



Bill Summary

SF 2123 Internal Revenue Code (IRC) Update

Status of Bill: House Calendar
Committee: Ways & Means (20-0)
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Background

- Iowa income tax laws generally conform to federal definitions of income, deductions, expenses, etc. Although some states allow for the automatic adoption of federal tax changes, Iowa does not. So each year we must pass an IRC Update bill to “couple” with federal tax law changes.
- Failure to “couple” complicates the tax system by forcing taxpayers to use different calculations for their federal and state taxes – a particular burden to small businesses trying to keep two sets of books – one for the federal tax collector and one for the state tax collector.
- In the past twenty years or so years, Iowa has chosen to decouple from federal tax law twice:
 - In 1994, when Congress increased the maximum amount of Social Security benefits subject to income taxes from 50% to 85%, Iowa did not couple – we still refer to the 1993 IRC which allows taxing a maximum of only 50% of these benefits.
 - In 2003, due to budget problems, Iowa did not immediately couple with new bonus depreciation and higher expensing deduction for businesses. However, as the budget improved, Iowa did belatedly couple with these provisions during a Special Session held in September of 2004.

Summary of SF 2123

SF 2123 couples with changes to federal tax law passed by Congress in 2007, including (1) the Small Business and Work Opportunity Tax Act of 2007, (2) the Mortgage Forgiveness Debt Relief Act of 2007, and (3) the Tax Increase Prevention Act of 2007. The bill adopts all 2007 federal changes regarding computation of Iowa net income for individuals, corporations and financial institutions, and definitional changes to the research activities credit. In addition, there were four provisions that had a measurable impact on Iowa revenue:

1. Home Mortgage Debt Discharge Income Exclusion: A lender may renegotiate terms of a mortgage in order to avoid foreclosure – which may include discharging a portion of the debt. Forgiven debt is considered reportable income. In December, Congress adopted an exclusion from income for home mortgage debt discharged on or after January 1, 2007, and before January 1, 2010.
2. Extending the Mortgage Insurance Premium Deduction: If a mortgage loan is for more than 80% of a home’s value, the lender typically requires the homebuyer to purchase a single premium insurance policy against default on the mortgage. The provision allowing an itemized deduction for the mortgage insurance premium was about to expire, but was extended by Congress.
3. Volunteer EMR and Firefighters Income Exclusion: Excludes from income up to \$360 in payments received by volunteer Emergency Medical Responders and firefighters for 2008 through 2010.
4. Section 179 depreciation expensing for businesses: The amount of assets a business may expense in the first year was increased several years ago from \$25,000 to \$100,000, with an annual inflation adjustment. This was due to expire, so Congress extended it through 2010.

Fiscal Impact:

SF 2123 will reduce revenues by \$300,000 in FY 08, \$1.1 million in FY 09, and will not affect FY 10.

Effective Date:

Since these changes affect the 2007 tax year, for which Iowans are in the process of filing their tax returns, the bill takes effect upon enactment and is retroactive to January 1, 2007.

Amendment summary

H-8039 by Rants (R-Woodbury) –Includes Economic Stimulus Act: The amendment couples with federal tax changes through February 14, 2008, rather than January 1, 2008. February 14, 2008 is the date President Bush signed U.S. House Resolution 5140 – the Recovery Rebates and Economic Stimulus for the American People Act of 2008, which does the following:

1. **Tax Rebates:** Grants tax rebates of \$600, or tax liability whichever is less, to individual taxpayers (\$1,200 for married taxpayers filing joint returns), plus an additional of \$300 for each child.
 - There is a minimum rebate of \$300 (\$600 joint returns) with earned income of at least \$3,000, including social security benefits and compensation and pensions paid to disabled veterans.
 - Rebates are reduced by 5% of the amount adjusted gross income exceeds \$75,000 (\$150,000 joint returns).
 - Provides that rebates shall not be considered income for purposes of determining eligibility for federal and federally-assisted state benefit programs.
2. **Business Incentives: Increases – for tax year 2008 –**
 - The Section 179 expensing allowance for depreciable business assets from \$125,000 to \$250,000; and the maximum investment phase-out threshold to \$800,000.
 - From 30% to 50% the amount of the adjusted basis of certain depreciable property (e.g., equipment and computer software) that may be claimed as a deductible expense in 2008.
3. **Housing:**
 - Raises the ceiling on the maximum original principal of a mortgage originated between July 1, 2007, and December 31, 2008, that may be purchased by either the Federal National Mortgage Association (Fannie Mae) or the Federal Home Loan Mortgage Corporation (Freddie Mac).
 - Congress's intent is that Fannie Mae and Freddie Mac securitize mortgages under the increased loan limits of this Act unless it adds to mortgage costs or interferes with liquidity to the market.
 - Establishes a temporary loan limit increase for FHA-insured mortgages in specified high-cost areas for which a borrower received credit approval by December 31, 2008.
 - Grants the Secretary of Housing and Urban Development (HUD) discretionary authority to increase loan limits in 2008 based upon the size and location of residences in particular areas, and directs the Secretary to publish the median house prices and mortgage principal obligation limits as revised by this Act not later than 30 days after its enactment.

NOTE:

- The Iowa Department of Revenue has yet to issue an estimate of the fiscal impact of adopting this provision.
- There is no urgency, as the federal act effects the 2008 tax year for which Iowans will file tax returns in 2009.
- This should not be an excuse to hold up SF 2123, since SF 2123 effects the 2007 tax year, for which Iowans are now filing their tax returns.

H-8043 by Rants (R-Woodbury) – Amends the Microsoft Incentive Bill: The amendment amends HF 2233 (the Microsoft bill) by making “data centers”, as well as web portals businesses eligible for the sales and property tax exemption on certain equipment and computers. Data center is defined as a facility, or portion of a facility, that is predominately used for the housing and operation of computer data processing hardware and associated equipment directly in support thereof. The amendment requires the data center to make a minimum \$1 million investment within in an Iowa location within the first six years of operation in Iowa beginning with the date the data center initiates site preparation activities. The minimum investment includes the initial investment, including land and subsequent acquisition of additional adjacent land and subsequent investment at the Iowa location.