

Eichhorn, Chair  
Shey  
Jochum

HSB 127

WAYS AND MEANS

Succeeded

SENATE/HOUSE FILE FI 416  
BY (PROPOSED DEPARTMENT OF  
REVENUE AND FINANCE BILL)

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

**A BILL FOR**

1 An Act updating the Iowa Code references to the Internal Revenue  
2 Code, increasing the minimum filing income requirement for  
3 dependents, lowering the threshold amount for making estimated  
4 payments for corporations and financial institutions,  
5 increasing the estimated tax payment standard for assessing a  
6 penalty for corporations and financial institutions, and  
7 providing retroactive applicability dates and an effective  
8 date.

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

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1 Section 1. Section 15.335, subsection 4, Code 2001, is  
2 amended to read as follows:

3 4. For purposes of this section, "base amount", "basic  
4 research payment", and "qualified research expense" mean the  
5 same as defined for the federal credit for increasing research  
6 activities under section 41 of the Internal Revenue Code,  
7 except that for the alternative incremental credit such  
8 amounts are for research conducted within this state. For  
9 purposes of this section, "Internal Revenue Code" means the  
10 Internal Revenue Code in effect on January 1, ~~2000~~ 2001.

11 Sec. 2. Section 15A.9, subsection 8, paragraph e, Code  
12 2001, is amended to read as follows:

13 e. For the purposes of this subsection, "base amount",  
14 "basic research payment", and "qualified research expense"  
15 mean the same as defined for the federal credit for increasing  
16 research activities under section 41 of the Internal Revenue  
17 Code, except that for the alternative incremental credit such  
18 amounts are for research conducted within this state within  
19 the zone. For purposes of this subsection, "Internal Revenue  
20 Code" means the Internal Revenue Code in effect on January 1,  
21 ~~2000~~ 2001.

22 Sec. 3. Section 422.3, subsection 5, Code 2001, is amended  
23 to read as follows:

24 5. "Internal Revenue Code" means the Internal Revenue Code  
25 of 1954, prior to the date of its redesignation as the  
26 Internal Revenue Code of 1986 by the Tax Reform Act of 1986,  
27 or means the Internal Revenue Code of 1986 as amended to and  
28 including January 1, ~~2000~~ 2001, whichever is applicable.

29 Sec. 4. Section 422.7, subsection 6, Code 2001, is amended  
30 by striking the subsection.

31 Sec. 5. Section 422.10, subsection 3, Code 2001, is  
32 amended to read as follows:

33 3. For purposes of this section, "base amount", "basic  
34 research payment", and "qualified research expense" mean the  
35 same as defined for the federal credit for increasing research

1 activities under section 41 of the Internal Revenue Code,  
2 except that for the alternative incremental credit such  
3 amounts are for research conducted within this state. For  
4 purposes of this section, "Internal Revenue Code" means the  
5 Internal Revenue Code in effect on January 1, ~~2000~~ 2001.

6 Sec. 6. Section 422.13, subsection 1, paragraph b, Code  
7 2001, is amended to read as follows:

8 b. The individual is claimed as a dependent on another  
9 person's return and has net income of ~~four~~ five thousand  
10 dollars or more for the tax year from sources taxable under  
11 this division.

12 Sec. 7. Section 422.33, subsection 5, paragraph d, Code  
13 2001, is amended to read as follows:

14 d. For purposes of this subsection, "base amount", "basic  
15 research payment", and "qualified research expense" mean the  
16 same as defined for the federal credit for increasing research  
17 activities under section 41 of the Internal Revenue Code,  
18 except that for the alternative incremental credit such  
19 amounts are for research conducted within this state. For  
20 purposes of this subsection, "Internal Revenue Code" means the  
21 Internal Revenue Code in effect on January 1, ~~2000~~ 2001.

22 Sec. 8. Section 422.85, Code 2001, is amended to read as  
23 follows:

24 422.85 IMPOSITION OF ESTIMATED TAX.

25 A taxpayer subject to the tax imposed by sections 422.33  
26 and 422.60 shall make payments of estimated tax for the  
27 taxable year if the amount of tax payable, less credits, can  
28 reasonably be expected to be more than ~~one-thousand~~ five  
29 hundred dollars for the taxable year. For purposes of this  
30 division, "estimated tax" means the amount which the taxpayer  
31 estimates to be the tax due and payable under division III or  
32 V of this chapter for the taxable year.

33 Sec. 9. Section 422.86, Code 2001, is amended to read as  
34 follows:

35 422.86 PAYMENT OF ESTIMATED TAX.

1 A taxpayer required to pay estimated tax under section  
2 422.85 shall pay the estimated tax in accordance with the  
3 following schedule:

4 1. If it is first determined that the estimated tax will  
5 be greater than one-thousand five hundred dollars on or before  
6 the last day of the fourth month of the taxable year, the  
7 estimated tax shall be paid in four equal installments. The  
8 first installment shall be paid not later than the last day of  
9 the fourth month of the taxable year. The second and third  
10 installments shall be paid not later than the last day of the  
11 sixth and ninth months of the taxable year, and the final  
12 installment shall be paid on or before the last day of the  
13 taxable year.

14 2. If it is first determined that the estimated tax will  
15 be greater than one-thousand five hundred dollars after the  
16 last day of the fourth month but not later than the last day  
17 of the sixth month of the taxable year, the estimated tax  
18 shall be paid in three equal installments. The first  
19 installment shall be paid not later than the last day of the  
20 sixth month of the taxable year. The second installment shall  
21 be paid on or before the last day of the ninth month of the  
22 taxable year and the third installment shall be paid on or  
23 before the last day of the taxable year.

24 3. If it is first determined that the estimated tax will  
25 be greater than one-thousand five hundred dollars after the  
26 last day of the sixth month but not later than the last day of  
27 the ninth month of the taxable year, the estimated tax shall  
28 be paid in two equal installments. The first installment  
29 shall be paid not later than the last day of the ninth month  
30 and the second installment shall be paid on or before the last  
31 day of the taxable year.

32 4. If it is first determined that the estimated tax will  
33 be greater than one-thousand five hundred dollars after the  
34 last day of the ninth month of the taxable year, the estimated  
35 tax shall be paid in full on or before the last day of the

1 taxable year.

2 5. If, after paying any installment of estimated tax, the  
3 taxpayer makes a new estimate, the remaining installments  
4 shall be ratably adjusted to reflect the increase or decrease  
5 in the estimated tax.

6 Sec. 10. Section 422.88, subsections 2 and 3, Code 2001,  
7 are amended to read as follows:

8 2. The amount of the underpayment shall be the excess of  
9 the amount of the installment which would be required to be  
10 paid if the estimated tax was equal to ninety one hundred  
11 percent of the tax shown on the return of the taxpayer for the  
12 taxable year over the amount of installments paid on or before  
13 the date prescribed for payment.

14 3. If the taxpayer did not file a return during the  
15 taxable year, the amount of the underpayment shall be equal to  
16 ninety one hundred percent of the taxpayer's tax liability for  
17 the taxable year over the amount of installments paid on or  
18 before the date prescribed for payment.

19 Sec. 11. RETROACTIVE AND APPLICABILITY DATES.

20 1. Sections 1 through 5 and 7 of this Act apply  
21 retroactively to January 1, 2000, for tax years beginning on  
22 or after that date.

23 2. Sections 6, 8, 9, and 10 of this Act apply  
24 retroactively to January 1, 2001, for tax years beginning on  
25 or after that date.

26 Sec. 12. EFFECTIVE DATE. This Act, being deemed of  
27 immediate importance, takes effect upon enactment.

28 EXPLANATION

29 This bill updates the references to the Internal Revenue  
30 Code to make the federal income tax revisions enacted by  
31 Congress in 2000 applicable for Iowa income tax purposes.

32 Code sections 15.335, 15A.9, 422.10, and 422.33 are amended  
33 to update the Iowa Code references to the state research  
34 activities credit for individuals, corporations, corporations  
35 in economic development areas, and corporations in quality

1 jobs enterprise zones to include the 2000 federal changes in  
2 the research activities credit.

3 The bill amends Code section 422.7 to strike a subsection  
4 related to trusts, which refers to a section of the Internal  
5 Revenue Code that was repealed.

6 The bill raises from \$4,000 to \$5,000 the minimum net  
7 income that a dependent must earn in the tax year before the  
8 dependent is required to file a state income tax return.

9 The bill amends Code sections 422.85 and 422.86 to lower  
10 the threshold amount for making estimated tax payments for  
11 corporations and financial institutions. The amount is  
12 decreased from \$1,000 to \$500. The bill amends Code section  
13 422.88 to increase the standard for the exception to the  
14 penalty for making underpayments of estimated tax for  
15 corporations and financial institutions from 90 percent of the  
16 tax liability to 100 percent of the tax liability.

17 All of the provisions in the bill relating to updating  
18 changes in the Internal Revenue Code and the repeal of the  
19 subsection related to trusts are retroactively applicable to  
20 January 1, 2000, for tax years beginning on or after that  
21 date. The provision affecting dependents and the provisions  
22 related to estimated tax payments for corporations and  
23 financial institutions are retroactively applicable to January  
24 1, 2001, for tax years beginning on or after that date.

25 The bill takes effect upon enactment.

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TO: MEMBERS OF THE 2001 GENERAL ASSEMBLY  
FROM: THE IOWA DEPARTMENT OF REVENUE AND FINANCE  
DATE: NOVEMBER 16, 2000

RE: THE BILL RELATING TO UPDATING THE IOWA CODE TO INCLUDE THE FEDERAL INCOME TAX CHANGES MADE IN 2000 AND PROVIDING EFFECTIVE AND RETROACTIVE APPLICABILITY DATES FOR THE PROVISIONS.

This is the annual bill proposed by the Department of Revenue and Finance to include into Iowa income tax law, the federal income tax changes enacted by Congress in 2000. 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 section which defines the Internal Revenue Code for Iowa income tax purposes is also updated so that all the 2000 federal changes which affect the computation of Iowa net income for individuals and the computation of taxable income for corporations and financial institutions are adopted.

Congress enacted no tax bills in 2000 that have a major effect on the Iowa income tax law.

The bill repeals a subsection for the computation of income for trusts that refers to a federal code section which was repealed in federal legislation in 1998. The bill increases the income threshold for individuals claimed as dependents on other taxpayers' returns so the dependents are required to file Iowa returns if their net incomes are \$5,000 or more instead of \$4,000 or more. Because of indexation of the standard deduction, reduction of the tax rates, and increase in the personal exemption credit, dependents with incomes of \$4,000 or slightly above are currently required to file Iowa income tax returns but have no tax liabilities on those returns.

The threshold for making estimate tax payments by corporations and financial institutions is lowered from one thousand dollars to five hundred dollars, which is the threshold for making

HSB127

November 16, 2000

Page 2

estimate payments for federal income tax purposes. The standard for not being subject to the penalty for failure to make estimated payments by corporations and financial institutions is increased from ninety percent to one hundred percent of the tax shown on the taxpayer's return. These changes make Iowa estimate tax law more consistent with the provisions for estimate tax for Federal income tax purposes for corporations and financial institutions.

Substituted for by SF 140

5/2/01

FEB 27 2001

(P. 1740)

WAYS & MEANS CALENDAR

HOUSE FILE 416

BY COMMITTEE ON WAYS AND MEANS

**WITHDRAWN**  
5/2/01

(SUCCESSOR TO HSB 127)

Passed House, Date \_\_\_\_\_ Passed Senate, Date \_\_\_\_\_

Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_

Approved \_\_\_\_\_

**A BILL FOR**

1 An Act updating the Iowa Code references to the Internal Revenue  
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HF 416

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11 Sec. 2. Section 15A.9, subsection 8, paragraph e, Code  
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29 Sec. 4. Section 422.7, subsection 6, Code 2001, is amended  
30 by striking the subsection.

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27 taxable year if the amount of tax payable, less credits, can  
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33 Sec. 9. Section 422.86, Code 2001, is amended to read as  
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35 tax shall be paid in full on or before the last day of the

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11 percent of the tax shown on the return of the taxpayer for the  
12 taxable year over the amount of installments paid on or before  
13 the date prescribed for payment.

14 3. If the taxpayer did not file a return during the  
15 taxable year, the amount of the underpayment shall be equal to  
16 ninety one hundred percent of the taxpayer's tax liability for  
17 the taxable year over the amount of installments paid on or  
18 before the date prescribed for payment.

19 Sec. 11. RETROACTIVE AND APPLICABILITY DATES.

20 1. Sections 1 through 5 and 7 of this Act apply  
21 retroactively to January 1, 2000, for tax years beginning on  
22 or after that date.

23 2. Sections 6, 8, 9, and 10 of this Act apply  
24 retroactively to January 1, 2001, for tax years beginning on  
25 or after that date.

26 Sec. 12. EFFECTIVE DATE. This Act, being deemed of  
27 immediate importance, takes effect upon enactment.

28 EXPLANATION

29 This bill updates the references to the Internal Revenue  
30 Code to make the federal income tax revisions enacted by  
31 Congress in 2000 applicable for Iowa income tax purposes.

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10 the threshold amount for making estimated tax payments for  
11 corporations and financial institutions. The amount is  
12 decreased from \$1,000 to \$500. The bill amends Code section  
13 422.88 to increase the standard for the exception to the  
14 penalty for making underpayments of estimated tax for  
15 corporations and financial institutions from 90 percent of the  
16 tax liability to 100 percent of the tax liability.

17 All of the provisions in the bill relating to updating  
18 changes in the Internal Revenue Code and the repeal of the  
19 subsection related to trusts are retroactively applicable to  
20 January 1, 2000, for tax years beginning on or after that  
21 date. The provision affecting dependents and the provisions  
22 related to estimated tax payments for corporations and  
23 financial institutions are retroactively applicable to January  
24 1, 2001, for tax years beginning on or after that date.

25 The bill takes effect upon enactment.

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HOUSE FILE 416

H-1156

- 1 Amend House File 416 as follows:
- 2 1. Page 4, by striking lines 6 through 18.
- 3 2. Page 4, line 23, by striking the word and
- 4 figures "9, and 10" and inserting the following: "and
- 5 9".
- 6 3. Title page, by striking lines 5 and 6 and
- 7 inserting the following: "and".

By JOCHUM of Dubuque

H-1156 FILED MARCH 2, 2001

*o/o*

*5/2/01*

HOUSE FILE 416

H-1344

- 1 Amend House File 416 as follows:
- 2 1. By striking page 2, line 22, through page 4,
- 3 line 18.
- 4 2. Page 4, by striking line 23 and inserting the
- 5 following:
- 6 "2. Section 6 of this Act applies".
- 7 3. Title page, by striking lines 3 and 4 and
- 8 inserting the following: "dependents,".
- 9 4. By renumbering, redesignating, and correcting
- 10 internal references as necessary.

By ALONS of Sioux

EICHHORN of Hamilton

H-1344 FILED MARCH 26, 2001

*o/o*

*5/2/01*

**HOUSE FILE 416**  
**FISCAL NOTE**

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A fiscal note for **House File 416** is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note is available from the Legislative Fiscal Bureau to members of the Legislature upon request.

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House File 416 updates Code of Iowa references to the federal Internal Revenue Code to conform with changes made by the 2000 Congress.

**FISCAL IMPACT**

Conforming Iowa's tax code to the 2001 Internal Revenue Code will reduce General Fund revenues by the following amounts:

\$2.1 million -- FY 2001  
\$3.2 million -- FY 2002 and beyond

The State fiscal impact is due to the following changes in federal tax law:

1. Repeal of installment sales accounting limitations
2. Foreign sales corporation repeal
3. Private activity bond cap increase
4. Brownfields tax incentives
5. Corporate donations of computer technology
6. Tax incentives for Renewal Communities
7. New Empowerment Zones

**SOURCE**

Department of Revenue and Finance

(LSB 1187hv, JWR)

FILED FEBRUARY 28, 2001

BY DENNIS PROUTY, FISCAL DIRECTOR