

SENATE FILE 2286
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO SSB 3162)

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, decoupling with the Internal Revenue Code for a certain
3 bonus depreciation provision, and providing retroactive
4 applicability dates and an effective date.

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

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SF 2286
WAYS & MEANS

1 Section 1. Section 15.335, subsection 4, unnumbered
2 paragraph 2, Code Supplement 2003, is amended to read as
3 follows:

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

6 Sec. 2. Section 15A.9, subsection 8, paragraph e,
7 unnumbered paragraph 2, Code Supplement 2003, is amended to
8 read as follows:

9 For purposes of this subsection, "Internal Revenue Code"
10 means the Internal Revenue Code in effect on January 1, ~~2003~~
11 2004.

12 Sec. 3. Section 422.3, subsection 5, Code Supplement 2003,
13 is amended to read as follows:

14 5. "Internal Revenue Code" means the Internal Revenue Code
15 of 1954, prior to the date of its redesignation as the
16 Internal Revenue Code of 1986 by the Tax Reform Act of 1986,
17 or means the Internal Revenue Code of 1986 as amended to and
18 including January 1, ~~2003~~ 2004, whichever is applicable.

19 Sec. 4. Section 422.7, subsection 39, unnumbered paragraph
20 1, Code Supplement 2003, is amended to read as follows:

21 The additional first-year depreciation allowance authorized
22 in section 168(k) of the Internal Revenue Code, as enacted by
23 Pub. L. No. 107-147, section 101, and amended by Pub. L. No.
24 108-27, section 201, does not apply in computing net income
25 for state tax purposes. If the taxpayer has taken such
26 deduction in computing federal adjusted gross income, the
27 following adjustments shall be made:

28 Sec. 5. Section 422.7, subsection 39, paragraph b, Code
29 Supplement 2003, is amended to read as follows:

30 b. Subtract an amount equal to depreciation ~~taken~~ allowed
31 on such property for the tax year using the modified
32 accelerated cost recovery system depreciation method
33 applicable under section 168 of the Internal Revenue Code
34 without regard to section 168(k).

35 Sec. 6. Section 422.10, subsection 3, unnumbered paragraph

1 2, Code Supplement 2003, is amended to read as follows:

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

4 Sec. 7. Section 422.32, subsection 7, Code Supplement
5 2003, is amended to read as follows:

6 7. "Internal Revenue Code" means the Internal Revenue Code
7 of 1954, prior to the date of its redesignation as the
8 Internal Revenue Code of 1986 by the Tax Reform Act of 1986,
9 or means the Internal Revenue Code of 1986 as amended to and
10 including January 1, ~~2003~~ 2004, whichever is applicable.

11 Sec. 8. Section 422.33, subsection 5, paragraph d,
12 unnumbered paragraph 2, Code Supplement 2003, is amended to
13 read as follows:

14 For purposes of this subsection, "Internal Revenue Code"
15 means the Internal Revenue Code in effect on January 1, ~~2003~~
16 2004.

17 Sec. 9. Section 422.35, subsection 19, unnumbered
18 paragraph 1, Code Supplement 2003, is amended to read as
19 follows:

20 The additional first-year depreciation allowance authorized
21 in section 168(k) of the Internal Revenue Code, as enacted by
22 Pub. L. No. 107-147, section 101, and amended by Pub. L. No.
23 108-27, section 201, does not apply in computing net income
24 for state tax purposes. If the taxpayer has taken such
25 deduction in computing taxable income, the following
26 adjustments shall be made:

27 Sec. 10. Section 422.35, subsection 19, paragraph b, Code
28 Supplement 2003, is amended to read as follows:

29 b. Subtract an amount equal to depreciation taken allowed
30 on such property for the tax year using the modified
31 accelerated cost recovery system depreciation method
32 applicable under section 168 of the Internal Revenue Code
33 without regard to section 168(k).

34 Sec. 11. RETROACTIVE APPLICABILITY.

35 1. Sections 4 and 9 of this Act, amending section 422.7,

1 subsection 39, unnumbered paragraph 1, and section 422.35,
2 subsection 19, unnumbered paragraph 1, apply retroactively to
3 tax years ending on or after May 5, 2003.

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

7 Sec. 12. EFFECTIVE DATE. This Act, being deemed of
8 immediate importance, takes effect upon enactment.

9

EXPLANATION

10 This bill updates the references to the Internal Revenue
11 Code to make the federal income tax revisions enacted by
12 Congress in 2003 applicable for Iowa income tax purposes.

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

19 The bill amends Code sections 422.7 and 422.35 to make
20 adjustments to federal adjusted gross income for individuals
21 and federal taxable income for corporations to disallow, for
22 state income tax purposes, the changes to the bonus
23 depreciation deduction enacted in the federal Jobs and Growth
24 Tax Relief Reconciliation Act of 2003 (Pub. L. No. 108-27).

25 The provisions of the bill updating references to the
26 Internal Revenue Code are retroactively applicable to January
27 1, 2003, for tax years beginning on or after that date. The
28 provisions of the bill decoupling from the changes to the
29 federal bonus depreciation apply retroactively to tax years
30 ending on or after May 5, 2003.

31 The bill takes effect upon enactment.

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**Fiscal Services Division
Legislative Services Agency
Fiscal Note**

SF 2286 – IRC Update - Depreciation Coupling (LSB 6683 SV)
Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.state.ia.us)
Fiscal Note Version - New

Description

Senate File 2286 generally couples Iowa tax law with changes to the federal Internal Revenue Code (IRC) enacted between January 1, 2003, and January 1, 2004.

The coupled changes include an increase in first-year expensing allowances for qualified depreciable assets. The change allows the taxpayer to expense up to \$100,000 of the cost of a qualified asset, as compared to the current limit of \$25,000. This expensing provision is commonly referred to as "Section 179" expensing. The change is retroactive to tax years beginning on or after January 1, 2003.

Senate File 2286 specifically does not couple with federal bonus depreciation provisions enacted as part of the federal IRC since January 1, 2002.

Fiscal Impact

Increasing the maximum asset value that may be deducted in its first year will reduce General Fund revenues by:

- FY 2004 – \$3.4 million
- FY 2005 – \$5.5 million
- FY 2006 – \$3.5 million

Increasing the value of a depreciable asset that may be deducted in its first year reduces the amount that is depreciated over the life of the asset. Therefore, the FY 2004 through FY 2006 General Fund revenue reductions should be offset over future years by reduced depreciation deductions.

Source

Department of Revenue

Dennis C Prouty

March 11, 2004

The fiscal note and correctional 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 Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

Rehberg
McKinley
Stewart

Succeeded By
S/HF 2286

SSB# 3162

Ways & Means

SENATE FILE _____

BY (PROPOSED COMMITTEE ON
WAYS AND MEANS BILL BY
CHAIRPERSON MCKIBBEN)

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Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____

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