



**Iowa Department of Revenue**

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TO:	MEMBERS OF THE 2015 IOWA GENERAL ASSEMBLY
FROM:	IOWA DEPARTMENT OF REVENUE
DATE:	JANUARY 2015
SUBJECT:	IOWA DEPARTMENT OF REVENUE INTERNAL REVENUE CODE UPDATE BILL

This is the annual bill proposed by the Department of Revenue to incorporate into Iowa income tax law the federal income tax changes enacted by Congress in calendar year 2014.

**Division I**

Sections 1, 4 and 6 update the provisions in the Iowa Code for the Iowa research activities credit to include revisions in the federal research credit, which is the basis for the Iowa research activities credits. The federal research credit was extended for the 2014 tax year as part of the Tax Increase Prevention Act of 2014.

Sections 2 and 5 which define the Internal Revenue Code for Iowa income tax purposes are also updated so that all of the 2014 federal changes (with the exception noted in Division II of the bill), including the Tax Increase Prevention Act of 2014, which affect the computation of Iowa net income for individuals, corporations and financial institutions are adopted. Some of the significant federal tax legislation enacted that affect the 2014 tax year include the following:

- Deduction for up to \$250 for out-of-pocket expenses for teachers
- Tuition and fees deduction for higher education expenses
- Election to deduct state sales/use tax in lieu of state income tax as an itemized deduction
- Deduction for mortgage insurance premiums as deductible qualified residence interest
- Nontaxable IRA transfers to eligible charities
- Small businesses can now expense (instead of depreciate) the first \$500,000 of equipment cost. This is labeled "Section 179 expensing."

Section 3 provides for the election to deduct state sales/use tax in lieu of state income tax as an itemized deduction for Iowa income tax for the 2014 tax year.

**Division II**

Sections 9 and 10 provides for the disallowance of 50% bonus depreciation for individual and Corporation income tax for assets acquired in 2014. This is consistent with the Iowa treatment of bonus depreciation that was also available for federal income tax purposes for assets acquired in 2008-2013.

All the provisions of this bill are retroactive to January 1, 2014, for tax years beginning on or after that date, with the exception of Sections 9 and 10 related to the disallowance of bonus depreciation. Sections 9 and 10 are retroactive to January 1, 2014, for tax years ending on or after that date.