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HSB 768

WAYS AND MEANS

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HOUSE FILE S 02558

BY (PROPOSED COMMITTEE ON  
WAYS AND MEANS BILL BY  
CHAIRPERSON VAN FOSSEN)

Passed House, Date \_\_\_\_\_ Passed Senate, Date \_\_\_\_\_

Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_

Approved \_\_\_\_\_

**A BILL FOR**

1 An Act relating to an alternative method of computing the  
2 research activities credit for purposes of state income tax  
3 and including a retroactive applicability date provision.

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

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1 Section 1. Section 15.335, Code Supplement 1999, is  
2 amended to read as follows:

3 15.335 RESEARCH ACTIVITIES CREDIT.

4 1. An eligible business may claim a corporate tax credit  
5 for increasing research activities in this state during the  
6 period the eligible business is participating in the program.

7 a. ~~The credit equals six-and-one-half-percent-of-the~~  
8 ~~state's-apportioned-share-of-the-qualifying-expenditures-for~~  
9 ~~increasing-research-activities.~~ the sum of the following:

10 (1) Six and one-half percent of the excess of qualified  
11 research expenses during the tax year over the base amount for  
12 the tax year based upon the state's apportioned share of the  
13 qualifying expenditures for increasing research activities.

14 (2) Six and one-half percent of the basic research  
15 payments determined under section 41(e)(1)(A) of the Internal  
16 Revenue Code during the tax year based upon the state's  
17 apportioned share of the qualifying expenditures for  
18 increasing research activities.

19 The state's apportioned share of the qualifying  
20 expenditures for increasing research activities is a percent  
21 equal to the ratio of qualified research expenditures in this  
22 state to total qualified research expenditures.

23 b. In lieu of the credit amount computed in paragraph "a",  
24 subparagraph (1), an eligible business may elect to compute  
25 the credit amount for qualified research expenses incurred in  
26 this state in a manner consistent with the alternative  
27 incremental credit described in section 41(c)(4) of the  
28 Internal Revenue Code. The taxpayer may make this election  
29 regardless of the method used for the taxpayer's federal  
30 income tax. The election made under this paragraph is for the  
31 tax year and the taxpayer may use another or the same method  
32 for any subsequent year.

33 c. For purposes of the alternate credit computation method  
34 in paragraph "b", the same credit percentages applicable to  
35 qualified research expenses described in clauses (i), (ii),

1 and (iii) of section 41(c)(4)(A) of the Internal Revenue Code  
2 shall be used.

3 2. The credit allowed in this section is in addition to  
4 the credit authorized in section 422.33, subsection 5, and  
5 section 422.10. However, if the alternative credit  
6 computation method is used in section 422.33, subsection 5, or  
7 section 422.10, the credit allowed in this section shall also  
8 be computed using that method.

9 3. If the eligible business is a partnership, subchapter S  
10 corporation, limited liability company, or estate or trust  
11 electing to have the income taxed directly to the individual,  
12 an individual may claim the tax credit allowed. The amount  
13 claimed by the individual shall be based upon the pro rata  
14 share of the individual's earnings of the partnership,  
15 subchapter S corporation, limited liability company, or estate  
16 or trust.

17 4. For purposes of this section, "qualifying-expenditures  
18 for-increasing-research-activities"-means-the-qualifying  
19 expenditures "base amount", "basic research payment", and  
20 "qualified research expense" mean the same as defined for the  
21 federal credit for increasing research activities which-would  
22 be-allowable under section 41 of the Internal Revenue Code in  
23 effect-on-January-17-1999, except that for the alternative  
24 incremental credit such amounts are for research conducted  
25 within this state. For purposes of this section, "Internal  
26 Revenue Code" means the Internal Revenue Code in effect on  
27 January 1, 2000.

28 5. Any credit in excess of the tax liability for the  
29 taxable year shall be refunded with interest computed under  
30 section 422.25. In lieu of claiming a refund, a taxpayer may  
31 elect to have the overpayment shown on its final, completed  
32 return credited to the tax liability for the following year.

33 Sec. 2. Section 15A.9, subsection 8, Code Supplement 1999,  
34 is amended to read as follows:

5 8. CORPORATE TAX RESEARCH CREDIT. A corporate tax credit

1 shall be available to the primary business or a supporting  
2 business for increasing research activities in this state  
3 within the zone.

4 a. The credit equals thirteen-percent-of-the-state's  
5 apportioned-share-of-the-qualifying-expenditures-for  
6 increasing-research-activities- the sum of the following:

7 (1) Thirteen percent of the excess of qualified research  
8 expenses during the tax year over the base amount for the tax  
9 year based upon the state's apportioned share of the  
10 qualifying expenditures for increasing research activities.

11 (2) Thirteen percent of the basic research payments  
12 determined under section 41(e)(1)(A) of the Internal Revenue  
13 Code during the tax year based upon the state's apportioned  
14 share of the qualifying expenditures for increasing research  
15 activities.

16 The state's apportioned share of the qualifying  
17 expenditures for increasing research activities is a percent  
18 equal to the ratio of qualified research expenditures in this  
19 state within the zone to total qualified research  
20 expenditures.

21 b. In lieu of the credit amount computed in paragraph "a",  
22 subparagraph (1), a business may elect to compute the credit  
23 amount for qualified research expenses incurred in this state  
24 within the zone in a manner consistent with the alternative  
25 incremental credit described in section 41(c)(4) of the  
26 Internal Revenue Code. The taxpayer may make this election  
27 regardless of the method used for the taxpayer's federal  
28 income tax. The election made under this paragraph is for the  
29 tax year and the taxpayer may use another or the same method  
30 for any subsequent year.

31 c. For purposes of the alternate credit computation method  
32 in paragraph "b", double the credit percentages applicable to  
33 qualified research expenses described in clauses (i), (ii),  
34 and (iii) of section 41(c)(4)(A) of the Internal Revenue Code  
35 shall be used.

d. Any credit in excess of the tax liability for the tax year shall be refunded with interest computed under section 422.25. In lieu of claiming a refund, the primary business or a supporting business may elect to have the overpayment shown on its final return credited to its tax liability for the following tax year.

e. For the purposes of this section, ~~“qualifying expenditures for increasing research activities”~~ means the qualifying expenditures subsection, “base amount”, “basic research payment”, and “qualified research expense” mean the same as defined for the federal credit for increasing research activities ~~which would be allowable~~ under section 41 of the Internal Revenue Code ~~in effect on January 1, 1999~~, except that for the alternative incremental credit such amounts are for research conducted within this state within the zone. For purposes of this subsection, “Internal Revenue Code” means the Internal Revenue Code in effect on January 1, 2000.

f. The credit authorized in this subsection is in lieu of the credit authorized in section 422.33, subsection 5 and section 422.10.

Sec. 3. Section 422.10, Code Supplement 1999, is amended to read as follows:

422.10 RESEARCH ACTIVITIES CREDIT.

1. The taxes imposed under this division shall be reduced by a state tax credit for increasing research activities in this state.

a. For individuals, the credit equals ~~six-and-one-half percent of the state’s apportioned share of the qualifying expenditures for increasing research activities~~; the sum of the following:

(1) Six and one-half percent of the excess of qualified research expenses during the tax year over the base amount for the tax year based upon the state’s apportioned share of the qualifying expenditures for increasing research activities.

(2) Six and one-half percent of the basic research

1 payments determined under section 41(e)(1)(A) of the Internal  
2 Revenue Code during the tax year based upon the state's  
3 apportioned share of the qualifying expenditures for  
4 increasing research activities.

5 The state's apportioned share of the qualifying  
6 expenditures for increasing research activities is a percent  
7 equal to the ratio of qualified research expenditures in this  
8 state to total qualified research expenditures.

9 b. In lieu of the credit amount computed in paragraph "a",  
10 subparagraph (1), a taxpayer may elect to compute the credit  
11 amount for qualified research expenses incurred in this state  
12 in a manner consistent with the alternative incremental credit  
13 described in section 41(c)(4) of the Internal Revenue Code.  
14 The taxpayer may make this election regardless of the method  
15 used for the taxpayer's federal income tax. The election made  
16 under this paragraph is for the tax year and the taxpayer may  
17 use another or the same method for any subsequent year.

18 c. For purposes of the alternate credit computation method  
19 in paragraph "b", the same credit percentages applicable to  
20 qualified research expenses described in clauses (i), (ii),  
21 and (iii) of section 41(c)(4)(A) of the Internal Revenue Code  
22 shall be used.

23 2. For purposes of this section, an individual may claim a  
24 research credit for-qualifying-research-expenditures incurred  
25 by a partnership, subchapter S corporation, limited liability  
26 company, estate, or trust electing to have the income taxed  
27 directly to the individual. The amount claimed by the  
28 individual shall be based upon the pro rata share of the  
29 individual's earnings of a partnership, subchapter S  
30 corporation, limited liability company, estate, or trust.

31 3. For purposes of this section, "qualifying-expenditures  
32 for-increasing-research-activities"-means-the-qualifying  
33 expenditures "base amount", "basic research payment", and  
34 "qualified research expense" mean the same as defined for the  
35 federal credit for increasing research activities which-would

1 be-allowable under section 41 of the Internal Revenue Code in  
2 effect-on-January-17-1999, except that for the alternative  
3 incremental credit such amounts are for research conducted  
4 within this state. For purposes of this section, "Internal  
5 Revenue Code" means the Internal Revenue Code in effect on  
6 January 1, 2000.

7 4. Any credit in excess of the tax liability imposed by  
8 section 422.5 less the credits allowed under sections 422.11A,  
9 422.12, and 422.12B for the taxable year shall be refunded  
10 with interest computed under section 422.25. In lieu of  
11 claiming a refund, a taxpayer may elect to have the  
12 overpayment shown on the taxpayer's final, completed return  
13 credited to the tax liability for the following taxable year.

14 Sec. 4. Section 422.33, subsection 5, Code Supplement  
15 1999, is amended to read as follows:

16 5. a. The taxes imposed under this division shall be  
17 reduced by a state tax credit for increasing research  
18 activities in this state equal to ~~six-and-one-half-percent-of~~  
19 ~~the-state's-apportioned-share-of-the-qualifying-expenditures~~  
20 ~~for-increasing-research-activities;~~ the sum of the following:

21 (1) Six and one-half percent of the excess of qualified  
22 research expenses during the tax year over the base amount for  
23 the tax year based upon the state's apportioned share of the  
24 qualifying expenditures for increasing research activities.

25 (2) Six and one-half percent of the basic research  
26 payments determined under section 41(e)(1)(A) of the Internal  
27 Revenue Code during the tax year based upon the state's  
28 apportioned share of the qualifying expenditures for  
29 increasing research activities.

30 The state's apportioned share of the qualifying  
31 expenditures for increasing research activities is a percent  
32 equal to the ratio of qualified research expenditures in this  
33 state to the total qualified research expenditures.

34 b. In lieu of the credit amount computed in paragraph "a",  
35 subparagraph (1), a corporation may elect to compute the

1 credit amount for qualified research expenses incurred in this  
2 state in a manner consistent with the alternative incremental  
3 credit described in section 41(c)(4) of the Internal Revenue  
4 Code. The taxpayer may make this election regardless of the  
5 method used for the taxpayer's federal income tax. The  
6 election made under this paragraph is for the tax year and the  
7 taxpayer may use another or the same method for any subsequent  
8 year.

9 c. For purposes of the alternate credit computation method  
10 in paragraph "b", the same credit percentages applicable to  
11 qualified research expenses described in clauses (i), (ii),  
12 and (iii) of section 41(c)(4)(A) of the Internal Revenue Code  
13 shall be used.

14 d. For purposes of this subsection, "qualifying  
15 expenditures-for-increasing-research-activities"-means-the  
16 qualifying-expenditures "base amount", "basic research  
17 payment", and "qualified research expense" mean the same as  
18 defined for the federal credit for increasing research  
19 activities which-would-be-allowable under section 41 of the  
20 Internal Revenue Code in-effect-on-January-1, 1999, except  
21 that for the alternative incremental credit such amounts are  
22 for research conducted within this state. For purposes of  
23 this subsection, "Internal Revenue Code" means the Internal  
24 Revenue Code in effect on January 1, 2000.

25 e. Any credit in excess of the tax liability for the  
26 taxable year shall be refunded with interest computed under  
27 section 422.25. In lieu of claiming a refund, a taxpayer may  
28 elect to have the overpayment shown on its final, completed  
29 return credited to the tax liability for the following taxable  
30 year.

31 **Sec. 5. APPLICABILITY DATE.** This Act applies  
32 retroactively to January 1, 2000, for tax years beginning on  
33 or after that date.

34 **EXPLANATION**

35 This bill expands the research activities credit for income



HSB 768

1 tax purposes for businesses under the new jobs and income  
2 program, the quality jobs enterprise zone program, the  
3 incentives for building in enterprise zones, the individual  
4 income tax, and corporate income tax. The expansion provides  
5 for an alternative method of computing the tax credit based  
6 upon the federal approach using an incremental computation  
7 method for measuring increased research activities. This  
8 alternative method is in lieu of a portion of Iowa's present  
9 computation approach. Therefore, the present Iowa law is  
10 rewritten in a manner that coincides with the computation  
11 under the federal income tax credit.

12 The bill applies retroactively to January 1, 2000, for tax  
13 years beginning on or after that date.

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WAYS & MEANS CALENDAR

HOUSE FILE 2558  
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO HSB 768)

Passed House, Date \_\_\_\_\_ Passed Senate, Date \_\_\_\_\_  
Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_  
Approved \_\_\_\_\_

**A BILL FOR**

1 An Act relating to an alternative method of computing the  
2 research activities credit for purposes of state income tax  
3 and including a retroactive applicability date provision.

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

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HF 2558

1 Section 1. Section 15.335, Code Supplement 1999, is  
2 amended to read as follows:

3 15.335 RESEARCH ACTIVITIES CREDIT.

4 1. An eligible business may claim a corporate tax credit  
5 for increasing research activities in this state during the  
6 period the eligible business is participating in the program.

7 a. The credit equals ~~six-and-one-half-percent-of-the~~  
8 ~~state's-apportioned-share-of-the-qualifying-expenditures-for~~  
9 ~~increasing-research-activities.~~ the sum of the following:

10 (1) Six and one-half percent of the excess of qualified  
11 research expenses during the tax year over the base amount for  
12 the tax year based upon the state's apportioned share of the  
13 qualifying expenditures for increasing research activities.

14 (2) Six and one-half percent of the basic research  
15 payments determined under section 41(e)(1)(A) of the Internal  
16 Revenue Code during the tax year based upon the state's  
17 apportioned share of the qualifying expenditures for  
18 increasing research activities.

19 The state's apportioned share of the qualifying  
20 expenditures for increasing research activities is a percent  
21 equal to the ratio of qualified research expenditures in this  
22 state to total qualified research expenditures.

23 b. In lieu of the credit amount computed in paragraph "a",  
24 subparagraph (1), an eligible business may elect to compute  
25 the credit amount for qualified research expenses incurred in  
26 this state in a manner consistent with the alternative  
27 incremental credit described in section 41(c)(4) of the  
28 Internal Revenue Code. The taxpayer may make this election  
29 regardless of the method used for the taxpayer's federal  
30 income tax. The election made under this paragraph is for the  
31 tax year and the taxpayer may use another or the same method  
32 for any subsequent year.

33 c. For purposes of the alternate credit computation method  
34 in paragraph "b", the same credit percentages applicable to  
35 qualified research expenses described in clauses (i), (ii),

1 and (iii) of section 41(c)(4)(A) of the Internal Revenue Code  
2 shall be used.

3 2. The credit allowed in this section is in addition to  
4 the credit authorized in section 422.33, subsection 5, and  
5 section 422.10. However, if the alternative credit  
6 computation method is used in section 422.33, subsection 5, or  
7 section 422.10, the credit allowed in this section shall also  
8 be computed using that method.

9 3. If the eligible business is a partnership, subchapter S  
10 corporation, limited liability company, or estate or trust  
11 electing to have the income taxed directly to the individual,  
12 an individual may claim the tax credit allowed. The amount  
13 claimed by the individual shall be based upon the pro rata  
14 share of the individual's earnings of the partnership,  
15 subchapter S corporation, limited liability company, or estate  
16 or trust.

17 4. For purposes of this section, "qualifying-expenditures  
18 for-increasing-research-activities"-means-the-qualifying  
19 expenditures "base amount", "basic research payment", and  
20 "qualified research expense" mean the same as defined for the  
21 federal credit for increasing research activities which-would  
22 be-allowable under section 41 of the Internal Revenue Code in  
23 effect-on-January-1, 1999, except that for the alternative  
24 incremental credit such amounts are for research conducted  
25 within this state. For purposes of this section, "Internal  
26 Revenue Code" means the Internal Revenue Code in effect on  
27 January 1, 2000.

28 5. Any credit in excess of the tax liability for the  
29 taxable year shall be refunded with interest computed under  
30 section 422.25. In lieu of claiming a refund, a taxpayer may  
31 elect to have the overpayment shown on its final, completed  
32 return credited to the tax liability for the following year.

33 Sec. 2. Section 15A.9, subsection 8, Code Supplement 1999,  
34 is amended to read as follows:

35 8. CORPORATE TAX RESEARCH CREDIT. A corporate tax credit

1 shall be available to the primary business or a supporting  
2 business for increasing research activities in this state  
3 within the zone.

4 a. The credit equals thirteen-percent-of-the-state's  
5 apportioned-share-of-the-qualifying-expenditures-for  
6 increasing-research-activities; the sum of the following:

7 (1) Thirteen percent of the excess of qualified research  
8 expenses during the tax year over the base amount for the tax  
9 year based upon the state's apportioned share of the  
10 qualifying expenditures for increasing research activities.

11 (2) Thirteen percent of the basic research payments  
12 determined under section 41(e)(1)(A) of the Internal Revenue  
13 Code during the tax year based upon the state's apportioned  
14 share of the qualifying expenditures for increasing research  
15 activities.

16 The state's apportioned share of the qualifying  
17 expenditures for increasing research activities is a percent  
18 equal to the ratio of qualified research expenditures in this  
19 state within the zone to total qualified research  
20 expenditures.

21 b. In lieu of the credit amount computed in paragraph "a",  
22 subparagraph (1), a business may elect to compute the credit  
23 amount for qualified research expenses incurred in this state  
24 within the zone in a manner consistent with the alternative  
25 incremental credit described in section 41(c)(4) of the  
26 Internal Revenue Code. The taxpayer may make this election  
27 regardless of the method used for the taxpayer's federal  
28 income tax. The election made under this paragraph is for the  
29 tax year and the taxpayer may use another or the same method  
30 for any subsequent year.

31 c. For purposes of the alternate credit computation method  
32 in paragraph "b", double the credit percentages applicable to  
33 qualified research expenses described in clauses (i), (ii),  
34 and (iii) of section 41(c)(4)(A) of the Internal Revenue Code  
35 shall be used.

1 d. Any credit in excess of the tax liability for the tax  
2 year shall be refunded with interest computed under section  
3 422.25. In lieu of claiming a refund, the primary business or  
4 a supporting business may elect to have the overpayment shown  
5 on its final return credited to its tax liability for the  
6 following tax year.

7 e. For the purposes of this section, ~~"qualifying~~  
8 ~~expenditures for increasing research activities"~~ means the  
9 qualifying expenditures subsection, "base amount", "basic  
10 research payment", and "qualified research expense" mean the  
11 same as defined for the federal credit for increasing research  
12 activities ~~which would be allowable~~ under section 41 of the  
13 Internal Revenue Code ~~in effect on January 17, 1999, except~~  
14 that for the alternative incremental credit such amounts are  
15 for research conducted within this state within the zone. For  
16 purposes of this subsection, "Internal Revenue Code" means the  
17 Internal Revenue Code in effect on January 1, 2000.

18 f. The credit authorized in this subsection is in lieu of  
19 the credit authorized in section 422.33, subsection 5 and  
20 section 422.10.

21 Sec. 3. Section 422.10, Code Supplement 1999, is amended  
22 to read as follows:

23 422.10 RESEARCH ACTIVITIES CREDIT.

24 1. The taxes imposed under this division shall be reduced  
25 by a state tax credit for increasing research activities in  
26 this state.

27 a. For individuals, the credit equals ~~six-and-one-half~~  
28 ~~percent-of-the-state's-apportioned-share-of-the-qualifying~~  
29 ~~expenditures-for-increasing-research-activities;~~ the sum of  
30 the following:

31 (1) Six and one-half percent of the excess of qualified  
32 research expenses during the tax year over the base amount for  
33 the tax year based upon the state's apportioned share of the  
34 qualifying expenditures for increasing research activities.

35 (2) Six and one-half percent of the basic research

1 payments determined under section 41(e)(1)(A) of the Internal  
2 Revenue Code during the tax year based upon the state's  
3 apportioned share of the qualifying expenditures for  
4 increasing research activities.

5 The state's apportioned share of the qualifying  
6 expenditures for increasing research activities is a percent  
7 equal to the ratio of qualified research expenditures in this  
8 state to total qualified research expenditures.

9 b. In lieu of the credit amount computed in paragraph "a",  
10 subparagraph (1), a taxpayer may elect to compute the credit  
11 amount for qualified research expenses incurred in this state  
12 in a manner consistent with the alternative incremental credit  
13 described in section 41(c)(4) of the Internal Revenue Code.  
14 The taxpayer may make this election regardless of the method  
15 used for the taxpayer's federal income tax. The election made  
16 under this paragraph is for the tax year and the taxpayer may  
17 use another or the same method for any subsequent year.

18 c. For purposes of the alternate credit computation method  
19 in paragraph "b", the same credit percentages applicable to  
20 qualified research expenses described in clauses (i), (ii),  
21 and (iii) of section 41(c)(4)(A) of the Internal Revenue Code  
22 shall be used.

23 2. For purposes of this section, an individual may claim a  
24 research credit for-qualifying-research-expenditures incurred  
25 by a partnership, subchapter S corporation, limited liability  
26 company, estate, or trust electing to have the income taxed  
27 directly to the individual. The amount claimed by the  
28 individual shall be based upon the pro rata share of the  
29 individual's earnings of a partnership, subchapter S  
30 corporation, limited liability company, estate, or trust.

31 3. For purposes of this section, "qualifying-expenditures  
32 for-increasing-research-activities"-means-the-qualifying  
33 expenditures "base amount", "basic research payment", and  
34 "qualified research expense" mean the same as defined for the  
35 federal credit for increasing research activities which-would

1 ~~be-allowable~~ under section 41 of the Internal Revenue Code in  
2 ~~effect-on-January-17-1999~~, except that for the alternative  
3 incremental credit such amounts are for research conducted  
4 within this state. For purposes of this section, "Internal  
5 Revenue Code" means the Internal Revenue Code in effect on  
6 January 1, 2000.

7 4. Any credit in excess of the tax liability imposed by  
8 section 422.5 less the credits allowed under sections 422.11A,  
9 422.12, and 422.12B for the taxable year shall be refunded  
10 with interest computed under section 422.25. In lieu of  
11 claiming a refund, a taxpayer may elect to have the  
12 overpayment shown on the taxpayer's final, completed return  
13 credited to the tax liability for the following taxable year.

14 Sec. 4. Section 422.33, subsection 5, Code Supplement  
15 1999, is amended to read as follows:

16 5. a. The taxes imposed under this division shall be  
17 reduced by a state tax credit for increasing research  
18 activities in this state equal to ~~six-and-one-half-percent-of~~  
19 ~~the-state's-apportioned-share-of-the-qualifying-expenditures~~  
20 ~~for-increasing-research-activities-~~ the sum of the following:

21 (1) Six and one-half percent of the excess of qualified  
22 research expenses during the tax year over the base amount for  
23 the tax year based upon the state's apportioned share of the  
24 qualifying expenditures for increasing research activities.

25 (2) Six and one-half percent of the basic research  
26 payments determined under section 41(e)(1)(A) of the Internal  
27 Revenue Code during the tax year based upon the state's  
28 apportioned share of the qualifying expenditures for  
29 increasing research activities.

30 The state's apportioned share of the qualifying  
31 expenditures for increasing research activities is a percent  
32 equal to the ratio of qualified research expenditures in this  
33 state to the total qualified research expenditures.

34 b. In lieu of the credit amount computed in paragraph "a",  
35 subparagraph (1), a corporation may elect to compute the



1 credit amount for qualified research expenses incurred in this  
2 state in a manner consistent with the alternative incremental  
3 credit described in section 41(c)(4) of the Internal Revenue  
4 Code. The taxpayer may make this election regardless of the  
5 method used for the taxpayer's federal income tax. The  
6 election made under this paragraph is for the tax year and the  
7 taxpayer may use another or the same method for any subsequent  
8 year.

9 c. For purposes of the alternate credit computation method  
10 in paragraph "b", the same credit percentages applicable to  
11 qualified research expenses described in clauses (i), (ii),  
12 and (iii) of section 41(c)(4)(A) of the Internal Revenue Code  
13 shall be used.

14 d. For purposes of this subsection, "qualifying  
15 expenditures-for-increasing-research-activities"-means-the  
16 qualifying-expenditures "base amount", "basic research  
17 payment", and "qualified research expense" mean the same as  
18 defined for the federal credit for increasing research  
19 activities which-would-be-allowable under section 41 of the  
20 Internal Revenue Code in-effect-on-January-17-1999, except  
21 that for the alternative incremental credit such amounts are  
22 for research conducted within this state. For purposes of  
23 this subsection, "Internal Revenue Code" means the Internal  
24 Revenue Code in effect on January 1, 2000.

25 e. Any credit in excess of the tax liability for the  
26 taxable year shall be refunded with interest computed under  
27 section 422.25. In lieu of claiming a refund, a taxpayer may  
28 elect to have the overpayment shown on its final, completed  
29 return credited to the tax liability for the following taxable  
30 year.

31 Sec. 5. APPLICABILITY DATE. This Act applies  
32 retroactively to January 1, 2000, for tax years beginning on  
33 or after that date.

34 EXPLANATION

35 This bill expands the research activities credit for income

1 tax purposes for businesses under the new jobs and income  
2 program, the quality jobs enterprise zone program, the  
3 incentives for building in enterprise zones, the individual  
4 income tax, and corporate income tax. The expansion provides  
5 for an alternative method of computing the tax credit based  
6 upon the federal approach using an incremental computation  
7 method for measuring increased research activities. This  
8 alternative method is in lieu of a portion of Iowa's present  
9 computation approach. Therefore, the present Iowa law is  
10 rewritten in a manner that coincides with the computation  
11 under the federal income tax credit.

12 The bill applies retroactively to January 1, 2000, for tax  
13 years beginning on or after that date.

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HOUSE FILE 2558

H-8777

1 Amend House File 2558 as follows:

2 1. Page 1, line 34, by striking the word "same".

3 2. Page 2, by striking line 2 and inserting the  
4 following: "are one and sixty-five hundredths  
5 percent, two and twenty hundredths percent, and two  
6 and seventy-five hundredths percent, respectively."

7 3. Page 3, line 32, by striking the word  
8 "double".

9 4. Page 3, by striking line 35 and inserting the  
10 following: "are three and thirty hundredths percent,  
11 four and forty hundredths percent, and five and fifty  
12 hundredths percent, respectively."

13 5. Page 5, line 19, by striking the word "same".

14 6. Page 5, by striking line 22 and inserting the  
15 following: "are one and sixty-five hundredths  
16 percent, two and twenty hundredths percent, and two  
17 and seventy-five hundredths percent, respectively."

18 7. Page 7, line 10, by striking the word "same".

19 8. Page 7, by striking line 13 and inserting the  
20 following: "are one and sixty-five hundredths  
21 percent, two and twenty hundredths percent, and two  
22 and seventy-five hundredths percent, respectively."

By VAN FOSSEN of Scott

H-8777 FILED APRIL 6, 2000

## HOUSE FILE 2558

H-8892

1 Amend House File 2558 as follows:

2 1. By striking everything after the enacting  
3 clause and inserting the following:

4 "Section 1. Section 422.7, subsection 31, Code  
5 1999, is amended to read as follows:

6 31. For a person who is disabled, or is fifty-five  
7 years of age or older, or is the surviving spouse of  
8 an individual or a survivor having an insurable  
9 interest in an individual who would have qualified for  
10 the exemption under this subsection for the tax year,  
11 subtract, to the extent included, the total amount of  
12 a governmental or other pension or retirement pay,  
13 including, but not limited to, defined benefit or  
14 defined contribution plans, annuities, individual  
15 retirement accounts, plans maintained or contributed  
16 to by an employer, or maintained or contributed to by  
17 a self-employed person as an employer, and deferred  
18 compensation plans or any earnings attributable to the  
19 deferred compensation plans, up to a maximum of five  
20 six thousand dollars for a person, other than a  
21 husband or wife, who files a separate state income tax  
22 return and up to a maximum of ten twelve thousand  
23 dollars for a husband and wife who file a joint state  
24 income tax return. However, a surviving spouse who is  
25 not disabled or fifty-five years of age or older can  
26 only exclude the amount of pension or retirement pay  
27 received as a result of the death of the other spouse.  
28 A husband and wife filing separate state income tax  
29 returns or separately on a combined state return are  
30 allowed a combined maximum exclusion under this  
31 subsection of up to ten twelve thousand dollars. The  
32 ten twelve thousand dollar exclusion shall be  
33 allocated to the husband or wife in the proportion  
34 that each spouse's respective pension and retirement  
35 pay received bears to total combined pension and  
36 retirement pay received.

37 Sec. 2. APPLICABILITY DATE. This Act applies  
38 retroactively to January 1, 2000, for the years  
39 beginning on or after that date."

40 2. Title page, by striking lines 1 and 2 and  
41 inserting the following: "An Act relating to the  
42 pension exclusion under the individual income tax".

By SCHRADER of Marion

H-8892 FILED APRIL 13, 2000

**HOUSE FILE 2558  
FISCAL NOTE**

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A fiscal note for **House File 2558 as amended by H-8777** is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note is available from the Legislative Fiscal Bureau to members of the Legislature upon request.

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House File 2558, as amended by H-8777, expands the research activities credit for income tax purposes for businesses under the New Jobs and Income Program, the Quality Jobs Enterprise Zone Program, the incentives for building in enterprise zones, the individual income tax, and the corporate income tax. The expansion provides for an alternative method of computing the tax credit based on the federal approach using an incremental computation method for measuring increased research activities. The rates specified for computing the tax credit using the alternative method equal the federal rates that existed prior to passage of the Tax Relief Extension Act of 1999. The applicable rates are expressly specified in the amendment. The original version of the Legislation specified the rates to be used by reference to the Internal Revenue Code. Thus, the amendment prevents any automatic changes in rates due to changes in the federal law.

**BACKGROUND**

Current federal law allows a choice of two methods to determine the research tax credit. The first method, referred to as the regular credit, is the sum of (1) 20.0% of the excess of qualified research expenses for the current tax year over a base period amount and (2) 20.0% of university basic research payments. The second method, referred to as the alternative incremental credit, equals the sum of an increasing percentage of the amount of qualified research expenses in excess of a percentage of the base period amount, divided into three tiers. For expenses incurred prior to June 30, 1999, the tier one amount equals 1.65% of qualified research expenses in excess of 1.0% of the base amount but not more than 1.5% of the base amount. The tier two amount equals 2.2% of qualified research expenses in excess of 1.5% of the base amount but not in excess of 2.0% of the base amount. The tier three amount equals 2.75% of qualified research expenses in excess of 2.0% of the base amount. For expenses incurred after June 30, 1999, the tier percentages increase to 2.65%, 3.2%, and 3.75%, respectively. Once a taxpayer elects to use either of the methods to compute the research tax credit, a change in method requires the approval of the IRS Commissioner.

Currently, only one method is allowed for determining the Iowa research credit. Iowa law follows the federal law for the regular credit, except that instead of 20.0%, the percent of qualifying research expenses that may be claimed as a credit is 6.5%, or 13.0% when the research expenses are incurred in conjunction with a New Jobs and Income Program project or within an enterprise zone.

**ASSUMPTIONS**

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1. The taxpayer may elect a method for computing the Iowa research tax credit that is different from the method used to determine the federal research tax credit.
2. Taxpayers will elect the method for computing the Iowa research tax credit that maximizes the amount of the credit.
3. The tier percentages that apply for the alternative incremental credit method are 1.65%, 2.20%, and 2.75%, except when the enterprise claiming the tax credit is located in a Quality Jobs Enterprise Zone in which case the percentages are 3.30%, 4.40%, and 5.50%.
4. The amount of research expenses incurred that qualify for the Iowa tax credit will approximately equal the amount incurred during the year that was the subject of the Iowa Department of Revenue and Finance study upon which the fiscal estimate is based.
5. Any unused portion of the credit is refundable to the taxpayer, as is the current Iowa research tax credit.

**FISCAL IMPACT**

House File 2558, as amended by H-8777, will result in a decrease in State General Fund receipts equal to between \$2.5 million and \$3.5 million per fiscal year.

**SOURCES**

Iowa Department of Revenue and Finance

1999 U.S. Master Tax Guide

Internal Revenue Service, Form 6765, and Instructions for Form 6765

(LSB 5584hv, MAL)

FILED APRIL 12, 2000

BY DENNIS PROUTY, FISCAL DIRECTOR