



---

**SF 126** – 2015 IRC Update Bill (LSB1308SV)  
Analyst: Jeff Robinson (Phone: (515) 281-4614) ([jeff.robinson@legis.iowa.gov](mailto:jeff.robinson@legis.iowa.gov))  
Fiscal Note Version – New

---

### **Description**

**Senate File 126** conforms Iowa's revenue laws to incorporate federal changes enacted from January 1, 2014, through January 1, 2015. The Bill is effective on enactment and applies retroactively to tax year 2014.

### **Background**

Since January 1, 2014, the only significant federal tax changes were enacted as part of **H.R. 5771** (Tax Increase Prevention Act of 2014). This Act became law December 19, 2014. The Act extended the exemptions and credits through the end of tax year 2014. Extension beyond tax year 2014 will require additional federal legislation.

Of the extended provisions, the most significant from a fiscal impact perspective is the extension of favorable depreciation expensing known as "Section 179 expensing." This provision allows business taxpayers (including corporate taxpayers and business entities taxed through the individual income tax) to write off additional depreciation in the year a qualified depreciable asset is placed in service. Since the provision accelerates the claiming of depreciation, the provision reduces taxes owed in the first year, but increases taxes owed in later years.

The one federal change that this Bill does not conform with is known as "bonus depreciation." Bonus depreciation provides a similar benefit for more expensive depreciable assets. Iowa has not coupled with federal bonus depreciation provisions in the past.

### **Assumptions**

The conformity impact estimates were calculated by the Iowa Department of Revenue using national estimates available from the Joint Committee on Taxation.

Federal **H.R. 5771** also impacts Iowa income tax revenue by reducing the deduction for federal income taxes paid (both individual and corporate). Adjustments for the deductibility impacts of **H.R. 5771** were included in the December 2014 Revenue Estimating Conference General Fund revenue estimates for FY 2015 and FY 2016.

### **Fiscal Impact**

**Senate File 126** is projected to reduce net General Fund revenue in FY 2015 and increase revenue in future fiscal years. The impact projections are provided in the following table.

## Conformity Impact Estimates - Internal Revenue Update Bill

In Millions of Dollars

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Section 179 Expensing	\$ -83.50	\$ 22.03	\$ 19.77	\$ 13.65	\$ 10.69
Discharge of Indebtedness	-5.25	-1.75	0.00	0.00	0.00
Qualified Tuition Expenses	-2.23	0.00	0.00	0.00	0.00
Teacher \$250 Deduction	-0.67	0.00	0.00	0.00	0.00
Mortgage Insurance Deduction	-1.50	-0.50	0.00	0.00	0.00
Sales Tax Deduction	-1.51	0.00	0.00	0.00	0.00
Active Financing Income	-2.04	0.00	0.00	0.00	0.00
Work Opportunity Tax Credit	-1.07	-0.15	-0.07	-0.04	-0.01
Other Provisions	-1.21	-0.42	-0.05	-0.04	-0.04
Conformity Impact	\$ -98.98	\$ 19.21	\$ 19.65	\$ 13.57	\$ 10.64

The Department of Revenue indicates that if Iowa does not adopt Internal Revenue Code update legislation in the early part of the 2015 Legislative Session, but does enact update legislation in the later portion of the Session, taxpayers may first file tax year 2014 tax returns by the statutory deadlines, and then file amended returns at a later date. The Department calculates that the cost to the State, should a significant number of taxpayers take this action, could be as high as \$170,000.

### **Sources**

Joint Committee on Taxation (federal)  
Iowa Department of Revenue

/s/ Holly M. Lyons

February 3, 2015

---

The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

---