

# House Study Bill 708 - Introduced

HOUSE FILE \_\_\_\_\_  
BY (PROPOSED COMMITTEE ON  
WAYS AND MEANS BILL BY  
CHAIRPERSON HEIN)

## A BILL FOR

1 An Act relating to the treatment of certain income as a  
2 foreign dividend for Iowa corporate income tax purposes,  
3 and modifying the business interest expense deduction for  
4 Iowa individual and corporate tax purposes and including  
5 effective date and retroactive applicability provisions.  
6 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 Section 1. Section 422.35, subsection 21, Code 2020, is  
2 amended to read as follows:

3 21. Subtract the amount of net foreign dividend income,  
4 including based upon the percentage of ownership as set forth  
5 in section 243 of the Internal Revenue Code. Net foreign  
6 dividend includes subpart F income as defined in section 952  
7 of the Internal Revenue Code, ~~based upon the percentage of~~  
8 ~~ownership as set forth in section 243 of the Internal Revenue~~  
9 ~~Code and includes global intangible low-taxed income as defined~~  
10 in section 951A of the Internal Revenue Code after applying  
11 the deduction allowed for global intangible low-taxed income  
12 allowed under section 250(a)(1)(B) of the Internal Revenue  
13 Code.

14 Sec. 2. Section 422.7, Code 2020, is amended by adding the  
15 following new subsection:

16 NEW SUBSECTION. 59. *a.* Section 163(j) of the Internal  
17 Revenue Code does not apply in computing net income for state  
18 tax purposes. If the taxpayer's federal adjusted gross income  
19 for the tax year was increased or decreased by reason of the  
20 application of section 163(j) of the Internal Revenue Code,  
21 the taxpayer shall recompute net income for state tax purposes  
22 under rules prescribed by the director.

23 *b.* Paragraph "a" shall not apply during any tax year  
24 in which the additional first-year depreciation allowance  
25 authorized in section 168(k) of the Internal Revenue Code  
26 applies in computing net income for state tax purposes.

27 *c.* For any tax year in which paragraph "a" does not apply,  
28 a taxpayer shall not be permitted to deduct any amount of  
29 interest expense paid or accrued in a previous taxable year  
30 that is allowed as a deduction in the current taxable year by  
31 reason of the carryforward of disallowed business interest  
32 provisions of section 163(j)(2) of the Internal Revenue Code,  
33 if either of the following apply:

34 (1) The interest expense was originally paid or accrued  
35 during a tax year in which paragraph "a" applied.

1 (2) The interest expense was originally paid or accrued  
2 during a tax year in which the taxpayer was not required to  
3 file an Iowa return.

4 Sec. 3. Section 422.35, Code 2020, is amended by adding the  
5 following new subsection:

6 NEW SUBSECTION. 26. *a.* Section 163(j) of the Internal  
7 Revenue Code does not apply in computing net income for state  
8 tax purposes. If the taxpayer's federal taxable income for  
9 the tax year was increased or decreased by reason of the  
10 application of section 163(j) of the Internal Revenue Code,  
11 the taxpayer shall recompute net income for state tax purposes  
12 under rules prescribed by the director.

13 *b.* Paragraph "a" shall not apply during any tax year  
14 in which the additional first-year depreciation allowance  
15 authorized in section 168(k) of the Internal Revenue Code  
16 applies in computing net income for state tax purposes.

17 *c.* For any tax year in which paragraph "a" does not apply,  
18 a taxpayer shall not be permitted to deduct any amount of  
19 interest expense paid or accrued in a previous taxable year  
20 that is allowed as a deduction in the current taxable year by  
21 reason of the carryforward of disallowed business interest  
22 provisions of section 163(j)(2) of the Internal Revenue Code,  
23 if either of the following apply:

24 (1) The interest expense was originally paid or accrued  
25 during a tax year in which paragraph "a" applied.

26 (2) The interest expense was originally paid or accrued  
27 during a tax year in which the taxpayer was not required to  
28 file an Iowa return.

29 Sec. 4. EFFECTIVE DATE. This Act, being deemed of immediate  
30 importance, takes effect upon enactment.

31 Sec. 5. RETROACTIVE APPLICABILITY. This Act applies  
32 retroactively to January 1, 2019, for tax years beginning on  
33 or after that date.

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EXPLANATION

35 The inclusion of this explanation does not constitute agreement with

1           the explanation's substance by the members of the general assembly.

2       This bill relates to the treatment of certain income as a  
3 foreign dividend for Iowa corporate income tax purposes, and  
4 modifies the business expense deduction for Iowa individual and  
5 corporate tax purposes.

6       FOREIGN DIVIDEND INCOME. Federal law includes in a  
7 taxpayer's gross income global intangible low-taxed income  
8 (GILTI) as defined in section 951A of the Internal Revenue  
9 Code, subject to a deduction equal to 50 percent of the  
10 corporation's GILTI under section 250(a)(1)(B) of the Internal  
11 Revenue Code. The amendment to Code section 422.35(21) directs  
12 corporate taxpayers to treat the taxpayer's net GILTI amount as  
13 a foreign dividend for Iowa income tax purposes, meaning the  
14 taxpayer qualifies for the same dividends received deduction  
15 that applies to subpart F income and other foreign dividends.

16       BUSINESS INTEREST EXPENSE DEDUCTION. The federal Tax Cuts  
17 and Jobs Act (TCJA) created a new limitation on the deduction  
18 of business interest expense for tax years beginning on or  
19 after January 1, 2018. Currently, the state couples with  
20 federal law limiting the deduction of business interest expense  
21 for tax years beginning on or after January 1, 2019.

22       The bill decouples, for Iowa individual and corporate income  
23 tax purposes, from the federal limitation on deduction of  
24 business interest expenses for tax years beginning on or after  
25 January 1, 2019.

26       The decoupling from the federal limitation on deduction  
27 of business interest expense does not apply during any tax  
28 year in which the additional first-year depreciation allowance  
29 authorized in section 168(k) of the Internal Revenue Code  
30 (bonus depreciation) applies in computing net income for state  
31 tax purposes.

32       For any tax year in which a taxpayer is not permitted to  
33 deduct any amount of interest expense paid or accrued in a  
34 previous taxable year due to the allowance of the additional  
35 first-year depreciation, the bill prohibits the deduction of

1 any amount of interest expense paid or accrued in a previous  
2 taxable year in the current taxable year by reason of the  
3 carryforward of disallowed business interest provisions of  
4 section 163(j)(2) of the Internal Revenue Code, if either of  
5 the following apply: the interest expense was originally paid  
6 or accrued during a tax year in which there was a decoupling  
7 from the federal limitation on business expense, or the  
8 interest expense was originally paid or accrued during a tax  
9 year in which the taxpayer was not required to file an Iowa  
10 return.

11 EFFECTIVE DATE AND APPLICABILITY. The bill takes effect  
12 upon enactment, and applies retroactively to January 1, 2019,  
13 for tax years beginning on or after that date.