



TO:	MEMBERS OF THE 2016 IOWA GENERAL ASSEMBLY
FROM:	IOWA DEPARTMENT OF REVENUE
DATE:	FEBRUARY 2016
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 2015.

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 made permanent as part of the Protecting Americans from Tax Hikes Act of 2015.

Sections 2 and 5 which define the Internal Revenue Code for Iowa income tax purposes are also updated so that all of the 2015 federal changes (with the exception noted in Division II of the bill), including the Protecting Americans from Tax Hikes Act of 2015 which affect the computation of Iowa net income for individuals, corporations and financial institutions are adopted for tax year 2016 but not tax year 2015. Some of the significant federal tax provisions enacted include the following:

- Educator expenses deduction;
- Tuition and fees deduction for higher education expenses;
- Itemized Deduction for State Sales/Use Tax Paid;
- Treatment of mortgage insurance premiums as qualified residence interest;
- Expansion of the EITC for families with three or more children and married households;
and
- Extension of the federal tax credit for solar energy installations to which the Iowa Solar Energy System Tax Credit is linked.

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 2016 tax year but not the 2015 tax year.

2016 IRC Update Bill

Division II

Sections 10 and 11 provide for the disallowance of 50% bonus depreciation for individual and corporation income tax for assets acquired in 2015 and later. This is consistent with the Iowa treatment of bonus depreciation that was also available for federal income tax purposes for assets acquired in 2008-2014.

Division III

Sections 14 and 15 provide for the disallowance of section 179 expensing of certain depreciable business assets for individual and corporation income tax for assets acquired in 2015 and later. For tax year 2015 and later, the section 179 increased expensing allowance will be limited to \$25,000 and an expense allowance limit of \$200,000.

Section 16 references the new subsection in Section 14 so taxpayers can properly recalculate their federal adjusted gross income for purposes of the alternative minimum tax by taking into account the section 179 expensing decoupling.

Division IV

Section 20 gives the Iowa Department of Revenue authority to conduct background checks on new employees and contractors, vendors, employees or other individuals performing work for the Department every ten (10) years. This allows the Department to conform with provisions in the Internal Revenue Service's Publication 1075 requiring states to conduct background checks on employees, contractors, and vendors that work with federal tax information.

All the provisions of this bill are retroactive to January 1, 2016, for tax years beginning on or after that date, with the exception of Sections 1, 4, and 6 related to the state research activities credit which are retroactive to January 1, 2015, for tax years beginning on or after that date. The state research activities credit provisions are retroactive to January 1, 2015. Iowa taxpayers can claim the Iowa credit regardless of the availability of the federal credit, and the Internal Revenue Code is used to define qualified research in the Iowa code. There is no fiscal impact in coupling with the federal research credit retroactive to January 1, 2015. Section 20 is effective upon enactment.