

Eichhorn, Chair
Tymeson
Huser

HSB 506

WAYS AND MEANS

SENATE/HOUSE FILE ^{SI} SF 02/16
BY (PROPOSED DEPARTMENT OF
REVENUE AND FINANCE BILL)

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

A BILL FOR

1 An Act updating the Iowa Code references to the Internal Revenue
2 Code, repealing an adjustment to net income for capital gains
3 from installment sales, relating to an adjustment to income
4 for school district income surtax paid, providing that refunds
5 from the federal rebate are not taxable, correcting a
6 reference in the innocent spouse statute, and providing
7 retroactive applicability dates and an effective date.

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

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1 Section 1. Section 15.335, subsection 4, Code Supplement
2 2001, is amended to read as follows:

3 4. For purposes of this section, "base amount", "basic
4 research payment", and "qualified research expense" mean the
5 same as defined for the federal credit for increasing research
6 activities under section 41 of the Internal Revenue Code,
7 except that for the alternative incremental credit such
8 amounts are for research conducted within this state. For
9 purposes of this section, "Internal Revenue Code" means the
10 Internal Revenue Code in effect on January 1, ~~2001~~ 2002.

11 Sec. 2. Section 15A.9, subsection 8, paragraph e, Code
12 Supplement 2001, is amended to read as follows:

13 e. For the purposes of this subsection, "base amount",
14 "basic research payment", and "qualified research expense"
15 mean the same as defined for the federal credit for increasing
16 research activities under section 41 of the Internal Revenue
17 Code, except that for the alternative incremental credit such
18 amounts are for research conducted within this state within
19 the zone. For purposes of this subsection, "Internal Revenue
20 Code" means the Internal Revenue Code in effect on January 1,
21 ~~2001~~ 2002.

22 Sec. 3. Section 422.3, subsection 5, Code Supplement 2001,
23 is amended to read as follows:

24 5. "Internal Revenue Code" means the Internal Revenue Code
25 of 1954, prior to the date of its redesignation as the
26 Internal Revenue Code of 1986 by the Tax Reform Act of 1986,
27 or means the Internal Revenue Code of 1986 as amended to and
28 including January 1, ~~2001~~ 2002, whichever is applicable.

29 Sec. 4. Section 422.7, subsection 37, Code Supplement
30 2001, is amended by adding the following new unnumbered
31 paragraph:

32 NEW UNNUMBERED PARAGRAPH. The adjustment to net income
33 provided in this subsection is repealed for tax years
34 beginning on or after January 1, 2002. However, to the extent
35 that a taxpayer using the accrual method of accounting

1 reported the entire capital gain from the sale or exchange of
2 property on the Iowa return for the tax year beginning in the
3 2001 calendar year and the capital gain was reported on the
4 installment method on the federal income tax return, any
5 additional installment from the capital gain reported for
6 federal income tax purposes is not to be included in net
7 income in tax years beginning on or after January 1, 2002.

8 Sec. 5. Section 422.9, subsection 2, paragraph a, Code
9 Supplement 2001, is amended to read as follows:

10 a. Subtract the deduction for Iowa income taxes, including
11 the school district income surtax.

12 Sec. 6. Section 422.9, Code Supplement 2001, is amended by
13 adding the following new subsection:

14 NEW SUBSECTION. 7. In determining the amount of deduction
15 for federal income tax under subsection 1 or subsection 2,
16 paragraph "b", for tax years beginning in the 2002 calendar
17 year, the amount of the deduction for the tax year shall not
18 be adjusted by the amount of the rate reduction credit
19 received in the tax year to the extent that the credit is
20 attributable to the rate reduction credit provided pursuant to
21 the federal Economic Growth and Tax Relief Reconciliation Act
22 of 2001, Pub. L. No. 106-16, and the amount of such credit
23 shall not be taxable under this division.

24 Sec. 7. Section 422.10, subsection 3, Code Supplement
25 2001, is amended to read as follows:

26 3. For purposes of this section, "base amount", "basic
27 research payment", and "qualified research expense" mean the
28 same as defined for the federal credit for increasing research
29 activities under section 41 of the Internal Revenue Code,
30 except that for the alternative incremental credit such
31 amounts are for research conducted within this state. For
32 purposes of this section, "Internal Revenue Code" means the
33 Internal Revenue Code in effect on January 1, ~~2001~~ 2002.

34 Sec. 8. Section 422.21, unnumbered paragraph 7, Code 2001,
35 is amended to read as follows:

1 If married taxpayers file a joint return or file separately
2 on a combined return in accordance with rules prescribed by
3 the director, both spouses are jointly and severally liable
4 for the total tax due on the return, except when one spouse is
5 considered to be an innocent spouse under criteria established
6 pursuant to section ~~6013(e)~~ 6015 of the Internal Revenue Code.

7 Sec. 9. Section 422.33, subsection 5, paragraph d, Code
8 Supplement 2001, is amended to read as follows:

9 d. For purposes of this 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 under section 41 of the Internal Revenue Code,
13 except that for the alternative incremental credit such
14 amounts are for research conducted within this state. For
15 purposes of this subsection, "Internal Revenue Code" means the
16 Internal Revenue Code in effect on January 1, ~~2001~~ 2002.

17 Sec. 10. Sections 1, 2, 3, 7, and 9 apply retroactively to
18 January 1, 2001, for tax years beginning on or after that
19 date.

20 Sec. 11. Sections 4, 5, and 8 apply retroactively to
21 January 1, 2002, for tax years beginning on or after that
22 date.

23 Sec. 12. Section 6 applies retroactively to January 1,
24 2002, for tax years beginning in the 2002 calendar year.

25 Sec. 13. EFFECTIVE DATE. This Act, being deemed of
26 immediate importance, takes effect upon enactment.

27 EXPLANATION

28 This bill updates the references to the Internal Revenue
29 Code to make the federal income tax revisions enacted by
30 Congress in 2001 applicable for Iowa income tax purposes.
31 Code sections 15.335, 15A.9, 422.10, and 422.33 are amended to
32 update the Iowa Code references to the state research
33 activities credit for individuals, corporations, corporations
34 in economic development areas, and corporations in quality
35 jobs enterprise zones to include the 2001 federal changes in

1 the research activities credit.

2 The bill amends Code section 422.7 to provide that a
3 provision enacted in 2001 for capital gains from installment
4 sales for taxpayers on the accrual accounting basis is not
5 applicable for tax years beginning on or after January 1,
6 2002. This provision brings the Iowa Code into conformity
7 with the Internal Revenue Code.

8 The bill amends Code section 422.9 to eliminate the
9 itemized deduction for the school district income tax surtax
10 to clarify that the surtax is treated the same as the state
11 income tax adjustment. Code section 422.9 is also amended to
12 provide that an individual who receives a credit from the
13 federal rebate in 2002 will not have to include the amount of
14 the credit as part of the federal income tax deduction on the
15 2002 Iowa income tax return.

16 The bill amends Code section 422.21 to correct an erroneous
17 Code reference for the Iowa innocent spouse provision.

18 All of the provisions in the bill updating references to
19 the Internal Revenue Code are retroactively applicable to
20 January 1, 2001, for tax years beginning on or after that
21 date. The provision repealing the adjustment to net income
22 for capital gains from installment sales, the provision
23 clarifying the elimination of the itemized deduction for the
24 school district income surtax, and the provision correcting
25 the innocent spouse Code reference are retroactively
26 applicable to January 1, 2002, for tax years beginning on or
27 after that date. The provision relating to treatment of the
28 credit received from the federal rebate is retroactively
29 applicable to January 1, 2002, for tax years beginning in the
30 2002 calendar year.

31 The bill takes effect upon enactment.

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STATE OF IOWA

DEPARTMENT OF REVENUE AND FINANCE
GERALD D. BAIR, DIRECTOR

TO: MEMBERS OF THE 2002 GENERAL ASSEMBLY
FROM: THE IOWA DEPARTMENT OF REVENUE AND FINANCE
DATE: JANUARY , 2002
RE: THE BILL RELATING TO UPDATING THE IOWA CODE TO INCLUDE
THE FEDERAL INCOME TAX CHANGES MADE IN 2001 AND PROVIDING
EFFECTIVE AND RETROACTIVE APPLICABILITY DATES FOR THE
PROVISIONS.

This is the annual bill proposed by the Department of Revenue and Finance to include into Iowa income tax law the federal income tax changes enacted by Congress in 2001. The bill updates the provisions in the Iowa Code for the Iowa research activities credit to include possible revisions in the federal research credit, which is the basis for the Iowa research activities credits. The Iowa code section which defines the Internal Revenue Code for Iowa income tax purposes is also updated so that all of the 2001 federal changes which affect the computation of Iowa net income for individuals and the computation of taxable income for corporations and financial institutions are adopted.

Congress enacted The Economic Growth And Tax Relief Reconciliation Act Of 2001 in May 2001. This Act includes numerous provisions which take effect in years 2001 through 2010.

Many of the federal changes, such as decreases in the federal

income tax rates, increase and expansion of the child tax credit, extension of adoption tax benefits and marriage penalty relief provisions will not directly affect the Iowa income tax. However, there are a number of provisions, such as expansion of the dependent care credit, modifications to education IRAs, revisions in prepaid tuition plans, exclusion of employer-provided educational assistance, expansion of a deduction for higher education expenses, increases in contribution limits for IRAs and pension plans and repeal of the federal estate tax, that will directly impact Iowa's income tax and inheritance tax laws.

Section 4 of the bill repeals the provision enacted in 2001 which taxed the entire gain from the sale or exchange of property by an individual taxpayer on the accrual basis of accounting where the gain was taxed on the installment method for federal income tax purposes. Section 4 also provides that a yearly gain from an installment sale received in tax years on or after January 1, 2002 is not included in net income if the entire gain from the sale was included on the return for the tax year beginning in 2001.

The bill includes a provision disallowing the itemized deduction for the school district income surtax to the extent the surtax was claimed on the federal schedule A.

The bill provides that taxpayers who didn't receive a federal rebate in 2001 will not be subject to Iowa income tax on the

HSB 506

November 14, 2001
Page 3

portion of the rebate that is included in the federal income tax refund received in the 2002 tax year.

The bill makes a technical code reference correction in the innocent spouse statute.

REPRINTED

JAN 24 2002

WAYS & MEANS CALENDAR

HOUSE FILE 2116

BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO HSB 506)

(p. 212)
 Passed House, Date 1-31-02 Passed Senate, Date 3-21-02
 Vote: Ayes 94 Nays 0 Vote: Ayes 48 Nays 0
 Approved April 4, 2002

(p. 960) *re-amended 3-25-02*
vote 93-0

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HH-2116

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29 applicable to January 1, 2002, for tax years beginning in the
30 2002 calendar year.

31 The bill takes effect upon enactment.

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Legislative Fiscal Bureau Fiscal Note

HF 2116 - IRC Update (LSB 5238 HV)

Analyst: Jeff Robinson (Phone: (515) 281-6767) (Jeff.Robinson@legis.state.ia.us)

Fiscal Note Version - New

Description

House File 2116 updates the Code of Iowa to conform with recent federal tax law changes. This conformity allows taxpayers to calculate Iowa taxes on generally the same taxable income as federal taxes. This annual update is commonly referred to as the Internal Revenue Code (IRC) Update Bill. House File 2116 also makes several corrections and adjustments to the Code of Iowa relating to the school districts income tax surcharge, the tax status of federal income tax rebates, and the innocent spouse statute.

Fiscal Impact

The net fiscal impact of HF 2116 is a reduction in General Fund revenues of \$3.3 million in FY 2003 and \$6.0 million in FY 2004. The individual provisions with an estimated fiscal impact are listed below:

<u>Tax Item</u>	<u>FY 2003</u>	<u>FY 2004</u>
Pensions and Retirement Accounts	\$- 4.4 million	\$- 5.4 million
Business Sale Capital Gains	- 0.6 million	- 0.2 million
School District Surtax	1.7 million	1.8 million
Federal Tax Rebates	0.0 million	- 2.2 million
Total Net	<u>\$- 3.3 million</u>	<u>\$- 6.0 million</u>

Source

Department of Revenue and Finance

_____/s/ Dennis C. Prouty_____

January 28, 2002

The fiscal note and correction impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Legislative Fiscal Bureau to members of the Legislature upon request.

HOUSE FILE 2116

H-8019

1 Amend House File 2116 as follows:

2 1. Page 2, by inserting after line 7, the
3 following:

4 "Sec. 100. Section 422.8, subsection 5, Code 2001,
5 is amended to read as follows:

6 5. The director may, in accordance with the
7 provisions of this subsection, and when cost-
8 efficient, administratively feasible, and of mutual
9 benefit to both states, enter into reciprocal
10 agreements with tax administration agencies of other
11 states to further tax administration and eliminate
12 duplicate withholding by exempting from Iowa taxation
13 income earned from personal services in Iowa by
14 residents of another state, if the other state
15 provides a tax exemption for the same type of income
16 earned from personal services by Iowa residents in the
17 other state. For purposes of this subsection, "income
18 earned from personal services" means wages, salaries,
19 commissions, and tips, and earned income from other
20 sources. This subsection does not authorize the
21 department to withhold taxes on deferred compensation
22 payments, pension distributions, and annuity payments
23 when paid to a nonresident of the state of Iowa. All
24 the terms of the agreements shall be described in the
25 rules adopted by the department.

26 A reciprocal agreement entered into on or after the
27 effective date of this Act with a tax administration
28 agency of another state shall not take effect until
29 such agreement has been authorized by a constitutional
30 majority of each house of the general assembly and
31 approved by the governor. A reciprocal agreement in
32 effect on or after January 1, 2002, shall not be
33 terminated by the state of Iowa unless the termination
34 has been authorized by a constitutional majority of
35 each house of the general assembly and approved by the
36 governor. An amendment to an existing reciprocal
37 agreement does not constitute a new agreement."

38 2. Page 3, by inserting after line 22, the
39 following:

40 "Sec. 101. The termination provisions of section
41 100 of this Act apply retroactively to the termination
42 of reciprocal agreements in effect on or after January
43 1, 2002."

44 3. Title page, line 3, by inserting after the
45 word "sales," the following: "relating to reciprocal
46 income tax agreements with other states,".

47 4. By renumbering and correcting internal
48 references as necessary.

By MILLAGE of Scott
 VAN FOSSEN of Scott
 WINCKLER of Scott
 JOCHUM of Dubuque
 REYNOLDS of Van Buren
 WISE of Lee
 ATTEBERRY of Delaware
 SENG of Scott

Hahn of Muscatine
 BRADLEY of Clinton
 BRAUNS of Muscatine
 SIEVERS of Scott
 BODDICKER of Cedar
 GIPP of Winneshiek
 REKOW of Allamakee

H-8019 FILED JANUARY 30, 2002

*Adopted
 1-31-02
 (p. 211)*

HOUSE FILE 2116

H-8020

- 1 Amend House File 2116 as follows:
- 2 1. Page 1, line 28, by striking the figure "1,"
- 3 and inserting the following: "± 31,".

By EICHORN of Hamilton

H-8020 FILED JANUARY 31, 2002

Adopted 1-31-02 (p. 211)

5-1/31/02 W. + ...
5-2/14/02 Amend/Do Pass W/55041

HOUSE FILE 2116

BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO HSB 506)

(As Amended and Passed by the House January 31, 2002)

Passed House, ^(P. 960) Date 3-25-02 Passed Senate, ^(P. 768) Date 3-21-02
Vote: Ayes 93 Nays 0 Vote: Ayes 48 Nays 0
Approved April 4, 2002

A BILL FOR

1 An Act updating the Iowa Code references to the Internal Revenue
2 Code, repealing an adjustment to net income for capital gains
3 from installment sales, relating to reciprocal income tax
4 agreements with other states, relating to an adjustment to
5 income for school district income surtax paid, providing that
6 refunds from the federal rebate are not taxable, correcting a
7 reference in the innocent spouse statute, and providing
8 retroactive applicability dates and an effective date.

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

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House Amendments _____

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4 research payment", and "qualified research expense" mean the
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19 the zone. For purposes of this subsection, "Internal Revenue
20 Code" means the Internal Revenue Code in effect on January 1,
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22 Sec. 3. Section 422.3, subsection 5, Code Supplement 2001,
23 is amended to read as follows:

24 5. "Internal Revenue Code" means the Internal Revenue Code
25 of 1954, prior to the date of its redesignation as the
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27 or means the Internal Revenue Code of 1986 as amended to and
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2 property on the Iowa return for the tax year beginning in the
3 2001 calendar year and the capital gain was reported on the
4 installment method on the federal income tax return, any
5 additional installment from the capital gain reported for
6 federal income tax purposes is not to be included in net
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8 Sec. 5. Section 422.8, subsection 5, Code 2001, is amended
9 to read as follows:

10 5. The director may, in accordance with the provisions of
11 this subsection, and when cost-efficient, administratively
12 feasible, and of mutual benefit to both states, enter into
13 reciprocal agreements with tax administration agencies of
14 other states to further tax administration and eliminate
15 duplicate withholding by exempting from Iowa taxation income
16 earned from personal services in Iowa by residents of another
17 state, if the other state provides a tax exemption for the
18 same type of income earned from personal services by Iowa
19 residents in the other state. For purposes of this
20 subsection, "income earned from personal services" means
21 wages, salaries, commissions, and tips, and earned income from
22 other sources. This subsection does not authorize the
23 department to withhold taxes on deferred compensation
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27 department.

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31 been authorized by a constitutional majority of each house of
32 the general assembly and approved by the governor. A
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34 the director, both spouses are jointly and severally liable
35 for the total tax due on the return, except when one spouse is

1 considered to be an innocent spouse under criteria established
2 pursuant to section ~~6013(e)~~ 6015 of the Internal Revenue Code.

3 Sec. 10. Section 422.33, subsection 5, paragraph d, Code
4 Supplement 2001, is amended to read as follows:

5 d. For purposes of this subsection, "base amount", "basic
6 research payment", and "qualified research expense" mean the
7 same as defined for the federal credit for increasing research
8 activities under section 41 of the Internal Revenue Code,
9 except that for the alternative incremental credit such
10 amounts are for research conducted within this state. For
11 purposes of this subsection, "Internal Revenue Code" means the
12 Internal Revenue Code in effect on January 1, ~~2001~~ 2002.

13 Sec. 11. Sections 1, 2, 3, 8, and 10 apply retroactively
14 to January 1, 2001, for tax years beginning on or after that
15 date.

16 Sec. 12. Sections 4, 6, and 9 apply retroactively to
17 January 1, 2002, for tax years beginning on or after that
18 date.

19 Sec. 13. The termination provisions of section 5 of this
20 Act apply retroactively to the termination of reciprocal
21 agreements in effect on or after January 1, 2002.

22 Sec. 14. Section 7 applies retroactively to January 1,
23 2002, for tax years beginning in the 2002 calendar year.

24 Sec. 15. EFFECTIVE DATE. This Act, being deemed of
25 immediate importance, takes effect upon enactment.

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HOUSE FILE 2116

S-5041

1 Amend House File 2116, as amended, passed, and
2 reprinted by the House, as follows:
3 1. Page 3, by striking lines 4 through 7.
4 2. Page 4, line 16, by striking the figures "4,
5 6," and inserting the following: "4".
6 3. Title page, by striking lines 4 and 5, and
7 inserting the following: "agreements with other
8 states, providing that".
9 4. By renumbering, redesignating, and correcting
10 internal references as necessary.

By COMMITTEE ON WAYS AND MEANS
LARRY MCKIBBEN, Chairperson

S-5041 FILED FEBRUARY 14, 2002

*adopted 3-21-02
(p.768)*

HOUSE FILE 2116

S-5243

1 Amend the amendment, S-5041, to House File 2116, as
2 amended, passed, and reprinted by the House, as
3 follows:
4 1. Page 1, by inserting before line 3, the
5 following:
6 "_____. By striking page 2, line 8 through page 3,
7 line 3."
8 2. Page 1, by inserting after line 5, the
9 following:
10 "_____. Page 4, by striking lines 19 through 21.
11 _____. Title page, line 3, by striking the words
12 "relating to reciprocal income tax".
13 3. Page 1, lines 7 and 8, by striking the words
14 "agreements with other states".
15 4. By renumbering as necessary.

By PATRICIA HARPER
JOHNIE HAMMOND

S-5243 FILED MARCH 21, 2002

LOST (p.767)

SENATE AMENDMENT TO HOUSE FILE 2116**H-8418**

- 1 Amend House File 2116, as amended, passed, and
2 reprinted by the House, as follows:
- 3 1. Page 3, by striking lines 4 through 7.
 - 4 2. Page 4, line 16, by striking the figures "4,
5 6," and inserting the following: "4".
 - 6 3. Title page, by striking lines 4 and 5, and
7 inserting the following: "agreements with other
8 states, providing that".
 - 9 4. By renumbering, redesignating, and correcting
10 internal references as necessary.

RECEIVED FROM THE SENATE

H-8418 FILED MARCH 22, 2002*House Concurred**3-25-02**(P. 959)*

Legislative Fiscal Bureau Fiscal Note

HF 2116 - IRC Update (LSB 5238 HV)

Analyst: Jeff Robinson (Phone: (515) 281-6767) (Jeff.Robinson@legis.state.ia.us)

Fiscal Note Version – HF 2116 as amended by S-5041

Requested by Senator David Miller

Description

House File 2116 as amended by S-5041 updates the Code of Iowa to conform with federal tax law changes through January 1, 2002. This conformity allows taxpayers to calculate Iowa taxes on generally the same taxable income as federal taxes. This annual update is commonly referred to as the Internal Revenue Code (IRC) Update Bill. House File 2116 as amended by S-5041 also makes several corrections and adjustments to the Code of Iowa relating to the school districts income tax surcharge, the tax status of federal income tax rebates, and the innocent spouse statute.

Because the Bill couples Iowa tax law with the Internal Revenue Code through January 31, 2002, the change does not adopt the Internal Revenue Code changes included in the recent federal stimulus package. Those changes were effective March 9, 2002.

Amendment S-5041 removes the sections of the Bill relating to school district income tax surcharges.

Fiscal Impact

The net fiscal impact of HF 2116 as amended by S-5041 is a reduction in General Fund revenues of \$5.0 million in FY 2003 and \$7.8 million in FY 2004. The individual provisions with an estimated fiscal impact are listed below:

<u>Tax Item</u>	<u>FY 2003</u>	<u>FY 2004</u>
Pensions and Retirement Accounts	\$ - 4.4 million	\$ - 5.4 million
Business Sale Capital Gains	- 0.6 million	- 0.2 million
Income Tax Surcharge (deleted)	0.0 million	0.0 million
Federal Tax Rebates	0.0 million	- 2.2 million
Total Net	<u>\$ - 5.0 million</u>	<u>\$ - 7.8 million</u>

Source

Department of Revenue and Finance

_____/s/ Dennis C Prouty_____

March 20, 2002

The fiscal note and correction impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Legislative Fiscal Bureau to members of the Legislature upon request.

HOUSE FILE 2116

AN ACT

UPDATING THE IOWA CODE REFERENCES TO THE INTERNAL REVENUE CODE, REPEALING AN ADJUSTMENT TO NET INCOME FOR CAPITAL GAINS FROM INSTALLMENT SALES, RELATING TO RECIPROCAL INCOME TAX AGREEMENTS WITH OTHER STATES, PROVIDING THAT REFUNDS FROM THE FEDERAL REBATE ARE NOT TAXABLE, CORRECTING A REFERENCE IN THE INNOCENT SPOUSE STATUTE, AND PROVIDING RETROACTIVE APPLICABILITY DATES AND AN EFFECTIVE DATE.

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

Section 1. Section 15.335, subsection 4, Code Supplement 2001, is amended to read as follows:

4. For purposes of this section, "base amount", "basic research payment", and "qualified research expense" mean the same as defined for the federal credit for increasing research activities under section 41 of the Internal Revenue Code, except that for the alternative incremental credit such amounts are for research conducted within this state. For purposes of this section, "Internal Revenue Code" means the Internal Revenue Code in effect on January 1, ~~2001~~ 2002.

Sec. 2. Section 15A.9, subsection 8, paragraph e, Code Supplement 2001, is amended to read as follows:

e. For the purposes of this subsection, "base amount", "basic research payment", and "qualified research expense" mean the same as defined for the federal credit for increasing research activities under section 41 of the Internal Revenue

Code, 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, ~~2001~~ 2002.

Sec. 3. Section 422.3, subsection 5, Code Supplement 2001, is amended to read as follows:

5. "Internal Revenue Code" means the Internal Revenue Code of 1954, prior to the date of its redesignation as the Internal Revenue Code of 1986 by the Tax Reform Act of 1986, or means the Internal Revenue Code of 1986 as amended to and including January ~~1~~ 31, ~~2001~~ 2002, whichever is applicable.

Sec. 4. Section 422.7, subsection 37, Code Supplement 2001, is amended by adding the following new unnumbered paragraph:

NEW UNNUMBERED PARAGRAPH. The adjustment to net income provided in this subsection is repealed for tax years beginning on or after January 1, 2002. However, to the extent that a taxpayer using the accrual method of accounting reported the entire capital gain from the sale or exchange of property on the Iowa return for the tax year beginning in the 2001 calendar year and the capital gain was reported on the installment method on the federal income tax return, any additional installment from the capital gain reported for federal income tax purposes is not to be included in net income in tax years beginning on or after January 1, 2002.

Sec. 5. Section 422.8, subsection 5, Code 2001, is amended to read as follows:

5. The director may, in accordance with the provisions of this subsection, and when cost-efficient, administratively feasible, and of mutual benefit to both states, enter into reciprocal agreements with tax administration agencies of other states to further tax administration and eliminate duplicate withholding by exempting from Iowa taxation income earned from personal services in Iowa by residents of another

state, if the other state provides a tax exemption for the same type of income earned from personal services by Iowa residents in the other state. For purposes of this subsection, "income earned from personal services" means wages, salaries, commissions, and tips, and earned income from other sources. This subsection does not authorize the department to withhold taxes on deferred compensation payments, pension distributions, and annuity payments when paid to a nonresident of the state of Iowa. All the terms of the agreements shall be described in the rules adopted by the department.

A reciprocal agreement entered into on or after the effective date of this Act with a tax administration agency of another state shall not take effect until such agreement has been authorized by a constitutional majority of each house of the general assembly and approved by the governor. A reciprocal agreement in effect on or after January 1, 2002, shall not be terminated by the state of Iowa unless the termination has been authorized by a constitutional majority of each house of the general assembly and approved by the governor. An amendment to an existing reciprocal agreement does not constitute a new agreement.

Sec. 6. Section 422.9, Code Supplement 2001, is amended by adding the following new subsection:

NEW SUBSECTION. 7. In determining the amount of deduction for federal income tax under subsection 1 or subsection 2, paragraph "b", for tax years beginning in the 2002 calendar year, the amount of the deduction for the tax year shall not be adjusted by the amount of the rate reduction credit received in the tax year to the extent that the credit is attributable to the rate reduction credit provided pursuant to the federal Economic Growth and Tax Relief Reconciliation Act of 2001, Pub. L. No. 106-16, and the amount of such credit shall not be taxable under this division.

Sec. 7. Section 422.10, subsection 3, Code Supplement 2001, is amended to read as follows:

3. For purposes of this section, "base amount", "basic research payment", and "qualified research expense" mean the same as defined for the federal credit for increasing research activities under section 41 of the Internal Revenue Code, except that for the alternative incremental credit such amounts are for research conducted within this state. For purposes of this section, "Internal Revenue Code" means the Internal Revenue Code in effect on January 1, ~~2001~~ 2002.

Sec. 8. Section 422.21, unnumbered paragraph 7, Code 2001, is amended to read as follows:

If married taxpayers file a joint return or file separately on a combined return in accordance with rules prescribed by the director, both spouses are jointly and severally liable for the total tax due on the return, except when one spouse is considered to be an innocent spouse under criteria established pursuant to section ~~6013(e)~~ 6015 of the Internal Revenue Code.

Sec. 9. Section 422.33, subsection 5, paragraph d, Code Supplement 2001, is amended to read as follows:

d. For purposes of this subsection, "base amount", "basic research payment", and "qualified research expense" mean the same as defined for the federal credit for increasing research activities under section 41 of the Internal Revenue Code, except that for the alternative incremental credit such amounts are for research conducted within this state. For purposes of this subsection, "Internal Revenue Code" means the Internal Revenue Code in effect on January 1, ~~2001~~ 2002.

Sec. 10. Sections 1, 2, 3, 7, and 9 apply retroactively to January 1, 2001, for tax years beginning on or after that date.

Sec. 11. Sections 4 and 8 apply retroactively to January 1, 2002, for tax years beginning on or after that date.

Sec. 12. The termination provisions of section 5 of this Act apply retroactively to the termination of reciprocal agreements in effect on or after January 1, 2002.

Sec. 13. Section 6 applies retroactively to January 1, 2002, for tax years beginning in the 2002 calendar year.

Sec. 14. EFFECTIVE DATE. This Act, being deemed of immediate importance, takes effect upon enactment.

BRENT SIEGRIST
Speaker of the House

MARY E. KRAMER
President of the Senate

I hereby certify that this bill originated in the House and is known as House File 2116, Seventy-ninth General Assembly.

MARGARET THOMSON
Chief Clerk of the House

Approved April 4, 2002

THOMAS J. VILSACK
Governor