

House Study Bill 324

Conference Committee Text

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

1 3 2. "Business income" means income arising from
1 4 transactions and activity in the regular course of the
1 5 taxpayer's trade or business;

~~and includes~~

~~or income from~~

1 6 tangible and intangible property if the acquisition,
1 7 management, and disposition of the property constitute
1 8 integral parts of the taxpayer's regular trade or business
1 9 operations; or gain or loss resulting from the sale, exchange,
1 10 or other disposition of real property or of tangible or
1 11 intangible personal property, if the property while owned by
1 12 the taxpayer was operationally related to the taxpayer's trade
1 13 or business carried on in Iowa; or gain or loss resulting from
1 14 the sale, exchange, or other disposition of stock in another
1 15 corporation if the activities of the other corporation were
1 16 operationally related to the taxpayer's trade or business
1 17 carried on in Iowa while the stock was owned by the taxpayer.
1 18 A taxpayer may have more than one regular trade or business in
1 19 determining whether income is business income.

1 20 It is the intent of the general assembly to treat as
1 21 apportionable business income all income that may be treated
1 22 as apportionable business income under the Constitution of the
1 23 United States.

1 24 The filing of an Iowa income tax return on a combined
1 25 report basis is neither allowed nor required by this
1 26 subsection.

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

1 35 Sec. 3. This Act, being deemed of immediate importance,
2 1 takes effect upon enactment and applies retroactively to
2 2 January 1, 1995, for tax years beginning on or after that
2 3 date.

2 4 EXPLANATION

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

2 19 amendment expresses the legislature's intent that
2 20 apportionable business income is all income that may be
2 21 treated as apportionable under the United States Constitution.
2 22 This bill also provides that if a taxpayer treated income
2 23 covered by the amendment as business income or as nonbusiness
2 24 income consistent with the Phillips Petroleum Company decision
2 25 on a filed Iowa tax return for tax periods beginning prior to
2 26 January 1, 1995, the director of revenue and finance must
2 27 accept such treatment. The amendment does not allow or
2 28 require the filing of an Iowa income tax return on a combined
2 29 reporting basis.
2 30 The bill takes effect upon enactment and applies retro-
2 31 actively to January 1, 1995, for tax years beginning on or
2 32 after that date.
2 33 LSB 2295HC 76
2 34 mg/jw/5.1