

McKibben
Johnson
Hynn

SSB 3233
Ways & Means
Succeeded By
D/HF 2456

SENATE FILE _____
BY (PROPOSED COMMITTEE ON
WAYS AND MEANS BILL BY
CHAIRPERSON JOHNSON)

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

A BILL FOR

1 An Act relating to an alternative method of computing the
2 research activities credit for purposes of state income tax
3 and including a retroactive applicability date provision.
4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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

3 15.335 RESEARCH ACTIVITIES CREDIT.

4 1. An eligible business may claim a corporate tax credit
5 for increasing research activities in this state during the
6 period the eligible business is participating in the program.

7 a. The credit equals ~~six-and-one-half-percent-of-the~~
8 ~~state's-apportioned-share-of-the-qualifying-expenditures-for~~
9 ~~increasing-research-activities.~~ the sum of the following:

10 (1) Six and one-half percent of the excess of qualified
11 research expenses during the tax year over the base amount for
12 the tax year based upon the state's apportioned share of the
13 qualifying expenditures for increasing research activities.

14 (2) Six and one-half percent of the basic research
15 payments determined under section 41(e)(1)(A) of the Internal
16 Revenue Code during the tax year based upon the state's
17 apportioned share of the qualifying expenditures for
18 increasing research activities.

19 The state's apportioned share of the qualifying
20 expenditures for increasing research activities is a percent
21 equal to the ratio of qualified research expenditures in this
22 state to total qualified research expenditures.

23 b. In lieu of the credit amount computed in paragraph "a",
24 subparagraph (1), an eligible business may elect to compute
25 the credit amount for qualified research expenses incurred in
26 this state in a manner consistent with the alternative
27 incremental credit described in section 41(c)(4) of the
28 Internal Revenue Code. The taxpayer may make this election
29 regardless of the method used for the taxpayer's federal
30 income tax. The election made under this paragraph is for the
31 tax year and the taxpayer may use another or the same method
32 for any subsequent year.

33 c. For purposes of the alternate credit computation method
34 in paragraph "b", the credit percentages applicable to
35 qualified research expenses described in clauses (i), (ii),

1 and (iii) of section 41(c)(4)(A) of the Internal Revenue Code
2 are one and sixty-five hundredths percent, two and twenty
3 hundredths percent, and two and seventy-five hundredths
4 percent, respectively.

5 2. The credit allowed in this section is in addition to
6 the credit authorized in section 422.33, subsection 5, and
7 section 422.10. However, if the alternative credit
8 computation method is used in section 422.33, subsection 5, or
9 section 422.10, the credit allowed in this section shall also
10 be computed using that method.

11 3. If the eligible business is a partnership, subchapter S
12 corporation, limited liability company, or estate or trust
13 electing to have the income taxed directly to the individual,
14 an individual may claim the tax credit allowed. The amount
15 claimed by the individual shall be based upon the pro rata
16 share of the individual's earnings of the partnership,
17 subchapter S corporation, limited liability company, or estate
18 or trust.

19 4. For purposes of this section, "qualifying-expenditures
20 for-increasing-research-activities"-means-the-qualifying
21 expenditures "base amount", "basic research payment", and
22 "qualified research expense" mean the same as defined for the
23 federal credit for increasing research activities which-would
24 be-allowable under section 41 of the Internal Revenue Code in
25 effect-on-January-17-1999, except that for the alternative
26 incremental credit such amounts are for research conducted
27 within this state. For purposes of this section, "Internal
28 Revenue Code" means the Internal Revenue Code in effect on
29 January 1, 2000.

30 5. Any credit in excess of the tax liability for the
31 taxable year shall be refunded with interest computed under
32 section 422.25. In lieu of claiming a refund, a taxpayer may
33 elect to have the overpayment shown on its final, completed
34 return credited to the tax liability for the following year.

35 Sec. 2. Section 15A.9, subsection 8, Code Supplement 1999,

1 is amended to read as follows:

2 8. CORPORATE TAX RESEARCH CREDIT. A corporate tax credit
3 shall be available to the primary business or a supporting
4 business for increasing research activities in this state
5 within the zone.

6 a. The credit equals ~~thirteen-percent-of-the-state's~~
7 ~~apportioned-share-of-the-qualifying-expenditures-for~~
8 ~~increasing-research-activities-~~ the sum of the following:

9 (1) Thirteen percent of the excess of qualified research
10 expenses during the tax year over the base amount for the tax
11 year based upon the state's apportioned share of the
12 qualifying expenditures for increasing research activities.

13 (2) Thirteen percent of the basic research payments
14 determined under section 41(e)(1)(A) of the Internal Revenue
15 Code during the tax year based upon the state's apportioned
16 share of the qualifying expenditures for increasing research
17 activities.

18 The state's apportioned share of the qualifying
19 expenditures for increasing research activities is a percent
20 equal to the ratio of qualified research expenditures in this
21 state within the zone to total qualified research
22 expenditures.

23 b. In lieu of the credit amount computed in paragraph "a",
24 subparagraph (1), a business may elect to compute the credit
25 amount for qualified research expenses incurred in this state
26 within the zone in a manner consistent with the alternative
27 incremental credit described in section 41(c)(4) of the
28 Internal Revenue Code. The taxpayer may make this election
29 regardless of the method used for the taxpayer's federal
30 income tax. The election made under this paragraph is for the
31 tax year and the taxpayer may use another or the same method
32 for any subsequent year.

33 c. For purposes of the alternate credit computation method
34 in paragraph "b", the credit percentages applicable to
35 qualified research expenses described in clauses (i), (ii),

1 and (iii) of section 41(c)(4)(A) of the Internal Revenue Code
2 are three and thirty hundredths percent, four and forty
3 hundredths percent, and five and fifty hundredths percent,
4 respectively.

5 d. Any credit in excess of the tax liability for the tax
6 year shall be refunded with interest computed under section
7 422.25. In lieu of claiming a refund, the primary business or
8 a supporting business may elect to have the overpayment shown
9 on its final return credited to its tax liability for the
10 following tax year.

11 e. For the purposes of this section, ~~"qualifying~~
12 ~~expenditures-for-increasing-research-activities"~~ means the
13 qualifying-expenditures subsection, "base amount", "basic
14 research payment", and "qualified research expense" mean the
15 same as defined for the federal credit for increasing research
16 activities which-would-be-allowable under section 41 of the
17 Internal Revenue Code in-effect-on-January-17-1999, except
18 that for the alternative incremental credit such amounts are
19 for research conducted within this state within the zone. For
20 purposes of this subsection, "Internal Revenue Code" means the
21 Internal Revenue Code in effect on January 1, 2000.

22 f. The credit authorized in this subsection is in lieu of
23 the credit authorized in section 422.33, subsection 5 and
24 section 422.10.

25 Sec. 3. Section 422.10, Code Supplement 1999, is amended
26 to read as follows:

27 422.10 RESEARCH ACTIVITIES CREDIT.

28 1. The taxes imposed under this division shall be reduced
29 by a state tax credit for increasing research activities in
30 this state.

31 a. For individuals, the credit equals ~~six-and-one-half~~
32 ~~percent-of-the-state's-apportioned-share-of-the-qualifying~~
33 ~~expenditures-for-increasing-research-activities.~~ the sum of
34 the following:

35 (1) Six and one-half percent of the excess of qualified

1 research expenses during the tax year over the base amount for
2 the tax year based upon the state's apportioned share of the
3 qualifying expenditures for increasing research activities.

4 (2) Six and one-half percent of the basic research
5 payments determined under section 41(e)(1)(A) of the Internal
6 Revenue Code during the tax year based upon the state's
7 apportioned share of the qualifying expenditures for
8 increasing research activities.

9 The state's apportioned share of the qualifying
10 expenditures for increasing research activities is a percent
11 equal to the ratio of qualified research expenditures in this
12 state to total qualified research expenditures.

13 b. In lieu of the credit amount computed in paragraph "a",
14 subparagraph (1), a taxpayer may elect to compute the credit
15 amount for qualified research expenses incurred in this state
16 in a manner consistent with the alternative incremental credit
17 described in section 41(c)(4) of the Internal Revenue Code.
18 The taxpayer may make this election regardless of the method
19 used for the taxpayer's federal income tax. The election made
20 under this paragraph is for the tax year and the taxpayer may
21 use another or the same method for any subsequent year.

22 c. For purposes of the alternate credit computation method
23 in paragraph "b", the credit percentages applicable to
24 qualified research expenses described in clauses (i), (ii),
25 and (iii) of section 41(c)(4)(A) of the Internal Revenue Code
26 are one and sixty-five hundredths percent, two and twenty
27 hundredths percent, and two and seventy-five hundredths
28 percent, respectively.

29 2. For purposes of this section, an individual may claim a
30 research credit for-qualifying-research-expenditures incurred
31 by a partnership, subchapter S corporation, limited liability
32 company, estate, or trust electing to have the income taxed
33 directly to the individual. The amount claimed by the
34 individual shall be based upon the pro rata share of the
35 individual's earnings of a partnership, subchapter S

1 corporation, limited liability company, estate, or trust.

2 3. For purposes of this section, "~~qualifying-expenditures~~
3 ~~for-increasing-research-activities~~"-means-the-qualifying
4 expenditures "base amount", "basic research payment", and
5 "qualified research expense" mean the same as defined for the
6 federal credit for increasing research activities ~~which-would~~
7 ~~be-allowable~~ under section 41 of the Internal Revenue Code in
8 ~~effect-on-January-1,-1999~~, except that for the alternative
9 incremental credit such amounts are for research conducted
10 within this state. For purposes of this section, "Internal
11 Revenue Code" means the Internal Revenue Code in effect on
12 January 1, 2000.

13 4. Any credit in excess of the tax liability imposed by
14 section 422.5 less the credits allowed under sections 422.11A,
15 422.12, and 422.12B for the taxable year shall be refunded
16 with interest computed under section 422.25. In lieu of
17 claiming a refund, a taxpayer may elect to have the
18 overpayment shown on the taxpayer's final, completed return
19 credited to the tax liability for the following taxable year.

20 Sec. 4. Section 422.33, subsection 5, Code Supplement
21 1999, is amended to read as follows:

22 5. a. The taxes imposed under this division shall be
23 reduced by a state tax credit for increasing research
24 activities in this state equal to ~~six-and-one-half-percent-of~~
25 ~~the-state's-apportioned-share-of-the-qualifying-expenditures~~
26 ~~for-increasing-research-activities.~~ the sum of the following:

27 (1) Six and one-half percent of the excess of qualified
28 research expenses during the tax year over the base amount for
29 the tax year based upon the state's apportioned share of the
30 qualifying expenditures for increasing research activities.

31 (2) Six and one-half percent of the basic research
32 payments determined under section 41(e)(1)(A) of the Internal
33 Revenue Code during the tax year based upon the state's
34 apportioned share of the qualifying expenditures for
35 increasing research activities.

1 The state's apportioned share of the qualifying
2 expenditures for increasing research activities is a percent
3 equal to the ratio of qualified research expenditures in this
4 state to the total qualified research expenditures.

5 b. In lieu of the credit amount computed in paragraph "a",
6 subparagraph (1), a corporation may elect to compute the
7 credit amount for qualified research expenses incurred in this
8 state in a manner consistent with the alternative incremental
9 credit described in section 41(c)(4) of the Internal Revenue
10 Code. The taxpayer may make this election regardless of the
11 method used for the taxpayer's federal income tax. The
12 election made under this paragraph is for the tax year and the
13 taxpayer may use another or the same method for any subsequent
14 year.

15 c. For purposes of the alternate credit computation method
16 in paragraph "b", the credit percentages applicable to
17 qualified research expenses described in clauses (i), (ii),
18 and (iii) of section 41(c)(4)(A) of the Internal Revenue Code
19 are one and sixty-five hundredths percent, two and twenty
20 hundredths percent, and two and seventy-five hundredths
21 percent, respectively.

22 d. For purposes of this subsection, "qualifying
23 expenditures-for-increasing-research-activities"-means-the
24 qualifying-expenditures "base amount", "basic research
25 payment", and "qualified research expense" mean the same as
26 defined for the federal credit for increasing research
27 activities which-would-be-allowable under section 41 of the
28 Internal Revenue Code in-effect-on-January-17-1999, except
29 that for the alternative incremental credit such amounts are
30 for research conducted within this state. For purposes of
31 this subsection, "Internal Revenue Code" means the Internal
32 Revenue Code in effect on January 1, 2000.

33 e. Any credit in excess of the tax liability for the
34 taxable year shall be refunded with interest computed under
35 section 422.25. In lieu of claiming a refund, a taxpayer may

1 elect to have the overpayment shown on its final, completed
2 return credited to the tax liability for the following taxable
3 year.

4 Sec. 5. APPLICABILITY DATE. This Act applies
5 retroactively to January 1, 2000, for tax years beginning on
6 or after that date.

7 EXPLANATION

8 This bill expands the research activities credit for income
9 tax purposes for businesses under the new jobs and income
10 program, the quality jobs enterprise zone program, the
11 incentives for building in enterprise zones, the individual
12 income tax, and corporate income tax. The expansion provides
13 for an alternative method of computing the tax credit based
14 upon the federal approach using an incremental computation
15 method for measuring increased research activities. This
16 alternative method is in lieu of a portion of Iowa's present
17 computation approach. Therefore, the present Iowa law is
18 rewritten in a manner that coincides with the computation
19 under the federal income tax credit. The federal approach has
20 three tiers under the incremented approach with a different
21 percentage for each tier. The bill uses the same percentages
22 for the three tiers which were used for federal income taxes
23 for tax years beginning before July 1, 1999.

24 The bill applies retroactively to January 1, 2000, for tax
25 years beginning on or after that date.

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FILED APR 18 '00

SENATE FILE 2456
BY COMMITTEE ON WAYS AND
MEANS

(SUCCESSOR TO SSB 3233)

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

A BILL FOR

1 An Act relating to an alternative method of computing the
2 research activities credit for purposes of state income tax
3 and including a retroactive applicability date provision.

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

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SF 2456

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

3 15.335 RESEARCH ACTIVITIES CREDIT.

4 1. An eligible business may claim a corporate tax credit
5 for increasing research activities in this state during the
6 period the eligible business is participating in the program.

7 a. The credit equals ~~six-and-one-half-percent-of-the~~
8 ~~state's-apportioned-share-of-the-qualifying-expenditures-for~~
9 ~~increasing-research-activities:~~ the sum of the following:

10 (1) Six and one-half percent of the excess of qualified
11 research expenses during the tax year over the base amount for
12 the tax year based upon the state's apportioned share of the
13 qualifying expenditures for increasing research activities.

14 (2) Six and one-half percent of the basic research
15 payments determined under section 41(e)(1)(A) of the Internal
16 Revenue Code during the tax year based upon the state's
17 apportioned share of the qualifying expenditures for
18 increasing research activities.

19 The state's apportioned share of the qualifying
20 expenditures for increasing research activities is a percent
21 equal to the ratio of qualified research expenditures in this
22 state to total qualified research expenditures.

23 b. In lieu of the credit amount computed in paragraph "a",
24 subparagraph (1), an eligible business may elect to compute
25 the credit amount for qualified research expenses incurred in
26 this state in a manner consistent with the alternative
27 incremental credit described in section 41(c)(4) of the
28 Internal Revenue Code. The taxpayer may make this election
29 regardless of the method used for the taxpayer's federal
30 income tax. The election made under this paragraph is for the
31 tax year and the taxpayer may use another or the same method
32 for any subsequent year.

33 c. For purposes of the alternate credit computation method
34 in paragraph "b", the credit percentages applicable to
35 qualified research expenses described in clauses (i), (ii),

1 and (iii) of section 41(c)(4)(A) of the Internal Revenue Code
2 are one and sixty-five hundredths percent, two and twenty
3 hundredths percent, and two and seventy-five hundredths
4 percent, respectively.

5 2. The credit allowed in this section is in addition to
6 the credit authorized in section 422.33, subsection 5, and
7 section 422.10. However, if the alternative credit
8 computation method is used in section 422.33, subsection 5, or
9 section 422.10, the credit allowed in this section shall also
10 be computed using that method.

11 3. If the eligible business is a partnership, subchapter S
12 corporation, limited liability company, or estate or trust
13 electing to have the income taxed directly to the individual,
14 an individual may claim the tax credit allowed. The amount
15 claimed by the individual shall be based upon the pro rata
16 share of the individual's earnings of the partnership,
17 subchapter S corporation, limited liability company, or estate
18 or trust.

19 4. For purposes of this section, "qualifying-expenditures
20 for-increasing-research-activities"-means-the-qualifying
21 expenditures "base amount", "basic research payment", and
22 "qualified research expense" mean the same as defined for the
23 federal credit for increasing research activities which-would
24 be-allowable under section 41 of the Internal Revenue Code in
25 effect-on-January-17-1999, except that for the alternative
26 incremental credit such amounts are for research conducted
27 within this state. For purposes of this section, "Internal
28 Revenue Code" means the Internal Revenue Code in effect on
29 January 1, 2000.

30 5. Any credit in excess of the tax liability for the
31 taxable year shall be refunded with interest computed under
32 section 422.25. In lieu of claiming a refund, a taxpayer may
33 elect to have the overpayment shown on its final, completed
34 return credited to the tax liability for the following year.

35 Sec. 2. Section 15A.9, subsection 8, Code Supplement 1999,

1 is amended to read as follows:

2 8. CORPORATE TAX RESEARCH CREDIT. A corporate tax credit
3 shall be available to the primary business or a supporting
4 business for increasing research activities in this state
5 within the zone.

6 a. The credit equals ~~thirteen-percent-of-the-state's~~
7 ~~apportioned-share-of-the-qualifying-expenditures-for~~
8 ~~increasing-research-activities-~~ the sum of the following:

9 (1) Thirteen percent of the excess of qualified research
10 expenses during the tax year over the base amount for the tax
11 year based upon the state's apportioned share of the
12 qualifying expenditures for increasing research activities.

13 (2) Thirteen percent of the basic research payments
14 determined under section 41(e)(1)(A) of the Internal Revenue
15 Code during the tax year based upon the state's apportioned
16 share of the qualifying expenditures for increasing research
17 activities.

18 The state's apportioned share of the qualifying
19 expenditures for increasing research activities is a percent
20 equal to the ratio of qualified research expenditures in this
21 state within the zone to total qualified research
22 expenditures.

23 b. In lieu of the credit amount computed in paragraph "a",
24 subparagraph (1), a business may elect to compute the credit
25 amount for qualified research expenses incurred in this state
26 within the zone in a manner consistent with the alternative
27 incremental credit described in section 41(c)(4) of the
28 Internal Revenue Code. The taxpayer may make this election
29 regardless of the method used for the taxpayer's federal
30 income tax. The election made under this paragraph is for the
31 tax year and the taxpayer may use another or the same method
32 for any subsequent year.

33 c. For purposes of the alternate credit computation method
34 in paragraph "b", the credit percentages applicable to
35 qualified research expenses described in clauses (i), (ii),

1 and (iii) of section 41(c)(4)(A) of the Internal Revenue Code
2 are three and thirty hundredths percent, four and forty
3 hundredths percent, and five and fifty hundredths percent,
4 respectively.

5 d. Any credit in excess of the tax liability for the tax
6 year shall be refunded with interest computed under section
7 422.25. In lieu of claiming a refund, the primary business or
8 a supporting business may elect to have the overpayment shown
9 on its final return credited to its tax liability for the
10 following tax year.

11 e. For the purposes of this section, ~~"qualifying~~
12 ~~expenditures for increasing research activities"~~ means the
13 qualifying expenditures subsection, "base amount", "basic
14 research payment", and "qualified research expense" mean the
15 same as defined for the federal credit for increasing research
16 activities ~~which would be allowable~~ under section 41 of the
17 Internal Revenue Code ~~in effect on January 1, 1999,~~ except
18 that for the alternative incremental credit such amounts are
19 for research conducted within this state within the zone. For
20 purposes of this subsection, "Internal Revenue Code" means the
21 Internal Revenue Code in effect on January 1, 2000.

22 f. The credit authorized in this subsection is in lieu of
23 the credit authorized in section 422.33, subsection 5 and
24 section 422.10.

25 Sec. 3. Section 422.10, Code Supplement 1999, is amended
26 to read as follows:

27 422.10 RESEARCH ACTIVITIES CREDIT.

28 1. The taxes imposed under this division shall be reduced
29 by a state tax credit for increasing research activities in
30 this state.

31 a. For individuals, the credit equals ~~six and one-half~~
32 ~~percent of the state's apportioned share of the qualifying~~
33 ~~expenditures for increasing research activities.~~ the sum of
34 the following:

35 (1) Six and one-half percent of the excess of qualified

1 research expenses during the tax year over the base amount for
2 the tax year based upon the state's apportioned share of the
3 qualifying expenditures for increasing research activities.

4 (2) Six and one-half percent of the basic research
5 payments determined under section 41(e)(1)(A) of the Internal
6 Revenue Code during the tax year based upon the state's
7 apportioned share of the qualifying expenditures for
8 increasing research activities.

9 The state's apportioned share of the qualifying
10 expenditures for increasing research activities is a percent
11 equal to the ratio of qualified research expenditures in this
12 state to total qualified research expenditures.

13 b. In lieu of the credit amount computed in paragraph "a",
14 subparagraph (1), a taxpayer may elect to compute the credit
15 amount for qualified research expenses incurred in this state
16 in a manner consistent with the alternative incremental credit
17 described in section 41(c)(4) of the Internal Revenue Code.
18 The taxpayer may make this election regardless of the method
19 used for the taxpayer's federal income tax. The election made
20 under this paragraph is for the tax year and the taxpayer may
21 use another or the same method for any subsequent year.

22 c. For purposes of the alternate credit computation method
23 in paragraph "b", the credit percentages applicable to
24 qualified research expenses described in clauses (i), (ii),
25 and (iii) of section 41(c)(4)(A) of the Internal Revenue Code
26 are one and sixty-five hundredths percent, two and twenty
27 hundredths percent, and two and seventy-five hundredths
28 percent, respectively.

29 2. For purposes of this section, an individual may claim a
30 research credit for-qualifying-research-expenditures incurred
31 by a partnership, subchapter S corporation, limited liability
32 company, estate, or trust electing to have the income taxed
33 directly to the individual. The amount claimed by the
34 individual shall be based upon the pro rata share of the
35 individual's earnings of a partnership, subchapter S

1 corporation, limited liability company, estate, or trust.

2 | 3. For purposes of this section, "~~qualifying-expenditures~~
3 ~~for-increasing-research-activities~~"-~~means-the-qualifying~~
4 ~~expenditures~~ "base amount", "basic research payment", and
5 "qualified research expense" mean the same as defined for the
6 federal credit for increasing research activities which would
7 be allowable under section 41 of the Internal Revenue Code in
8 effect on January 17, 1999, except that for the alternative
9 incremental credit such amounts are for research conducted
10 within this state. For purposes of this section, "Internal
11 Revenue Code" means the Internal Revenue Code in effect on
12 January 1, 2000.

13 4. Any credit in excess of the tax liability imposed by
14 section 422.5 less the credits allowed under sections 422.11A,
15 422.12, and 422.12B for the taxable year shall be refunded
16 with interest computed under section 422.25. In lieu of
17 claiming a refund, a taxpayer may elect to have the
18 overpayment shown on the taxpayer's final, completed return
19 credited to the tax liability for the following taxable year.

20 | Sec. 4. Section 422.33, subsection 5, Code Supplement
21 1999, is amended to read as follows:

22 | 5. a. The taxes imposed under this division shall be
23 reduced by a state tax credit for increasing research
24 activities in this state equal to ~~six-and-one-half-percent-of~~
25 ~~the-state's-apportioned-share-of-the-qualifying-expenditures~~
26 ~~for-increasing-research-activities.~~ the sum of the following:
27 | (1) Six and one-half percent of the excess of qualified
28 research expenses during the tax year over the base amount for
29 the tax year based upon the state's apportioned share of the
30 qualifying expenditures for increasing research activities.
31 | (2) Six and one-half percent of the basic research
32 payments determined under section 41(e)(1)(A) of the Internal
33 Revenue Code during the tax year based upon the state's
34 apportioned share of the qualifying expenditures for
35 increasing research activities.

1 The state's apportioned share of the qualifying
2 expenditures for increasing research activities is a percent
3 equal to the ratio of qualified research expenditures in this
4 state to the total qualified research expenditures.

5 b. In lieu of the credit amount computed in paragraph "a",
6 subparagraph (1), a corporation may elect to compute the
7 credit amount for qualified research expenses incurred in this
8 state in a manner consistent with the alternative incremental
9 credit described in section 41(c)(4) of the Internal Revenue
10 Code. The taxpayer may make this election regardless of the
11 method used for the taxpayer's federal income tax. The
12 election made under this paragraph is for the tax year and the
13 taxpayer may use another or the same method for any subsequent
14 year.

15 c. For purposes of the alternate credit computation method
16 in paragraph "b", the credit percentages applicable to
17 qualified research expenses described in clauses (i), (ii),
18 and (iii) of section 41(c)(4)(A) of the Internal Revenue Code
19 are one and sixty-five hundredths percent, two and twenty
20 hundredths percent, and two and seventy-five hundredths
21 percent, respectively.

22 d. For purposes of this subsection, "qualifying
23 expenditures-for-increasing-research-activities"-means-the
24 qualifying-expenditures "base amount", "basic research
25 payment", and "qualified research expense" mean the same as
26 defined for the federal credit for increasing research
27 activities which-would-be-allowable under section 41 of the
28 Internal Revenue Code in-effect-on-January-17-1999, except
29 that for the alternative incremental credit such amounts are
30 for research conducted within this state. For purposes of
31 this subsection, "Internal Revenue Code" means the Internal
32 Revenue Code in effect on January 1, 2000.

33 e. Any credit in excess of the tax liability for the
34 taxable year shall be refunded with interest computed under
35 section 422.25. In lieu of claiming a refund, a taxpayer may

1 elect to have the overpayment shown on its final, completed
2 return credited to the tax liability for the following taxable
3 year.

4 Sec. 5. APPLICABILITY DATE. This Act applies
5 retroactively to January 1, 2000, for tax years beginning on
6 or after that date.

7 EXPLANATION

8 This bill expands the research activities credit for income
9 tax purposes for businesses under the new jobs and income
10 program, the quality jobs enterprise zone program, the
11 incentives for building in enterprise zones, the individual
12 income tax, and corporate income tax. The expansion provides
13 for an alternative method of computing the tax credit based
14 upon the federal approach using an incremental computation
15 method for measuring increased research activities. This
16 alternative method is in lieu of a portion of Iowa's present
17 computation approach. Therefore, the present Iowa law is
18 rewritten in a manner that coincides with the computation
19 under the federal income tax credit. The federal approach has
20 three tiers under the incremented approach with a different
21 percentage for each tier. The bill uses the same percentages
22 for the three tiers which were used for federal income taxes
23 for tax years beginning before July 1, 1999.

24 The bill applies retroactively to January 1, 2000, for tax
25 years beginning on or after that date.

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