

FEB 22 2006

WAYS & MEANS CALENDAR

HOUSE FILE 2461

BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO HSB 593)

Passed House, Date 3-7-06 Passed Senate, Date 4-18-06

Vote: Ayes 97 Nays 0 Vote: Ayes 50 Nays 0

Approved March 30, 2006

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 2461

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

4 For purposes of this section, "Internal Revenue Code" means
5 the Internal Revenue Code in effect on January 31 1, 2005
6 2006.

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

10 For purposes of this subsection, "Internal Revenue Code"
11 means the Internal Revenue Code in effect on January 31 1,
12 2005 2006.

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

15 5. "Internal Revenue Code" means the Internal Revenue Code
16 of 1954, prior to the date of its redesignation as the
17 Internal Revenue Code of 1986 by the Tax Reform Act of 1986,
18 or means the Internal Revenue Code of 1986 as amended to and
19 including January 31 1, 2005 2006.

20 Sec. 4. Section 422.7, Code Supplement 2005, is amended by
21 adding the following new subsection:

22 NEW SUBSECTION. 45. Subtract, to the extent not otherwise
23 deducted, the amount of two thousand dollars for the cost of a
24 clean fuel motor vehicle if the taxpayer was eligible for the
25 alternative motor vehicle credit under section 30B of the
26 Internal Revenue Code for such motor vehicle.

27 Sec. 5. Section 422.10, subsection 3, unnumbered paragraph
28 2, Code Supplement 2005, is amended to read as follows:

29 For purposes of this section, "Internal Revenue Code" means
30 the Internal Revenue Code in effect on January 31 1, 2005
31 2006.

32 Sec. 6. Section 422.32, subsection 7, Code Supplement
33 2005, is amended to read as follows:

34 7. "Internal Revenue Code" means the Internal Revenue Code
35 of 1954, prior to the date of its redesignation as the

1 Internal Revenue Code of 1986 by the Tax Reform Act of 1986,
2 or means the Internal Revenue Code of 1986 as amended to and
3 including January 31 1, 2005 2006.

4 Sec. 7. Section 422.33, subsection 5, paragraph d,
5 unnumbered paragraph 2, Code Supplement 2005, is amended to
6 read as follows:

7 For purposes of this subsection, "Internal Revenue Code"
8 means the Internal Revenue Code in effect on January 31 1,
9 2005 2006.

10 Sec. 8. Section 504B.5, Code 2005, is amended to read as
11 follows:

12 504B.5 INTERNAL REVENUE CODE UPDATED.

13 All references to sections of the Internal Revenue Code
14 shall mean the Code as ~~amended-to-and-including-January-17~~
15 ~~1971~~ defined in section 422.3.

16 Sec. 9. Section 633.266, Code 2005, is amended to read as
17 follows:

18 633.266 ADJUSTED GROSS ESTATE.

19 Unless otherwise defined, "adjusted gross estate" in a will
20 means the entire value of the gross estate as determined under
21 the federal estate tax less the aggregate amount of the
22 deductions allowed by sections 2053 and 2054 of the Internal
23 Revenue Code as ~~amended-to-and-including-January-17-1982~~
24 defined in section 422.3.

25 Sec. 10. RETROACTIVE APPLICABILITY. This Act applies
26 retroactively to January 1, 2005, 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 2005 applicable for Iowa income tax purposes.
34 Code sections 422.3 and 422.32, general definitions sections
35 in the income tax chapter of the Code, are amended to update

1 the reference to the Internal Revenue Code.

2 Code sections 15.335, 15A.9, 422.10, and 422.33 are amended
3 to update the Code references to the state research activities
4 credit for individuals, corporations, corporations in economic
5 development areas, and corporations in quality jobs enterprise
6 zones to include the 2005 federal changes in the research
7 activities credit.

8 Code section 504B.5, relating to nonprofit corporations and
9 federal tax liability, and Code section 633.266, relating to
10 the probate code, are amended to reference the Internal
11 Revenue Code as defined in the definitions section of the
12 income tax chapter of the Code.

13 The bill provides for a deduction of \$2,000 for individuals
14 who buy clean fuel motor vehicles if the taxpayers are
15 eligible for the federal tax credit for such motor vehicles.
16 Prior to January 1, 2006, an individual received a deduction
17 for the purchase of a clean fuel motor vehicle. After
18 December 31, 2005, the purchase becomes eligible for a federal
19 tax credit. Thus, the bill maintains the Iowa tax exemption.

20 The bill takes effect upon enactment and applies
21 retroactively to January 1, 2005, for tax years beginning on
22 or after that date.

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Fiscal Services Division
Legislative Services Agency
Fiscal Note

HF 2461 – Internal Revenue Code (IRC) Update Bill (LSB 5382 HV)
Analyst: Jeff Robinson (Phone: [515] 281-4614) (jeff.robinson@legis.state.ia.us)
Fiscal Note Version – New

Description

House File 2461 updates Iowa's tax laws to incorporate federal Internal Revenue Code (IRC) changes made by Congress in 2005. Specific federal legislation addressed by the estimate includes:

- The Katrina Emergency Tax Relief Act of 2005 (H.R. 3768)
- The Energy Tax Incentives Act of 2005 (H.R. 6)

The two federal Acts were determined by the Department of Revenue to have a total of 45 provisions with potential impacts on Iowa revenue.

Section 5 of the Bill creates a maximum \$2,000 deduction for purchasers of a clean fuel motor vehicle that is eligible for the federal Alternative Motor Vehicle Credit (section 30B of the Internal Revenue Code).

Fiscal Impact

The provisions of HF 2461 conforming Iowa's tax code to changes made to the federal Internal Revenue Code during 2005 are projected to decrease net General Fund revenue by:

- FY 2005: \$ 1.0 million
- FY 2006: \$ 0.4 million
- FY 2007: \$ 0.1 million

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 increase in State taxes owed 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 2006: \$ 0.9 million
- FY 2007: \$ 2.0 million
- FY 2008: \$ 2.5 million

Source

Department of Revenue

/s/ Holly M. Lyons

March 6, 2006

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.

Eichhorn-ch
Tomenga
Quirk

HSB 593

WAYS AND MEANS

SENATE/HOUSE FILE SF 102461

BY (PROPOSED DEPARTMENT OF REVENUE BILL)

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

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.

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

4 For purposes of this section, "Internal Revenue Code" means
5 the Internal Revenue Code in effect on January 31, 2005
6 2006.

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

10 For purposes of this subsection, "Internal Revenue Code"
11 means the Internal Revenue Code in effect on January 31,
12 2005 2006.

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

15 5. "Internal Revenue Code" means the Internal Revenue Code
16 of 1954, prior to the date of its redesignation as the
17 Internal Revenue Code of 1986 by the Tax Reform Act of 1986,
18 or means the Internal Revenue Code of 1986 as amended to and
19 including January 31, 2005 2006.

20 Sec. 4. Section 422.10, subsection 3, unnumbered paragraph
21 2, Code Supplement 2005, is amended to read as follows:

22 For purposes of this section, "Internal Revenue Code" means
23 the Internal Revenue Code in effect on January 31, 2005
24 2006.

25 Sec. 5. Section 422.32, subsection 7, Code Supplement
26 2005, is amended to read as follows:

27 7. "Internal Revenue Code" means the Internal Revenue Code
28 of 1954, prior to the date of its redesignation as the
29 Internal Revenue Code of 1986 by the Tax Reform Act of 1986,
30 or means the Internal Revenue Code of 1986 as amended to and
31 including January 31, 2005 2006.

32 Sec. 6. Section 422.33, subsection 5, paragraph d,
33 unnumbered paragraph 2, Code Supplement 2005, is amended to
34 read as follows:

35 For purposes of this subsection, "Internal Revenue Code"

1 means the Internal Revenue Code in effect on January 31 1,
2 ~~2005~~ 2006.

3 Sec. 7. Section 504B.5, Code 2005, is amended to read as
4 follows:

5 504B.5 INTERNAL REVENUE CODE UPDATED.

6 All references to sections of the Internal Revenue Code
7 shall mean the Code as ~~amended-to-and-including-January-17~~
8 ~~1971~~ defined in section 422.3.

9 Sec. 8. Section 633.266, Code 2005, is amended to read as
10 follows:

11 633.266 ADJUSTED GROSS ESTATE.

12 Unless otherwise defined, "adjusted gross estate" in a will
13 means the entire value of the gross estate as determined under
14 the federal estate tax less the aggregate amount of the
15 deductions allowed by sections 2053 and 2054 of the Internal
16 Revenue Code as ~~amended-to-and-including-January-17-1982~~
17 defined in section 422.3.

18 Sec. 9. RETROACTIVE APPLICABILITY. This Act applies
19 retroactively to January 1, 2005, for tax years beginning on
20 or after that date.

21 Sec. 10. EFFECTIVE DATE. This Act, being deemed of
22 immediate importance, takes effect upon enactment.

23 EXPLANATION

24 This bill updates the references to the Internal Revenue
25 Code to make the federal income tax revisions enacted by
26 Congress in 2005 applicable for Iowa income tax purposes.
27 Code sections 422.3 and 422.32, general definitions sections
28 in the income tax chapter of the Code, are amended to update
29 the reference to the Internal Revenue Code.

30 Code sections 15.335, 15A.9, 422.10, and 422.33 are amended
31 to update the Code references to the state research activities
32 credit for individuals, corporations, corporations in economic
33 development areas, and corporations in quality jobs enterprise
34 zones to include the 2005 federal changes in the research
35 activities credit.

1 Code section 504B.5, relating to nonprofit corporations and
2 federal tax liability, and Code section 633.266, relating to
3 the probate code, are amended to reference the Internal
4 Revenue Code as defined in the definitions section of the
5 income tax chapter of the Code.

6 The bill takes effect upon enactment and applies
7 retroactively to January 1, 2005, for tax years beginning on
8 or after that date.

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Mark R. Schuling
Director



IOWA DEPARTMENT OF REVENUE

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

TO: MEMBERS OF THE 2006 GENERAL ASSEMBLY

FROM: THE IOWA DEPARTMENT OF REVENUE

DATE: JANUARY 2006

RE: THE BILL RELATING TO UPDATING THE IOWA CODE
TO INCLUDE THE FEDERAL INCOME TAX CHANGES
MADE IN 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 year 2005. This bill includes changes enacted by Congress in 2005. The Tsunami Relief bill (Pub. L. No. 109-1) was already incorporated into Iowa income tax law since references to the Internal Revenue Code are currently updated through January 31, 2005.

The bill updates the provisions in the Iowa Code for the Iowa research activities credit to include 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 2005 federal changes which affect the computation of Iowa net income for individuals, corporations and financial institutions are adopted.

Congress enacted the Energy Tax Incentives Act of 2005 (Pub. L. No. 109-58) in July 2005. Many of these changes provided for additional federal tax credits for energy efficiency and energy production which will not directly affect the Iowa income tax. Some changes related to the federal research activities credit, but these changes will have a minimal impact on the Iowa research activities

credit.

Congress enacted the Katrina Emergency Tax Relief Act of 2005 (Pub. L. No. 109-73) in September 2005. Many of these provisions related to deductions for individuals and businesses directly impacted by Hurricane Katrina which will have a minimal impact on Iowa income tax. Some provisions related to removing limitations on the amount of charitable contributions that can be deducted for 2005, and these provisions would also be allowed for Iowa tax purposes.

Congress enacted the Gulf Opportunity Zone Act of 2005 (Public Law 109-___) in December 2005. Many of these provisions relate to accelerated depreciation and increased expensing deductions for individuals and businesses directly impacted by Hurricanes Katrina, Rita and Wilma which will have a minimal impact on Iowa income tax.

Section 7 updates a reference to the Internal Revenue Code in section 504B.5 relating to nonprofit corporations and federal tax liability. Similarly, section 8 updates a reference to the Internal Revenue Code in section 633.266 relating to the probate code.

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

HOUSE FILE 2461

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 Supplement 2005, is amended to read as follows:

For purposes of this section, "Internal Revenue Code" means the Internal Revenue Code in effect on January 31, 2005 2006.

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

For purposes of this subsection, "Internal Revenue Code" means the Internal Revenue Code in effect on January 31, 2005 2006.

Sec. 3. Section 422.3, subsection 5, Code Supplement 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 31, 2005 2006.

Sec. 4. Section 422.7, Code Supplement 2005, is amended by adding the following new subsection:

NEW SUBSECTION. 45. Subtract, to the extent not otherwise deducted, the amount of two thousand dollars for the cost of a clean fuel motor vehicle if the taxpayer was eligible for the

alternative motor vehicle credit under section 30B of the Internal Revenue Code for such motor vehicle.

Sec. 5. Section 422.10, subsection 3, unnumbered paragraph 2, Code Supplement 2005, is amended to read as follows:

For purposes of this section, "Internal Revenue Code" means the Internal Revenue Code in effect on January 31, 2005 2006.

Sec. 6. Section 422.32, subsection 7, Code Supplement 2005, is amended to read as follows:

7. "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 31, 2005 2006.

Sec. 7. Section 422.33, subsection 5, paragraph d, unnumbered paragraph 2, Code Supplement 2005, is amended to read as follows:

For purposes of this subsection, "Internal Revenue Code" means the Internal Revenue Code in effect on January 31, 2005 2006.

Sec. 8. Section 504B.5, Code 2005, is amended to read as follows:

504B.5 INTERNAL REVENUE CODE UPDATED.

All references to sections of the Internal Revenue Code shall mean the Code as amended-to-and-including-January-1-1971 defined in section 422.3.

Sec. 9. Section 633.266, Code 2005, is amended to read as follows:

633.266 ADJUSTED GROSS ESTATE.

Unless otherwise defined, "adjusted gross estate" in a will means the entire value of the gross estate as determined under the federal estate tax less the aggregate amount of the deductions allowed by sections 2053 and 2054 of the Internal Revenue Code as amended-to-and-including-January-1-1982 defined in section 422.3.

Sec. 10. RETROACTIVE APPLICABILITY. This Act applies retroactively to January 1, 2005, for tax years beginning on or after that date.

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

CHRISTOPHER C. RANTS
Speaker of the House

JEFFREY M. LAMBERTI
President of the Senate

I hereby certify that this bill originated in the House and is known as House File 2461, Eighty-first General Assembly.

MARGARET THOMSON
Chief Clerk of the House

Approved _____, 2006

THOMAS J. VILSACK
Governor