

Sen. Ways and Means 5/16, Pass 6/12

APR 30 1975

HOUSE FILE 844

Place On Calendar

BY COMMITTEE ON WAYS AND MEANS

House File 844  
Ways and Means  
Hill of Jasper,  
Chairman  
Van Gilst  
Taylor

Passed House, Date 5-13-75 (1733) Passed Senate, Date 6-13-75 (2046)

Vote: Ayes 84 Nays 1 Vote: Ayes 46 Nays 0

Approved 7-14-75

## A BILL FOR

1 An Act relating to the filing of consolidated returns for  
2 corporation income tax purposes and making the Act retro-  
3 active.

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

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1 Section 1. Section four hundred twenty-two point thirty-  
2 two (422.32), Code 1975, is amended by adding the following  
3 new subsections:

4 NEW SUBSECTION. The term "affiliated group" means a group  
5 of corporations as defined in section one thousand five hundred  
6 four (1504) (a) of the Internal Revenue Code of 1954.

7 NEW SUBSECTION. The term "unitary business" means a  
8 business carried on partly within and partly without a state  
9 where the portion of the business carried on within the state  
10 depends on or contributes to the business outside the state.

11 Sec. 2. Section four hundred twenty-two point thirty-seven  
12 (422.37), Code 1975, is amended by striking the section and  
13 inserting in lieu thereof the following:

14 422.37 CONSOLIDATED RETURNS: Any affiliated group of  
15 corporations may, not later than the due date for filing its  
16 return for the taxable year, including any extensions thereof,  
17 under rules to be prescribed by the director, elect, and upon  
18 demand of the director shall be required, to make a  
19 consolidated return showing the consolidated net income of  
20 all such corporations and other information as the director  
21 may require, subject to the following:

22 1. The affiliated group filing under this section shall  
23 file a consolidated return for federal income tax purposes  
24 for the same taxable year.

25 2. All members of the affiliated group shall join in the  
26 filing of an Iowa consolidated return to the extent they are  
27 subject to the tax imposed by section four hundred twenty-  
28 two point thirty-three (422.33) of the Code or have operations  
29 which constitute a part of the unitary business of one or  
30 more members which are subject to the Iowa tax.

31 3. Members of the affiliated group exempt from taxation  
32 by section four hundred twenty-two point thirty-four (422.34)  
33 of the Code shall not be included in a consolidated return.

34 4. All members of the affiliated group shall use the  
35 statutory method of allocation and apportionment unless the

1 director has granted permission to all members to use an  
2 alternative method of allocation and apportionment.

3 5. Each member of the affiliated group shall consent to  
4 the filing by specific written authorization at the time the  
5 consolidated return is filed, unless the director requires  
6 the filing of a consolidated return.

7 6. The filing of a consolidated return for any taxable  
8 year shall require the filing of consolidated returns for  
9 all subsequent taxable years so long as the filing taxpayers  
10 remain members of the affiliated group unless the director  
11 determines that the filing of separate returns will more  
12 clearly disclose the taxable incomes of each member of the  
13 affiliated group. This determination shall be made after  
14 specific request by the taxpayer for the filing of separate  
15 returns.

16 7. The computation of consolidated taxable income for  
17 the members of an affiliated group of corporations subject  
18 to tax shall be made in the same manner and under the same  
19 procedures, including all intercompany adjustments and  
20 eliminations, as are required for consolidating the incomes  
21 of affiliated corporations for the taxable year for federal  
22 income tax purposes in accordance with section one thousand  
23 five hundred two (1502) of the Internal Revenue Code of 1954.

24 Sec. 3. The provisions of this Act shall be retroactive to  
25 January 1, 1975, for tax years beginning on or after January  
26 1, 1975 and to this extent the provisions of this Act are  
27 retroactive.

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#### EXPLANATION

29 The Iowa Supreme Court recently decided that all  
30 corporations have the right to file Iowa consolidated income  
31 tax returns under Iowa Code section 422.37. This right was  
32 determined to be unconditional and allows the indiscriminate  
33 consolidation of corporations doing business in Iowa with  
34 other corporations that may have no business relationship  
35 with the Iowa filer or no business activity within Iowa.

1 In its present form, section 422.37 is vague or undefined  
2 in three important areas. These are: (1) the percentage  
3 of ownership necessary for control; (2) the members of the  
4 affiliated group which may be included in the filing of a  
5 consolidated return; and (3) once a consolidated return has  
6 been filed the necessity that all subsequent returns be filed  
7 on a consolidated basis unless the director consents to the  
8 filing of separate returns.

9 This bill sets certain minimum standards under which  
10 consolidations would be permitted and clarifies the present  
11 vague areas. The ownership requirements which are necessary  
12 for consolidation would parallel those specified in the  
13 Internal Revenue Code. The Iowa consolidation provisions  
14 would differ in two respects; the exclusion of exempt  
15 corporations, and the exclusion of those corporations which  
16 conduct no business in Iowa and which are not unitary with  
17 another corporation subject to the Iowa tax.

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HOUSE FILE 844

AN ACT

RELATING TO THE FILING OF CONSOLIDATED RETURNS FOR CORPORATION INCOME TAX PURPOSES AND MAKING THE ACT RETROACTIVE.

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

Section 1. Section four hundred twenty-two point thirty-two (422.32), Code 1975, is amended by adding the following new subsections:

NEW SUBSECTION. The term "affiliated group" means a group of corporations as defined in section one thousand five hundred four (1504) (a) of the Internal Revenue Code of 1954.

NEW SUBSECTION. The term "unitary business" means a business carried on partly within and partly without a state where the portion of the business carried on within the state depends on or contributes to the business outside the state.

Sec. 2. Section four hundred twenty-two point thirty-seven (422.37), Code 1975, is amended by striking the section and inserting in lieu thereof the following:

422.37 CONSOLIDATED RETURNS. Any affiliated group of corporations may, not later than the due date for filing its return for the taxable year, including any extensions thereof, under rules to be prescribed by the director, elect, and upon demand of the director shall be required, to make a consolidated return showing the consolidated net income of all such corporations and other information as the director may require, subject to the following:

1. The affiliated group filing under this section shall file a consolidated return for federal income tax purposes for the same taxable year.

2. All members of the affiliated group shall join in the filing of an Iowa consolidated return to the extent they are

subject to the tax imposed by section four hundred twenty-two point thirty-three (422.33) of the Code or have operations which constitute a part of the unitary business of one or more members which are subject to the Iowa tax.

3. Members of the affiliated group exempt from taxation by section four hundred twenty-two point thirty-four (422.34) of the Code shall not be included in a consolidated return.

4. All members of the affiliated group shall use the statutory method of allocation and apportionment unless the director has granted permission to all members to use an alternative method of allocation and apportionment.

5. Each member of the affiliated group shall consent to the filing by specific written authorization at the time the consolidated return is filed, unless the director requires the filing of a consolidated return.

6. The filing of a consolidated return for any taxable year shall require the filing of consolidated returns for all subsequent taxable years so long as the filing taxpayers remain members of the affiliated group unless the director determines that the filing of separate returns will more clearly disclose the taxable incomes of each member of the affiliated group. This determination shall be made after specific request by the taxpayer for the filing of separate returns.

7. The computation of consolidated taxable income for the members of an affiliated group of corporations subject to tax shall be made in the same manner and under the same procedures, including all intercompany adjustments and eliminations, as are required for consolidating the incomes of affiliated corporations for the taxable year for federal income tax purposes in accordance with section one thousand five hundred two (1502) of the Internal Revenue Code of 1954.

Sec. 3. The provisions of this Act shall be retroactive to January 1, 1975, for tax years beginning on or after January

1, 1975 and to this extent the provisions of this Act are retroactive.

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DALE M. COCHRAN  
Speaker of the House

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ARTHUR A. NEU  
President of the Senate

I hereby certify that this bill originated in the House and is known as House File 844, Sixty-sixth General Assembly.

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DAVID L. WRAY  
Chief Clerk of the House

Approved \_\_\_\_\_, 1975

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ROBERT D. RAY  
Governor