

February 8, 1965.

Place on Calendar.

House File 198

By COMMITTEE ON WAYS AND MEANS.

Passed House, Date 2-10-65 Passed Senate, Date 2-23-65

Vote: Ayes 115 Nays 0 Vote: Ayes 54 Nays 0

Approved 2-26-65

*Passed on file 2/10
Ways & Means 2/10*

A BILL FOR

An Act to amend section four hundred twenty-two (422), Code 1962, as amended by chapter two hundred fifty-eight (258), Acts of the Sixtieth General Assembly, relative to state personal net income tax and state business tax on corporations.

Be It Enacted by the General Assembly of the State of Iowa:

1 Section 1. Section four hundred twenty-two point four (422.4),
2 Code 1962, as amended by section one (1) of chapter two hundred
3 fifty-eight (258), Acts of the Sixtieth General Assembly, is
4 hereby further amended by striking the figures "1962" in line
5 four (4) of subsection fourteen (14) and inserting in lieu thereof
6 the figures "1964".

1 Sec. 2. Section four hundred twenty-two point seven (422.7),
2 Code 1962, as amended by section two (2) of chapter two hundred
3 fifty-eight (258), Acts of the Sixtieth General Assembly, is
4 hereby further amended as follows:

5 1. By striking subsection five (5), six (6) and seven (7).

6 2. By inserting after the word "as" in line three (3) the
7 word "properly".

8 3. By inserting at the end thereof the following subsection:

9 "5. Add the amount by which the basis of qualified depre-
10 ciable property is required to be increased for depreciation
11 purposes under the Internal Revenue Code Amendments Act of 1964
12 to the extent that such amount equals the net amount of the
13 special deduction allowed on the basis of the amount by which

14 the depreciable basis of such qualified property was required
15 to be reduced for depreciation purposes under the Internal
16 Revenue Code Amendments Act of 1962. The 'net amount of the
17 special deduction' shall be computed by taking the sum of the
18 amounts by which the basis of qualified property was required
19 to be decreased for depreciation purposes for the years 1962
20 and 1963 and subtracting from it the sum of the amounts by
21 which the basis of such property was required to be increased,
22 prior to 1964, for depreciation or disposition purposes under
23 the Internal Revenue Code Amendments Act of 1962.' "

1 Sec. 3. Section four hundred twenty-two point thirty-two
2 (422.32), Code 1962, as amended by section three (3) of chapter
3 two hundred fifty-eight (258), Acts of the Sixtieth General
4 Assembly, is hereby further amended by striking the figures "1962"
5 in line three (3) of subsection four (4) and inserting in lieu
6 thereof the figures "1964".

1 Sec. 4. Section four hundred twenty-two point thirty-five
2 (422.35), Code 1962, as amended by section four (4) of chapter
3 two hundred fifty-eight (258), Acts of the Sixtieth General
4 Assembly, is hereby further amended as follows:

5 1. By inserting after the word "as" in line three (3) the
6 word "properly".

7 2. By striking subsections five (5), six (6) and seven (7)
8 and inserting in lieu thereof the following:

9 "5. Add the amount by which the basis of qualified depreciable
10 property is required to be increased for depreciation purposes
11 under the Internal Revenue Code Amendments Act of 1964 to the
12 extent that such amount equals the net amount of the special
13 deduction allowed on the basis of the amount by which the

14 depreciable basis of such qualified property was required to be
15 reduced for depreciation purposes under the Internal Revenue
16 Code Amendments Act of 1962. The 'net amount of the special
17 deduction' shall be computed by taking the sum of the amounts
18 by which the basis of qualified property was required to be
19 decreased for depreciation purposes for the years 1962 and 1963
20 and subtracting from it the sum of the amounts by which the
21 basis of such property was required to be increased, prior to
22 1964, for depreciation or disposition purposes under the Internal
23 Revenue Code Amendments Act of 1962.'”

1 Sec. 5. This Act being deemed of immediate importance shall
2 be in full force and effect from and after its passage and
3 publication in the Manly Signal, a newspaper published at
4 Manly, Iowa, and in the Lake Mills Graphic, a newspaper published
5 at Lake Mills, Iowa.

EXPLANATION H. F. 198

This bill would provide, in the main, the acceptance of the federal amendments enacted in 1964 relating to the development of the federal adjusted gross income upon which the taxpayers rely in computing their Iowa net income. By placing a reliance on the federal adjusted gross income, Iowa taxpayers are spared the necessity for making a separate computation of this amount for Iowa income tax purposes, both as it relates to personal net income and the business tax on corporations.

By and large the amendments act of 1964, while actually reducing the federal income tax rates, has measurably increased the tax base by requirement that substantially all depreciable property when disposed of through sale would generate ordinary income to the extent of the depreciation experienced on that property after 1961 with reference to personal property and after 1963 with reference to other depreciable property, thus eliminating questionable capital gains computations legal in prior years for lack of clarification.

The amendments further liberalize treatments of gains from the sale of property of aged persons and increases the medical deduction aged persons may determine when they itemize their personal deductions. Other liberalizations in the area of personal deductions include contributions to local government organizations, the expense incurred for the care of children of working parents, and allowance for moving expenses where employees are required to move in order to continue their employment or to accept new employment.

Dividend exclusions are increased and sick pay exclusions are clarified and somewhat more limited.

In the area of investment credit there is no longer a requirement that property have its depreciable value (basis) decreased in order that investment credit allowance be confirmed. Property, the basis of which has been required to be reduced in prior years, may now be increased in basis to the extent of the decrease required previously (1962 and 1963). It is within this area that the major portion of this bill is necessarily specific.

The purpose of this bill in this respect is to assure taxpayers that their depreciable value (basis) shall be the same as the federal and be increased to insure taxpayers of maximum depreciation deductions spread through the useful life of depreciable property.

The Sixtieth General Assembly, to eliminate the possibility of loss of depreciation through the useful life of depreciable property, enacted sections two (2) and four (4)

of chapter two hundred fifty-eight (258), Acts of the Sixtieth General Assembly. Since it is necessary that depreciation deductions be the same for state income tax purposes as they are for federal income tax purposes in order to preserve the dependability on the federal adjusted gross figure, this Act provides that the special deductions allowed by the state during those years be recovered in order that taxpayers be assured of a synonymy between depreciation deduction for federal purposes and for state purposes and to further insure that the deduction for depreciation be spread through the useful life of the property. By the provisions of this Act, special deductions are eliminated so that the depreciation deductions may be greater for each of the years of the useful life of the property subject to depreciation, thus spreading this advantage for deduction to the years when the greater tax liability might accrue were the deductions not spread for those years.

This Act will bring Iowa's taxpayers in conformity with a known and equitable method of determining adjusted gross income and an assurance that they need not make two separate and independent determinations of their income except as it may be effected by computations beyond the point of establishing adjusted gross income. These additional computations are necessary under Iowa law in order that Iowa's rates of taxation may properly be applied and that Iowa's exemption and dependency credits may continue.

Iowa's taxpaying public is necessarily awaiting the enactment of this legislation in order that they may proceed with assurance in the preparation of their state income tax returns.