Fiscal Note

Fiscal Services Division

SF 220 – Corporation Section 179 Expensing (LSB2118SV.1)
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Fiscal Note Version – Final Action

Description

Senate File 220 expands the Internal Revenue Code Section 179 expensing cap and investment limit for corporations to the same level that was established for individual income taxpayers in SF 2417 (2018 Tax Modifications Act). The expansion would be effective in tax year (TY) 2018.

Background

In 2018, SF 2417 raised the Section 179 expansion cap and investment limit for individual taxpayers to $70,000/$280,000 for TY 2018 but did not change those parameters for corporations. The cap increase was not effective for corporations (S-corporations and C-corporations). This Bill expands the TY 2018 Section 179 cap and investment limit to $70,000/$280,000 from the current $25,000/$200,000 for corporations, including C-corporations, financial institutions, and S-corporations.

If the change is not enacted for TY 2018, the expenses that corporations are not allowed to deduct in TY 2018 will be deductible equally over the next seven tax years.

Assumptions

- Under current law, it is estimated that Section 179 deductions reported by C-corporations with positive Iowa tax liability would total $15.0 million for TY 2018.
- It is estimated that under the proposal, Section 179 deductions reported on Iowa corporation income tax returns would total about $30.0 million for TY 2018.
- The current effective marginal income tax rate is assumed to be 9.2%.
- Based on the timing of when the 2017 returns were filed, it is assumed that 48.0% of net changes from the higher Section 179 deductions allowed for TY 2018 would be realized in FY 2019 and 52.0% would be realized in FY 2020.

Fiscal Impact

The Section 179 expansion to corporate entities will reduce net General Fund revenue by an estimated $620,000 in FY 2019 and $430,000 in FY 2020. The change will result in a General Fund revenue increase over the next seven fiscal years totaling approximately $1.0 million.

With the change effective for TY 2018 and with tax filing for that tax year currently underway, the change will result in amended returns and additional Department of Revenue administrative expenses.

Source

Department of Revenue

/s/ Holly M. Lyons

June 5, 2019