

Senate Study Bill 3042 - 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 state tax purposes. If a taxpayer has taken a deduction for
2 additional first-year depreciation in computing federal taxable
3 income, the following adjustments to federal taxable income
4 shall be made:

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

8 *b.* Subtract an amount equal to depreciation allowed on such
9 property for the tax year using the modified accelerated cost
10 recovery system depreciation method applicable under section
11 168 of the Internal Revenue Code without regard to section
12 168(n).

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

16 Sec. 14. Section 422.35, subsection 24, Code Supplement
17 2009, is amended by striking the subsection.

18 Sec. 15. EFFECTIVE UPON ENACTMENT AND RETROACTIVE
19 APPLICABILITY.

20 1. This Act, being deemed of immediate importance, takes
21 effect upon enactment.

22 2. The sections of this Act amending sections 15.335, 15A.9,
23 422.3, 422.9, subsection 2, paragraph "*i*", 422.10, 422.32, and
24 422.33 apply retroactively to January 1, 2009, for tax years
25 beginning on or after that date.

26 3. The sections of this Act amending sections 422.5, 422.7,
27 subsection 53, 422.9, subsection 2, paragraph "*h*", and 422.35,
28 subsection 24, and enacting sections 422.7, subsections 39A and
29 39B, and 422.35, subsections 19A and 19B, apply retroactively
30 to January 1, 2008, for tax years ending on or after that date.

31 EXPLANATION

32 This bill updates references in Code sections 15.335, 15A.9,
33 422.3, 422.10, 422.32, and 422.33 to the Internal Revenue Code,
34 making certain federal income tax revisions enacted by Congress
35 in 2008 and 2009 applicable for purposes of the corporate and

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.