



BILL SUMMARY

HF 125 Internal Revenue Code (IRC) Coupling

Status of Bill: Floor
Committee: Ways & Means Committee (25-0)
Lead Democrats: Rep. Jacoby
Floor Manager: Rep. Hagenow
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February 3, 2015

Background

HF 125 updates Iowa Code to reflect changes made to the federal Internal Revenue Code (IRC). This is typically referred to as “coupling.” The bill is retroactive to the last tax year and will therefore affect tax returns that are filed in 2015.

Major Provisions

Some of the major provisions that affect tax year 2014 include:

- Deduction of up to \$250 for teachers for classroom expenses
- Tuition and fee deductions for higher education expenses
- Allows deduction of state sales and use taxes instead of state income tax as an itemized deduction
- Section 179 expensing – allows business to expense the first \$500,000 of equipment costs
- Deduction for mortgage insurance premiums
- Nontaxable transfers to Individual Retirement Accounts (IRAs) to charities for individuals 70 1/2 or older
- Enhanced charitable deductions for contributions of food inventory
- S corporation basis adjustment for charitable contributions of stock
- Reduction in S Corp recognition period for build-in gains
- Discharge of indebtedness on principal residence excluded from gross income
- Work opportunity tax credit
- Restaurant retail improvements 15-year depreciation
- Exception under subpart F for active financing income

The bill decouples the state from the federal additional first-year depreciation allowance. The federal law allows for a business to depreciate up to 50% of the value of a qualifying asset in the first year, in addition to the regular annual depreciation of the asset. This is often referred to as “bonus depreciation.” Iowa has not coupled with federal changes to bonus depreciation since 2008, so the Department of Revenue contends this decoupling is consistent with previous treatment of this change.

Fiscal Impact

The estimated fiscal cost of the bill is \$98.98 million for FY 2015. Timely passage of the bill is needed to assure that tax filers this year do not need to file amended returns. The Department of Revenue estimates that if the bill is not passed until late in session as many as 94,000 taxpayers could need to file amended returns with a potential cost of processing the returns of over \$250,000.