Withdrawn 1-24-63

January 23, 1963.
Placed on Calendar.

House File 61
By COMMITTEE ON TAX REVISION.

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

Senate File 30 substituted, 1/24/63

A BILL FOR

An Act to amend chapter four hundred twenty-two (422), Code 1962, relating to state income taxes, to provide for the adoption of amendments to the Internal Revenue Code of 1954.

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

1 Section 1. Section four hundred twenty-two point four
2 (422.4), Code 1962, is hereby amended by striking the figures
3 "1960" in line four (4) of subsection fourteen (14) thereof
4 and inserting in lieu thereof the following: "1962".

1 Sec. 2. Section four hundred twenty-two point seven (422.7),
2 Code 1962, is amended by inserting at the end of such section the
3 following subsections:
4 "5. Subtract an amount equal to the aggregate credits
5 against federal income tax to the extent such credits reduce
6 the basis of depreciable property for depreciation purposes.
7 "6. Add an amount equal to the aggregate decrease of
8 credits against federal income tax to the extent such decrease
9 of credits increases the basis of depreciable property for
10 purposes of depreciation or computing gain or loss on disposition.
11 "7. Add an amount equal to the deduction taken on
12 federal income tax return for 'unused investment credit'."

1 Sec. 3. Section four hundred twenty-two point thirty-two
2 (422.32), Code 1962, is hereby amended by striking the figures
3 "1960" in line three (3) of subsection four (4) thereof and
4 inserting in lieu thereof the following: "1962".

1 Sec. 4. Section four hundred twenty-two point thirty-five
2 (422.35), Code 1962, is amended by adding thereto the following
3 subsections:
4 "5. Subtract an amount equal to the aggregate credits
5 against federal income tax to the extent such credits reduce
6 the basis of depreciable property for depreciation purposes.
7 "6. Add an amount equal to the aggregate decrease of
8 credits against federal income tax to the extent such decrease
9 of credits increases the basis of depreciable property for
10 purposes of depreciation or computing gain or loss on disposition.
11 "7. Add an amount equal to the deduction taken on federal
12 income tax return for 'unused investment credit'."
1 Sec. 5. The provisions of this Act shall have the same
2 retroactive effect as the amendments to the Internal Revenue
3 Code of 1954 adopted hereby have for federal income tax purposes.
1 Sec. 6. If any provisions of this Act or the application
2 of such provisions to any person or circumstance shall be held
3 invalid, the remainder of this Act or the application of such
4 provision to persons or circumstances other than those to which
5 it is held invalid shall not be affected thereby.
1 Sec. 7. This Act being deemed of immediate importance
2 shall be in force and effect immediately upon its passage and
3 publication in the Cedar Falls Daily Record, a newspaper
4 published at Cedar Falls, Iowa, and in the Lyon
5 County Reporter, a newspaper published at Rock Rapids,
6 Iowa.

EXPLANATION OF HOUSE FILE 61

The accompanying act brings the Iowa income tax statutes up to date by amending sections 422.4 (14) and 422.32 (4) to include amendments to the Internal Revenue Code up to December 31, 1962.

However, one of the amendments in the Internal Revenue Code pertaining to the

investment tax credit provides for a credit against the income tax on the federal return and a corresponding reduction in the basis for depreciation of the assets generating the investment credit with the result that unless other changes in sections 422.7 as to individuals, and 422.35 as to corporations are made, the effect will be that Iowa taxpayers will be deprived of depreciation on that portion of the purchase price of depreciable property for which the investment tax credit is allowed with no corresponding credit against the income tax under the laws of the State of Iowa.

The operation is as follows: Assuming a taxpayer purchases a tractor for $1,000 with a useful life of eight years. On his federal return the taxpayer may deduct a credit of seven percent or $70 from the amount of income tax on his return. Correspondingly, the basis of the asset purchased for depreciation is reduced by $70 making the basis for depreciation $930.

The lowered basis for depreciation will increase the taxpayer's income by the amount of $70 over the eight-year period of depreciation which is off-set by the $70 credit against his tax on the federal return. On the state return, however, if the taxable income is based upon the adjusted gross income for federal tax purposes, the taxpayer's income will be increased by the $70 over the life of the depreciated asset (tractor) with no corresponding credit against tax and with no provision for deducting said $70 from the gross income of the taxpayer.

The attached amendment would permit the Iowa taxpayer to deduct the entire $70 in the above example from gross income in the year the credit was allowed on his federal return. In the event of disposition prior to the eight-year period or change of use or other action requiring a portion or all of the credit to be added to the taxpayer's tax on his federal return, the same amount so added to the federal tax and added back to the basis for depreciation purposes or gain or loss purposes, would be added to the gross income of the taxpayer on his Iowa return.

The proposed amendment will not appreciably reduce the taxable income of the taxpayer for the total period of depreciation of the assets involved, but merely accelerates his deduction for depreciation on a maximum of 7 percent of the cost of the items involved and makes that portion of his depreciation deductible in the year of acquisition.

To allow the depreciation of 7 percent of the purchase price over the life of the asset in addition to the depreciation schedule on the federal return would be a very complicated procedure and provide a disproportionate amount of bookkeeping for the amount of money that is due. This is particularly true in the event of an early disposition which would result in a re-computation and adjustment of depreciation taken back over each of the years to which the spread of the 7 percent applied.

It might be pointed out that for the year 1962, the definition of net income under the Code as it now reads, refers to the Internal Revenue Code of 1954 as amended to and including December 31, 1960, so that for the year 1962 it would appear clear that taxpayers may compute the basis of depreciable property as it was done in previous years and deduct a greater amount of depreciation on the 1962 state return than they would be entitled to deduct on their federal return for the same year.