

FEB 28 1996
WAYS AND MEANS

HOUSE FILE 2406
BY EDDIE

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

A BILL FOR

1 An Act relating to the treatment of interest paid on money
2 borrowed for investment purposes and providing effective and
3 applicability date provisions.

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

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HF 2406

1 Section 1. Section 422.7, Code Supplement 1995, is amended
2 by adding the following new subsection:

3 NEW SUBSECTION. 35. a. Subtract, to the extent not
4 otherwise deducted, interest paid on loans where the loan
5 proceeds are used for investment purposes other than an
6 investment in a passive activity of the taxpayer, as defined
7 in section 469(c) of the Internal Revenue Code.

8 b. Add the amount deducted under paragraph "a" for a prior
9 tax year which is deducted in computing the adjusted gross
10 income for the current tax year.

11 Sec. 2. This Act, being deemed of immediate importance,
12 takes effect upon enactment and applies retroactively to
13 January 1, 1996, for tax years beginning on or after that
14 date.

15 EXPLANATION

16 The bill allows for an individual taxpayer to deduct for
17 state individual income tax purposes the interest paid on
18 moneys borrowed by the taxpayer for investment purposes other
19 than an investment in a trade or business of the taxpayer in
20 which the taxpayer does not materially participate. Under
21 federal law, this interest is only deducted to the extent of
22 investment income. The amount of interest in excess of
23 investment income is carried forward and may be deducted to
24 offset investment income in a subsequent tax year. When this
25 is done the bill provides that this amount is not again
26 allowed as a deduction for state tax purposes.

27 The bill takes effect upon enactment and applies
28 retroactively to tax years beginning on or after January 1,
29 1996.

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