

Senate File 179 - Introduced

SENATE FILE 179

BY ZAUN

A BILL FOR

1 An Act temporarily updating the Code references to the Internal
2 Revenue Code and decoupling from certain federal 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. INTERNAL REVENUE CODE REFERENCES FOR
2 2016. Notwithstanding the definition of "Internal Revenue
3 Code" in section 15.335, subsection 7, section 422.3,
4 subsection 5, section 422.10, subsection 3, section 422.32,
5 subsection 1, and section 422.33, subsection 5, Code 2017,
6 the following shall apply for the period beginning January 1,
7 2016, and ending December 31, 2016, and for tax years beginning
8 during the 2016 calendar year:

9 1. The definition of "Internal Revenue Code" for purposes
10 of section 15.335, subsection 7, section 422.10, subsection 3,
11 and section 422.33, subsection 5, Code 2017, and for purposes
12 of references in the 2017 Iowa Code and 2017 Iowa Acts to the
13 definition of "Internal Revenue Code" in those sections, shall
14 mean the Internal Revenue Code in effect on January 1, 2017.

15 2. The definition of "Internal Revenue Code" for purposes
16 of sections 422.3 and 422.32, Code 2017, and for purposes of
17 references in the 2017 Iowa Code and 2017 Iowa Acts to the
18 definition of "Internal Revenue Code" in those sections, shall
19 mean the Internal Revenue Code of 1954, prior to the date of
20 its redesignation as the Internal Revenue Code of 1986 by the
21 Tax Reform Act of 1986, or means the Internal Revenue Code of
22 1986 as amended to and including January 1, 2017.

23 Sec. 2. DEDUCTION FOR STATE SALES AND USE TAX FOR
24 2016. Notwithstanding section 422.9, subsection 2, paragraph
25 "i", Code 2017, the deduction for state sales and use taxes is
26 allowable under section 422.9 for tax years beginning during
27 the 2016 calendar year, but only if the taxpayer elected to
28 deduct the state sales and use taxes in lieu of state income
29 taxes under section 164 of the Internal Revenue Code. The
30 deduction for state sales and use taxes is not allowed if the
31 taxpayer has taken the deduction for state income taxes or
32 claimed the standard deduction under section 63 of the Internal
33 Revenue Code.

34 Sec. 3. BONUS DEPRECIATION FOR 2016.

35 1. Notwithstanding section 1 of this Act, or any other

1 provision of law to the contrary, the additional first-year
2 depreciation allowance authorized in section 168(k) of the
3 Internal Revenue Code, as enacted by Pub. L. No. 114-113,
4 §143, does not apply in computing net income for state tax
5 purposes for tax years ending on or after January 1, 2016. If
6 the taxpayer has taken the additional first-year depreciation
7 allowance for purposes of computing federal adjusted gross
8 income or federal taxable income, as the case may be, then
9 the taxpayer, when computing net income for purposes of the
10 individual income tax under section 422.7 or the corporation
11 income tax or franchise tax under section 422.35, shall make
12 the adjustments described in section 422.7, subsection 39A,
13 paragraphs "a" through "c", Code 2017, or described in section
14 422.35, subsection 19A, paragraphs "a" through "c", Code 2017,
15 as applicable.

16 2. In addition to the requirements of section 422.5,
17 subsection 2, paragraph "b", subparagraph (1), Code 2017,
18 for purposes of the state alternative minimum taxable income
19 calculation in section 422.5, subsection 2, paragraph "b",
20 subparagraph (1), to the extent that any preference or
21 adjustment is determined by an individual's federal adjusted
22 gross income, the individual's federal adjusted gross income is
23 computed in accordance with subsection 1 of this section for
24 tax years beginning during the 2016 calendar year.

25 3. In addition to the requirements of section 422.9,
26 subsection 2, paragraph "h", Code 2017, for purposes of
27 calculating the deductions in section 422.9 that are authorized
28 under the Internal Revenue Code, and to the extent that
29 any such deduction is determined by an individual's federal
30 adjusted gross income, the individual's federal adjusted gross
31 income is computed in accordance with subsection 1 of this
32 section for tax years beginning during the 2016 calendar year.

33 Sec. 4. EFFECTIVE UPON ENACTMENT. This Act, being deemed of
34 immediate importance, takes effect upon enactment.

35 Sec. 5. RETROACTIVE APPLICABILITY. This Act applies

1 retroactively to January 1, 2016.

2 EXPLANATION

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

5 Under current law, Iowa Code references to the Internal
6 Revenue Code include the Internal Revenue Code in effect on
7 January 1, 2015, meaning federal income tax revisions made
8 by Congress in 2015 and 2016 are not applicable for Iowa tax
9 purposes for the 2016 tax year. This bill temporarily updates
10 for 2016 certain Iowa Code references to the Internal Revenue
11 Code to make federal income tax revisions enacted by Congress
12 in 2015 and 2016 applicable for a certain period of time,
13 to allow the deduction for state sales and use tax, and to
14 decouple with certain bonus depreciation provisions.

15 INTERNAL REVENUE CODE REFERENCES. The bill provides that
16 notwithstanding several Code provisions as specified in the
17 bill, the definitions of "Internal Revenue Code" in those Code
18 provisions and, by internal reference, in other sections of the
19 Iowa Code and Iowa Acts shall mean the Internal Revenue Code
20 in effect on, or as amended to and including, January 1, 2017.
21 This definition change applies only to the period beginning
22 January 1, 2016, and ending December 31, 2016, and for tax
23 years beginning during the 2016 calendar year.

24 The affected Code provisions include Code sections 422.3
25 and 422.32, general definition sections in the chapter of the
26 Code that governs corporate and individual income tax and the
27 franchise tax, and Code sections 15.335, 422.10, and 422.33,
28 which contain references to the Internal Revenue Code for the
29 state research activities credit for individuals, corporations,
30 and corporations participating in certain economic development
31 programs.

32 Code section 422.9 provides individuals a deduction from
33 net income for state sales and use taxes if the individual
34 chose to deduct sales and use tax in lieu of state income taxes
35 or the standard deduction for federal income tax purposes.

1 This deduction was set to expire under both federal and Iowa
2 law for tax years beginning on or after January 1, 2015. The
3 federal Protecting Americans from Tax Hikes Act of 2015 made
4 the federal deduction permanent. The bill allows the Iowa
5 deduction for tax years beginning during the 2016 calendar
6 year.

7 BONUS DEPRECIATION. The bill decouples, for Iowa income
8 tax purposes for tax years ending on or after January 1,
9 2016, from the federal additional first-year depreciation
10 allowance in section 168(k) of the Internal Revenue Code
11 (bonus depreciation) which was modified and extended through
12 2019 by the federal Protecting Americans from Tax Hikes Act
13 of 2015. Taxpayers who claim bonus depreciation for federal
14 tax purposes are, for the applicable tax year, required to add
15 such depreciation amounts back to Iowa net income, but are
16 then allowed under existing state law to deduct the amount of
17 depreciation that would otherwise be allowable under federal
18 law, without regard to the bonus depreciation allowance.

19 Under current law, taxpayers are in some instances required,
20 when calculating alternative minimum tax under Code section
21 422.5(2) and itemized deductions under Code section 422.9(2),
22 to recompute their federal adjusted gross income to take
23 into account the fact that Iowa has decoupled from bonus
24 depreciation. The bill provides that taxpayers must make those
25 same adjustments to federal adjusted gross income for tax year
26 2016 to account for the fact that Iowa has decoupled from bonus
27 depreciation as described above.

28 The bill takes effect upon enactment and applies
29 retroactively to January 1, 2016.