

February 16, 1951.
Tax Revision.

House File 446
By KOSEK.

Passed House, Date
Vote: Ayes..... Nays.....
Passed Senate, Date
Vote: Ayes..... Nays.....
Approved

A BILL FOR

An Act to amend chapter four hundred twenty-two (422), Code 1950, relating to personal net income tax.

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

1 Section 1. Chapter four hundred twenty-two (422),
2 Code 1950, division two (II) is hereby amended by adding
3 the following new sections:

4 1. At their election, individuals and partnerships
5 may compute their taxable income in the following manner:

6 (1) The individual or partnership shall declare on
7 their state return the net income as reported on their
8 federal return for the comparable period.

9 (2) To this declared amount the following adjustment
10 shall be made:

11 Add: (a) Deduction taken on federal return for Iowa
12 income tax or if federal net income was computed by use of
13 the standard deduction, then the Iowa income tax paid or
14 accrued, in accordance with taxpayers method of reporting.

15 (b) Interest received or accrued on state or
16 municipal obligations.

17 (c) Net deduction claimed on federal return for capital
18 losses.

19 (d) Amount claimed on federal return for net operating
20 loss deduction.

21 (e) Distributive shares of income as reported on Iowa
22 partnership and fiduciary returns.

23 (f) Refunds of federal income taxes deducted in prior
24 years.

25 Subtract: (a) Federal income tax paid or accrued in
26 accordance with taxpayer's method of reporting.

27 (b) Interest on obligations of the United States as
28 reported on federal return.

29 (c) Net capital gains reported on federal return.

30 (d) Income from partnerships and fiduciaries as reported
31 on federal return.

32 (e) Income arising in another state which meets the
33 requirements of chapter four hundred twenty-two point eight
34 (422.8) subsection two (2), paragraph g.

35 (f) The allowance for dependents allowed in chapter four
36 hundred twenty-two point twelve (422.12), subsection four (4),
37 if not taken as a credit against tax.

38 2. The election to adopt this method of computing
39 taxable income shall be signified by filing of a return in
40 accordance with the provisions of these sections. Such election
41 shall be irrevocable for the year of filing and for all
42 subsequent years until the taxpayer shall file with the

43 commission an election to change, which shall not be earlier
44 than three (3) years after the first filing under these
45 provisions.

46 3. For each year that the taxpayer files under this
47 elective method, he shall submit as a schedule to his state
48 return a copy of his federal return for the comparable
49 period showing a computation of the federal net income.
50 In cases where the taxpayer determined his federal tax by
51 use of the tax tables, the starting point shall be ninety
52 percent (90%) of his adjusted federal gross income.

53 4. The taxpayer shall file an amended state return
54 within six (6) months after any adjustments to his federal
55 net income becomes final and he shall pay the resulting state
56 income tax subject to the same penalties and interest as
57 applied in cases where a state return is not filed. A claim
58 for refund filed within this six (6) months period and
59 arising from the federal adjustments shall be considered
60 timely filed.

61 5. The two (2) year period of limitation specified under
62 chapter four hundred twenty-two point twenty-five (422.25)
63 shall begin on the date of the amended return.

64 6. In its examination of a taxpayer's return as provided
65 in chapter four hundred twenty-two point twenty-five (422.25)
66 the commission shall accept, as the starting point in
67 determining taxpayer's taxable income, the federal net income
68 as reported on taxpayer's federal return and as subsequently

69 adjusted by the Bureau of Internal Revenue, except that the
70 commission may increase the taxpayer's taxable income by any
71 items of omitted income.

EXPLANATION OF H. F. 446

This Act will allow the taxpayer to use his federal return as a starting point in determining his taxable state income and will save as nearly as possible the filing of two distinct returns. It will aid in auditing as the state will receive additional tax from all errors discovered in federal returns by federal auditors. At present, the federal examining force far exceeds the state examining force in number of examiners. The change in examination procedure will permit the state to examine a far greater number of returns with its present examining force.

This Act in no way amends the existing law and its provisions are entirely elective on the part of the taxpayer. If for any reason the taxpayer does not like this method of computing his taxable income, he may continue to report under the regular law. Thus, unless the election is made, no one is compelled to reveal the contents of his federal income tax return or to file amended state returns in the case of federal adjustments.