

Senate Study Bill 3198 - Introduced

SENATE FILE _____
BY (PROPOSED COMMITTEE ON
WAYS AND MEANS BILL BY
CHAIRPERSON FEENSTRA)

A BILL FOR

1 An Act concerning the apportionment of certain business
2 income of an airline or a qualified air freight forwarder
3 for purposes of Iowa corporate income tax, and including
4 effective date and retroactive applicability provisions.
5 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 Section 1. Section 422.33, subsection 2, paragraph a,
2 subparagraph (2), Code 2018, is amended by adding the following
3 new subparagraph divisions:

4 NEW SUBPARAGRAPH DIVISION. (0f) Notwithstanding
5 subparagraph division (c), where income is derived by an
6 airline from transportation operations, the part attributable
7 to business within the state shall be in the proportion that
8 the miles of the airline traveled in this state bears to the
9 total miles of such airline traveled everywhere.

10 NEW SUBPARAGRAPH DIVISION. (00f) (i) Notwithstanding
11 subparagraph division (c), where income is derived by a
12 qualified air freight forwarder from transportation operations
13 through an affiliated airline, such income shall be apportioned
14 as follows:

15 (A) For tax years beginning during the 2018 calendar
16 year, seventy-five percent of such income shall be equitably
17 apportioned as provided in subparagraph division (c), and
18 of the remaining twenty-five percent of such income, the
19 part attributable to business within the state shall be in
20 the proportion that the miles of the qualified air freight
21 forwarder's affiliated airline traveled in this state bears to
22 the total miles of the affiliated airline traveled everywhere.

23 (B) For tax years beginning during the 2019 calendar year,
24 fifty percent of such income shall be equitably apportioned as
25 provided in subparagraph division (c), and of the remaining
26 fifty percent of such income, the part attributable to business
27 within the state shall be in the proportion that the miles
28 of the qualified air freight forwarder's affiliated airline
29 traveled in this state bears to the total miles of the
30 affiliated airline traveled everywhere.

31 (C) For tax years beginning during the 2020 calendar
32 year, twenty-five percent of such income shall be equitably
33 apportioned as provided in subparagraph division (c), and
34 of the remaining seventy-five percent of such income, the
35 part attributable to business within the state shall be in

1 the proportion that the miles of the qualified air freight
2 forwarder's affiliated airline traveled in this state bears to
3 the total miles of the affiliated airline traveled everywhere.

4 (D) For tax years beginning on or after January 1, 2021,
5 the part attributable to business within the state shall be
6 in the proportion that the miles of the qualified air freight
7 forwarder's affiliated airline traveled in this state bears to
8 the total miles of the affiliated airline traveled everywhere.

9 (ii) For purposes of this subparagraph division (00f),
10 "*qualified air freight forwarder*" means a taxpayer who meets all
11 of the following requirements:

12 (A) The taxpayer is primarily engaged in the facilitation of
13 the transportation of property by air.

14 (B) The taxpayer does not itself operate aircraft.

15 (C) The taxpayer is in the same affiliated group as an
16 airline.

17 Sec. 2. EFFECTIVE DATE. This Act, being deemed of immediate
18 importance, takes effect upon enactment.

19 Sec. 3. RETROACTIVE APPLICABILITY. This Act applies
20 retroactively to January 1, 2018, for tax years beginning on
21 or after that date.

22 EXPLANATION

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

25 This bill relates to the apportionment of income of an
26 airline and of a qualified air freight forwarder for purposes
27 of the Iowa corporate income tax.

28 A corporation doing business both within and without Iowa is
29 required to apportion its business income among Iowa and the
30 other states in which it does business. The amount of business
31 income apportioned to Iowa is generally in the same percentage
32 as the business's gross sales made within Iowa if the business
33 involves the manufacture or sale of goods and products, or in
34 the same percentage as the business's gross receipts earned
35 within Iowa if the business involves something other than the

1 manufacture or sale of goods and products. However, airlines
2 and other specified industries have special rules provided
3 by administrative rule for apportioning the income of those
4 industries.

5 Under current law pursuant to 701 Iowa administrative code,
6 rule 54.7(2), an airline deriving income from transportation
7 operations is required to apportion its business income to
8 Iowa in the same proportion that its mileage traveled in Iowa
9 bears to its total mileage traveled everywhere. The bill
10 specifies that an airline shall apportion this business income
11 in the same manner described above as required under 701 Iowa
12 administrative code, rule 54.7(2).

13 The bill also provides rules for apportioning income derived
14 by a qualified air freight forwarder from transportation
15 operations through an affiliated airline. The bill defines
16 "qualified air freight forwarder" to be a taxpayer that is
17 primarily engaged in the facilitation of the transportation of
18 property by air, and that does not itself operate aircraft but
19 that is in the same affiliated group as an airline.

20 The bill states that the qualified air freight forwarder
21 income shall be apportioned to Iowa either under the current
22 rules of the director of revenue (current statutory rules),
23 or in the same proportion that the miles of the qualified air
24 freight forwarder's affiliated airline traveled in this state
25 bears to the total miles of the affiliated airline traveled
26 everywhere (affiliated airline mileage rules), depending on the
27 tax year.

28 For tax years beginning during the 2018 calendar year,
29 qualified air freight forwarder income shall be apportioned 75
30 percent under the current statutory rules, and 25 percent under
31 the affiliated airline mileage rules. These apportionment
32 percentages change to 50 percent and 50 percent for tax years
33 beginning during the 2019 calendar year, respectively, and to
34 25 percent and 75 percent for tax years beginning during the
35 2020 calendar year, respectively. For tax years beginning on

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1 or after January 1, 2021, all business income derived by a
2 qualified air freight forwarder from transportation operations
3 through an affiliated airline shall be apportioned under the
4 affiliated airline mileage rules.

5 The bill takes effect upon enactment and applies
6 retroactively to January 1, 2018, for tax years beginning on
7 or after that date.