

**House Study Bill 652 - Introduced**

SENATE/HOUSE FILE \_\_\_\_\_  
BY (PROPOSED DEPARTMENT OF  
REVENUE BILL)

**A BILL FOR**

1 An Act updating the Code references to the Internal Revenue  
2 Code, providing for decoupling from certain bonus  
3 depreciation provisions, and including effective date and  
4 retroactive applicability provisions.

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

1 Section 1. Section 15.335, subsection 1, paragraphs b and c,  
2 Code Supplement 2009, are amended to read as follows:

3 b. In lieu of the credit amount computed in paragraph  
4 "a", subparagraph (1), an eligible business may elect to  
5 compute the credit amount for qualified research expenses  
6 incurred in this state in a manner consistent with the  
7 alternative ~~incremental~~ simplified credit described in section  
8 ~~41(c)(4)~~ 41(c)(5) of the Internal Revenue Code. The taxpayer  
9 may make this election regardless of the method used for the  
10 taxpayer's federal income tax. The election made under this  
11 paragraph is for the tax year and the taxpayer may use another  
12 or the same method for any subsequent year.

13 c. For purposes of the alternate credit computation  
14 method in paragraph "b", the credit percentages applicable  
15 to qualified research expenses described in ~~clauses (i),~~  
16 ~~(ii), and (iii) of section 41(c)(4)(A)~~ 41(c)(5)(A) and clause  
17 (ii) of section 41(c)(5)(B) of the Internal Revenue Code  
18 are ~~one and sixty-five hundredths percent, two and twenty~~  
19 ~~hundredths percent, and two and seventy-five hundredths~~ four  
20 and fifty-five hundredths percent and one and ninety-five  
21 hundredths percent, respectively.

22 Sec. 2. Section 15.335, subsection 4, Code Supplement 2009,  
23 is amended to read as follows:

24 4. a. For purposes of this section, "base amount", "basic  
25 research payment", and "qualified research expense" mean the  
26 same as defined for the federal credit for increasing research  
27 activities under section 41 of the Internal Revenue Code,  
28 except that for the alternative ~~incremental~~ simplified credit  
29 such amounts are for research conducted within this state.

30 b. For purposes of this section, "Internal Revenue Code"  
31 means the Internal Revenue Code in effect on January 1,  
32 ~~2009~~ 2010.

33 Sec. 3. Section 15A.9, subsection 8, paragraphs b, c, and e,  
34 Code Supplement 2009, are amended to read as follows:

35 b. In lieu of the credit amount computed in paragraph "a",

1 subparagraph (1), subparagraph division (a), a business may  
2 elect to compute the credit amount for qualified research  
3 expenses incurred in this state within the zone in a manner  
4 consistent with the alternative ~~incremental~~ simplified credit  
5 described in section ~~41(c)(4)~~ 41(c)(5) of the Internal Revenue  
6 Code. The taxpayer may make this election regardless of  
7 the method used for the taxpayer's federal income tax. The  
8 election made under this paragraph is for the tax year and the  
9 taxpayer may use another or the same method for any subsequent  
10 year.

11 c. For purposes of the alternate credit computation  
12 method in paragraph "b", the credit percentages applicable to  
13 qualified research expenses described in ~~clauses (i), (ii),~~  
14 ~~and (iii)~~ of section ~~41(c)(4)(A)~~ 41(c)(5)(A) and clause (ii)  
15 of section 41(c)(5)(B) of the Internal Revenue Code are ~~three~~  
16 ~~and thirty hundredths percent, four and forty hundredths~~  
17 ~~percent, and five and fifty hundredths~~ four and fifty-five  
18 hundredths percent and one and ninety-five hundredths percent,  
19 respectively.

20 e. (1) For the purposes of this subsection, "base  
21 amount", "basic research payment", and "qualified research  
22 expense" mean the same as defined for the federal credit  
23 for increasing research activities under section 41 of  
24 the Internal Revenue Code, except that for the alternative  
25 ~~incremental~~ simplified credit such amounts are for research  
26 conducted within this state within the zone.

27 (2) For purposes of this subsection, "Internal Revenue  
28 Code" means the Internal Revenue Code in effect on January 1,  
29 ~~2009~~ 2010.

30 Sec. 4. Section 422.3, subsection 5, Code 2009, is amended  
31 to read as follows:

32 5. "Internal Revenue Code" means the Internal Revenue Code  
33 of 1954, prior to the date of its redesignation as the Internal  
34 Revenue Code of 1986 by the Tax Reform Act of 1986, or means  
35 the Internal Revenue Code of 1986 as amended to and including

1 January 1, ~~2008~~ 2010.

2 Sec. 5. Section 422.5, subsection 2, paragraph b,  
3 subparagraph (1), Code Supplement 2009, is amended to read as  
4 follows:

5 (1) Add items of tax preference included in federal  
6 alternative minimum taxable income under section 57, except  
7 subsections (a)(1), (a)(2), and (a)(5), of the Internal Revenue  
8 Code, make the adjustments included in federal alternative  
9 minimum taxable income under section 56, except subsections  
10 (a)(4), (b)(1)(C)(iii), and (d), of the Internal Revenue Code,  
11 and add losses as required by section 58 of the Internal  
12 Revenue Code. To the extent that any preference or adjustment  
13 is determined by an individual's federal adjusted gross income,  
14 the individual's federal adjusted gross income is computed in  
15 accordance with section 422.7, ~~subsection 39~~ subsections 39,  
16 39A, and 39B. In the case of an estate or trust, the items of  
17 tax preference, adjustments, and losses shall be apportioned  
18 between the estate or trust and the beneficiaries in accordance  
19 with rules prescribed by the director.

20 Sec. 6. Section 422.7, Code Supplement 2009, is amended by  
21 adding the following new subsections:

22 NEW SUBSECTION. 39A. The additional first-year  
23 depreciation allowance authorized in section 168(k) of the  
24 Internal Revenue Code, as enacted by Pub. L. No. 110-85,  
25 section 103, and Pub. L. No. 111-5, section 1201, does not  
26 apply in computing net income for state tax purposes. If  
27 a taxpayer has taken a deduction for additional first-year  
28 depreciation in computing federal adjusted gross income, the  
29 following adjustments to federal adjusted gross income shall  
30 be made:

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

34 b. Subtract an amount equal to depreciation allowed on such  
35 property for the tax year using the modified accelerated cost

1 recovery system depreciation method applicable under section  
2 168 of the Internal Revenue Code without regard to section  
3 168(k).

4 *c.* Any other adjustments to gains or losses to reflect the  
5 adjustments made in paragraphs "a" and "b", pursuant to rules  
6 adopted by the director.

7 NEW SUBSECTION. 39B. The additional first-year  
8 depreciation allowance authorized in section 168(n) of the  
9 Internal Revenue Code, as enacted by Pub. L. No. 110-343,  
10 section 710, does not apply in computing net income for  
11 state tax purposes. If a taxpayer has taken a deduction  
12 for additional first-year depreciation in computing federal  
13 adjusted gross income, the following adjustments to federal  
14 adjusted gross income shall be made:

15 *a.* Add the total amount of depreciation taken on all  
16 property for which the election under section 168(n) of the  
17 Internal Revenue Code was made for the tax year.

18 *b.* Subtract an amount equal to depreciation allowed on such  
19 property for the tax year using the modified accelerated cost  
20 recovery system depreciation method applicable under section  
21 168 of the Internal Revenue Code without regard to section  
22 168(n).

23 *c.* Any other adjustments to gains or losses to reflect the  
24 adjustments made in paragraphs "a" and "b", pursuant to rules  
25 adopted by the director.

26 Sec. 7. Section 422.7, subsection 53, Code Supplement 2009,  
27 is amended by striking the subsection.

28 Sec. 8. Section 422.9, subsection 2, paragraphs h and i,  
29 Code Supplement 2009, are amended to read as follows:

30 *h.* For purposes of calculating the deductions in this  
31 subsection that are authorized under the Internal Revenue Code,  
32 and to the extent that any of such deductions is determined by  
33 an individual's federal adjusted gross income, the individual's  
34 federal adjusted gross income is computed in accordance with  
35 section 422.7, ~~subsection 39~~ subsections 39, 39A, and 39B.

1     *i.* The deduction for state sales and use taxes is allowable  
 2 only if the taxpayer elected to deduct the state sales and use  
 3 taxes in lieu of state income taxes under section 164 of the  
 4 Internal Revenue Code. A deduction for state sales and use  
 5 taxes is not allowed if the taxpayer has taken the deduction  
 6 for state income taxes or claimed the standard deduction under  
 7 section 63 of the Internal Revenue Code. This paragraph  
 8 applies to taxable years beginning after December 31, 2003, and  
 9 before January 1, ~~2006~~ 2008, and to taxable years beginning  
 10 after December 31, 2008, and before January 1, 2010.

11     Sec. 9. Section 422.10, subsection 1, paragraphs b and c,  
 12 Code Supplement 2009, are amended to read as follows:

13     *b.* In lieu of the credit amount computed in paragraph "*a*",  
 14 subparagraph (1), subparagraph division (a), a taxpayer may  
 15 elect to compute the credit amount for qualified research  
 16 expenses incurred in this state in a manner consistent with the  
 17 alternative ~~incremental~~ simplified credit described in section  
 18 ~~41(e)(4)~~ 41(c)(5) of the Internal Revenue Code. The taxpayer  
 19 may make this election regardless of the method used for the  
 20 taxpayer's federal income tax. The election made under this  
 21 paragraph is for the tax year and the taxpayer may use another  
 22 or the same method for any subsequent year.

23     *c.* For purposes of the alternate credit computation  
 24 method in paragraph "*b*", the credit percentages applicable to  
 25 qualified research expenses described in clauses ~~(i), (ii),~~  
 26 ~~and (iii) of section 41(e)(4)(A)~~ section 41(c)(5)(A) and  
 27 clause (ii) of section 41(c)(5)(B) of the Internal Revenue  
 28 Code are ~~one and sixty-five hundredths percent, two and twenty~~  
 29 ~~hundredths percent, and two and seventy-five hundredths~~ four  
 30 and fifty-five hundredths percent and one and ninety-five  
 31 hundredths percent, respectively.

32     Sec. 10. Section 422.10, subsection 3, Code Supplement  
 33 2009, is amended to read as follows:

34     3. *a.* For purposes of this section, "*base amount*", "*basic*  
 35 *research payment*", and "*qualified research expense*" mean the

1 same as defined for the federal credit for increasing research  
2 activities under section 41 of the Internal Revenue Code,  
3 except that for the alternative ~~incremental~~ simplified credit  
4 such amounts are for research conducted within this state.

5 *b.* For purposes of this section, "*Internal Revenue Code*"  
6 means the Internal Revenue Code in effect on January 1,  
7 ~~2009~~ 2010.

8 Sec. 11. Section 422.32, subsection 7, Code Supplement  
9 2009, is amended to read as follows:

10 7. "*Internal Revenue Code*" means the Internal Revenue Code  
11 of 1954, prior to the date of its redesignation as the Internal  
12 Revenue Code of 1986 by the Tax Reform Act of 1986, or means  
13 the Internal Revenue Code of 1986 as amended to and including  
14 January 1, ~~2008~~ 2010.

15 Sec. 12. Section 422.33, subsection 5, paragraphs b, c, and  
16 d, Code Supplement 2009, are amended to read as follows:

17 *b.* In lieu of the credit amount computed in paragraph  
18 "*a*", subparagraph (1), a corporation may elect to compute  
19 the credit amount for qualified research expenses incurred  
20 in this state in a manner consistent with the alternative  
21 ~~incremental~~ simplified credit described in section  
22 ~~41(c)(4)~~ 41(c)(5) of the Internal Revenue Code. The taxpayer  
23 may make this election regardless of the method used for the  
24 taxpayer's federal income tax. The election made under this  
25 paragraph is for the tax year and the taxpayer may use another  
26 or the same method for any subsequent year.

27 *c.* For purposes of the alternate credit computation  
28 method in paragraph "*b*", the credit percentages applicable to  
29 qualified research expenses described in clauses ~~(i), (ii),~~  
30 ~~and (iii) of section 41(c)(4)(A)~~ section 41(c)(5)(A) and  
31 clause (ii) of section 41(c)(5)(B) of the Internal Revenue  
32 Code are ~~one and sixty-five hundredths percent, two and twenty~~  
33 ~~hundredths percent, and two and seventy-five hundredths~~ four  
34 and fifty-five hundredths percent and one and ninety-five  
35 hundredths percent, respectively.

1     *d.* (1) For purposes of this subsection, "base amount",  
2 "basic research payment", and "qualified research expense"  
3 mean the same as defined for the federal credit for  
4 increasing research activities under section 41 of the  
5 Internal Revenue Code, except that for the alternative  
6 ~~incremental~~ simplified credit such amounts are for research  
7 conducted within this state.

8     (2) For purposes of this subsection, "Internal Revenue  
9 Code" means the Internal Revenue Code in effect on January 1,  
10 ~~2009~~ 2010.

11     Sec. 13. Section 422.35, Code Supplement 2009, is amended by  
12 adding the following new subsections:

13     NEW SUBSECTION. 19A. The additional first-year  
14 depreciation allowance authorized in section 168(k) of the  
15 Internal Revenue Code, as enacted by Pub. L. No. 110-85,  
16 section 103, and Pub. L. No. 111-5, section 1201, does not  
17 apply in computing net income for state tax purposes. If  
18 a taxpayer has taken a deduction for additional first-year  
19 depreciation in computing federal taxable income, the following  
20 adjustments to federal taxable income shall be made:

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

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

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

32     NEW SUBSECTION. 19B. The additional first-year  
33 depreciation allowance authorized in section 168(n) of the  
34 Internal Revenue Code, as enacted by Pub. L. No. 110-343,  
35 section 710, does not apply in computing net income for





1 individual income taxes and the franchise tax. These revisions  
2 only apply to tax years beginning on or after January 1, 2009,  
3 and thus do not include tax years beginning after December 31,  
4 2007, and before January 1, 2009.

5 The bill amends certain Code sections relating to the state  
6 research activities tax credit for individuals, corporations,  
7 corporations in economic development areas, and corporations  
8 in quality jobs enterprise zones by updating references to the  
9 Internal Revenue Code that include changes in the research  
10 activities tax credit. The alternative incremental research  
11 tax credit was repealed for federal income tax purposes, so  
12 the bill strikes references to it and provides in its place  
13 an alternative simplified research tax credit for Iowa tax  
14 purposes.

15 The bill strikes Code section 422.7, subsection 53, and  
16 Code section 422.35, subsection 24, relating to the increased  
17 expensing allowance under section 179 of the Internal Revenue  
18 Code. Because the bill now couples Iowa with the federal  
19 Internal Revenue Code with regard to these provisions, they are  
20 no longer necessary.

21 The bill amends certain sections of the individual and  
22 corporate income taxes related to the computation of net income  
23 (also known as "above-the-line" computation) by decoupling,  
24 for Iowa income tax purposes, from the federal accelerated  
25 depreciation deductions enacted by Congress as part of the  
26 Recovery Rebates and Economic Stimulus for the American People  
27 Act of 2008 ("the federal Economic Stimulus Act of 2008") and  
28 the American Recovery and Reinvestment Act of 2009.

29 The bill also decouples, for Iowa income tax purposes, from  
30 the federal accelerated depreciation deductions for certain  
31 disaster assistance property enacted by Congress as part of the  
32 Emergency Economic Stabilization Act of 2008. The bill makes a  
33 number of changes in conformance with this Act.

34 In certain circumstances, Code section 422.9(2)(i) provides  
35 individuals a deduction from net income (a "below-the-line"

1 deduction) for state sales and use taxes in lieu of a deduction  
2 for income taxes. This deduction was only available for  
3 taxable years beginning after December 31, 2003, and before  
4 January 1, 2006. The bill extends this deduction to taxable  
5 years beginning before January 1, 2008, and to taxable years  
6 beginning after December 31, 2008, and before January 1, 2010.  
7 The deduction is not available for the 2008 tax year.

8 The bill contains a number of retroactive applicability  
9 provisions: (1) the sections of the bill relating to the  
10 decoupling from federal bonus depreciation and recoupling with  
11 the expensing allowance apply retroactively to January 1, 2008,  
12 for tax years ending on or after that date; (2) all other  
13 sections of the bill apply retroactively to January 1, 2009,  
14 for tax years beginning on or after that date.

15 The bill takes effect upon enactment.