

FILED FEB 28 1994

SENATE FILE 2215
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO SSB 2215)

Passed Senate, Date ^(P, 1246) 4/14/94 Passed House, Date ^(P, 1863) 4/18/94
 Vote: Ayes 48 Nays 0 Vote: Ayes 94 Nays 5
 Approved May 10, 1994

A BILL FOR

1 An Act updating the Iowa Code references to the federal Internal
 2 Revenue Code, except those references to the taxation of
 3 social security benefits, striking a provision for a moving
 4 expense deduction, striking state provisions for disallowing
 5 private club expenses, and providing retroactive applicability
 6 and effective dates.

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

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S.F. 2215

1 Section 1. Section 422.3, subsection 4, Code Supplement
2 1993, is amended to read as follows:

3 4. "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, ~~1993~~ 1994, whichever is applicable.

8 Sec. 2. Section 422.7, subsection 13, Code Supplement
9 1993, is amended by striking the subsection and inserting in
10 lieu thereof the following:

11 13. Subtract, to the extent included, the amount of
12 additional social security benefits taxable under the Internal
13 Revenue Code for tax years beginning on or after January 1,
14 1994. The amount of social security benefits taxable as
15 provided in section 86 of the Internal Revenue Code, as
16 amended up to and including January 1, 1993, continues to
17 apply for state income tax purposes for tax years beginning on
18 or after January 1, 1994. Married taxpayers, who file a joint
19 federal income tax return and who elect to file separate
20 returns or who elect separate filing on a combined return for
21 state income tax purposes, shall allocate between the spouses
22 the amount of benefits subtracted from net income in the ratio
23 of the social security benefits received by each spouse to the
24 total of these benefits received by both spouses.

25 Sec. 3. Section 422.7, subsection 25, Code Supplement
26 1993, is amended by striking the subsection.

27 Sec. 4. Section 422.9, subsection 2, unnumbered paragraph
28 1, Code 1993, is amended to read as follows:

29 The total of contributions, interest, taxes, medical
30 expense, nonbusiness losses, and miscellaneous expenses ~~and~~
31 ~~moving-expenses~~ deductible for federal income tax purposes
32 under the Internal Revenue Code, with the following
33 adjustments:

34 Sec. 5. Section 422.9, subsection 2, paragraph g, Code
35 1993, is amended by striking the paragraph.

1 Sec. 6. Section 422.10, unnumbered paragraph 1, Code
2 Supplement 1993, is amended to read as follows:

3 The taxes imposed under this division shall be reduced by a
4 state tax credit for increasing research activities in this
5 state. For individuals, the credit equals six and one-half
6 percent of the state's apportioned share of the qualifying
7 expenditures for increasing research activities. The state's
8 apportioned share of the qualifying expenditures for
9 increasing research activities is a percent equal to the ratio
10 of qualified research expenditures in this state to total
11 qualified research expenditures. For purposes of this
12 section, an individual may claim a research credit for
13 qualifying research expenditures incurred by a partnership,
14 subchapter S corporation, estate, or trust electing to have
15 the income taxed directly to the individual. The amount
16 claimed by the individual shall be based upon the pro rata
17 share of the individual's earnings of a partnership,
18 subchapter S corporation, estate, or trust. For purposes of
19 this section, "qualifying expenditures for increasing research
20 activities" means the qualifying expenditures as defined for
21 the federal credit for increasing research activities which
22 would be allowable under section 41 of the Internal Revenue
23 Code in effect on January 1, 1993 1994.

24 Sec. 7. Section 422.33, subsection 5, unnumbered paragraph
25 1, Code Supplement 1993, is amended to read as follows:

26 The taxes imposed under this division shall be reduced by a
27 state tax credit for increasing research activities in this
28 state equal to six and one-half percent of the state's
29 apportioned share of the qualifying expenditures for
30 increasing research activities. The state's apportioned share
31 of the qualifying expenditures for increasing research
32 activities is a percent equal to the ratio of qualified
33 research expenditures in this state to the total qualified
34 research expenditures. For purposes of this subsection,
35 "qualifying expenditures for increasing research activities"

1 means the qualifying expenditures as defined for the federal
2 credit for increasing research activities which would be
3 allowable under section 41 of the Internal Revenue Code in
4 effect on January 1, ~~1993~~ 1994.

5 Sec. 8. Section 422.35, subsection 14, Code 1993, is
6 amended by striking the subsection.

7 Sec. 9. Sections 1, 5, and 6 of this Act apply
8 retroactively to January 1, 1993, for tax years beginning on
9 or after that date.

10 Sec. 10. Sections 2, 3, 4, and 7 of this Act apply
11 retroactively to January 1, 1994, for tax years beginning on
12 or after that date.

13 Sec. 11. This Act, being deemed of immediate importance,
14 takes effect upon enactment.

15 EXPLANATION

16 This bill updates the references to the Internal Revenue
17 Code to make the provisions of the federal Omnibus Budget
18 Reconciliation Act of 1993 applicable for Iowa income tax
19 purposes, except that social security benefits shall continue
20 to be taxed in the manner provided in section 86 of the
21 federal Internal Revenue Code, as amended up to and including
22 December 31, 1992.

23 The bill updates the Iowa Code references for the state
24 research credits for individuals and corporations in order to
25 include changes in the federal credit retroactive to January
26 1993. The bill strikes state provisions for disallowance of
27 private club expenses and moving expenses to conform with
28 federal tax treatment of club expenses and moving expenses,
29 starting in 1994.

30 The bill takes effect immediately upon enactment and
31 contains retroactive applicability date provisions.

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SENATE FILE 2215
FISCAL NOTE

A fiscal note for Senate File 2215 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 2215 updates references to the Internal Revenue Code (IRC) in the Iowa Code. The federal Omnibus Budget Reconciliation Act of 1993 (OBRA 93) changed a number of provisions in the federal tax code. Senate File 2215 conforms Iowa law to reflect the changes in OBRA 93.

ASSUMPTIONS:

The federal tax changes in OBRA 93 had an indirect effect on the State's receipts due to the federal income tax deduction from State income tax. Those provisions that increased federal tax burden reduced State receipts, while those provisions that decreased federal tax burden increased State receipts. These effects were taken into account in the December Revenue Estimating Conference and reflect current law. Consequently, this fiscal note does not take into account these effects.

Senate File 2215 couples all the changes in OBRA 93, with the exception of a provision to increase the percentage of social security benefits included in taxable income.

FISCAL IMPACT:

Senate File 2215 is expected to result in a decrease to the General Fund of approximately \$18.6 million in FY 1994, and a decrease of \$6.3 million in FY 1995. The following table shows the impact to the General Fund by provision.

IMPACT OF COUPLING BY PROVISION
(Millions of Dollars)

Provision	FY 1994	FY 1995
Earned Income Tax Credit	\$ 0.0	\$ -0.1
Moving Expenses	0.3	0.8
Estimated Payment Revisions	-3.0	-2.0
Minimum Tax Depreciation	-1.0	-2.3
Business Expense Meals & Entertainment	0.5	6.0
Small Business Expense Deduction	-12.8	-7.6
Amortization of Goodwill	0.0	0.0
Club Dues	0.1	0.4
Expired Provisions	-2.7	-1.5
Total IRC Update	\$ -18.6	\$ -6.3

SOURCES: Department of Revenue and Finance, Legislative Taxmodel
(LSB 4158sv, JAM)

FILED MARCH 8, 1994

BY DENNIS PROUTY, FISCAL DIRECTOR

SENATE FILE 2215

S-5452

1 Amend Senate File 2215 as follows:

2 1. Page 3, by inserting after line 6 the
3 following:

4 "Sec. ____ . Section 422.73, Code 1993, is amended
5 by adding the following new subsection:
6 NEW SUBSECTION. 8. Notwithstanding subsection 2,
7 a claim for credit or refund of individual income tax
8 paid for any tax year beginning on or after January 1,
9 1985, and before January 1, 1989, is considered timely
10 if filed with the department on or before April 30,
11 1995, if the taxpayer's claim is the result of the
12 unconstitutional taxation of federal pension benefits
13 based upon the decision in Davis v. Michigan
14 Department of Treasury, 489 U.S. 803, 109 S. Ct. 1500
15 (1989).

16 A taxpayer entitled to a credit or refund of tax
17 paid under this subsection shall receive the credit or
18 refund within four years. The amount of credit or
19 refund shall be equally spread over those four years.
20 Any claims for refund shall be payable from the
21 special refund account established in section 422.105.
22 The department shall state on the actual tax form for
23 the next four tax years a notice that federal retirees
24 may be entitled to a credit or refund under the
25 provisions of this subsection.

26 Sec. ____ . NEW SECTION. 422.105 SPECIAL REFUND
27 ACCOUNT.

28 The department shall establish a special refund
29 account for the purpose of paying the refund claims of
30 federal retirees pursuant to section 422.73,
31 subsection 8. Beginning with the fiscal year
32 beginning July 1, 1994, there is appropriated annually
33 from the general fund of the state an amount
34 sufficient to pay the refund claims of these federal
35 retirees."

36 2. Title page, line 5, by inserting after the
37 word "expenses," the following: "allowing credit or
38 refund for certain federal retirement benefits taxed
39 and providing an appropriation".

WITHDRAWN

By ALBERT SORENSEN

S-5452 FILED APRIL 5, 1994

SENATE FILE 2215

S-5066

1 Amend Senate File 2215 as follows:

2 1. Page 3, line 7, by striking the figures and
3 word "1, 5, and 6" and inserting the following: "1,
4 6, and 7".

5 2. Page 3, line 10, by striking the figures and
6 word "4, and 7" and inserting the following: "4, 5,
7 and 8".

adopted 4-14-94
(p. 124) By WILLIAM W. DIELEMAN

S-5066 FILED MARCH 2, 1994

S-5647

1 Amend Senate File 2215 as follows:

2 1. Page 3, by inserting after line 6 the
3 following:

4 "Sec. ____ . Section 422.73, Code 1993, is amended
5 by adding the following new subsection:

6 NEW SUBSECTION. 8. Notwithstanding subsection 2,
7 a claim for credit or refund of individual income tax
8 paid for any tax year beginning on or after January 1,
9 1985, and before January 1, 1989, is considered timely
10 if filed with the department on or before April 30,
11 1995, if the taxpayer's claim is the result of the
12 unconstitutional taxation of federal pension benefits
13 based upon the decision in Davis v. Michigan
14 Department of Treasury, 489 U.S. 803, 109 S. Ct. 1500
15 (1989).

16 A taxpayer entitled to a credit or refund of tax
17 paid under this subsection shall receive the credit or
18 refund within the time frame used for other retired
19 federal employees claiming a credit or refund of tax
20 unlawfully imposed on their federal pensions during
21 the same tax years."

By BRAD BANKS

JIM LIND

MERLIN E. BARTZ

MARY E. KRAMER

ALLEN BORLAUG

S-5647 FILED APRIL 14, 1994
WITHDRAWN

WVWVCHTIV

**SENATE FILE 2215
FISCAL NOTE**

A fiscal note for Senate File 2215 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 2215 updates references to the Internal Revenue Code (IRC) in the Code of Iowa. The federal Omnibus Budget Reconciliation Act of 1993 (OBRA 93) changed a number of provisions in the federal tax code. SF 2215 conforms Iowa law to reflect the changes in OBRA 93, with the exception of a provision that includes more social security benefits in taxable income.

ASSUMPTIONS:

The federal tax changes in OBRA 93 had an indirect effect on the State's receipts due to the federal income tax deduction from State income tax. Those provisions that increased the federal tax burden reduced State receipts, while those provisions that decreased federal tax burden increased State receipts. These effects were taken into account in the April Revenue Estimating Conference and reflect current law. Consequently, this fiscal note does not take into account these effects.

FISCAL IMPACT:

Senate File 2215 is expected to result in a decrease to the General Fund of approximately \$18.6 million in FY 1994, and a decrease of \$6.3 million in FY 1995. The following table shows the impact to the General Fund by provision.

**IMPACT OF COUPLING BY PROVISION
(Millions of Dollars)**

Provision	FY 1994	FY 1995
Earned Income Tax Credit	\$ 0.0	\$ -0.1
Moving Expenses	0.3	0.8
Estimated Payment Revisions	-3.0	-2.0
Minimum Tax Depreciation	-1.0	-2.3
Business Expense Meals & Entertainment	0.5	6.0
Small Business Expense Deduction	-12.8	-7.6
Amortization of Goodwill	0.0	0.0
Club Dues	0.1	0.4
Expired Provisions	-2.7	-1.5
Total IRC Update	\$ -18.6	\$ -6.2

AMENDMENT H-6231:

-2-

Amendment H-6231 to SF 2215 would conform the State tax treatment of social security benefits to federal law. This is expected to result in an increase in revenues of \$4.4 million in FY 1994 and an increase of \$17.5 million in FY 1995.

Amendment H-6231 would also expand the low-income elderly and disabled property tax credit, increase the dependent tax credit to \$40, and allow federal retirees affected by the Hagge pension case to file for refunds if they have not yet done so.

With regard to the additional Hagge refunds, the amendment would allow for the payment of taxes paid, but not interest. This is estimated to result in a decrease in revenues to the General Fund of approximately \$10.3 million in FY 1995.

The low-income elderly and disabled property tax credit expansion is expected to result in a decrease in revenue to local governments of approximately \$2.8 million in FY 1995 and subsequent fiscal years. Due to the fact that the State share of the credit is capped at \$12.8 million in FY 1995, no General Fund impact is anticipated.

The increase in the dependent credit would begin in tax year 1996, and would result in a decrease to the General Fund of approximately \$16.0 million in FY 1997 and subsequent fiscal years.

The total fiscal impact of amendment H-6231 would be an increase to the General Fund of approximately \$4.4 million in FY 1994, \$6.7 million in FY 1995, \$17.5 million in FY 1996, and an increase of approximately \$1.5 million in each subsequent year.

Senate File 2215, as amended by H-6231, would still result in a decrease in revenues in FY 1994. The net fiscal impact of the bill as amended would be a decrease in revenues to the General Fund of approximately \$14.2 million in FY 1994. In FY 1995, the bill as amended would result in an increase in revenues to the General Fund of approximately \$0.5 million.

AMENDMENT H-6270:

Amendment H-6270 to amendment H-6231 makes adjustments to the low-income elderly and disabled property tax credit provision and the dependent tax credit provision. (The amendment does not affect the low-income property tax credit for non-elderly abled low-income individuals.)

Under amendment H-6270, the State would remove the low-income elderly and disabled property tax credit freeze, and fully fund the credit. Under current law, the credit is capped at \$12.8 million and the total amount of payable claims is \$14.1 million. Because amendment H-6231 increases the low-income elderly property tax credit by \$2.8 million, the total fiscal impact of amendment H-6270 will be a decrease to the General Fund of approximately \$4.1 million in FY 1995 and subsequent years.

Amendment H-6270 also makes the increase in the dependent care credit effective beginning January 1, 1995. Thus the \$16.0 million impact will begin in FY 1996

-3-

rather than FY 1997.

The net fiscal impact of SF 2215 as amended by H-6270 to H-6231 is expected to be a decrease in revenues to the General Fund of approximately \$14.2 million in FY 1994. In FY 1995, the bill as amended would result in a decrease in revenues to the General Fund of approximately \$3.6 million. The bill as amended is not expected to have a significant net fiscal impact in FY 1996 and subsequent years.

SOURCES: Department of Revenue and Finance, Legislative Taxmodel

(LSB 4158sv.2, JAM)

FILED APRIL 18, 1994

BY DENNIS PROUTY, FISCAL DIRECTOR

(P. 1678) 4/15/94 House - W. J. M.
(P. 1816) 4/15/94 House - amended by P. 14623

SENATE FILE **2215**
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO SSB 2215)

(AS AMENDED AND PASSED BY THE SENATE APRIL 14, 1994)

_____ - New Language by the Senate

Passed Senate, ^(P. 1344) Date 4/18/94 Passed House, ^(P. R63) Date 4/18/94
Vote: Ayes 48 Nays 0 Vote: Ayes 94 Nays 5
Approved May 10, 1994

A BILL FOR

1 An Act updating the Iowa Code references to the federal Internal
2 Revenue Code, except those references to the taxation of
3 social security benefits, striking a provision for a moving
4 expense deduction, striking state provisions for disallowing
5 private club expenses, and providing retroactive applicability
6 and effective dates.

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

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S.F. 2215

1 Section 1. Section 422.3, subsection 4, Code Supplement
2 1993, is amended to read as follows:

3 4. "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, ~~1993~~ 1994, whichever is applicable.

8 Sec. 2. Section 422.7, subsection 13, Code Supplement
9 1993, is amended by striking the subsection and inserting in
10 lieu thereof the following:

11 13. Subtract, to the extent included, the amount of
12 additional social security benefits taxable under the Internal
13 Revenue Code for tax years beginning on or after January 1,
14 1994. The amount of social security benefits taxable as
15 provided in section 86 of the Internal Revenue Code, as
16 amended up to and including January 1, 1993, continues to
17 apply for state income tax purposes for tax years beginning on
18 or after January 1, 1994. Married taxpayers, who file a joint
19 federal income tax return and who elect to file separate
20 returns or who elect separate filing on a combined return for
21 state income tax purposes, shall allocate between the spouses
22 the amount of benefits subtracted from net income in the ratio
23 of the social security benefits received by each spouse to the
24 total of these benefits received by both spouses.

25 Sec. 3. Section 422.7, subsection 25, Code Supplement
26 1993, is amended by striking the subsection.

27 Sec. 4. Section 422.9, subsection 2, unnumbered paragraph
28 1, Code 1993, is amended to read as follows:

29 The total of contributions, interest, taxes, medical
30 expense, nonbusiness losses, and miscellaneous expenses and
31 ~~moving-expenses~~ deductible for federal income tax purposes
32 under the Internal Revenue Code, with the following
33 adjustments:

34 Sec. 5. Section 422.9, subsection 2, paragraph g, Code
35 1993, is amended by striking the paragraph.

1 Sec. 6. Section 422.10, unnumbered paragraph 1, Code
2 Supplement 1993, is amended to read as follows:

3 The taxes imposed under this division shall be reduced by a
4 state tax credit for increasing research activities in this
5 state. For individuals, the credit equals six and one-half
6 percent of the state's apportioned share of the qualifying
7 expenditures for increasing research activities. The state's
8 apportioned share of the qualifying expenditures for
9 increasing research activities is a percent equal to the ratio
10 of qualified research expenditures in this state to total
11 qualified research expenditures. For purposes of this
12 section, an individual may claim a research credit for
13 qualifying research expenditures incurred by a partnership,
14 subchapter S corporation, estate, or trust electing to have
15 the income taxed directly to the individual. The amount
16 claimed by the individual shall be based upon the pro rata
17 share of the individual's earnings of a partnership,
18 subchapter S corporation, estate, or trust. For purposes of
19 this section, "qualifying expenditures for increasing research
20 activities" means the qualifying expenditures as defined for
21 the federal credit for increasing research activities which
22 would be allowable under section 41 of the Internal Revenue
23 Code in effect on January 1, 1993 1994.

24 Sec. 7. Section 422.33, subsection 5, unnumbered paragraph
25 1, Code Supplement 1993, is amended to read as follows:

26 The taxes imposed under this division shall be reduced by a
27 state tax credit for increasing research activities in this
28 state equal to six and one-half percent of the state's
29 apportioned share of the qualifying expenditures for
30 increasing research activities. The state's apportioned share
31 of the qualifying expenditures for increasing research
32 activities is a percent equal to the ratio of qualified
33 research expenditures in this state to the total qualified
34 research expenditures. For purposes of this subsection,
35 "qualifying expenditures for increasing research activities"

1 means the qualifying expenditures as defined for the federal
2 credit for increasing research activities which would be
3 allowable under section 41 of the Internal Revenue Code in
4 effect on January 1, ~~1993~~ 1994.

5 Sec. 8. Section 422.35, subsection 14, Code 1993, is
6 amended by striking the subsection.

7 Sec. 9. Sections 1, 6, and 7 of this Act apply
8 retroactively to January 1, 1993, for tax years beginning on
9 or after that date.

10 Sec. 10. Sections 2, 3, 4, 5, and 8 of this Act apply
11 retroactively to January 1, 1994, for tax years beginning on
12 or after that date.

13 Sec. 11. This Act, being deemed of immediate importance,
14 takes effect upon enactment.

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SENATE FILE 2215

H-6231

1 Amend Senate File 2215, as amended, passed, and
2 reprinted by the Senate as follows:

3 1. Page 1, by striking lines 8 through 24.

4 2. Page 2, by inserting after line 23 the
5 following:

6 "Sec. 602. Section 422.12, subsection 1, paragraph
7 c, Code 1993, is amended to read as follows:

8 c. For each dependent, an additional fifteen
9 dollars. However, for tax years beginning on or after
10 January 1, 1996, for each dependent, forty dollars.

11 As used in this section, the term "dependent" has the
12 same meaning as provided by the Internal Revenue
13 Code."

14 3. Page 3, by inserting after line 6 the
15 following:

16 "Sec. _____. Section 422.73, Code 1993, is amended
17 by adding the following new subsection:

18 NEW SUBSECTION. 8. Notwithstanding subsection 2,
19 a claim for credit or refund of individual income tax
20 paid for any tax year beginning on or after January 1,
21 1985, and before January 1, 1989, is considered timely
22 if filed with the department beginning on July 1,
23 1994, and ending on September 1, 1994, if the
24 taxpayer's claim is the result of the unconstitutional
25 taxation of federal pension benefits based upon the
26 decision in Davis v. Michigan Department of Treasury,
27 489 U.S. 803, 109 S. Ct. 1500 (1989).

28 Sec. 801. Section 425.23, subsection 1, paragraph
29 a, Code Supplement 1993, is amended to read as
30 follows:

31 a. The tentative credit or reimbursement for a
32 claimant described in section 425.17, subsection 2,
33 paragraph "a" and paragraph "b" if no appropriation is
34 made to the fund created in section 425.40 shall be
35 determined in accordance with the following schedule:

	Percent of	Percent of
	property taxes	<u>property taxes</u>
	due or rent	<u>due or rent</u>
	constituting	<u>constituting</u>
	property taxes	<u>property taxes</u>
	paid allowed	<u>paid allowed</u>
	as a credit or	<u>as a credit or</u>
	reimbursement	<u>reimbursement</u>
	for a claimant	<u>for a claimant</u>
	<u>described in</u>	<u>described in</u>
	<u>section 425.17,</u>	<u>section 425.17,</u>
	<u>subsection 2,</u>	<u>subsection 2,</u>
	<u>paragraph "b":</u>	<u>paragraph "a":</u>
47 If the household		
48 income is:		
49 \$ 0 -- 5,999.99.....	100%.....	100%
50 6,000 -- 6,999.99.....	85.....	90

H-6231

RECEIVED

H-6231

Page 2

1	7,000 -- 7,999.99.....	70.....	80
2	8,000 -- 9,999.99.....	50.....	70
3	10,000 -- 11,999.99.....	35.....	60
4	12,000 -- 13,999.99.....	25.....	50
5	14,000 -- 14,999.99.....	0.....	40

6 Sec. ____ . REFUNDS. Notwithstanding any provision
7 to the contrary, claims for refund of tax paid, which
8 arise as a result of the unconstitutional taxation of
9 federal pension benefits based upon the decision in
10 Davis v. Michigan Department of Treasury, 489 U.S.
11 803, 109 S. Ct. 1500 (1989), shall not be entitled to
12 interest and shall be limited to seventeen million
13 dollars in the fiscal year beginning July 1, 1994. If
14 that amount is not sufficient to pay all claims filed
15 in the aggregate, the department of revenue and
16 finance shall prorate the seventeen million dollars
17 among all the claims and the unpaid balance of each
18 claim shall be carried forward to the fiscal year
19 beginning July 1, 1995. The balance of claims for
20 refund of tax paid which arise as a result of the
21 unconstitutional taxation of federal pension benefits
22 based upon the decision in Davis v. Michigan
23 Department of Treasury, 489 U.S. 803, 109 S. Ct. 1500
24 (1989), shall not be entitled to interest and shall be
25 limited to seventeen million dollars in the fiscal
26 years beginning July 1, 1995. If that amount is not
27 sufficient to pay the balance carried forward of all
28 claims filed in the aggregate, the department of
29 revenue and finance shall prorate the seventeen
30 million dollars among all the claims."

31 4. Page 3, line 10, by striking the figure "2,".

32 5. Page 3, by inserting after line 12 the
33 following:

34 "Sec. ____ . Section 801 of this Act applies to
35 property tax credit claims for taxes payable on or
36 after July 1, 1994, and to rent reimbursement claims
37 filed on or after January 1, 1995."

38 6. Title page, lines 2 and 3, by striking the
39 words "except those references to the taxation of
40 social security benefits,".

41 7. Title page, line 5, by inserting after the
42 word "expenses," the following: "relating to the
43 timely filing of claims for credit or refund of state
44 individual income taxes paid by federal employees,
45 increasing the percentage of property tax credit and
46 rent reimbursement claims for certain elderly and
47 disabled,".

48 8. By renumbering as necessary.

By COMMITTEE ON WAYS AND MEANS
HANSON of Delaware, Chairperson

H-6231 FILED APRIL 15, 1994

WITHDRAWN
4-18-94

SENATE FILE 2215

H-6273

1 Amend Senate File 2215, as amended, passed, and
2 reprinted by the Senate as follows:

3 1. Page 1, by inserting after line 35 the
4 following:

5 "Sec. ____ . Section 422.9, subsection 3, paragraph
6 c, Code 1993, is amended to read as follows:

7 c. If the election under section ~~172(b)(3)(E)~~
8 172(b)(3) of the Internal Revenue Code is made, the
9 Iowa net operating loss shall be carried forward
10 fifteen taxable years."

11 2. Page 3, by inserting after line 4 the
12 following:

13 "Sec. ____ . Section 422.35, subsection 11,
14 paragraphs c and e, Code 1993, are amended to read as
15 follows:

16 c. If the election under section ~~172(b)(3)(E)~~
17 172(b)(3) of the Internal Revenue Code is made, the
18 Iowa net operating loss shall be carried forward
19 fifteen taxable years.

20 e. The limitations on net operating loss carryback
21 and carryforward under sections ~~172(b)(1)(M)~~
22 172(b)(1)(E) and ~~172(m)~~ 172(h) of the Internal Revenue
23 Code shall apply."

By HANSON of Delaware

H-6273 FILED APRIL 18, 1994

adapted
4/18/94
(P. 1861)

SENATE FILE 2215

H-6270

- 1 Amend the amendment, H-6231, to Senate File 2215,
2 as amended, passed, and reprinted by the Senate as
3 follows:
4 1. Page 1, by inserting before line 3 the
5 following:
6 "_____. Page 1, by inserting before line 1 the
7 following:
8 "Section 1. Section 8.59, Code Supplement 1993, is
9 amended to read as follows:
10 8.59 APPROPRIATIONS FREEZE.
11 Notwithstanding contrary provisions of the Code,
12 the amounts appropriated under the applicable sections
13 of the Code for fiscal years commencing on or after
14 July 1, 1993, are limited to those amounts expended
15 under those sections for the fiscal year commencing
16 July 1, 1992. If an applicable section appropriates
17 moneys to be distributed to different recipients and
18 the operation of this section reduces the total amount
19 to be distributed under the applicable section, the
20 moneys shall be prorated among the recipients. As
21 used in this section, "applicable sections" means the
22 following sections: 53.50, 229.35, 230.8, 230.11,
23 405A.8, 411.20, 425.1, 425.39, 426A.1, 663.44, and
24 822.5.""
25 2. Page 1, line 10, by striking the figure
26 "1996," and inserting the following: "1995,".
27 3. Page 2, line 7, by striking the word "paid,"
28 and inserting the following: "filed pursuant to
29 section 422.73, subsection 8,".
30 4. Page 2, by striking lines 12 through 30 and
31 inserting the following: "interest."
32 5. By renumbering as necessary.

By PLASIER of Sioux
OSTERBERG of Linn

H-6270 FILED APRIL 18, 1994

adopted 4-18-94

(p. 1859)

SENATE FILE 2215

H-6274

1 Amend Senate File 2215, as amended, passed, and
2 reprinted by the Senate, as follows:

3 1. Page 3, by inserting after line 6 the
4 following:

5 "Sec. ____ Section 422.73, Code 1993, is amended
6 by adding the following new subsection:

7 NEW SUBSECTION. 8. Notwithstanding subsection 2,
8 a claim for credit or refund of individual income tax
9 paid for any tax year beginning on or after January 1,
10 1985, and before January 1, 1989, is considered timely
11 if filed with the department on or before April 30,
12 1995, if the taxpayer's claim is the result of the
13 unconstitutional taxation of federal pension benefits
14 based upon the decision in Davis v. Michigan
15 Department of Treasury, 489 U.S. 803, 109 S. Ct. 1500
16 (1989).

17 A taxpayer entitled to a credit or refund of tax
18 paid under this subsection shall receive the credit or
19 refund within the time frame used for other retired
20 federal employees claiming a credit or refund of tax
21 unlawfully imposed on their federal pensions during
22 the same tax years."

23 2. Title page, line 5, by inserting after the
24 word "expenses," the following: "relating to the
25 filing of claims for credit or refund by retired
26 federal employees as a result of the unconstitutional
27 taxation of federal pensions under the state
28 individual income tax,".

29 3. By renumbering and correcting internal
30 references as necessary.

By O'BRIEN of Boone

H-6274 FILED APRIL 18, 1994

Pat Hermone
4/18/94
(P. 1863)

SENATE FILE 2215

H-6205

1 Amend Senate File 2215, as amended, passed, and
2 reprinted by the Senate, as follows:

3 1. Page 1, by striking lines 11 through 24 and
4 inserting the following:

5 "13. Subtract, to the extent included, social
6 security benefits received."

7 2. Title page, by striking lines 2 and 3, and
8 inserting the following: "Revenue Code, exempting
9 social security benefits from state individual income
10 tax, striking a provision for a moving".
By GILL of Woodbury

H-6205 FILED APRIL 14, 1994

WITHDRAWN

4-18-94

SENATE FILE 2215

H-6241

1 Amend the amendment, H-6231, to Senate File 2215,
2 as amended, passed, and reprinted by the Senate, as
3 follows:

4 1. Page 1, by striking line 3.

5 2. Page 2, by striking line 31.

6 3. Page 2, by striking lines 38 through 40.

By BURKE of Marshall

H-6241 FILED APRIL 15, 1994

Adapted

4-18-94

(P 1860)

HOUSE AMENDMENT TO
SENATE FILE 2215

S-5733

1 Amend Senate File 2215, as amended, passed, and
2 reprinted by the Senate as follows:

3 1. Page 1, by inserting after line 35 the
4 following:

5 "Sec. ____ . Section 422.9, subsection 3, paragraph
6 c, Code 1993, is amended to read as follows:

7 c. If the election under section ~~172(b)(3)(E)~~
8 172(b)(3) of the Internal Revenue Code is made, the
9 Iowa net operating loss shall be carried forward
10 fifteen taxable years."

11 2. Page 3, by inserting after line 4 the
12 following:

13 "Sec. ____ . Section 422.35, subsection 11,
14 paragraphs c and e, Code 1993, are amended to read as
15 follows:

16 c. If the election under section ~~172(b)(3)(E)~~
17 172(b)(3) of the Internal Revenue Code is made, the
18 Iowa net operating loss shall be carried forward
19 fifteen taxable years.

20 e. The limitations on net operating loss carryback
21 and carryforward under sections ~~172(b)(1)(M)~~
22 172(b)(1)(E) and ~~172(m)~~ 172(h) of the Internal Revenue
23 Code shall apply."

RECEIVED FROM THE HOUSE

S-5733 FILED APRIL 18, 1994
CONCURRED

Senate concurred 4/18/94 (p.1344)

Szymoniak - Chair
Palmer
Drake

SSB-2215
Ways + Means
New

SENATE FILE 2215
BY (PROPOSED COMMITTEE ON WAYS
AND MEANS BILL BY CHAIR-
PERSON DIELEMAN)

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

A BILL FOR

1 An Act updating the Iowa Code references to the federal Internal
2 Revenue Code, except those references to the taxation of
3 social security benefits, striking a provision for a moving
4 expense deduction, striking state provisions for disallowing
5 private club expenses, and providing retroactive applicability
6 and effective dates.

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

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1 Section 1. Section 422.3, subsection 4, Code Supplement
2 1993, is amended to read as follows:

3 4. "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, ~~1993~~ 1994, whichever is applicable.

8 Sec. 2. Section 422.7, subsection 13, Code Supplement
9 1993, is amended by striking the subsection and inserting in
10 lieu thereof the following:

11 13. Subtract, to the extent included, the amount of
12 additional social security benefits taxable under the Internal
13 Revenue Code for tax years beginning on or after January 1,
14 1994. The amount of social security benefits taxable as
15 provided in section 86 of the Internal Revenue Code, as
16 amended up to and including January 1, 1993, continues to
17 apply for state income tax purposes for tax years beginning on
18 or after January 1, 1994. Married taxpayers, who file a joint
19 federal income tax return and who elect to file separate
20 returns or who elect separate filing on a combined return for
21 state income tax purposes, shall allocate between the spouses
22 the amount of benefits subtracted from net income in the ratio
23 of the social security benefits received by each spouse to the
24 total of these benefits received by both spouses.

25 Sec. 3. Section 422.7, subsection 25, Code Supplement
26 1993, is amended by striking the subsection.

27 Sec. 4. Section 422.9, subsection 2, unnumbered paragraph
28 1, Code 1993, is amended to read as follows:

29 The total of contributions, interest, taxes, medical
30 expense, nonbusiness losses, and miscellaneous expenses ~~and~~
31 ~~moving-expenses~~ deductible for federal income tax purposes
32 under the Internal Revenue Code, with the following
33 adjustments:

34 Sec. 5. Section 422.9, subsection 2, paragraph g, Code
35 1993, is amended by striking the paragraph.

1 Sec. 6. Section 422.10, unnumbered paragraph 1, Code
2 Supplement 1993, is amended to read as follows:

3 The taxes imposed under this division shall be reduced by a
4 state tax credit for increasing research activities in this
5 state. For individuals, the credit equals six and one-half
6 percent of the state's apportioned share of the qualifying
7 expenditures for increasing research activities. The state's
8 apportioned share of the qualifying expenditures for
9 increasing research activities is a percent equal to the ratio
10 of qualified research expenditures in this state to total
11 qualified research expenditures. For purposes of this
12 section, an individual may claim a research credit for
13 qualifying research expenditures incurred by a partnership,
14 subchapter S corporation, estate, or trust electing to have
15 the income taxed directly to the individual. The amount
16 claimed by the individual shall be based upon the pro rata
17 share of the individual's earnings of a partnership,
18 subchapter S corporation, estate, or trust. For purposes of
19 this section, "qualifying expenditures for increasing research
20 activities" means the qualifying expenditures as defined for
21 the federal credit for increasing research activities which
22 would be allowable under section 41 of the Internal Revenue
23 Code in effect on January 1, ~~1993~~ 1994.

24 Sec. 7. Section 422.33, subsection 5, unnumbered paragraph
25 1, Code Supplement 1993, is amended to read as follows:

26 The taxes imposed under this division shall be reduced by a
27 state tax credit for increasing research activities in this
28 state equal to six and one-half percent of the state's
29 apportioned share of the qualifying expenditures for
30 increasing research activities. The state's apportioned share
31 of the qualifying expenditures for increasing research
32 activities is a percent equal to the ratio of qualified
33 research expenditures in this state to the total qualified
34 research expenditures. For purposes of this subsection,
35 "qualifying expenditures for increasing research activities"

1 means the qualifying expenditures as defined for the federal
2 credit for increasing research activities which would be
3 allowable under section 41 of the Internal Revenue Code in
4 effect on January 1, ~~1993~~ 1994.

5 Sec. 8. Section 422.35, subsection 14, Code 1993, is
6 amended by striking the subsection.

7 Sec. 9. Sections 1, 5, and 6 of this Act apply
8 retroactively to January 1, 1993, for tax years beginning on
9 or after that date.

10 Sec. 10. Sections 2, 3, 4, and 7 of this Act apply
11 retroactively to January 1, 1994, for tax years beginning on
12 or after that date.

13 Sec. 11. This Act, being deemed of immediate importance,
14 takes effect upon enactment.

15 EXPLANATION

16 This bill updates the references to the Internal Revenue
17 Code to make the provisions of the federal Omnibus Budget
18 Reconciliation Act of 1993 applicable for Iowa income tax
19 purposes, except that social security benefits shall continue
20 to be taxed in the manner provided in section 86 of the
21 federal Internal Revenue Code, as amended up to and including
22 December 31, 1992.

23 The bill updates the Iowa Code references for the state
24 research credits for individuals and corporations in order to
25 include changes in the federal credit retroactive to January
26 1993. The bill strikes state provisions for disallowance of
27 private club expenses and moving expenses to conform with
28 federal tax treatment of club expenses and moving expenses,
29 starting in 1994.

30 The bill takes effect immediately upon enactment and
31 contains retroactive applicability date provisions.

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SENATE FILE 2215

AN ACT

UPDATING THE IOWA CODE REFERENCES TO THE FEDERAL INTERNAL REVENUE CODE, EXCEPT THOSE REFERENCES TO THE TAXATION OF SOCIAL SECURITY BENEFITS, STRIKING A PROVISION FOR A MOVING EXPENSE DEDUCTION, STRIKING STATE PROVISIONS FOR DISALLOWING PRIVATE CLUB EXPENSES, AND PROVIDING RETROACTIVE APPLICABILITY AND EFFECTIVE DATES.

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

Section 1. Section 422.3, subsection 4, Code Supplement 1993, is amended to read as follows:

4. "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, ~~1993~~ 1994, whichever is applicable.

Sec. 2. Section 422.7, subsection 13, Code Supplement 1993, is amended by striking the subsection and inserting in lieu thereof the following:

13. Subtract, to the extent included, the amount of additional social security benefits taxable under the Internal Revenue Code for tax years beginning on or after January 1, 1994. The amount of social security benefits taxable as provided in section 86 of the Internal Revenue Code, as amended up to and including January 1, 1993, continues to apply for state income tax purposes for tax years beginning on or after January 1, 1994. Married taxpayers, who file a joint federal income tax return and who elect to file separate returns or who elect separate filing on a combined return for state income tax purposes, shall allocate between the spouses the amount of benefits subtracted from net income in the ratio of the social security benefits received by each spouse to the

total of these benefits received by both spouses.

Sec. 3. Section 422.7, subsection 25, Code Supplement 1993, is amended by striking the subsection.

Sec. 4. Section 422.9, subsection 2, unnumbered paragraph 1, Code 1993, is amended to read as follows:

The total of contributions, interest, taxes, medical expense, nonbusiness losses, and miscellaneous expenses and moving-expenses deductible for federal income tax purposes under the Internal Revenue Code, with the following adjustments:

Sec. 5. Section 422.9, subsection 2, paragraph g, Code 1993, is amended by striking the paragraph.

Sec. 6. Section 422.9, subsection 3, paragraph c, Code 1993, is amended to read as follows:

c. If the election under section ~~172(b)(3)(B)~~ 172(b)(3) of the Internal Revenue Code is made, the Iowa net operating loss shall be carried forward fifteen taxable years.

Sec. 7. Section 422.10, unnumbered paragraph 1, Code Supplement 1993, 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, 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, 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, ~~1993~~ 1994.

Sec. 8. Section 422.33, subsection 5, unnumbered paragraph 1, Code Supplement 1993, 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, ~~1993~~ 1994.

Sec. 9. Section 422.35, subsection 11, paragraphs c and e, Code 1993, are amended to read as follows:

c. If the election under section ~~172(b)(3)(E)~~ 172(b)(3) of the Internal Revenue Code is made, the Iowa net operating loss shall be carried forward fifteen taxable years.

e. The limitations on net operating loss carryback and carryforward under sections ~~172(b)(1)(E) and 172(m)~~ 172(h) of the Internal Revenue Code shall apply.

Sec. 10. Section 422.35, subsection 14, Code 1993, is amended by striking the subsection.

Sec. 11. Sections 1, 7, and 8 of this Act apply retroactively to January 1, 1993, for tax years beginning on or after that date.

Sec. 12. Sections 2, 3, 4, 5, and 10 of this Act apply retroactively to January 1, 1994, for tax years beginning on or after that date.

Sec. 13. This Act, being deemed of immediate importance, takes effect upon enactment.

LEONARD L. BOSWELL
President of the Senate

HAROLD VAN MAANEN
Speaker of the House

I hereby certify that this bill originated in the Senate and is known as Senate File 2215, Seventy-fifth General Assembly.

JOHN F. DWYER
Secretary of the Senate

Approved *May 10*, 1994

TERRY E. BRANSTAD
Governor