

Reprinted

FILED JAN 22 1990

SENATE FILE 2114
BY COMMITTEE ON WAYS AND MEANS
Formerly SSB 2006.1
(Approved 4/17/90)

Passed Senate, Date 2/12/90 (p. 511) Passed House, Date 3/29/90 (P 1585)
Vote: Ayes 127 Nays 9 Vote: Ayes 92 Nays 0
Approved April 17, 1990

A BILL FOR

1 An Act relating to the updating of references to the federal
2 Internal Revenue Code, relating to income tax and the
3 computation of net income, increasing the tax credit allowed
4 for certain research activities, providing an effective date,
5 and providing certain retroactive applicability dates.

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

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SE 2114

1 Section 1. Section 422.3, subsection 5, Code Supplement
2 1989, is amended to read as follows:

3 5. "Internal Revenue Code" means the Internal Revenue Code
4 of 1954, prior to the date of its redesignation as the
5 Internal Revenue Code of 1986 by the Tax Reform Act of 1986,
6 or means the Internal Revenue Code of 1986 as amended to and
7 including January 1, ~~1989~~ 1990, whichever is applicable.

8 Sec. 2. Section 422.7, subsection 16, unnumbered paragraph
9 1, Code Supplement 1989, is amended to read as follows:

10 Subtract the income ~~or loss~~ resulting from the forfeiture
11 of an installment real estate contract, the transfer of real
12 or personal property securing a debt to a creditor in
13 cancellation of that debt, or from the sale or exchange of
14 property as a result of actual notice of foreclosure if all of
15 the following conditions are met:

16 Sec. 3. Section 422.10, unnumbered paragraph 1, Code 1989,
17 is amended to read as follows:

18 The taxes imposed under this division shall be reduced by a
19 state tax credit for increasing research activities in this
20 state. For individuals, the credit equals ~~six-and-one-half~~

21 thirteen percent of the state's apportioned share of the

22 qualifying expenditures for increasing research activities.

23 The state's apportioned share of the qualifying expenditures
24 for increasing research activities is a percent equal to the
25 ratio of qualified research expenditures in this state to
26 total qualified research expenditures. For purposes of this
27 section, an individual may claim a research credit for
28 qualifying research expenditures incurred by a partnership,
29 subchapter S corporation, and estate, or trust electing to
30 have the income taxed directly to the individual. The amount
31 claimed by the individual shall be based upon the pro rata
32 share of the individual's earnings of a partnership,
33 subchapter S corporation, or estate, or trust. For purposes
34 of this section, "qualifying expenditures for increasing
35 research activities" means the qualifying expenditures as

1 defined for the federal credit for increasing research
2 activities which would be allowable under section 41 of the
3 Internal Revenue Code in effect on January 1, 1990.

5066> 4 Sec. 4. Section 422.33, subsection 5, unnumbered paragraph
5 1, Code Supplement 1989, is amended to read as follows:

6 The taxes imposed under this division shall be reduced by a
7 state tax credit for increasing research activities in this
5066 8 state equal to ~~six-and-one-half~~ thirteen percent of the
9 state's apportioned share of the qualifying expenditures for
5066 10 increasing research activities. The state's apportioned share
11 of the qualifying expenditures for increasing research
12 activities is a percent equal to the ratio of qualified
13 research expenditures in this state to the total qualified
14 research expenditures. For purposes of this subsection,
15 "qualifying expenditures for increasing research activities"
16 means the qualifying expenditures as defined for the federal
17 credit for increasing research activities which would be
18 allowable under section 41 of the Internal Revenue Code in
19 effect on January 1, 1990.

20 Sec. 5. Section 422.35, subsection 11, Code Supplement
21 1989, is amended by adding the following new paragraph:

22 NEW PARAGRAPH. e. The limitations on net operating loss
23 carryback and carryforward under sections 172(b)(1)(M) and
24 172(m) of the Internal Revenue Code shall apply.

25 Sec. 6. 1989 Iowa Acts, chapter 285, section 10, is
26 amended to read as follows:

27 ~~SEC. 10. Sections 1 and 3~~ Section 2 of this Act are is
28 retroactive to January 1, 1988, for tax years beginning on or
29 after that date.

30 Sec. 7.

31 Sections 1 and 5 of this Act are retroactively applicable
32 to January 1, 1989, for tax years beginning on or after that
33 date.

34 Sec. 8.

35 Section 2 of this Act is retroactively applicable to

1 January 1, 1986, for tax years beginning on or after that
2 date.

3 Sec. 9.

~~Sec~~ 4 Sections 3 and 4 of this Act take effect January 1, 1991,
5 and are applicable for tax years beginning on or after that
6 date.

7 Sec. 10.

8 Section 6 of this Act is retroactively applicable to
9 January 1, 1988, for tax years beginning on or after that
10 date.

11 EXPLANATION

12 This bill updates references to the federal Internal
13 Revenue Code, provides for computation of certain income,
14 increases the tax credit for research activities and provides
15 limits for certain net operating losses.

16 Section 1 of the bill updates the references to the federal
17 Internal Revenue Code. This section is retroactively
18 applicable to January 1, 1989, for tax years beginning on or
19 after that date.

20 Section 2, which is retroactively effective to January 1,
21 1986, provides for personal net income to be computed by
22 subtracting the income from certain foreclosure, forfeiture,
23 and sale or exchange of property. Current law provides for
24 subtracting income or loss from such transactions.

25 Sections 3 and 4 increase the income tax credit for
26 research activities in the state to 13 percent of the state's
27 apportioned share of qualifying expenditures for increasing
28 research activities. Current law allows a credit of 6.5
29 percent. These sections are applicable for tax years
30 beginning on or after January 1, 1991.

31 Section 5 provides that the limitations on net operating
32 loss carryback and carryforward for computing net income of a
33 corporation under the federal Internal Revenue Code shall
34 apply. This section is retroactively applicable to January 1,
35 1989, for tax years beginning on or after that date.

1 Section 6 applies to the update of the Internal Revenue
2 Code which was passed by the 73rd General Assembly but was not
3 made retroactive. This section makes the update passed in the
4 1989 Session retroactively applicable to tax years beginning
5 on or after January 1, 1988.

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SENATE FILE 2114

S-5066

1 Amend Senate File 2114 as follows:

2 1. Page 1, line 21, by inserting the after the
3 word "percent" the following: "of the first sixty
4 thousand dollars".

5 2. Page 1, line 22, by inserting after the word
6 "activities" the following: "and six and one-half
7 percent of the state's apportioned share of the
8 qualifying expenditures for increasing research
9 activities in excess of sixty thousand dollars".

10 3. Page 2, by inserting after line 3 the
11 following:

12 "Sec. 100. Section 422.12B, subsection 1, Code
13 Supplement 1989, is amended to read as follows:

14 1. The taxes imposed under this division, less
15 credits allowed under sections 422.10 through 422.12,
16 shall be reduced by an earned income credit equal to
17 five six and one-half percent of the federal earned
18 income credit received by the taxpayer under section
19 32(b) of the Internal Revenue Code. Any credit in
20 excess of the tax liability is nonrefundable."

21 4. Page 2, line 8, by inserting the after the
22 word "percent" the following: "of the first sixty
23 thousand dollars".

24 5. Page 2, line 10, by inserting after the word
25 "activities" the following: "and six and one-half
26 percent of the state's apportioned share of the
27 qualifying expenditures for increasing research
28 activities in excess of sixty thousand dollars".

29 6. Page 3, line 4, by striking the word and
30 figure "and 4" and inserting the following: ", 4, and
31 100".

By CHARLES BRUNER
ELAINE SZYMONIAK
WILLIAM DIELEMAN

S-5066 FILED FEBRUARY 7, 1990

adopted

SENATE FILE 2114
SENATE FILE 2114 AS AMENDED BY THE SENATE
FISCAL NOTE

A fiscal note for Senate File 2114 as amended by the Senate is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note is available from the Legislative Fiscal Bureau to members of the Legislature upon request.

Senate File 2114 as amended by the Senate updates references to the federal Internal Revenue Code, provides for computation of certain income, continues the tax credit for research activities and also doubles the credit from 6.5% to 13.0% on the first \$60,000 of qualified research expenses, provides limits for certain net operating losses, and raises the non-refundable earned income credit from 5% of federal credit allowed to 6.5% of federal earned income credit.

Fiscal Impact

	FY 1991	FY 1992
	(\$ mil)	(\$ mil)
	=====	=====
Internal Revenue Code Update	(\$0.85)	\$1.0
Research Activities Credit	--	(\$1.2)
Earned Income Credit	--	(\$0.6)
	=====	=====
NET IMPACT	(\$0.85)	(\$0.8)

Department of Revenue and Finance
Legislative Tax Model

(LSB 7997sv.3, PDD)

FILED FEBRUARY 21, 1990

BY DENNIS PROUTY, FISCAL DIRECTOR

SENATE FILE 2114 REQ. BY SENATOR BRUNER
FISCAL NOTE

A fiscal note for Senate File 2114 as amended by S-5066 is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note is available from the Legislative Fiscal Bureau to members of the Legislature upon request.

Senate File 2114 as amended by S-5066 updates references to the federal Internal Revenue Code, provides for computation of certain income, continues the tax credit for research activities and also doubles the credit from 6.5% to 13.0% on the first \$60,000 of qualified research expenses, provides limits for certain net operating losses, and raises the non-refundable earned income credit from 5% of federal credit allowed to 6.5% of federal earned income credit.

Fiscal Impact

	FY 1991 (\$ mil) =====	FY 1992 (\$ mil) =====
Internal Revenue Code Update	(\$0.85)	\$1.0
Research Activities Credit	--	(\$1.2)
Earned Income Credit	--	(\$0.6)
NET IMPACT	(\$0.85)	(\$0.8)

Department of Revenue and Finance
Legislative Tax Model

(LSB 7997sv.2, PDD)

FILED FEBRUARY 16, 1990

BY DENNIS PROUTY, FISCAL DIRECTOR

SENATE FILE 2114
FISCAL NOTE

A fiscal note for SENATE FILE 2114 is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note is available from the Legislative Fiscal Bureau to members of the Legislature upon request.

Senate File 2114 updates references to the federal Internal Revenue Code, provides for computation of certain income, continues the tax credit for research activities and also doubles the credit from 6.5% to 13.0% of qualified research expenses, and provides limits for certain net operating losses.

Fiscal Impact

	FY 1991	FY 1992
	(\$ mil)	(\$ mil)
	=====	=====
Internal Revenue Code Update	(\$0.85)	\$1.0
Research Activities Credit	--	(\$2.0)
	=====	=====
NET IMPACT	(\$0.85)	(\$1.0)

Department of Revenue and Finance

(LSB 7997sv, PDD)

FILED JANUARY 25, 1990

BY DENNIS PROUTY, FISCAL DIRECTOR

1 Section 1. Section 422.3, subsection 5, Code Supplement
2 1989, is amended to read as follows:

3 5. "Internal Revenue Code" means the Internal Revenue Code
4 of 1954, prior to the date of its redesignation as the
5 Internal Revenue Code of 1986 by the Tax Reform Act of 1986,
6 or means the Internal Revenue Code of 1986 as amended to and
7 including January 1, ~~1989~~ 1990, whichever is applicable.

8 Sec. 2. Section 422.7, subsection 16, unnumbered paragraph
9 1, Code Supplement 1989, is amended to read as follows:

10 Subtract the income ~~or loss~~ resulting from the forfeiture
11 of an installment real estate contract, the transfer of real
12 or personal property securing a debt to a creditor in
13 cancellation of that debt, or from the sale or exchange of
14 property as a result of actual notice of foreclosure if all of
15 the following conditions are met:

16 Sec. 3. Section 422.10, unnumbered paragraph 1, Code 1989,
17 is amended to read as follows:

18 The taxes imposed under this division shall be reduced by a
19 state tax credit for increasing research activities in this
20 state. For individuals, the credit equals ~~six-and-one-half~~
21 thirteen percent of the first sixty thousand dollars of the
22 state's apportioned share of the qualifying expenditures for
23 increasing research activities and ~~six and one-half percent of~~
24 the state's apportioned share of the qualifying expenditures
25 for increasing research activities in excess of sixty thousand
26 dollars. The state's apportioned share of the qualifying
27 expenditures for increasing research activities is a percent
28 equal to the ratio of qualified research expenditures in this
29 state to total qualified research expenditures. For purposes
30 of this section, an individual may claim a research credit for
31 qualifying research expenditures incurred by a partnership,
32 subchapter S corporation, and estate, or trust electing to
33 have the income taxed directly to the individual. The amount
34 claimed by the individual shall be based upon the pro rata
35 share of the individual's earnings of a partnership,

1 subchapter S corporation, or estate, or trust. For purposes
2 of this section, "qualifying expenditures for increasing
3 research activities" means the qualifying expenditures as
4 defined for the federal credit for increasing research
5 activities which would be allowable under section 41 of the
54/26 Internal Revenue Code in effect on January 1, 1990.

7 Sec. 4. Section 422.12B, subsection 1, Code Supplement
8 1989, is amended to read as follows:

9 1. The taxes imposed under this division, less credits
10 allowed under sections 422.10 through 422.12, shall be reduced
11 by an earned income credit equal to five six and one-half
12 percent of the federal earned income credit received by the
13 taxpayer under section 32(b) of the Internal Revenue Code.
14 Any credit in excess of the tax liability is nonrefundable.

15 Sec. 5. Section 422.33, subsection 5, unnumbered paragraph
16 1, Code Supplement 1989, is amended to read as follows:

17 The taxes imposed under this division shall be reduced by a
18 state tax credit for increasing research activities in this
19 state equal to six-and-one-half thirteen percent of the first
20 sixty thousand dollars of the state's apportioned share of the
21 qualifying expenditures for increasing research activities and
22 six and one-half percent of the state's apportioned share of
23 the qualifying expenditures for increasing research activities
24 in excess of sixty thousand dollars. The state's apportioned
25 share of the qualifying expenditures for increasing research
26 activities is a percent equal to the ratio of qualified
27 research expenditures in this state to the total qualified
28 research expenditures. For purposes of this subsection,
29 "qualifying expenditures for increasing research activities"
30 means the qualifying expenditures as defined for the federal
31 credit for increasing research activities which would be
32 allowable under section 41 of the Internal Revenue Code in
54/233 effect on January 1, 1990.

34 Sec. 6. Section 422.35, subsection 11, Code Supplement
35 1989, is amended by adding the following new paragraph:

1 NEW PARAGRAPH. e. The limitations on net operating loss
2 carryback and carryforward under sections 172(b)(1)(M) and
3 172(m) of the Internal Revenue Code shall apply.

4 Sec. 7. 1989 Iowa Acts, chapter 285, section 10, is
5 amended to read as follows:

6 SEC. 10. ~~Sections 1 and 3~~ Section 2 of this Act ~~are~~ is
7 retroactive to January 1, 1988, for tax years beginning on or
8 after that date.

9 Sec. 8.

10 Sections 1 and 6 of this Act are retroactively applicable
11 to January 1, 1989, for tax years beginning on or after that
12 date.

13 Sec. 9.

14 Section 2 of this Act is retroactively applicable to
15 January 1, 1986, for tax years beginning on or after that
16 date.

17 Sec. 10.

18 Sections 3, ~~4,~~ and 5 of this Act take effect January 1,
19 1991, and are applicable for tax years beginning on or after
20 that date.

21 Sec. 11.

22 Section 7 of this Act is retroactively applicable to
23 January 1, 1988, for tax years beginning on or after that
24 date.

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SENATE FILE 2114

5912

Amend Senate File 2114, as amended, passed, and
reprinted by the Senate, as follows:

1. Page 1, by inserting after line 15 the
following:

"Sec. 100. Section 422.9, subsection 2, paragraph
f, Code Supplement 1989, is amended by striking the
paragraph."

2. Page 2, by inserting after line 6 the
following:

"Sec. 101. Section 422.12, subsection 3, Code
Supplement 1989, is amended by striking the
subsection."

3. Page 3, by inserting after line 24 the
following:

"Sec. _____. Sections 100 and 101 of this Act are
retroactively applicable to January 1, 1990, for tax
years beginning on or after that date."

By HAMMOND of Story	SHERZAN of Polk
CONNORS of Polk	TEAFORD of Black Hawk
METCALF of Polk	DODERER of Johnson
NEUHAUSER of Johnson	JAY of Appanoose
CARPENTER of Polk	SHOULTZ of Black Hawk
HARPER of Black Hawk	OSTERBERG of Linn
BISIGNANO of Polk	JOHNSON of Winneshiek

5912 FILED MARCH 28, 1990

Revised and approved 3/29 (p. 1532)

SENATE FILE 2114

H-5919

Amend Senate File 2114, as amended, passed, and
reprinted by the Senate, as follows:

1. Page 1, lines 20 and 21, by striking the words
"~~six-and-one-half~~ thirteen percent of the first sixty
thousand dollars" and inserting the following: "six
and one-half percent".

2. Page 1, by striking lines 23 through 26 and
inserting the following: "increasing research
activities. The state's apportioned share of the
qualifying".

3. Page 2, lines 19 and 20, by striking the words
"~~six-and-one-half~~ thirteen percent of the first sixty
thousand dollars" and inserting the following: "six
and one-half percent".

4. Page 2, by striking lines 21 through 24 and
inserting the following: "qualifying expenditures for
increasing research activities. The state's
apportioned".

5. Title page, lines 3 and 4, by striking the
words "increasing the tax credit allowed for certain
research activities,".

By WISE of Lee
TABOR of Jackson

H-5919 FILED MARCH 28, 1990

Adopted 3/29 (p. 1582)

SENATE FILE 2114

H-5412

- 1 Amend Senate File 2114, as amended, passed, and
- 2 reprinted by the Senate, as follows:
- 3 1. Page 2, line 6, by striking the words and
- 4 figures "in effect on January 1, 1990".
- 5 2. Page 2, lines 32 and 33, by striking the words
- 6 and figures "in effect on January 1, 1990".

By GRONINGA of Cerro Gordo

H-5412 FILED FEBRUARY 28, 1990

Loose 3/29 (p. 1582)

SENATE FILE 2114

H-5603

- 1 Amend Senate File 2114, as amended, passed, and
- 2 reprinted by the Senate, as follows:
- 3 1. Page 2, by striking lines 7 through 14.
- 4 2. Page 3, line 18, by striking the following:
- 5 "4".
- 6 3. By renumbering as necessary.

By METCALF of Polk

H-5603 FILED MARCH 12, 1990

Loose 3/29 (p. 1583)

HOUSE AMENDMENT TO
SENATE FILE 2114

S-5824

- 1 Amend Senate File 2114, as amended, passed, and
2 reprinted by the Senate, as follows:
- 3 1. Page 1, lines 20 and 21, by striking the words
4 "six-and-one-half thirteen percent of the first sixty
5 thousand dollars" and inserting the following: "six
6 and one-half percent".
- 7 2. Page 1, by striking lines 23 through 26 and
8 inserting the following: "increasing research
9 activities. The state's apportioned share of the
10 qualifying".
- 11 3. Page 2, lines 19 and 20, by striking the words
12 "six-and-one-half thirteen percent of the first sixty
13 thousand dollars" and inserting the following: "six
14 and one-half percent".
- 15 4. Page 2, by striking lines 21 through 24 and
16 inserting the following: "qualifying expenditures for
17 increasing research activities. The state's
18 apportioned".
- 19 5. Title page, lines 3 and 4, by striking the
20 words "increasing the tax credit allowed for certain
21 research activities,".

RECEIVED FROM THE HOUSE

S-5824 FILED APRIL 2, 1990

Senate concurred 4/3 (p. 1494)

SENATE FILE 2114
FISCAL NOTE

A fiscal note for Senate File 2114 as Amended by S-5824 is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note is available from the Legislative Fiscal Bureau to members of the Legislature upon request.

Senate File 2114 as amended by S-5824 updates references to the federal Internal Revenue Code, provides for computation of certain income, continues the tax credit for research activities at the tax year 1990 level of 6.5% on the first \$60,000 of qualified research expenses, provides limits for certain net operating losses, and raises the non-refundable earned income credit from 5% of federal credit allowed to 6.5% of federal earned income credit.

Fiscal Impact

	FY 1991 (\$ mil)	FY 1992 (\$ mil)
	=====	=====
Internal Revenue Code Update	(\$0.85)	\$1.0
Research Activities Credit	--	(\$1.0)
Earned Income Credit	--	(\$0.6)
	=====	=====
NET IMPACT	(\$0.85)	(\$0.6)

Department of Revenue and Finance
Legislative Tax Model

(LSB 7997sv.4, PDD)

FILED APRIL 3, 1990

BY DENNIS PROUTY, FISCAL DIRECTOR

SZYMONIAK, CH.
PALMER
GENTLEMAN

SSB 2006.1
WAYS + MEANS

SENATE FILE 2114
BY (PROPOSED COMMITTEE ON
WAYS AND MEANS BILL
REQUESTED BY SZYMONIAK)

Passed Senate, Date _____ Passed House, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act relating to the updating of references to the federal
2 Internal Revenue Code, relating to income tax and the
3 computation of net income, increasing the tax credit allowed
4 for certain research activities, providing an effective date,
5 and providing certain retroactive applicability dates.

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

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1 Section 1. Section 422.3, subsection 5, Code Supplement
2 1989, is amended to read as follows:

3 5. "Internal Revenue Code" means the Internal Revenue Code
4 of 1954, prior to the date of its redesignation as the
5 Internal Revenue Code of 1986 by the Tax Reform Act of 1986,
6 or means the Internal Revenue Code of 1986 as amended to and
7 including January 1, ~~1989~~ 1990, whichever is applicable.

8 Sec. 2. Section 422.7, subsection 16, unnumbered paragraph
9 1, Code Supplement 1989, is amended to read as follows:

10 Subtract the income ~~or loss~~ resulting from the forfeiture
11 of an installment real estate contract, the transfer of real
12 or personal property securing a debt to a creditor in
13 cancellation of that debt, or from the sale or exchange of
14 property as a result of actual notice of foreclosure if all of
15 the following conditions are met:

16 Sec. 3. Section 422.10, unnumbered paragraph 1, Code 1989,
17 is amended to read as follows:

18 The taxes imposed under this division shall be reduced by a
19 state tax credit for increasing research activities in this
20 state. For individuals, the credit equals ~~six-and-one-half~~
21 thirteen percent of the state's apportioned share of the
22 qualifying expenditures for increasing research activities.
23 The state's apportioned share of the qualifying expenditures
24 for increasing research activities is a percent equal to the
25 ratio of qualified research expenditures in this state to
26 total qualified research expenditures. For purposes of this
27 section, an individual may claim a research credit for
28 qualifying research expenditures incurred by a partnership,
29 subchapter S corporation, and estate, or trust electing to
30 have the income taxed directly to the individual. The amount
31 claimed by the individual shall be based upon the pro rata
32 share of the individual's earnings of a partnership,
33 subchapter S corporation, or estate, or trust. For purposes
34 of this section, "qualifying expenditures for increasing
35 research activities" means the qualifying expenditures as

1 defined for the federal credit for increasing research
2 activities which would be allowable under section 41 of the
3 Internal Revenue Code in effect on January 1, 1990.

4 Sec. 4. Section 422.33, subsection 5, unnumbered paragraph
5 1, Code Supplement 1989, is amended to read as follows:

6 The taxes imposed under this division shall be reduced by a
7 state tax credit for increasing research activities in this
8 state equal to ~~six-and-one-half~~ thirteen percent of the
9 state's apportioned share of the qualifying expenditures for
10 increasing research activities. The state's apportioned share
11 of the qualifying expenditures for increasing research
12 activities is a percent equal to the ratio of qualified
13 research expenditures in this state to the total qualified
14 research expenditures. For purposes of this subsection,
15 "qualifying expenditures for increasing research activities"
16 means the qualifying expenditures as defined for the federal
17 credit for increasing research activities which would be
18 allowable under section 41 of the Internal Revenue Code in
19 effect on January 1, 1990.

20 Sec. 5. Section 422.35, subsection 11, Code Supplement
21 1989, is amended by adding the following new paragraph:

22 NEW PARAGRAPH. e. The limitations on net operating loss
23 carryback and carryforward under sections 172(b)(1)(M) and
24 172(m) of the Internal Revenue Code shall apply.

25 Sec. 6. 1989 Iowa Acts, chapter 285, section 10, is
26 amended to read as follows:

27 SEC. 10. Sections ~~1~~ 2 and 3 of this Act are retroactive to
28 January 1, 1988, for tax years beginning on or after that
29 date.

30 Sec. 7.

31 Sections 1 and 5 of this Act are retroactively applicable
32 to January 1, 1989, for tax years beginning on or after that
33 date.

34 Sec. 8.

35 Section 2 of this Act is retroactively applicable to

1 January 1, 1986, for tax years beginning on or after that
2 date.

3 Sec. 9.

4 Sections 3 and 4 of this Act take effect January 1, 1991,
5 and are applicable for tax years beginning on or after that
6 date.

7 Sec. 10.

8 Section 6 of this Act is retroactively applicable to
9 January 1, 1988, for tax years beginning on or after that
10 date.

11 EXPLANATION

12 This bill updates references to the federal Internal
13 Revenue Code, provides for computation of certain income,
14 increases the tax credit for research activities and provides
15 limits for certain net operating losses.

16 Section 1 of the bill updates the references to the federal
17 Internal Revenue Code. This section is retroactively
18 applicable to January 1, 1989, for tax years beginning on or
19 after that date.

20 Section 2, which is retroactively effective to January 1,
21 1986, provides for personal net income to be computed by
22 subtracting the income from certain foreclosure, forfeiture,
23 and sale or exchange of property. Current law provides for
24 subtracting income or loss from such transactions.

25 Sections 3 and 4 increase the income tax credit for
26 research activities in the state to 13 percent of the state's
27 apportioned share of qualifying expenditures for increasing
28 research activities. Current law allows a credit of 6.5
29 percent. These sections are applicable for tax years
30 beginning on or after January 1, 1991.

31 Section 5 provides that the limitations on net operating
32 loss carryback and carryforward for computing net income of a
33 corporation under the federal Internal Revenue Code shall
34 apply. This section is retroactively applicable to January 1,
35 1989, for tax years beginning on or after that date.

1 Section 6 applies to the update of the Internal Revenue
2 Code which was passed by the 73rd General Assembly but was not
3 made retroactive. This section makes the update passed in the
4 1989 Session retroactively applicable to tax years beginning
5 on or after January 1, 1988.

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SENATE FILE 2114

AN ACT

RELATING TO THE UPDATING OF REFERENCES TO THE FEDERAL INTERNAL REVENUE CODE, RELATING TO INCOME TAX AND THE COMPUTATION OF NET INCOME, PROVIDING AN EFFECTIVE DATE, AND PROVIDING CERTAIN RETROACTIVE APPLICABILITY DATES.

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

Section 1. Section 422.3, subsection 5, Code Supplement 1989, is amended to read as follows:

5. "Internal Revenue Code" means the Internal Revenue Code of 1954, prior to the date of its redesignation as the Internal Revenue Code of 1986 by the Tax Reform Act of 1986, or means the Internal Revenue Code of 1986 as amended to and including January 1, 1989 1990, whichever is applicable.

Sec. 2. Section 422.7, subsection 16, unnumbered paragraph 1, Code Supplement 1989, is amended to read as follows:

Subtract the income or ~~loss~~ resulting from the forfeiture of an installment real estate contract, the transfer of real or personal property securing a debt to a creditor in cancellation of that debt, or from the sale or exchange of

property as a result of actual notice of foreclosure if all of the following conditions are met:

Sec. 3. Section 422.10, unnumbered paragraph 1, Code 1989, is amended to read as follows:

The taxes imposed under this division shall be reduced by a state tax credit for increasing research activities in this state. For individuals, the credit equals six and one-half percent of the state's apportioned share of the qualifying expenditures for increasing research activities. The state's apportioned share of the qualifying expenditures for increasing research activities is a percent equal to the ratio of qualified research expenditures in this state to total qualified research expenditures. For purposes of this section, an individual may claim a research credit for qualifying research expenditures incurred by a partnership, subchapter S corporation, and estate, or trust electing to have the income taxed directly to the individual. The amount claimed by the individual shall be based upon the pro rata share of the individual's earnings of a partnership, subchapter S corporation, or estate, or trust. For purposes of this section, "qualifying expenditures for increasing research activities" means the qualifying expenditures as defined for the federal credit for increasing research activities which would be allowable under section 41 of the Internal Revenue Code in effect on January 1, 1990.

Sec. 4. Section 422.12B, subsection 1, Code Supplement 1989, is amended to read as follows:

1. The taxes imposed under this division, less credits allowed under sections 422.10 through 422.12, shall be reduced by an earned income credit equal to ~~five~~ six and one-half percent of the federal earned income credit received by the taxpayer under section 32(b) of the Internal Revenue Code. Any credit in excess of the tax liability is nonrefundable.

Sec. 5. Section 422.33, subsection 5, unnumbered paragraph 1, Code Supplement 1989, is amended to read as follows:

The taxes imposed under this division shall be reduced by a state tax credit for increasing research activities in this state equal to six and one-half percent of the state's apportioned share of the qualifying expenditures for increasing research activities. The state's apportioned share of the qualifying expenditures for increasing research activities is a percent equal to the ratio of qualified research expenditures in this state to the total qualified research expenditures. For purposes of this subsection, "qualifying expenditures for increasing research activities" means the qualifying expenditures as defined for the federal credit for increasing research activities which would be allowable under section 41 of the Internal Revenue Code in effect on January 1, 1990.

Sec. 6. Section 422.35, subsection 11, Code Supplement 1989, is amended by adding the following new paragraph:

NEW PARAGRAPH. e. The limitations on net operating loss carryback and carryforward under sections 172(b)(1)(M) and 172(n) of the Internal Revenue Code shall apply.

Sec. 7. 1989 Iowa Acts, chapter 285, section 10, is amended to read as follows:

SEC. 10. Sections 1 and 3 Section 2 of this Act are is retroactive to January 1, 1988, for tax years beginning on or after that date.

Sec. 8.

Sections 1 and 6 of this Act are retroactively applicable to January 1, 1989, for tax years beginning on or after that date.

Sec. 9.

Section 2 of this Act is retroactively applicable to January 1, 1986, for tax years beginning on or after that date.

Sec. 10.

Sections 3, 4, and 5 of this Act take effect January 1, 1991, and are applicable for tax years beginning on or after that date.

Sec. 11.

Section 7 of this Act is retroactively applicable to January 1, 1988, for tax years beginning on or after that date.

JO ANN ZIMMERMAN
President of the Senate

DONALD D. AVENSON
Speaker of the House

I hereby certify that this bill originated in the Senate and is known as Senate File 2114, Seventy-third General Assembly.

JOHN F. DWYER
Secretary of the Senate

Approved *April 17*, 1990

TERRY E. BRANSTAD
Governor