

House Study Bill 676

HOUSE FILE _____
BY (PROPOSED COMMITTEE
ON WAYS AND MEANS
BILL BY CHAIRPERSON
J. K. VAN FOSSEN)

Passed House, Date _____ Passed Senate, 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, providing for a coupling with certain bonus depreciation
3 provisions, codifying current practice of the department of
4 revenue relating to foreign dividend income, and providing
5 retroactive applicability dates and an effective date.
6 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:
7 TLSB 6263HC 80
8 sc/gg/14

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1 1 Section 1. Section 15.335, subsection 4, unnumbered
1 2 paragraph 2, Code Supplement 2003, is amended to read as
1 3 follows:
1 4 For purposes of this section, "Internal Revenue Code" means
1 5 the Internal Revenue Code in effect on January 1, ~~2003~~ 2004.
1 6 Sec. 2. Section 15A.9, subsection 8, paragraph e,
1 7 unnumbered paragraph 2, Code Supplement 2003, is amended to
1 8 read as follows:
1 9 For purposes of this subsection, "Internal Revenue Code"
1 10 means the Internal Revenue Code in effect on January 1, ~~2003~~
1 11 2004.
1 12 Sec. 3. Section 422.3, subsection 5, Code Supplement 2003,
1 13 is amended to read as follows:
1 14 5. "Internal Revenue Code" means the Internal Revenue Code
1 15 of 1954, prior to the date of its redesignation as the
1 16 Internal Revenue Code of 1986 by the Tax Reform Act of 1986,
1 17 or means the Internal Revenue Code of 1986 as amended to and
1 18 including January 1, ~~2003~~ 2004, whichever is applicable.
1 19 Sec. 4. Section 422.7, subsection 39, Code Supplement
1 20 2003, is amended to read as follows:
1 21 39. a. The additional first-year depreciation allowance
1 22 authorized in section 168(k) of the Internal Revenue Code, as
1 23 enacted by Pub. L. No. 107-147, section 101, does not apply in
1 24 computing net income for state tax purposes. If the taxpayer
1 25 has taken such deduction in computing federal adjusted gross
1 26 income, the following adjustments shall be made:
1 27 ~~a.~~ (1) Add the total amount of depreciation taken on all
1 28 property for which the election under section 168(k) of the
1 29 Internal Revenue Code was made for the tax year.
1 30 ~~b.~~ (2) Subtract an amount equal to depreciation ~~taken~~
1 31 allowed on such property for the tax year using the modified
1 32 accelerated cost recovery system depreciation method
1 33 applicable under section 168 of the Internal Revenue Code
1 34 without regard to section 168(k).
1 35 ~~c.~~ (3) Any other adjustments to gains or losses to reflect
2 1 the adjustments made in ~~paragraphs "a" and "b"~~ subparagraphs
2 2 (1) and (2) pursuant to rules adopted by the director.
2 3 b. The additional first-year depreciation allowance
2 4 authorized in section 168(k)(4) of the Internal Revenue Code,
2 5 as enacted by Pub. L. No. 108-27, shall apply in computing net
2 6 income for state tax purposes, but only for qualified property
2 7 acquired after December 31, 2003, and before January 1, 2005.
2 8 For property acquired after May 5, 2003, and before January 1,
2 9 2004, if the taxpayer has taken the deduction allowed in
2 10 section 168(k)(4), as enacted by Pub. L. No. 108-27, in
2 11 computing federal adjusted gross income, the adjustments in
2 12 paragraph "a" shall be made.
2 13 Sec. 5. Section 422.10, subsection 3, unnumbered paragraph
2 14 2, Code Supplement 2003, is amended to read as follows:
2 15 For purposes of this section, "Internal Revenue Code" means
2 16 the Internal Revenue Code in effect on January 1, ~~2003~~ 2004.
2 17 Sec. 6. Section 422.32, subsection 7, Code Supplement
2 18 2003, is amended to read as follows:

2 19 7. "Internal Revenue Code" means the Internal Revenue Code
2 20 of 1954, prior to the date of its redesignation as the
2 21 Internal Revenue Code of 1986 by the Tax Reform Act of 1986,
2 22 or means the Internal Revenue Code of 1986 as amended to and
2 23 including January 1, ~~2003~~ 2004, whichever is applicable.

2 24 Sec. 7. Section 422.33, subsection 5, paragraph d,
2 25 unnumbered paragraph 2, Code Supplement 2003, is amended to
2 26 read as follows:

2 27 For purposes of this section, "Internal Revenue Code" means
2 28 the Internal Revenue Code in effect on January 1, ~~2003~~ 2004.

2 29 Sec. 8. Section 422.35, subsection 19, Code Supplement
2 30 2003, is amended to read as follows:

2 31 19. a. The additional first-year depreciation allowance
2 32 authorized in section 168(k) of the Internal Revenue Code, as
2 33 enacted by Pub. L. No. 107=147, section 101, does not apply in
2 34 computing net income for state tax purposes. If the taxpayer
2 35 has taken such deduction in computing taxable income, the

3 1 following adjustments shall be made:

3 2 a- (1) Add the total amount of depreciation taken on all
3 3 property for which the election under section 168(k) of the
3 4 Internal Revenue Code was made for the tax year.

3 5 b- (2) Subtract an amount equal to depreciation ~~taken~~
3 6 allowed on such property for the tax year using the modified
3 7 accelerated cost recovery system depreciation method
3 8 applicable under section 168 of the Internal Revenue Code
3 9 without regard to section 168(k).

3 10 c- (3) Any other adjustments to gains or losses to reflect
3 11 the adjustments made in ~~paragraphs "a" and "b" subparagraphs~~
3 12 (1) and (2) pursuant to rules adopted by the director.

3 13 b. The additional first-year depreciation allowance
3 14 authorized in section 168(k)(4) of the Internal Revenue Code,
3 15 as enacted by Pub. L. No. 108=27, shall apply in computing net
3 16 income for state tax purposes, but only for qualified property
3 17 acquired after December 31, 2003, and before January 1, 2005.

3 18 For property acquired after May 5, 2003, and before January 1,

3 19 2004, if the taxpayer has taken the deduction allowed in

3 20 section 168(k)(4), as enacted by Pub. L. No. 108=27, in

3 21 computing federal adjusted gross income, the adjustments in

3 22 paragraph "a" shall be made.

3 23 Sec. 9. Section 422.35, Code Supplement 2003, is amended
3 24 by adding the following new subsection:

3 25 NEW SUBSECTION. 20. Subtract the amount of foreign
3 26 dividend income, including Subpart F income as defined in
3 27 section 952 of the Internal Revenue Code, based upon the
3 28 percentage of ownership as set forth in section 243 of the
3 29 Internal Revenue Code.

3 30 Sec. 10. RETROACTIVE APPLICABILITY.

3 31 1. Sections 4 and 8 of this Act, amending section 422.7,
3 32 subsection 39, and section 422.35, subsection 19, apply
3 33 retroactively to tax years ending after May 5, 2003.

3 34 2. The remainder of this Act applies retroactively to
3 35 January 1, 2003, for tax years beginning on or after that
4 1 date.

4 2 Sec. 11. EFFECTIVE DATE. This Act, being deemed of
4 3 immediate importance, takes effect upon enactment.

4 4 EXPLANATION

4 5 This bill updates the references to the Internal Revenue
4 6 Code to make the federal income tax revisions enacted by
4 7 Congress in 2003 applicable for Iowa income tax purposes.

4 8 Code sections 15.335, 15A.9, 422.10, and 422.33 are amended
4 9 to update the Iowa Code references to the state research
4 10 activities credit for individuals, corporations, corporations
4 11 in economic development areas, and corporations in quality
4 12 jobs enterprise zones to include the 2003 federal changes in
4 13 the research activities credit.

4 14 The bill amends Code sections 422.7 and 422.35 to couple
4 15 with the changes to the bonus depreciation deduction enacted
4 16 in the federal Jobs and Growth Tax Relief Reconciliation Act
4 17 of 2003 (Pub. L. No. 108=27). However, the bonus depreciation
4 18 of 50 percent allowed in that law would only be allowed for
4 19 state income tax purposes for qualified property acquired
4 20 after December 31, 2003, and before January 1, 2005.

4 21 The bill also amends Code section 422.35 to provide for an
4 22 exclusion for foreign dividend income. This codifies current
4 23 practice and administrative rules of the Iowa department of
4 24 revenue based on the United States Supreme Court decision in
4 25 Kraft General Foods, Inc. v. Iowa Department of Revenue and
4 26 Finance, 505 U.S. 71 (1992).

4 27 The bill is retroactively applicable to January 1, 2003,
4 28 for tax years beginning on or after that date. The provisions
4 29 of the bill coupling with the changes to the federal bonus

4 30 depreciation apply retroactively to tax years ending after May
4 31 5, 2003.
4 32 The bill takes effect upon enactment.
4 33 LSB 6263HC 80
4 34 sc/gg/14