

Senate Study Bill 1052 - Introduced

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

A BILL FOR

1 An Act relating to the administration of the tax and related
2 laws by updating the Code references to the Internal
3 Revenue Code and by decoupling from certain federal bonus
4 depreciation provisions and including effective date and
5 retroactive applicability provisions.

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

DIVISION I

INTERNAL REVENUE CODE REFERENCES

1
2
3 Section 1. Section 422.3, subsection 5, Code 2011, is
4 amended to read as follows:

5 5. "*Internal Revenue Code*" means the Internal Revenue Code
6 of 1954, prior to the date of its redesignation as the Internal
7 Revenue Code of 1986 by the Tax Reform Act of 1986, or means
8 the Internal Revenue Code of 1986 as amended to and including
9 January 1, ~~2008~~ 2011.

10 Sec. 2. Section 422.7, subsection 29A, Code 2011, is amended
11 by striking the subsection.

12 Sec. 3. Section 422.9, subsection 2, paragraph i, Code 2011,
13 is amended to read as follows:

14 *i.* The deduction for state sales and use taxes is allowable
15 only if the taxpayer elected to deduct the state sales and use
16 taxes in lieu of state income taxes under section 164 of the
17 Internal Revenue Code. A deduction for state sales and use
18 taxes is not allowed if the taxpayer has taken the deduction
19 for state income taxes or claimed the standard deduction under
20 section 63 of the Internal Revenue Code. This paragraph
21 applies to taxable years beginning after December 31, 2003, and
22 before January 1, ~~2006~~ 2008, and to taxable years beginning
23 after December 31, 2009, and before January 1, 2012.

24 Sec. 4. Section 422.32, subsection 7, Code 2011, is amended
25 to read as follows:

26 7. "*Internal Revenue Code*" means the Internal Revenue Code
27 of 1954, prior to the date of its redesignation as the Internal
28 Revenue Code of 1986 by the Tax Reform Act of 1986, or means
29 the Internal Revenue Code of 1986 as amended to and including
30 January 1, ~~2008~~ 2011.

31 Sec. 5. EFFECTIVE UPON ENACTMENT. This division of this
32 Act, being deemed of immediate importance, takes effect upon
33 enactment.

34 Sec. 6. RETROACTIVE APPLICABILITY. The following provision
35 or provisions of this division of this Act apply retroactively

1 to January 1, 2010, for tax years beginning on or after that
2 date:

3 1. The section of this Act amending section 422.3.

4 2. The section of this Act amending section 422.32.

5 Sec. 7. RETROACTIVE APPLICABILITY. The following provision
6 or provisions of this division of this Act apply retroactively
7 to January 1, 2011, for tax years beginning on or after that
8 date:

9 1. The section of this Act amending section 422.7,
10 subsection 29A.

11 DIVISION II

12 RESEARCH ACTIVITIES CREDIT

13 Sec. 8. Section 15.335, subsection 4, Code 2011, is amended
14 to read as follows:

15 4. *a.* In lieu of the credit amount computed in subsection
16 2, an eligible business may elect to compute the credit amount
17 for qualified research expenses incurred in this state in a
18 manner consistent with the alternative ~~incremental~~ simplified
19 credit described in section ~~41(e)(4)~~ 41(c)(5) of the Internal
20 Revenue Code. The taxpayer may make this election regardless
21 of the method used for the taxpayer's federal income tax. The
22 election made under this paragraph is for the tax year and the
23 taxpayer may use another or the same method for any subsequent
24 year.

25 *b.* For purposes of the alternate credit computation
26 method in paragraph "a", the credit percentages applicable to
27 qualified research expenses described in clauses ~~(i), (ii),~~
28 ~~and (iii)~~ of section ~~41(e)(4)(A)~~ 41(c)(5)(A) and clause (ii)
29 of section 41(c)(5)(B) of the Internal Revenue Code are as
30 follows:

31 (1) In the case of an eligible business whose gross revenues
32 do not exceed twenty million dollars per year, the credit
33 percentages are ~~two and fifty-four hundredths percent, three~~
34 ~~and thirty-eight hundredths percent, and four and twenty-three~~
35 ~~hundredths~~ seven percent and three percent, respectively.

1 (2) In the case of an eligible business whose gross revenues
2 exceed twenty million dollars per year, the credit percentages
3 are ~~seventy-six hundredths percent, one and two hundredths~~
4 ~~percent, and one and twenty-seven hundredths~~ two and one-tenth
5 percent and nine-tenths percent, respectively.

6 Sec. 9. Section 15.335, subsection 7, Code 2011, is amended
7 to read as follows:

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

14 b. For purposes of this section, "*Internal Revenue Code*"
15 means the Internal Revenue Code in effect on January 1, ~~2009~~
16 2011.

17 Sec. 10. Section 15A.9, subsection 8, paragraphs b, c, and
18 e, Code 2011, are amended to read as follows:

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

30 c. For purposes of the alternate credit computation
31 method in paragraph "b", the credit percentages applicable to
32 qualified research expenses described in clauses ~~(i), (ii), and~~
33 ~~(iii)~~ of section ~~41(c)(4)(A)~~ 41(c)(5)(A) and clause (ii) of
34 section 41(c)(5)(B) of the Internal Revenue Code are ~~three and~~
35 ~~thirty hundredths percent, four and forty hundredths percent,~~

1 ~~and five and fifty hundredths percent, respectively as follows:~~

2 (1) In the case of an eligible business whose gross revenues
3 do not exceed twenty million dollars per year, the credit
4 percentages are seven percent and three percent, respectively.

5 (2) In the case of an eligible business whose gross revenues
6 exceed twenty million dollars per year, the credit percentages
7 are two and one-tenths percent and nine-tenths percent,
8 respectively.

9 e. (1) For the purposes of this subsection, "*base amount*",
10 "*basic research payment*", and "*qualified research expense*" mean
11 the same as defined for the federal credit for increasing
12 research activities under section 41 of the Internal Revenue
13 Code, except that for the alternative ~~incremental~~ simplified
14 credit such amounts are for research conducted within this
15 state within the zone.

16 (2) For purposes of this subsection, "*Internal Revenue Code*"
17 means the Internal Revenue Code in effect on January 1, 2009
18 2011.

19 Sec. 11. Section 422.10, subsection 1, paragraphs b and c,
20 Code 2011, are amended to read as follows:

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

31 c. For purposes of the alternate credit computation
32 method in paragraph "b", the credit percentages applicable
33 to qualified research expenses described in ~~clauses (i),~~
34 ~~(ii), and (iii) of section 41(e)(4)(A)~~ 41(c)(5)(A) and clause
35 (ii) of section 41(c)(5)(B) of the Internal Revenue Code

1 ~~are one and sixty-five hundredths percent, two and twenty~~
2 ~~hundredths percent, and two and seventy-five hundredths~~ four
3 and fifty-five hundredths percent and one and ninety-five
4 hundredths percent, respectively.

5 Sec. 12. Section 422.10, subsection 3, Code 2011, is amended
6 to read as follows:

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

13 b. For purposes of this section, "*Internal Revenue Code*"
14 means the Internal Revenue Code in effect on January 1, ~~2009~~
15 2011.

16 Sec. 13. Section 422.33, subsection 5, paragraphs b, c, and
17 d, Code 2011, are amended to read as follows:

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

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

1 hundredths percent, respectively.

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

9 (2) For purposes of this subsection, "*Internal Revenue Code*"
10 means the Internal Revenue Code in effect on January 1, 2009
11 2011.

12 Sec. 14. EFFECTIVE UPON ENACTMENT. This division of this
13 Act, being deemed of immediate importance, takes effect upon
14 enactment.

15 Sec. 15. RETROACTIVE APPLICABILITY. The following
16 provision or provisions of this division of this Act apply
17 retroactively to July 1, 2010, for tax credits awarded on or
18 after that date:

19 1. The section of this Act amending section 15.335,
20 subsection 4.

21 2. The section of this Act amending section 15A.9.

22 Sec. 16. RETROACTIVE APPLICABILITY. The following
23 provision or provisions of this division of this Act apply
24 retroactively to January 1, 2010, for tax years beginning on
25 or after that date:

26 1. The section of this Act amending section 15.335,
27 subsection 7.

28 2. The section of this Act amending section 422.10,
29 subsection 1.

30 3. The section of this Act amending section 422.10,
31 subsection 3.

32 4. The section of this Act amending section 422.33.

33 DIVISION III

34 BONUS DEPRECIATION

35 Sec. 17. Section 422.5, subsection 2, paragraph b,

1 subparagraph (1), Code 2011, is amended to read as follows:

2 (1) Add items of tax preference included in federal
3 alternative minimum taxable income under section 57, except
4 subsections (a)(1), (a)(2), and (a)(5), of the Internal Revenue
5 Code, make the adjustments included in federal alternative
6 minimum taxable income under section 56, except subsections
7 (a)(4), (b)(1)(C)(iii), and (d), of the Internal Revenue Code,
8 and add losses as required by section 58 of the Internal
9 Revenue Code. To the extent that any preference or adjustment
10 is determined by an individual's federal adjusted gross income,
11 the individual's federal adjusted gross income is computed in
12 accordance with section 422.7, ~~subsection~~ subsections 39, 39A,
13 39B, and 53. In the case of an estate or trust, the items of
14 tax preference, adjustments, and losses shall be apportioned
15 between the estate or trust and the beneficiaries in accordance
16 with rules prescribed by the director.

17 Sec. 18. Section 422.7, Code 2011, is amended by adding the
18 following new subsections:

19 NEW SUBSECTION. 39A. The additional first-year
20 depreciation allowance authorized in section 168(k) of the
21 Internal Revenue Code, as enacted by Pub. L. No. 110-185,
22 section 103, Pub. L. No. 111-5, section 1201, Pub. L. No.
23 111-240, section 2022, and Pub. L. No. 111-312, section
24 401, does not apply in computing net income for state tax
25 purposes. If the taxpayer has taken the additional first-year
26 depreciation allowance for purposes of computing federal
27 adjusted gross income, then the taxpayer shall make the
28 following adjustments to federal adjusted gross income when
29 computing net income for state tax purposes:

30 a. Add the total amount of depreciation taken under section
31 168(k) of the Internal Revenue Code for the tax year.

32 b. Subtract the amount of depreciation allowable under the
33 modified accelerated cost recovery system described in section
34 168 of the Internal Revenue Code and calculated without regard
35 to section 168(k).

1 *c.* Any other adjustments to gains or losses necessary to
2 reflect the adjustments made in paragraphs “*a*” and “*b*”. The
3 director shall adopt rules for the administration of this
4 paragraph.

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

14 *a.* Add the total amount of depreciation taken under section
15 168(n) of the Internal Revenue Code for the tax year.

16 *b.* Subtract the amount of depreciation allowable under the
17 modified accelerated cost recovery system described in section
18 168 of the Internal Revenue Code and calculated without regard
19 to section 168(n).

20 *c.* Any other adjustments to gains or losses necessary to
21 reflect the adjustments made in paragraphs “*a*” and “*b*”. The
22 director shall adopt rules for the administration of this
23 paragraph.

24 Sec. 19. Section 422.7, subsection 53, Code 2011, is amended
25 to read as follows:

26 53. A taxpayer is not allowed to take the increased
27 expensing allowance under section 179 of the Internal Revenue
28 Code, as amended by Pub. L. No. ~~110-185~~ 111-5, section 1202, in
29 computing adjusted gross income for state tax purposes.

30 Sec. 20. Section 422.9, subsection 2, paragraph h, Code
31 2011, is amended to read as follows:

32 *h.* For purposes of calculating the deductions in this
33 subsection that are authorized under the Internal Revenue Code,
34 and to the extent that any of such deductions is determined by
35 an individual’s federal adjusted gross income, the individual’s

1 federal adjusted gross income is computed in accordance with
2 section 422.7, ~~subsection~~ subsections 39, 39A, 39B, and 53.

3 Sec. 21. Section 422.35, Code 2011, is amended by adding the
4 following new subsections:

5 NEW SUBSECTION. 19A. The additional first-year
6 depreciation allowance authorized in section 168(k) of the
7 Internal Revenue Code, as enacted by Pub. L. No. 110-185,
8 section 103, Pub. L. No. 111-5, section 1201, Pub. L. No.
9 111-240, section 2022, and Pub. L. No. 111-312, section
10 401, does not apply in computing net income for state tax
11 purposes. If the taxpayer has taken the additional first-year
12 depreciation allowance for purposes of computing federal
13 taxable income, then the taxpayer shall make the following
14 adjustments to federal taxable income when computing net income
15 for state tax purposes:

16 a. Add the total amount of depreciation taken under section
17 168(k) of the Internal Revenue Code for the tax year.

18 b. Subtract the amount of depreciation allowable under the
19 modified accelerated cost recovery system described in section
20 168 of the Internal Revenue Code and calculated without regard
21 to section 168(k).

22 c. Any other adjustments to gains or losses necessary to
23 reflect the adjustments made in paragraphs "a" and "b". The
24 director shall adopt rules for the administration of this
25 paragraph.

26 NEW SUBSECTION. 19B. The additional first-year
27 depreciation allowance authorized in section 168(n) of the
28 Internal Revenue Code, as enacted by Pub. L. No. 110-343,
29 section 710, does not apply in computing net income for
30 state tax purposes. If the taxpayer has taken the additional
31 first-year depreciation allowance for purposes of computing
32 federal taxable income, then the taxpayer shall make the
33 following adjustments to federal taxable income when computing
34 net income for state tax purposes:

35 a. Add the total amount of depreciation taken under section

1 168(n) of the Internal Revenue Code for the tax year.

2 *b.* Subtract the amount of depreciation allowable under the
3 modified accelerated cost recovery system described in section
4 168 of the Internal Revenue Code and calculated without regard
5 to section 168(n).

6 *c.* Any other adjustments to gains or losses necessary to
7 reflect the adjustments made in paragraphs "*a*" and "*b*". The
8 director shall adopt rules for the administration of this
9 paragraph.

10 Sec. 22. Section 422.35, subsection 24, Code 2011, is
11 amended to read as follows:

12 24. A taxpayer is not allowed to take the increased
13 expensing allowance under section 179 of the Internal Revenue
14 Code, as amended by Pub. L. No. ~~110-185~~ 111-5, section 1202, in
15 computing taxable income for state tax purposes.

16 Sec. 23. EFFECTIVE UPON ENACTMENT. This division of this
17 Act, being deemed of immediate importance, takes effect upon
18 enactment.

19 Sec. 24. RETROACTIVE APPLICABILITY. The following
20 provision or provisions of this division of this Act apply
21 retroactively to January 1, 2008, for tax years ending on or
22 after that date:

23 1. The section of this Act amending section 422.5.

24 2. The section of this Act enacting section 422.7, new
25 subsections 39A and 39B.

26 3. The section of this Act amending section 422.9.

27 4. The section of this Act enacting section 422.35, new
28 subsections 19A and 19B.

29 Sec. 25. RETROACTIVE APPLICABILITY. The following
30 provision or provisions of this division of this Act apply
31 retroactively to January 1, 2009, for tax years beginning on or
32 after that date, and before January 1, 2010:

33 1. The section of this Act amending section 422.7,
34 subsection 53.

35 2. The section of this Act amending section 422.35,

1 subsection 24.

2

EXPLANATION

3 This bill updates Iowa Code references to the Internal
4 Revenue Code, provides for changes to the Iowa research
5 activities credit, and decouples from certain federal
6 depreciation provisions.

7 Division I of the bill updates references in Code sections
8 422.3 and 422.32 to the Internal Revenue Code, making certain
9 federal income tax revisions enacted by Congress in 2008,
10 2009, and 2010 applicable for purposes of the corporate and
11 individual income taxes and the franchise tax. These revisions
12 only apply to tax years beginning on or after January 1, 2010,
13 and do not include tax years beginning after December 31, 2007,
14 and before January 1, 2010.

15 The division strikes Code section 422.7, subsection 29A,
16 which provided an exclusion from income of the value of health
17 care coverage of a nonqualified tax dependent up to the age
18 of 25. The federal Patient Protection and Affordable Care
19 Act, Pub. L. No. 111-148, provides for the exclusion from
20 income of the value of health care coverage of a nonqualified
21 tax dependent up to the age of 27, effective March 30, 2010.
22 Because the bill now couples Iowa with the Internal Revenue
23 Code with regard to this provision, Code section 422.7,
24 subsection 29A, is no longer necessary for tax years beginning
25 on or after January 1, 2011. This change applies retroactively
26 to that date.

27 Currently, in certain circumstances, Code section
28 422.9(2)(i) provides individuals a deduction from net income
29 (also known as a "below-the-line" deduction) for state sales
30 and use taxes in lieu of a deduction for income taxes. This
31 deduction was only available for taxable years beginning
32 after December 31, 2003, and before January 1, 2006. The
33 division extends this deduction to tax years beginning after
34 December 31, 2003, and before January 1, 2008, and to tax years
35 beginning after December 31, 2009, and before January 1, 2012.

1 Division II of the bill amends certain Code sections
2 relating to the state research activities tax credit for
3 individuals, corporations, corporations in economic development
4 areas, and corporations in quality jobs enterprise zones. The
5 division updates Iowa Code references to the Internal Revenue
6 Code for purposes of coupling with changes to the federal
7 research activities tax credit.

8 The division also makes certain changes relating to the
9 alternative incremental research tax credit. Because this tax
10 credit was repealed for federal tax purposes, the bill removes
11 references to it from the Iowa Code and replaces them with
12 an alternative simplified research tax credit for Iowa tax
13 purposes. The amendments to Code section 15.335, subsection
14 4, and Code section 15A.9 relate to this change and apply
15 retroactively to July 1, 2010, for tax credits awarded on or
16 after that date.

17 The division also makes certain changes in the calculation
18 of the additional research activities credit that depend on
19 whether an eligible business has \$20 million or more in gross
20 revenues. These changes only apply to tax years beginning
21 on or after January 1, 2010, and do not include tax years
22 beginning after December 31, 2008, and before January 1, 2010.

23 Division III of the bill amends certain sections of
24 the individual and corporate income taxes relating to the
25 computation of net income (also known as "above-the-line"
26 computation) by decoupling, for Iowa income tax purposes, from
27 the federal accelerated depreciation deductions enacted by
28 Congress as part of the Recovery Rebates and Economic Stimulus
29 for the American People Act of 2008, the American Recovery and
30 Reinvestment Act of 2009, the Small Business Jobs Act of 2010,
31 and the Tax Relief, Unemployment Insurance Authorization and
32 Job Creation Act of 2010. In addition, the division decouples,
33 for Iowa income tax purposes, from the federal accelerated
34 depreciation deductions for certain disaster assistance
35 property enacted by Congress as part of the Emergency Economic

1 Stabilization, Energy Improvement and Extension, and Tax
2 Extenders and AMT Relief Acts of 2008. These changes are
3 retroactive to January 1, 2008, for tax years ending on or
4 after that date.

5 The division also decouples, for Iowa tax purposes, from the
6 increased expensing allowance under section 179 of the Internal
7 Revenue Code enacted by Congress as part of the American
8 Recovery and Reinvestment Act of 2009 and makes a number of
9 conforming changes. The changes take effect for tax years
10 beginning on or after January 1, 2009, and before January 1,
11 2010.

12 Each of the divisions of the bill takes effect upon
13 enactment.