

4/24/95 Substituted for S.F. 469 (p.1353)

MAR 30 1995

HOUSE FILE 548

WAYS & MEANS CALENDAR

BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO HSB 324)

Passed House, ^(p.1593) Date 4/17/95

Passed Senate, Date 4/24/95 (p.1367)

Vote: Ayes 96 Nays 0

Vote: Ayes 50 Nays 0

Approved May 1, 1995

A BILL FOR

1 An Act relating to the definition of business income for purposes
2 of the state corporate income tax 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 548

1 Section 1. Section 422.32, subsection 2, Code 1995, is
2 amended to read as follows:

3 2. "Business income" means income arising from
4 transactions and activity in the regular course of the
5 taxpayer's trade or business; ~~and includes~~ or income from
6 tangible and intangible property if the acquisition,
7 management, and disposition of the property constitute
8 integral parts of the taxpayer's regular trade or business
9 operations; or gain or loss resulting from the sale, exchange,
10 or other disposition of real property or of tangible or
11 intangible personal property, if the property while owned by
12 the taxpayer was operationally related to the taxpayer's trade
13 or business carried on in Iowa; or gain or loss resulting from
14 the sale, exchange, or other disposition of stock in another
15 corporation if the activities of the other corporation were
16 operationally related to the taxpayer's trade or business
17 carried on in Iowa while the stock was owned by the taxpayer.
18 A taxpayer may have more than one regular trade or business in
19 determining whether income is business income.

20 It is the intent of the general assembly to treat as
21 apportionable business income all income that may be treated
22 as apportionable business income under the Constitution of the
23 United States.

24 The filing of an Iowa income tax return on a combined
25 report basis is neither allowed nor required by this
26 subsection.

27 Sec. 2. To the extent a taxpayer treated income as
28 business income according to the definition amended in section
29 1 of this Act or treated income as nonbusiness income
30 consistent with the decision in Phillips Petroleum Company v.
31 Iowa Department of Revenue and Finance, 511 N.W.2d 608 (Iowa
32 1993) on a filed tax return for tax periods beginning prior to
33 January 1, 1995, the director of revenue and finance shall not
34 challenge such treatment.

35 Sec. 3. This Act, being deemed of immediate importance,

1 takes effect upon enactment and applies retroactively to
2 January 1, 1995, for tax years beginning on or after that
3 date.

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EXPLANATION

5 The Iowa supreme court in Phillips Petroleum Company v.
6 Iowa Department of Revenue and Finance, 511 N.W.2d 608 (Iowa
7 1993) held that capital gains resulting from transactions not
8 in the regular course of a taxpayer's trade or business were
9 nonbusiness income, even if the capital assets generated
10 business income when they were used in the taxpayer's trade or
11 business. The bill amends the definition of business income
12 to overturn that decision. This amendment creates a separate
13 functional test for business income. This amendment treats as
14 business income any gain or loss resulting from property which
15 while owned by the taxpayer was operationally related to the
16 taxpayer's trade or business carried on in Iowa or resulting
17 from stock in a corporation which was operationally related to
18 the taxpayer's trade or business carried on in Iowa. The
19 amendment expresses the legislature's intent that
20 apportionable business income is all income that may be
21 treated as apportionable under the United States Constitution.

22 This bill also provides that if a taxpayer treated income
23 covered by the amendment as business income or as nonbusiness
24 income consistent with the Phillips Petroleum Company decision
25 on a filed Iowa tax return for tax periods beginning prior to
26 January 1, 1995, the director of revenue and finance must
27 accept such treatment. The amendment does not allow or
28 require the filing of an Iowa income tax return on a combined
29 reporting basis.

30 The bill takes effect upon enactment and applies retro-
31 actively to January 1, 1995, for tax years beginning on or
32 after that date.

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HSB 324

WAYS AND MEANS

Summary

HOUSE FILE _____

BY (PROPOSED COMMITTEE ON

WAYS AND MEANS BILL

BY CHAIRPERSON HALVORSON)

Passed House, Date _____

Passed Senate, Date _____

Vote: Ayes _____ Nays _____

Vote: Ayes _____ Nays _____

Approved _____

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2 of the state corporate income tax and providing effective and
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6 tangible and intangible property if the acquisition,
7 management, and disposition of the property constitute
8 integral parts of the taxpayer's regular trade or business
9 operations; or gain or loss resulting from the sale, exchange,
10 or other disposition of real property or of tangible or
11 intangible personal property, if the property while owned by
12 the taxpayer was operationally related to the taxpayer's trade
13 or business carried on in Iowa; or gain or loss resulting from
14 the sale, exchange, or other disposition of stock in another
15 corporation if the activities of the other corporation were
16 operationally related to the taxpayer's trade or business
17 carried on in Iowa while the stock was owned by the taxpayer.
18 A taxpayer may have more than one regular trade or business in
19 determining whether income is business income.

20 It is the intent of the general assembly to treat as
21 apportionable business income all income that may be treated
22 as apportionable business income under the Constitution of the
23 United States.

24 The filing of an Iowa income tax return on a combined
25 report basis is neither allowed nor required by this
26 subsection.

27 Sec. 2. To the extent a taxpayer treated income as
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29 1 of this Act or treated income as nonbusiness income
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9 nonbusiness income, even if the capital assets generated
10 business income when they were used in the taxpayer's trade or
11 business. The bill amends the definition of business income
12 to overturn that decision. This amendment creates a separate
13 functional test for business income. This amendment treats as
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29 reporting basis.

30 The bill takes effect upon enactment and applies retro-
31 actively to January 1, 1995, for tax years beginning on or
32 after that date.

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HOUSE FILE 548

AN ACT

RELATING TO THE DEFINITION OF BUSINESS INCOME FOR PURPOSES OF THE STATE CORPORATE INCOME TAX AND PROVIDING EFFECTIVE AND APPLICABILITY DATE PROVISIONS.

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

Section 1. Section 422.32, subsection 2, Code 1995, is amended to read as follows:

2. "Business income" means income arising from transactions and activity in the regular course of the taxpayer's trade or business; ~~and includes~~ or income from tangible and intangible property if the acquisition, management, and disposition of the property constitute integral parts of the taxpayer's regular trade or business operations; or gain or loss resulting from the sale, exchange, or other disposition of real property or of tangible or intangible personal property, if the property while owned by the taxpayer was operationally related to the taxpayer's trade or business carried on in Iowa; or gain or loss resulting from the sale, exchange, or other disposition of stock in another corporation if the activities of the other corporation were operationally related to the taxpayer's trade or business carried on in Iowa while the stock was owned by the taxpayer. A taxpayer may have more than one regular trade or business in determining whether income is business income.

It is the intent of the general assembly to treat as apportionable business income all income that may be treated as apportionable business income under the Constitution of the United States.

The filing of an Iowa income tax return on a combined report basis is neither allowed nor required by this subsection.

Sec. 2. To the extent a taxpayer treated income as business income according to the definition amended in section

1 of this Act or treated income as nonbusiness income consistent with the decision in Phillips Petroleum Company v. Iowa Department of Revenue and Finance, 511 N.W.2d 608 (Iowa 1993) on a filed tax return for tax periods beginning prior to January 1, 1995, the director of revenue and finance shall not challenge such treatment.

Sec. 3. This Act, being deemed of immediate importance, takes effect upon enactment and applies retroactively to January 1, 1995, for tax years beginning on or after that date.

RON J. CORBETT
Speaker of the House

LEONARD L. BOSWELL
President of the Senate

I hereby certify that this bill originated in the House and is known as House File 548, Seventy-sixth General Assembly.

ELIZABETH ISAACSON
Chief Clerk of the House

Approved , 1995

TERRY E. BRANSTAD
Governor