

FEB 2 2005  
WAYS & MEANS CALENDAR

HOUSE FILE 186  
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO HSB 35)

Passed House, Date 2-14-05 Passed Senate, Date 4-5-05  
Vote: Ayes 100 Nays 0 Vote: Ayes 50 Nays 0  
Approved 4/13/05

A BILL FOR

1 An Act updating the Code references to the Internal Revenue Code  
2 and including retroactive applicability and effective date  
3 provisions.

4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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HF 186

1 Section 1. Section 15.335, subsection 4, unnumbered  
2 paragraph 2, Code 2005, is amended to read as follows:

3 For purposes of this section, "Internal Revenue Code" means  
4 the Internal Revenue Code in effect on January ~~± 31, 2004~~  
5 2005.

6 Sec. 2. Section 15A.9, subsection 8, paragraph e,  
7 unnumbered paragraph 2, Code 2005, is amended to read as  
8 follows:

9 For purposes of this subsection, "Internal Revenue Code"  
10 means the Internal Revenue Code in effect on January ~~± 31,~~  
11 ~~2004~~ 2005.

12 Sec. 3. Section 422.3, subsection 5, Code 2005, is amended  
13 to read as follows:

14 5. "Internal Revenue Code" means the Internal Revenue Code  
15 of 1954, prior to the date of its redesignation as the  
16 Internal Revenue Code of 1986 by the Tax Reform Act of 1986,  
17 or means the Internal Revenue Code of 1986 as amended to and  
18 including January ~~± 31, 2003~~~~-and-as-amended-by-Pub.-L.-No.~~  
19 ~~±08-277-section-2027-which-ever-is-applicable~~ 2005.

20 Sec. 4. Section 422.7, subsections 41 and 43, Code 2005,  
21 are amended by striking the subsections.

22 Sec. 5. Section 422.9, subsection 2, paragraph k, Code  
23 2005, is amended by striking the paragraph and inserting in  
24 lieu thereof the following:

25 k. The deduction for state sales and use taxes is  
26 allowable only if the taxpayer elected to deduct the state  
27 sales and use taxes in lieu of state income taxes under  
28 section 164 of the Internal Revenue Code. A deduction for  
29 state sales and use taxes is not allowed if the taxpayer has  
30 taken the deduction for state income taxes or claimed the  
31 standard deduction under section 63 of the Internal Revenue  
32 Code. This paragraph applies to taxable years beginning after  
33 December 31, 2003, and before January 1, 2006.

34 Sec. 6. Section 422.10, subsection 3, unnumbered paragraph  
35 2, Code 2005, is amended to read as follows:

1 For purposes of this section, "Internal Revenue Code" means  
2 the Internal Revenue Code in effect on January ~~±~~ 31, ~~2004~~  
3 2005.

4 Sec. 7. Section 422.32, subsection 7, Code 2005, is  
5 amended to read as follows:

6 7. "Internal Revenue Code" means the Internal Revenue Code  
7 of 1954, prior to the date of its redesignation as the  
8 Internal Revenue Code of 1986 by the Tax Reform Act of 1986,  
9 or means the Internal Revenue Code of 1986 as amended to and  
10 including January ~~±~~ 31, ~~2003,--and-as-amended-by-Pub.--L.--No.:~~  
11 ~~108-277,--section-2027,--whichever-is-applicable~~ 2005.

12 Sec. 8. Section 422.33, subsection 5, paragraph d,  
13 unnumbered paragraph 2, Code 2005, is amended to read as  
14 follows:

15 For purposes of this subsection, "Internal Revenue Code"  
16 means the Internal Revenue Code in effect on January ~~±~~ 31,  
17 ~~2004~~ 2005.

18 Sec. 9. Section 422.35, Code 2005, is amended by adding  
19 the following new subsection:

20 NEW SUBSECTION. 20. Subtract the amount of foreign  
21 dividend income, including subpart F income as defined in  
22 section 952 of the Internal Revenue Code, based upon the  
23 percentage of ownership as set forth in section 243 of the  
24 Internal Revenue Code.

25 Sec. 10. RETROACTIVE APPLICABILITY. This Act applies  
26 retroactively to January 1, 2003, for tax years beginning on  
27 or after that date.

28 Sec. 11. EFFECTIVE DATE. This Act, being deemed of  
29 immediate importance, takes effect upon enactment.

30 EXPLANATION

31 This bill updates the references to the Internal Revenue  
32 Code to make the federal income tax revisions enacted by  
33 Congress in 2003, 2004, and January 2005 applicable for Iowa  
34 income tax purposes. This includes allowing an itemized  
35 deduction for the 2004 tax year for charitable cash

1 contributions made during January 2005 for relief of victims  
2 of the Indian ocean tsunami, in accordance with Pub. L. No.  
3 109-1 enacted by Congress in January 2005.

4 Code sections 15.335, 15A.9, 422.10, and 422.33 are amended  
5 to update the Iowa Code references to the state research  
6 activities credit for individuals, corporations, corporations  
7 in economic development areas, and corporations in quality  
8 jobs enterprise zones to include the 2004 federal changes in  
9 the research activities credit.

10 The bill strikes subsections 41 and 43 of Code section  
11 422.7. These provisions were also enacted in the federal  
12 Military Family Tax Relief Act of 2003 (Pub. L. No. 108-121).  
13 Since this bill updates references to the Internal Revenue  
14 Code for revisions made by Congress in 2003, these subsections  
15 are no longer needed. Code section 422.9 is amended to strike  
16 a corresponding reference to subsection 41.

17 The federal American Jobs Creation Act of 2004 (Pub. L. No.  
18 108-357) allows individuals the option of deducting either  
19 state income taxes or state sales and use taxes paid as an  
20 itemized deduction for the 2004 and 2005 tax years. The bill  
21 allows taxpayers to deduct state sales and use taxes paid as  
22 an itemized deduction only if they deducted state sales and  
23 use taxes as an itemized deduction on the federal return.

24 The bill also amends Code section 422.35 to provide for an  
25 exclusion for foreign dividend income. This codifies current  
26 practice and administrative rules of the Iowa department of  
27 revenue based upon the United States supreme court decision in  
28 Kraft General Foods, Inc. v. Iowa Department of Revenue and  
29 Finance, 505 U.S. 71 (1992).

30 The bill is retroactively applicable to January 1, 2003,  
31 for tax years beginning on or after that date.

32 The bill takes effect upon enactment.

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**EIGHTY-FIRST GENERAL ASSEMBLY  
2005 REGULAR SESSION  
DAILY  
HOUSE CLIP SHEET**

FEBRUARY 10, 2005  
**Fiscal Services Division  
Legislative Services Agency  
Fiscal Note**

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HF 186 – Internal Revenue Code (IRC) Update Bill (LSB 1214HV)  
Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.state.ia.us)  
Fiscal Note Version - New

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**Description**

House File 186 updates Iowa's tax laws to incorporate federal Internal Revenue Code (IRC) changes made by Congress in 2003, 2004, and 2005. Specific federal legislation addressed by the estimate includes:

- The Jobs and Growth Relief Reconciliation Act of 2003 (HR 2)
- The Military Family Tax Relief Act of 2003 (HR 3365)
- The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (HR 1)
- The Working Families Tax Relief Act of 2004 (HR 1308)
- The American Jobs Creation Act of 2004 (HR 4520)
- The Tsunami Relief Charitable Contribution Act of 2005 (HR 241)

The six federal Acts were determined to have a total of 179 provisions with potential impacts on Iowa revenue. Of the 179, the Department determined 78 provisions either increased or decreased General Fund revenue over the next ten fiscal years. The estimated fiscal impact is the net impact of all provisions for that year.

**Fiscal Impact**

House File 186 is projected to decrease net General Fund revenue by:

- FY 2005: \$ 9.3 million
- FY 2006: \$ 21.3 million
- FY 2007: \$ 19.5 million
- FY 2008: \$ 9.2 million
- FY 2009: \$ 1.4 million

**Source**

Department of Revenue

\_\_\_\_\_  
/s/ Holly M. Lyons

February 9, 2005

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The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

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**Fiscal Services Division**  
**Legislative Services Agency**  
**Fiscal Note**

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HF 186 – Internal Revenue Code (IRC) Update Bill (LSB 1214HV)  
Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.state.ia.us)  
Fiscal Note Version – Updated

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**Related Revenue Issue**

Since Iowa allows all taxpayers to deduct federal income tax paid from their State taxable income, when Congress takes actions that reduce federal taxes owed, most Iowa taxpayers see a corresponding increase in their State tax bill. The State tax bill increases occur automatically when federal tax reductions are enacted and do not take Legislative action. The Department of Revenue estimates that this "deductibility effect" will increase net General Fund revenue by the following amounts.

- FY 2005: \$ 14.1 million
- FY 2006: \$ 25.9 million
- FY 2007: \$ 19.5 million
- FY 2008: \$ 12.9 million
- FY 2009: \$ 0.0 million

**Source**

Department of Revenue

/s/ Holly M. Lyons

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February 14, 2005

Struyk - ch  
Kuttenbach  
Freyer

HSB 35  
WAYS AND MEANS

RV  
0186

SENATE/HOUSE FILE \_\_\_\_\_  
BY (PROPOSED DEPARTMENT OF  
REVENUE BILL)

Passed Senate, Date \_\_\_\_\_ Passed House, Date \_\_\_\_\_  
Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_  
Approved \_\_\_\_\_

**A BILL FOR**

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19 ~~±08-27, section 202, whichever is applicable~~ 2005.

20 Sec. 4. Section 422.7, subsections 41 and 43, Code 2005,  
21 are amended by striking the subsections.

22 Sec. 5. Section 422.9, subsection 2, paragraph k, Code  
23 2005, is amended by striking the paragraph and inserting in  
24 lieu thereof the following:

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26 allowable only if the taxpayer elected to deduct the state  
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28 section 164 of the Internal Revenue Code. A deduction for  
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23 percentage of ownership as set forth in section 243 of the  
24 Internal Revenue Code.

25 Sec. 10. RETROACTIVE APPLICABILITY. This Act applies  
26 retroactively to January 1, 2003, for tax years beginning on  
27 or after that date.

28 Sec. 11. EFFECTIVE DATE. This Act, being deemed of  
29 immediate importance, takes effect upon enactment.

30 EXPLANATION

31 This bill updates the references to the Internal Revenue  
32 Code to make the federal income tax revisions enacted by  
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25 exclusion for foreign dividend income. This codifies current  
26 practice and administrative rules of the Iowa department of  
27 revenue based upon the United States supreme court decision in  
28 Kraft General Foods, Inc. v. Iowa Department of Revenue and  
29 Finance, 505 U.S. 71 (1992).

30 The bill is retroactively applicable to January 1, 2003,  
31 for tax years beginning on or after that date.

32 The bill takes effect upon enactment.

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Michael Ralston  
Director



**IOWA DEPARTMENT OF REVENUE**

Hoover State Office Building • Des Moines, Iowa 50319  
www.state.ia.us/tax

TO: MEMBERS OF THE 2005 GENERAL ASSEMBLY

FROM: THE IOWA DEPARTMENT OF REVENUE

DATE: JANUARY 2005

RE: THE BILL RELATING TO UPDATING THE IOWA CODE  
TO INCLUDE THE FEDERAL INCOME TAX CHANGES  
MADE IN 2003, 2004 AND JANUARY 2005 AND  
PROVIDING EFFECTIVE AND RETROACTIVE  
APPLICABILITY DATES FOR THE PROVISIONS.

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 years 2003 and 2004 and January 2005. This bill was not passed by the Iowa legislature during the 2004 session to incorporate changes enacted by Congress in 2003. Therefore, this bill includes changes enacted by Congress in both 2003 and 2004, along with changes made in January 2005.

The bill updates the provisions in the Iowa Code for the Iowa research activities credit to include possible revisions in the federal research credit, which is the basis for the Iowa research activities credits. The Iowa code sections which define the Internal Revenue Code for Iowa income tax purposes are also updated so that all of the 2003, 2004 and January 2005 federal changes which affect the computation of Iowa net income for individuals, corporations and financial institutions are adopted.

Congress enacted The Jobs and Growth Tax Relief Reconciliation Act of 2003 (Pub. L. No. 108-27) in May 2003. This Act included numerous provisions which took effect in 2003. Many of these changes, including reductions to the federal tax rate for dividend and capital gain income, increased federal child care credit, reduced

federal tax rates and increases to the federal standard deduction, will not directly affect the Iowa income tax.

Other provisions, which reflected an increase in the expensing under Section 179 of the Internal Revenue Code for small business from \$25,000 to \$100,000, and the additional first-year depreciation allowance of 50% for assets acquired after May 5, 2003, and before January 1, 2005, were updated in the Iowa Code during the special session of the legislature held in September 2004 and were included in House File 2581.

Congress enacted the Military Family Tax Relief Act of 2003 (Pub L. No. 108-121) in November 2003. This included provisions for tax relief to members of the United States Armed Forces serving in Iraq and other areas. Some of the provisions in this bill were previously enacted by the legislature in 2003. Since this bill updates references to the Internal Revenue Code for revisions made in 2003, section 4 strikes the subsections that are no longer needed.

Congress enacted the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Pub. L. No. 108-173) in November 2003. This provided for deductions from taxable income for contributions to health care savings accounts. These deductions for contributions to health savings accounts will be allowed for Iowa tax purposes.

Congress enacted the Working Families Tax Relief Act of 2004 (Pub. L. No. 108-311) in September 2004. Many of these changes, including an increased federal child care credit, reduced federal tax rates and increases to the federal standard deduction, will not directly affect the Iowa income tax. One provision would allow teachers a deduction up to \$250 for out-of-pocket classroom expenses. This deduction would be allowed for Iowa tax purposes.

Congress enacted the American Jobs Creation Act of 2004 (Pub. L. No. 108-357) in October 2004. One provision in this bill allows for individuals the option of deducting either state income tax or state sales and use tax paid as

an itemized deduction on the 2004 and 2005 federal income tax return. Section 5 of this bill allows individuals to deduct state sales and use tax paid as an itemized deduction on the Iowa return only if the individual deducted state sales and use tax paid as an itemized deduction on the federal return.

Congress enacted Public Law 109-1 in January 2005 which allows an itemized deduction for the 2004 tax year for charitable cash contributions made during January 2005 for the relief of victims of the Indian Ocean tsunami. By updating references to the Internal Revenue Code through January 31, 2005, this bill allows the same treatment for these contributions on the Iowa return.

Section 9 of the bill provides for a deduction for foreign dividend income based on the United States Supreme Court decision in Kraft General Foods, Inc. v. Iowa Department of Revenue and Finance, 505 U.S. 71 (1992). The Department has allowed this deduction since 1992, and this simply codifies this deduction as an adjustment to federal taxable income for Iowa corporation income tax purposes.

All the provisions that adopted the 2003, 2004 and January 2005 federal changes are retroactive to January 1, 2003, for tax years beginning on or after that date.

HOUSE FILE 186

AN ACT

UPDATING THE CODE REFERENCES TO THE INTERNAL REVENUE CODE AND INCLUDING RETROACTIVE APPLICABILITY AND EFFECTIVE DATE PROVISIONS.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

Section 1. Section 15.335, subsection 4, unnumbered paragraph 2, Code 2005, is amended to read as follows:

For purposes of this section, "Internal Revenue Code" means the Internal Revenue Code in effect on January 1 ~~2004~~ 2005.

Sec. 2. Section 15A.9, subsection 8, paragraph e, unnumbered paragraph 2, Code 2005, is amended to read as follows:

For purposes of this subsection, "Internal Revenue Code" means the Internal Revenue Code in effect on January 1 ~~2004~~ 2005.

Sec. 3. Section 422.3, subsection 5, Code 2005, is amended to read as follows:

5. "Internal Revenue Code" means 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 ~~2003~~ 2005, ~~and as amended by Pub. L. No. 108-277, section 2027, whichever is applicable~~ 2005.

Sec. 4. Section 422.7, subsections 41 and 43, Code 2005, are amended by striking the subsections.

Sec. 5. Section 422.9, subsection 2, paragraph k, Code 2005, is amended by striking the paragraph and inserting in lieu thereof the following:

k. The deduction for state sales and use taxes is allowable 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. A 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. This paragraph applies to taxable years beginning after December 31, 2003, and before January 1, 2006.

Sec. 6. Section 422.10, subsection 3, unnumbered paragraph 2, Code 2005, is amended to read as follows:

For purposes of this section, "Internal Revenue Code" means the Internal Revenue Code in effect on January 1 ~~2004~~ 2005.

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Sec. 8. Section 422.33, subsection 5, paragraph d, unnumbered paragraph 2, Code 2005, is amended to read as follows:

For purposes of this subsection, "Internal Revenue Code" means the Internal Revenue Code in effect on January 1 ~~2004~~ 2005.

Sec. 9. Section 422.35, Code 2005, is amended by adding the following new subsection:

NEW SUBSECTION. 20. Subtract the amount of foreign dividend income, including subpart F income as defined in section 952 of the Internal Revenue Code, based upon the percentage of ownership as set forth in section 243 of the Internal Revenue Code.

Sec. 10. RETROACTIVE APPLICABILITY. This Act applies retroactively to January 1, 2003, for tax years beginning on or after that date.

Sec. 11. EFFECTIVE DATE. This Act, being deemed of immediate importance, takes effect upon enactment.

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CHRISTOPHER C. RANTS  
Speaker of the House

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JOHN P. KIBBIE  
President of the Senate

I hereby certify that this bill originated in the House and is known as House File 186, Eighty-first General Assembly.

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MARGARET THOMSON  
Chief Clerk of the House

Approved 4/13, 2005

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THOMAS J. VILSACK  
Governor