

FEB 10 1999
WAYS AND MEANS

HOUSE FILE
BY LARSON

254

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

A BILL FOR

1 An Act relating to the allocation of income of S corporations,
2 partnerships, limited liability companies, sole
3 proprietorships, and other business entities for the purpose
4 of the state individual income tax and including a retroactive
5 applicability date provision.

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

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HF 254

1 Section 1. Section 422.5, subsection 1, paragraph j,
2 subparagraph (2), unnumbered paragraph 1, Code 1999, is
3 amended to read as follows:

4 The tax imposed upon the taxable income of a resident
5 ~~shareholder-in owner of~~ an S corporation ~~which-has-in-effect~~
6 ~~for-the-tax-year-an-election-under-subchapter-S-of-the~~
7 ~~Internal-Revenue-Code-and~~, partnership, limited liability
8 company, sole proprietorship, or other business entity which
9 carries on business within and without the state may be
10 computed by reducing the amount determined pursuant to
11 paragraphs "a" through "i" by the amounts of nonrefundable
12 credits under this division and by multiplying this resulting
13 amount by a fraction of which the resident's net income
14 allocated to Iowa, as determined in section 422.8, subsection
15 2, paragraph "b", is the numerator and the resident's total
16 net income computed under section 422.7 is the denominator.
17 If a resident ~~shareholder~~ owner has elected to take advantage
18 of this subparagraph, and for the next tax year elects not to
19 take advantage of this subparagraph, the resident ~~shareholder~~
20 owner shall not reelect to take advantage of this subparagraph
21 for the three tax years immediately following the first tax
22 year for which the ~~shareholder~~ resident elected not to take
23 advantage of this subparagraph, unless the director consents
24 to the reelection. This subparagraph also applies to
25 individuals who are residents of Iowa for less than the entire
26 tax year.

27 Sec. 2. Section 422.5, subsection 1, paragraph k,
28 unnumbered paragraph 4, Code 1999, is amended to read as
29 follows:

30 In the case of a resident, including a resident estate or
31 trust, the state's apportioned share of the state alternative
32 minimum tax is one hundred percent of the state alternative
33 minimum tax computed in this subsection. In the case of a
34 resident or part-year resident ~~shareholder-in~~ owner of an S
35 corporation ~~which-has-in-effect-for-the-tax-year-an-election~~

1 ~~under subchapter S of the Internal Revenue Code and~~ ,
2 partnership, limited liability company, sole proprietorship,
3 or other business entity which carries on business within and
4 without the state, a nonresident, including a nonresident
5 estate or trust, or an individual, estate, or trust that is
6 domiciled in the state for less than the entire tax year, the
7 state's apportioned share of the state alternative minimum tax
8 is the amount of tax computed under this subsection, reduced
9 by the applicable credits in sections 422.10 through 422.12
10 and this result multiplied by a fraction with a numerator of
11 the sum of state net income allocated to Iowa as determined in
12 section 422.8, subsection 2, paragraph "a" or "b" as
13 applicable, plus tax preference items, adjustments, and losses
14 under subparagraph (1) attributable to Iowa and with a
15 denominator of the sum of total net income computed under
16 section 422.7 plus all tax preference items, adjustments, and
17 losses under subparagraph (1). In computing this fraction,
18 those items excludable under subparagraph (1) shall not be
19 used in computing the tax preference items. Married taxpayers
20 electing to file separate returns or separately on a combined
21 return must allocate the minimum tax computed in this
22 subsection in the proportion that each spouse's respective
23 preference items, adjustments, and losses under subparagraph
24 (1) bear to the combined preference items, adjustments, and
25 losses under subparagraph (1) of both spouses.

26 Sec. 3. Section 422.8, subsection 2, paragraph b, Code
27 1999, is amended to read as follows:

28 b. A resident's income allocable to Iowa is the income
29 determined under section 422.7 reduced by items of income and
30 expenses from an S corporation, partnership, limited liability
31 company, sole proprietorship, or other business entity that
32 carries on business within and without the state when those
33 items of income and expenses pass directly to the shareholders
34 owners of the business entity under provisions of the Internal
35 Revenue Code. These items of income and expenses are