

**House File 2097 - Introduced**

HOUSE FILE 2097

BY JACOBY and KEARNS

**A BILL FOR**

1 An Act relating to the taxation under the state corporate  
2 income tax, franchise tax, and insurance companies tax  
3 of compensation paid by a publicly held corporation to  
4 its chief executive officer, and including applicability  
5 provisions.

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

1 Section 1. Section 422.35, Code 2018, is amended by adding  
2 the following new subsection:

3 NEW SUBSECTION. 14. *a.* For purposes of this subsection,  
4 "*compensation*" means the total amount allowable under section  
5 162(a)(1) of the Internal Revenue Code as salary or other  
6 compensation for personal services actually rendered,  
7 determined without regard to sections 162(m) or 280G of the  
8 Internal Revenue Code.

9 *b.* If the taxpayer is a publicly held corporation as defined  
10 in section 162(m)(2) of the Internal Revenue Code, the taxpayer  
11 shall do all of the following:

12 (1) Add, to the extent allowed as a deduction in computing  
13 federal taxable income, the amount paid or accrued during the  
14 tax year as compensation of the chief executive officer of the  
15 taxpayer, or the individual acting in such capacity.

16 (2) Add the amount paid or accrued during the tax year as  
17 compensation of the chief executive officer of the taxpayer, or  
18 the individual acting in such capacity.

19 **Sec. 2. NEW SECTION. 432.11 Tax on chief executive officer**  
20 **compensation of publicly held corporations.**

21 1. For purposes of this section:

22 *a.* "*Compensation*" means the same as defined in section  
23 422.35, subsection 14.

24 *b.* "*Federal income tax year*" means, with respect to an  
25 insurance company or association, the calendar year, or the  
26 fiscal year ending during such calendar year, upon the basis of  
27 which the insurance company's or association's federal income  
28 tax is computed.

29 2. Every insurance company or association of whatever kind  
30 or character that is subject to the tax on gross premiums  
31 imposed in this chapter and that is a publicly held corporation  
32 as defined in section 162(m)(2) of the federal Internal Revenue  
33 Code shall pay to the director of the department of revenue, or  
34 to a depository designated by the director, as a tax, an amount  
35 equal to one percent of the amount paid or accrued, as the case

1 may be, during a federal income tax year as compensation of  
2 the chief executive officer, or the individual acting in such  
3 capacity.

4 3. If the taxable income of the insurance company or  
5 association for federal income tax purposes is derived from its  
6 business carried on entirely within this state, the tax in this  
7 section shall be imposed on the entire compensation, but if the  
8 business is carried on partly within and partly without the  
9 state, the portion of compensation reasonably attributable to  
10 the business within the state shall be specifically allocated  
11 or equitably apportioned within and without the state under  
12 rules of the director of the department of revenue.

13 4. The tax imposed in this section shall be paid on or  
14 before the due date under the federal Internal Revenue Code  
15 for paying the federal income tax of the insurance company or  
16 association for the applicable federal income tax year that is  
17 the subject of the tax in this section, as provided by rules  
18 adopted by the commissioner. The commissioner, in consultation  
19 with the director of the department of revenue, shall create  
20 and make available forms to be used in paying the tax imposed  
21 in this section.

22 5. The commissioner may suspend or revoke the license of a  
23 company or association that fails to pay its tax on or before  
24 the due date.

25 Sec. 3. APPLICABILITY. This Act applies to tax years  
26 beginning on or after January 1, 2019.

27

#### EXPLANATION

28 The inclusion of this explanation does not constitute agreement with  
29 the explanation's substance by the members of the general assembly.

30 This bill relates to the taxation of compensation paid to  
31 chief executive officers of publicly traded corporations under  
32 the Iowa corporate income tax, franchise tax, and insurance  
33 premiums tax. The bill defines "compensation" to be the total  
34 amount allowable as a business expense deduction under the  
35 Internal Revenue Code (IRC) for salary and compensation for

1 personal services actually rendered, determined without regard  
2 to the deduction limitations in the IRC for certain excessive  
3 employee compensation or excess parachute payments.

4 For purposes of calculating net income of a publicly held  
5 corporation under the Iowa corporate income tax, and under  
6 the franchise tax imposed on financial institutions, the bill  
7 disallows a deduction for amounts paid or accrued during a tax  
8 year as compensation of the chief executive officer, or the  
9 individual acting in such capacity. The bill additionally  
10 requires the publicly held corporation to add to net income the  
11 amounts paid or accrued during the tax year as compensation of  
12 the chief executive officer, or the individual acting in such  
13 capacity.

14 Insurance companies and associations doing business in  
15 Iowa are not subject to the Iowa corporate income tax or  
16 the franchise tax, but are instead generally subject to a 1  
17 percent gross premiums tax related to business done in Iowa  
18 on a calendar year basis. The bill provides that any such  
19 insurance company or association subject to the Iowa insurance  
20 premiums tax that is a publicly held corporation shall also  
21 be subject to a tax equal to 1 percent of the amount paid or  
22 accrued during each federal income tax year as compensation of  
23 the chief executive officer, or the individual acting in such  
24 capacity. "Federal income tax year" is defined in the bill to  
25 be the calendar year or fiscal year upon which an insurance  
26 company or association computes its federal income tax. If  
27 the entire federal taxable income of the insurance company or  
28 association is derived in Iowa, then the tax is imposed on the  
29 entire amount of the compensation, but if business is conducted  
30 inside and outside of Iowa, only a portion of the compensation  
31 is taxable in Iowa pursuant to allocation and apportionment  
32 rules required to be adopted by the director of revenue.

33 The tax is due on or before the due date under the IRC for  
34 paying the federal income tax of the insurance company or  
35 association for the applicable federal income tax year that

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1 is the subject of the compensation tax. The bill allows the  
2 commissioner of insurance to suspend or revoke the license of  
3 any insurance company or association that fails to pay the  
4 compensation tax on or before the due date.

5 The bill applies to tax years beginning on or after January  
6 1, 2019.