

SENATE FILE 2271
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO SF 2093)

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

A BILL FOR

1 An Act relating to the holding period for purposes of certain
2 capital assets under the individual income tax and including
3 effective and applicability date provisions.

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

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SF 2271

1 Section 1. Section 422.7, subsection 21, Code Supplement
2 2005, is amended by adding the following new unnumbered
3 paragraph:

4 NEW UNNUMBERED PARAGRAPH. For purposes of this subsection,
5 the term "held" shall be determined with reference to the
6 holding period provisions of section 1223 of the Internal
7 Revenue Code and the federal regulations adopted pursuant
8 thereto.

9 Sec. 2. RETROACTIVE APPLICABILITY DATE PROVISIONS. This
10 Act, being deemed of immediate importance, takes effect upon
11 enactment and retroactively applies to all of the following:

- 12 1. Sales made on or after January 1, 2006.
- 13 2. Determining the holding period for sales made on or
14 after January 1, 2006.
- 15 3. Tax years ending on or after January 1, 2006.

16 EXPLANATION

17 This bill requires that the computation of the holding
18 period for purposes of the capital gains deduction under Code
19 section 422.7, subsection 21, be determined in the same manner
20 as the holding period of assets is determined for federal tax
21 purposes under Internal Revenue Code section 1223. These
22 provisions will, in some cases, add the holding period of
23 other property or the holding period of another owner to the
24 holding period of the taxpayer in determining whether the
25 required 10-year holding period has been satisfied, such as
26 property received in a like-kind exchange, property received
27 by gift, or property purchased from the proceeds of an
28 involuntary conversion.

29 The bill takes effect upon enactment and applies
30 retroactively to January 1, 2006, and applies to sales made on
31 or after January 1, 2006, during tax years ending on or after
32 that date.

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Fiscal Services Division
Legislative Services Agency
Fiscal Note

SF 2271 - Holding Period for Capital Assets (LSB 5204 SV)
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Fiscal Note Version - New

Description

Senate File 2271 requires that the holding period used in determining eligibility for the Iowa capital gains deduction be determined in the same manner as provided for in section 1223 of the Internal Revenue Code.

Background

Currently, Section 422.7 (21), Code of Iowa, requires that property must be held for a minimum of ten years in order for the taxpayer to deduct gains from the sale of qualifying property in the determination of net income for individual income tax purposes. The proposed law change will in certain cases allow the addition of the holding period of other property or the holding period of another owner of the property to the holding period of the taxpayer in determining whether the ten-year holding period requirement for the Iowa capital gains deduction has been satisfied. The proposed law change will affect the determination of holding periods for property acquired through like-kind exchanges, property received as a gift, and property purchased with the proceeds of an involuntary conversion.

Assumptions

The audit staff of the Department of Revenue indicates that approximately four protests related to the determination of holding periods relative to the calculation of the capital gains deduction have been received over the past two years. They indicate the total impact of these protests on taxpayers' State tax liability is approximately \$100,000.

The Department's estimate does not include any estimate of the number of taxpayers paying their capital gains tax as required under present law, but do not officially protest the procedure to the Department.

Fiscal Impact

The projected impact of the holding period change contained in SF 2271 is a decrease om General Fund revenue of \$100,000 in FY 2007, and \$50,000 each year thereafter.

Source

Department of Revenue

/s/ Holly M. Lyons

March 6, 2006

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.
