

*Substituted
for by H.F. 548
(p. 1353) 4/24/95*

FILED APR 10 1995

WITHDRAWN

SENATE FILE 469
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO SSB 343.1)
(COMPANION to HF 548)

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

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:

5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22

S.F. 469

WITHDRAWN

HW 1

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.

4 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.

33

34

35

Neuhauser
Palmer
Iverson

Succeeded By
SF/HF 469

SSB - 343.1
Ways & Means

SENATE FILE _____
BY (PROPOSED COMMITTEE ON
WAYS AND MEANS BILL
BY CHAIRPERSON PALMER)

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

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:

5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

27/HF
Succeeded By

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.

4

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.

33

34

35