

Senate Study Bill 1186

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

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, providing for decoupling with the Internal Revenue Code
3 for a certain bonus depreciation provision, and providing
4 retroactive applicability dates and an effective date.
5 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:
6 TLSB 3412SC 80
7 sc/pj/5

PAG LIN

1 1 Section 1. Section 15.335, subsection 4, Code 2003, is
1 2 amended to read as follows:
1 3 4. For purposes of this section, "base amount", "basic
1 4 research payment", and "qualified research expense" mean the
1 5 same as defined for the federal credit for increasing research
1 6 activities under section 41 of the Internal Revenue Code,
1 7 except that for the alternative incremental credit such
1 8 amounts are for research conducted within this state.
1 9 PARAGRAPH DIVIDED. For purposes of this section, "Internal
1 10 Revenue Code" means the Internal Revenue Code in effect on
1 11 January 1, ~~2002~~ 2003.
1 12 Sec. 2. Section 15A.9, subsection 8, paragraph e, Code
1 13 2003, is amended to read as follows:
1 14 e. For the purposes of this subsection, "base amount",
1 15 "basic research payment", and "qualified research expense"
1 16 mean the same as defined for the federal credit for increasing
1 17 research activities under section 41 of the Internal Revenue
1 18 Code, except that for the alternative incremental credit such
1 19 amounts are for research conducted within this state within
1 20 the zone.
1 21 PARAGRAPH DIVIDED. For purposes of this subsection,
1 22 "Internal Revenue Code" means the Internal Revenue Code in
1 23 effect on January 1, ~~2002~~ 2003.
1 24 Sec. 3. Section 422.3, subsection 5, Code 2003, is amended
1 25 to read as follows:
1 26 5. "Internal Revenue Code" means the Internal Revenue Code
1 27 of 1954, prior to the date of its redesignation as the
1 28 Internal Revenue Code of 1986 by the Tax Reform Act of 1986,
1 29 or means the Internal Revenue Code of 1986 as amended to and
1 30 including January 31, ~~2002~~ 1, 2003, whichever is applicable.
1 31 Sec. 4. Section 422.5, subsection 1, paragraph k,
1 32 subparagraph 1, Code 2003, is amended to read as follows:
1 33 (1) Add items of tax preference included in federal
1 34 alternative minimum taxable income under section 57, except
1 35 subsections (a)(1), (a)(2), and (a)(5), of the Internal
2 1 Revenue Code, make the adjustments included in federal
2 2 alternative minimum taxable income under section 56, except
2 3 subsections (a)(4), (b)(1)(C)(iii), and (d), of the Internal
2 4 Revenue Code, and add losses as required by section 58 of the
2 5 Internal Revenue Code. To the extent that any preference or
2 6 adjustment is determined by an individual's federal adjusted
2 7 gross income, the individual's federal adjusted gross income
2 8 is computed in accordance with section 422.7, subsection 39.
2 9 In the case of an estate or trust, the items of tax
2 10 preference, adjustments, and losses shall be apportioned
2 11 between the estate or trust and the beneficiaries in
2 12 accordance with rules prescribed by the director.
2 13 Sec. 5. Section 422.7, Code 2003, is amended by adding the
2 14 following new subsection:
2 15 NEW SUBSECTION. 39. The additional first-year
2 16 depreciation allowance authorized in section 168(k) of the
2 17 Internal Revenue Code, as enacted by Pub. L. No. 107=147,
2 18 section 101, does not apply in computing net income for state
2 19 tax purposes. If the taxpayer has taken such deduction in
2 20 computing federal adjusted gross income, the following

2 21 adjustments shall be made:

2 22 a. Add the total amount of depreciation taken on all
2 23 property for which the election under section 168(k) of the
2 24 Internal Revenue Code was made for the tax year.

2 25 b. Subtract an amount equal to depreciation taken on such
2 26 property for the tax year using the modified accelerated cost
2 27 recovery system depreciation method applicable under section
2 28 168 of the Internal Revenue Code without regard to section
2 29 168(k).

2 30 c. Any other adjustments to gains or losses to reflect the
2 31 adjustments made in paragraphs "a" and "b" pursuant to rules
2 32 adopted by the director.

2 33 Sec. 6. Section 422.9, subsection 2, Code 2003, is amended
2 34 by adding the following new paragraph:

2 35 NEW PARAGRAPH. j. For purposes of calculating the
3 1 deductions in this subsection that are authorized under the
3 2 Internal Revenue Code, and to the extent that any of such
3 3 deductions is determined by an individual's federal adjusted
3 4 gross income, the individual's federal adjusted gross income
3 5 is computed in accordance with section 422.7, subsection 39.

3 6 Sec. 7. Section 422.10, subsection 3, Code 2003, is
3 7 amended to read as follows:

3 8 3. For purposes of this section, "base amount", "basic
3 9 research payment", and "qualified research expense" mean the
3 10 same as defined for the federal credit for increasing research
3 11 activities under section 41 of the Internal Revenue Code,
3 12 except that for the alternative incremental credit such
3 13 amounts are for research conducted within this state.

3 14 PARAGRAPH DIVIDED. For purposes of this section, "Internal
3 15 Revenue Code" means the Internal Revenue Code in effect on
3 16 January 1, ~~2002~~ 2003.

3 17 Sec. 8. Section 422.32, Code 2003, is amended by adding
3 18 the following new subsection:

3 19 NEW SUBSECTION. 6A. "Internal Revenue Code" means the
3 20 Internal Revenue Code of 1954, prior to the date of its
3 21 redesignation as the Internal Revenue Code of 1986 by the Tax
3 22 Reform Act of 1986, or means the Internal Revenue Code of 1986
3 23 as amended to and including January 1, 2003, whichever is
3 24 applicable.

3 25 Sec. 9. Section 422.33, subsection 5, paragraph d, Code
3 26 2003, is amended to read as follows:

3 27 d. For purposes of this subsection, "base amount", "basic
3 28 research payment", and "qualified research expense" mean the
3 29 same as defined for the federal credit for increasing research
3 30 activities under section 41 of the Internal Revenue Code,
3 31 except that for the alternative incremental credit such
3 32 amounts are for research conducted within this state.

3 33 PARAGRAPH DIVIDED. For purposes of this subsection,
3 34 "Internal Revenue Code" means the Internal Revenue Code in
3 35 effect on January 1, ~~2002~~ 2003.

4 1 Sec. 10. Section 422.35, Code 2003, is amended by adding
4 2 the following new subsection:

4 3 NEW SUBSECTION. 19. The additional first-year
4 4 depreciation allowance authorized in section 168(k) of the
4 5 Internal Revenue Code, as enacted by Pub. L. No. 107-147,
4 6 section 101, does not apply in computing net income for state
4 7 tax purposes. If the taxpayer has taken such deduction in
4 8 computing taxable income, the following adjustments shall be
4 9 made:

4 10 a. Add the total amount of depreciation taken on all
4 11 property for which the election under section 168(k) of the
4 12 Internal Revenue Code was made for the tax year.

4 13 b. Subtract an amount equal to depreciation taken on such
4 14 property for the tax year using the modified accelerated cost
4 15 recovery system depreciation method applicable under section
4 16 168 of the Internal Revenue Code without regard to section
4 17 168(k).

4 18 c. Any other adjustments to gains or losses to reflect the
4 19 adjustments made in paragraphs "a" and "b" pursuant to rules
4 20 adopted by the director.

4 21 Sec. 11. RETROACTIVE APPLICABILITY.

4 22 1. Sections 1 through 3 and sections 7 through 9 apply
4 23 retroactively to January 1, 2002, for tax years beginning on
4 24 or after that date.

4 25 2. Sections 4, 5, 6, and 10 apply retroactively to tax
4 26 years ending on or after September 10, 2001.

4 27 Sec. 12. EFFECTIVE DATE. This Act, being deemed of
4 28 immediate importance, takes effect upon enactment.

4 29 EXPLANATION

4 30 This bill updates the references to the Internal Revenue
4 31 Code to make the federal income tax revisions enacted by

4 32 Congress in 2002 applicable for Iowa income tax purposes.
4 33 Code sections 15.335, 15A.9, 422.10, and 422.33 are amended to
4 34 update the Iowa Code references to the state research
4 35 activities credit for individuals, corporations, corporations
5 1 in economic development areas, and corporations in quality
5 2 jobs enterprise zones to include the 2002 federal changes in
5 3 the research activities credit.
5 4 The bill amends Code sections 422.5, 422.7, and 422.9 to
5 5 make adjustments to federal adjusted gross income, and amends
5 6 Code section 422.35 to make adjustments to taxable income, to
5 7 disallow, for state income tax purposes, the bonus
5 8 depreciation deduction enacted in the federal Job Creation and
5 9 Worker Assistance Act of 2002.
5 10 The provisions of the bill updating references to the
5 11 Internal Revenue Code are retroactively applicable to January
5 12 1, 2002, for tax years beginning on or after that date. The
5 13 provisions of the bill decoupling from the federal bonus
5 14 depreciation apply retroactively to tax years ending on or
5 15 after September 10, 2001.
5 16 The bill takes effect upon enactment.
5 17 LSB 3412SC 80
5 18 sc/pj/5