Fiscal Note

Fiscal Services Division

HF 2092 – Internal Revenue Code (IRC) Coupling (LSB5654HV)
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Fiscal Note Version – As passed by the House

Description

House File 2092 generally conforms Iowa's tax laws with changes to the federal Internal Revenue Code (IRC) made since January 1, 2015. The coupling is temporary and applies only to tax year 2015. The Bill does not couple with the federal tax provision known as "bonus depreciation."

The Bill is effective on enactment and applies retroactively to January 1, 2015.

Background

Since January 1, 2015, the only significant federal tax changes were enacted as part of H.R. 2029 (Consolidated Appropriations Act, 2016). This Act became law December 18, 2015. While many of the provisions were made a permanent part of the federal IRC, some tax provisions were extended through 2016 and others through tax year 2019. The extended provisions will require future federal action if they are to continue beyond the new expiration date.

Of the newly permanent provisions, the most significant from a fiscal impact perspective is the extension and enhancement of favorable depreciation accounting 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 HF 2092 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.

The estimated fiscal impact was not included in the December 10, 2015, Revenue Estimating Conference (REC) since the federal legislation was not enacted until after the REC meeting.

Assumptions

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

Fiscal Impact

Federal H.R. 2029 also impacts Iowa income tax revenue by reducing the Iowa income tax deduction for federal income taxes paid (both individual and corporate). The deductibility impact provides an automatic positive adjustment to State General Fund revenue. The positive adjustment is provided in the upper line of the following table. The deductibility impact estimates are provided here for reference. They are not a fiscal impact of this Bill.

HF 2092 makes changes to Iowa's tax laws for one tax year and is projected to reduce net General Fund revenue in FY 2016 and increase revenue in future fiscal years. The impact projections are provided in the lower line of the following table.

Deductibility and Conformity Revenue Impact Estimates
State General Fund
In Millions

	Status	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Deductibility Impact of Federal Changes to the Internal Revenue Code	Automatic	$ 2.0	$ 76.4	$ 42.4	$ 28.6	$ 31.6	$ 27.9
Conformity Impact of HF 2092	Requires State Legislation	$ -97.6	$ 10.1	$ 16.2	$ 11.7	$ 9.5	$ 8.2

Sources

Iowa Department of Revenue
United States Congress Joint Committee on Taxation

/s/ Holly M. Lyons

February 9, 2016

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.