

CHAPTER 1007

STATE TAXATION — TEMPORARY INTERNAL REVENUE CODE REFERENCES UPDATE — BONUS DEPRECIATION — SALES AND USE TAXES

H.F. 2433

AN ACT relating to state taxation by temporarily updating the Code references to the Internal Revenue Code, decoupling from certain federal bonus depreciation provisions, rescinding certain administrative rules and rule amendments and modifying the sales tax exemptions related to the purchase of items used in manufacturing and other activities, and including effective date and retroactive applicability provisions.

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

DIVISION I INTERNAL REVENUE CODE REFERENCES

Section 1. INTERNAL REVENUE CODE REFERENCES FOR 2015. Notwithstanding the definition of “Internal Revenue Code” in [section 15.335, subsection 7](#), [section 422.3, subsection 5](#), [section 422.10, subsection 3](#), [section 422.32, subsection 1](#), and [section 422.33, subsection 5](#), Code 2016, the following shall apply for the period beginning January 1, 2015, and ending December 31, 2015, and for tax years beginning during the 2015 calendar year:

1. The definition of “Internal Revenue Code” for purposes of [section 15.335, subsection 7](#), [section 422.10, subsection 3](#), and [section 422.33, subsection 5](#), Code 2016, and for purposes of references in the 2016 Iowa Code and 2016 Iowa Acts to the definition of “Internal Revenue Code” in those sections, shall mean the Internal Revenue Code in effect on January 1, 2016.

2. The definition of “Internal Revenue Code” for purposes of [sections 422.3](#) and [422.32](#), Code 2016, and for purposes of references in the 2016 Iowa Code and 2016 Iowa Acts to the definition of “Internal Revenue Code” in those sections, shall mean the Internal Revenue Code of 1954, prior to the date of its redesignation as the Internal Revenue Code of 1986 by the Tax Reform Act of 1986, or means the Internal Revenue Code of 1986 as amended to and including January 1, 2016.

Sec. 2. DEDUCTION FOR STATE SALES AND USE TAX FOR 2015. Notwithstanding [section 422.9, subsection 2](#), paragraph “i”, Code 2016, the deduction for state sales and use taxes is allowable under [section 422.9](#) for tax years beginning during the 2015 calendar year, but only if the taxpayer elected to deduct the state sales and use taxes in lieu of state income taxes under section 164 of the Internal Revenue Code. The deduction for state sales and use taxes is not allowed if the taxpayer has taken the deduction for state income taxes or claimed the standard deduction under section 63 of the Internal Revenue Code.

Sec. 3. BONUS DEPRECIATION FOR 2015.

1. Notwithstanding section 1 of this Act, or any other provision of law to the contrary, the additional first-year depreciation allowance authorized in section 168(k) of the Internal Revenue Code, as enacted by Pub. L. No. 114-113, §143, does not apply in computing net income for state tax purposes for tax years ending on or after January 1, 2015, but before January 1, 2016. If the taxpayer has taken the additional first-year depreciation allowance for purposes of computing federal adjusted gross income or federal taxable income, as the case may be, then the taxpayer, when computing net income for purposes of the individual income tax under [section 422.7](#) or the corporation income tax or franchise tax under [section 422.35](#), shall make the adjustments described in [section 422.7, subsection 39A](#), paragraphs “a” through “c”, Code 2016, or described in [section 422.35, subsection 19A](#), paragraphs “a” through “c”, Code 2016, as applicable.

2. In addition to the requirements of [section 422.5, subsection 2](#), paragraph “b”, subparagraph (1), Code 2016, for purposes of the state alternative minimum taxable income calculation in [section 422.5, subsection 2](#), paragraph “b”, subparagraph (1), to the extent that any preference or adjustment is determined by an individual’s federal adjusted gross

income, the individual's federal adjusted gross income is computed in accordance with subsection 1 of this section for tax years beginning during the 2015 calendar year.

3. In addition to the requirements of [section 422.9, subsection 2](#), paragraph "h", Code 2016, for purposes of calculating the deductions in [section 422.9](#) that are authorized under the Internal Revenue Code, and to the extent that any such deduction is determined by an individual's federal adjusted gross income, the individual's federal adjusted gross income is computed in accordance with subsection 1 of this section for tax years beginning during the 2015 calendar year.

Sec. 4. EFFECTIVE UPON ENACTMENT. This division of this Act, being deemed of immediate importance, takes effect upon enactment.

Sec. 5. RETROACTIVE APPLICABILITY. This division of this Act applies retroactively to January 1, 2015.

DIVISION II SALES AND USE TAXES

Sec. 6. RESCISSION OF AMENDMENTS TO ADMINISTRATIVE RULES.

1. The amendments to [701 Iowa administrative code, rule 15.3, subrule 3; rule 18.29, subrule 7; rules 18.58, 219.11, and 219.12; rule 219.13, subrule 3; and rule 230.5](#), as appearing in ARC 2349C, as published in the Iowa administrative bulletin, volume XXXVIII, number 14, dated January 6, 2016, pp. 1359-1364, are rescinded.

2. As soon as practicable, the Iowa administrative code editor shall restore the language of the Iowa administrative code rules and subrules referenced in subsection 1 of this section to the language that existed on January 5, 2016.

Sec. 7. RESCISSION OF ADMINISTRATIVE RULES.

1. [701 Iowa administrative code, rules 230.14 through 230.22](#), are rescinded.

2. As soon as practicable, the Iowa administrative code editor shall remove the language of the Iowa administrative code rules referenced in subsection 1 of this section from the Iowa administrative code.

Sec. 8. Section 423.3, subsection 47, paragraph a, unnumbered paragraph 1, Code 2016, is amended to read as follows:

The sales price from the sale or rental of computers, machinery, and equipment, including replacement parts, supplies, and materials used to construct or self-construct computers, machinery, and equipment, replacement parts, and supplies, if such items are any of the following:

Sec. 9. Section 423.3, subsection 47, paragraph d, Code 2016, is amended by adding the following new subparagraphs:

NEW SUBPARAGRAPH. (7) "*Replacement part*" means tangible personal property other than computers, machinery, equipment, or supplies, regardless of the cost or useful life of the tangible personal property, that meets all of the following conditions:

(a) The tangible personal property replaces a component of a computer, machinery, or equipment, which component is capable of being separated from the computer, machinery, or equipment.

(b) The tangible personal property performs the same or similar function as the component it replaced.

(c) The tangible personal property restores the computer, machinery, or equipment to an operational condition, or upgrades or improves the efficiency of the computer, machinery, or equipment.

NEW SUBPARAGRAPH. (8) "*Supplies*" means tangible personal property, other than computers, machinery, equipment, or replacement parts, that meets one of the following conditions:

(a) The tangible personal property is to be connected to a computer, machinery, or equipment and requires regular replacement because the property is consumed or

deteriorates during use, including but not limited to saw blades, drill bits, filters, and other similar items with a short useful life.

(b) The tangible personal property is used in conjunction with a computer, machinery, or equipment and is specially designed for use in manufacturing specific products and may be used interchangeably and intermittently on a particular computer, machine, or piece of equipment, including but not limited to jigs, dies, tools, and other similar items.

(c) The tangible personal property comes into physical contact with other tangible personal property used in processing and is used to assist with or maintain conditions necessary for processing, including but not limited to cutting fluids, oils, coolants, lubricants, and other similar items with a short useful life.

(d) The tangible personal property is directly and primarily used in an activity described in paragraph "a", subparagraphs (1) through (6), including but not limited to prototype materials and testing materials.

Sec. 10. EFFECTIVE UPON ENACTMENT. The sections of this division of this Act rescinding Iowa administrative code rules and amendments to Iowa administrative code rules, being deemed of immediate importance, take effect upon enactment.

Approved March 21, 2016