

**CHAPTER 2**STATE INCOME TAXES —  
DEPRECIATION AND EXPENSING ALLOWANCES

H.F. 102

**AN ACT** relating to state income taxes by authorizing individuals, corporations, and financial institutions to elect to take the additional first-year depreciation allowance and the increased expensing allowance and to allow the additional first-year depreciation allowance and the increased expensing allowance which were deductible for a tax year for which a tax return was filed prior to a certain date to be deducted on the return filed for the subsequent tax year and including an effective date provision and a retroactive applicability date provision.

*Be It Enacted by the General Assembly of the State of Iowa:*

Section 1. Section 422.7, subsection 39, paragraph b, Code 2005, is amended to read as follows:

b. ~~The A taxpayer may elect to apply the~~ additional first-year depreciation allowance authorized in section 168(k)(4) of the Internal Revenue Code, as enacted by Pub. L. No. 108-27, shall apply in computing net income for state tax purposes, for qualified property acquired after May 5, 2003, and before January 1, 2005. If the taxpayer elects to take the additional first-year depreciation allowance authorized in section 168(k)(4) of the Internal Revenue Code for state tax purposes, the deduction may be taken on amended state tax returns, if necessary. If the taxpayer does not elect to take the additional first-year depreciation allowance authorized in section 168(k)(4) of the Internal Revenue Code for state tax purposes, the following adjustment shall be made:

(1) Add the total amount of depreciation taken on all property for which the election under section 168(k)(4) of the Internal Revenue Code was made for the tax year.

(2) Subtract an amount equal to depreciation allowed on such property for the tax year using the modified accelerated cost recovery system depreciation method applicable under section 168 of the Internal Revenue Code without regard to section 168(k)(4).

(3) Any other adjustments to gains or losses to reflect the adjustments made in subparagraphs (1) and (2) pursuant to rules adopted by the director.

Sec. 2. Section 422.7, Code 2005, is amended by adding the following new subsection:

**NEW SUBSECTION.** 44. A taxpayer may elect not to take the increased expensing allowance under section 179 of the Internal Revenue Code, as amended by Pub. L. No. 108-27, section 202, in computing state tax purposes. If the taxpayer does not take the increased expensing allowance under section 179 of the Internal Revenue Code for state tax purposes, the following adjustments shall be made:

a. Add the total amount of expense deduction taken on section 179 property for federal tax purposes under section 179 of the Internal Revenue Code.

b. Subtract the amount of expense deduction on section 179 property allowable for federal tax purposes under section 179 of the Internal Revenue Code prior to enactment of Pub. L. No. 108-27, section 202.

c. Any other adjustments to gains and losses to the adjustments made in paragraphs “a” and “b” pursuant to rules adopted by the director.

Sec. 3. Section 422.35, subsection 19, paragraph b, Code 2005, is amended to read as follows:

b. ~~The A taxpayer may elect to apply the~~ additional first-year depreciation allowance authorized in section 168(k)(4) of the Internal Revenue Code, as enacted by Pub. L. No. 108-27, shall apply in computing net income for state tax purposes, for qualified property acquired after

May 5, 2003, and before January 1, 2005. If the taxpayer elects to take the additional first-year depreciation allowance authorized in section 168(k)(4) of the Internal Revenue Code for state tax purposes, the deduction may be taken on amended state tax returns, if necessary. If the taxpayer does not elect to take the additional first-year depreciation allowance authorized in section 168(k)(4) of the Internal Revenue Code for state tax purposes, the following adjustment shall be made:

(1) Add the total amount of depreciation taken on all property for which the election under section 168(k)(4) of the Internal Revenue Code was made for the tax year.

(2) Subtract an amount equal to depreciation allowed on such property for the tax year using the modified accelerated cost recovery system depreciation method applicable under section 168 of the Internal Revenue Code without regard to section 168(k)(4).

(3) Any other adjustments to gains or losses to reflect the adjustments made in subparagraphs (1) and (2) pursuant to rules adopted by the director.

Sec. 4. Section 422.35, Code 2005, is amended by adding the following new subsection:

NEW SUBSECTION. 20. A taxpayer may elect not to take the increased expensing allowance under section 179 of the Internal Revenue Code, as amended by Pub. L. No. 108-27, section 202, in computing state tax purposes. If the taxpayer does not take the increased expensing allowance under section 179 of the Internal Revenue Code for state tax purposes, the following adjustments shall be made:

a. Add the total amount of expense deduction taken on section 179 property for federal tax purposes under section 179 of the Internal Revenue Code.

b. Subtract the amount of expense deduction on section 179 property allowable for federal tax purposes under section 179 of the Internal Revenue Code prior to enactment of Pub. L. No. 108-27, section 202.

c. Any other adjustments to gains and losses to the adjustments made in paragraphs "a" and "b" pursuant to rules adopted by the director.

Sec. 5. SPECIAL FILING PROVISIONS. Adjustments to federal adjusted gross income for individuals and federal taxable income for corporations made on previous tax returns filed prior to the effective date of this section of this Act may be required. These adjustments relate to the disallowance of both the additional fifty percent first-year depreciation allowance authorized in section 168(k) of the Internal Revenue Code for assets acquired after May 5, 2003, and before January 1, 2005, and the increase in the expensing allowance authorized in section 179(b) of the Internal Revenue Code for tax periods beginning on or after January 1, 2003. In lieu of filing an amended tax return, taxpayers may make these adjustments, pursuant to rules adopted by the director of revenue, on the next return filed subsequent to the effective date of this section of this Act or on the return for the tax year immediately preceding the tax year for which its return is filed subsequent to the effective date of this section of this Act. If the taxpayer elects not to file an amended return, the "allowed or allowable" provisions and regulations of sections 167 and 1016 of the Internal Revenue Code are suspended with regard to the depreciation adjustment otherwise available as a result of this Act.

Sec. 6. EFFECTIVE AND RETROACTIVE APPLICABILITY DATES. This Act, being deemed of immediate importance, takes effect upon enactment. Sections 1 and 3 of this Act apply retroactively to tax years ending after May 5, 2003. Sections 2 and 4 of this Act apply retroactively to tax years beginning on or after January 1, 2003.

Approved February 24, 2005