaining  
20 unmarried, of a veteran, as defined in section ~~35-1~~  
21 426A.11, subsection 2, where they are living together  
22 or were living together at the time of the death of  
23 the veteran.

24 2. The parent whose spouse is deceased and who  
25 remains unmarried, of a veteran, as defined in section  
26 ~~35-1~~ 426A.11, subsection 2, whether living or  
27 deceased, where the parent is, or was at the time of  
28 death of the veteran, dependent on the veteran for  
29 support.

30 3. The minor child, or children owning property as  
31 tenants in common, of a deceased veteran, as defined  
32 in section ~~35-1~~ 426A.11, subsection 2.

33 Sec. \_\_\_\_\_. Section 426A.12, unnumbered paragraph 2,  
34 Code Supplement 1999, is amended to read as follows:

35 No more than one tax exemption shall be allowed  
36 under this section or section 426A.11 in the name of a  
37 veteran, as defined in section ~~35-1~~ 426A.11,  
38 subsection 2.

39 Sec. \_\_\_\_\_. STATE MANDATE FUNDING. The military  
40 service tax exemptions and credits provided in this  
41 Act shall be funded pursuant to chapter 426A to the  
42 extent of six dollars and ninety-two cents per  
43 thousand dollars of the assessed value of the exempt  
44 property."

45 2. Title page, line 4, by inserting after the  
46 word "areas," the following: "defining veteran for  
47 purposes of the military service property tax  
48 exemption,".

49 3. By renumbering as necessary.

By RICHARDSON of Warren

H-8635 FILED MARCH 28, 2000

*Not Hermone*  
4-6-00 (p. 1305)

SENATE FILE 2424

AN ACT

UPDATING THE IOWA CODE REFERENCES TO THE INTERNAL REVENUE CODE, AMENDING THE EARNED INCOME CREDIT, AMENDING REQUIREMENTS FOR NONRESIDENT TAXPAYERS, PROVIDING TAX BENEFITS TO MILITARY PERSONNEL IN HAZARDOUS DUTY AREAS, AND PROVIDING EFFECTIVE AND RETROACTIVE APPLICABILITY DATES.

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

Section 1. Section 15.335, unnumbered paragraph 1, Code Supplement 1999, is amended to read as follows:

An eligible business may claim a corporate tax credit for increasing research activities in this state during the period the eligible business is participating in the program. The credit equals six and one-half percent of the state's apportioned share of the qualifying expenditures for increasing research activities. The state's apportioned share of the qualifying expenditures for increasing research activities is a percent equal to the ratio of qualified research expenditures in this state to total qualified research expenditures. The credit allowed in this section is in addition to the credit authorized in section 422.33, subsection 5. If the eligible business is a partnership, subchapter S corporation, limited liability company, or estate or trust electing to have the income taxed directly to the individual, an individual may claim the tax credit allowed. The amount claimed by the individual shall be based upon the pro rata share of the individual's earnings of the partnership, subchapter S corporation, limited liability company, or estate or trust. For purposes of this section, "qualifying expenditures for increasing research activities" means the qualifying expenditures as defined for the federal credit for increasing research activities which would be

allowable under section 41 of the Internal Revenue Code in effect on January 1, 1999 2000.

Sec. 2. Section 15A.9, subsection 8, unnumbered paragraph 2, Code Supplement 1999, is amended to read as follows:

For the purposes of this section, "qualifying expenditures for increasing research activities" means the qualifying expenditures as defined for the federal credit for increasing research activities which would be allowable under section 41 of the Internal Revenue Code in effect on January 1, 1999 2000. The credit authorized in this subsection is in lieu of the credit authorized in section 422.33, subsection 5.

Sec. 3. Section 422.3, subsection 4, Code Supplement 1999, is amended to read as follows:

4. "Internal Revenue Code" means the Internal Revenue Code of 1954, prior to the date of its redesignation as the Internal Revenue Code of 1986 by the Tax Reform Act of 1986, or means the Internal Revenue Code of 1986 as amended to and including January 1, 1999 2000, whichever is applicable.

Sec. 4. Section 422.10, unnumbered paragraph 1, Code Supplement 1999, is amended to read as follows:

The taxes imposed under this division shall be reduced by a state tax credit for increasing research activities in this state. For individuals, the credit equals six and one-half percent of the state's apportioned share of the qualifying expenditures for increasing research activities. The state's apportioned share of the qualifying expenditures for increasing research activities is a percent equal to the ratio of qualified research expenditures in this state to total qualified research expenditures. For purposes of this section, an individual may claim a research credit for qualifying research expenditures incurred by a partnership, subchapter S corporation, estate, or trust electing to have the income taxed directly to the individual. The amount claimed by the individual shall be based upon the pro rata share of the individual's earnings of a partnership,

subchapter S corporation, estate, or trust. For purposes of this section, "qualifying expenditures for increasing research activities" means the qualifying expenditures as defined for the federal credit for increasing research activities which would be allowable under section 41 of the Internal Revenue Code in effect on January 1, 1999 2000.

Sec. 5. Section 422.12B, subsection 1, Code 1999, is amended to read as follows:

1. The taxes imposed under this division less the credits allowed under section 422.12 shall be reduced by an earned income credit equal to six and one-half percent of the federal basic earned income credit ~~and the health insurance credit~~ provided in section 32 of the Internal Revenue Code. Any credit in excess of the tax liability is nonrefundable.

Sec. 6. Section 422.13, subsection 1, paragraph c, Code Supplement 1999, is amended to read as follows:

c. However, if that part of the net income of a nonresident which is allocated to Iowa pursuant to section 422.8, subsection 2, is less than one thousand dollars the nonresident is not required to make and sign a return except when the nonresident is subject to the state alternative minimum tax imposed pursuant to section 422.5, subsection 1, paragraph "k".

Sec. 7. Section 422.21, unnumbered paragraph 2, Code Supplement 1999, is amended to read as follows:

An individual in the armed forces of the United States serving in an area designated by the president of the United States or the United States Congress as a combat zone or as a qualified hazardous duty area, or an individual serving in support of those forces, is allowed the same additional time period after leaving the combat zone or the qualified hazardous duty area, or after a period of continuous hospitalization, to file a state income tax return or perform other acts related to the department, as would constitute timely filing of the return or timely performance of other

acts described in section 7508(a) of the Internal Revenue Code. For the purposes of this paragraph, "other acts related to the department" includes filing claims for refund for any tax administered by the department, making tax payments other than withholding payments, filing appeals on the tax matters, filing other tax returns, and performing other acts described in the department's rules. The additional time period allowed applies to the spouse of the individual described in this paragraph to the extent the spouse files jointly or separately on the combined return form with the individual or when the spouse is a party with the individual to any matter for which the additional time period is allowed. ~~For the purposes of this paragraph, the Internal Revenue Code shall be interpreted to include the provisions of Pub. 57-102-2.~~

Sec. 8. Section 422.33, subsection 5, unnumbered paragraph 1, Code Supplement 1999, is amended to read as follows:

The taxes imposed under this division shall be reduced by a state tax credit for increasing research activities in this state equal to six and one-half percent of the state's apportioned share of the qualifying expenditures for increasing research activities. The state's apportioned share of the qualifying expenditures for increasing research activities is a percent equal to the ratio of qualified research expenditures in this state to the total qualified research expenditures. For purposes of this subsection, "qualifying expenditures for increasing research activities" means the qualifying expenditures as defined for the federal credit for increasing research activities which would be allowable under section 41 of the Internal Revenue Code in effect on January 1, 1999 2000.

Sec. 9. RETROACTIVE APPLICABILITY. Sections 1 through 5, 7, and 8 of this Act apply retroactively to January 1, 1999, for tax years beginning on or after that date.

Sec. 10. RETROACTIVE APPLICABILITY. Section 6 of this Act applies retroactively to January 1, 2000, for tax years beginning on or after that date.

Sec. 11. EFFECTIVE DATE. This Act, being deemed of immediate importance, takes effect upon enactment.

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MARY E. KRAMER  
President of the Senate

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BRENT SIEGRIST  
Speaker of the House

I hereby certify that this bill originated in the Senate and is known as Senate File 2424, Seventy-eighth General Assembly.

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MICHAEL E. MARSHALL  
Secretary of the Senate

Approved 4/26, 2000

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THOMAS J. VILSACK  
Governor