IOWA HOUSE DEMOCRATS

BILL SUMMARY

Corporate 179 Expensing SF 220

Status of Bill: House Ways & Means Calendar
Committee: Ways & Means (25-0)
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Lead Democrat: Rep. McConkey
Floor Manager: Rep. Hite

Background

Section 179 expensing refers to the United States Internal Revenue Code 26 U.S.C. §179. This section allows taxpayers to deduct certain property as an expense in the year when the property is put into service. If property could not be expensed in the year that it was put into service, the property owner would have to capitalize and depreciate the property over a period of years.

For Tax Year 2018, the federal government increased the maximum deduction for 179 expensing from $500,000 to $1 million. The federal government also increased the phase-out threshold from $2 million to $2.5 million. This means that if a taxpayer placed more than $2.5 million worth of Section 179 property into service during the tax year that the deduction is reduced, dollar for dollar, by the amount exceeding $2.5 million. The election is made at the federal level, and that election is then automatically applied to the property for Iowa tax purposes.

SF 2417 (2018), the Republican Tax Plan, coupled with the increased federal 179 expensing allowances of up to $70,000 for Tax Year 2018 and $100,000 for Tax Year 2019. The phase out was increased to $280,000 for TY 2018 and $400,000 for TY 2019. These increased expensing limitations only applied to individual taxpayers in Tax Year 2018. Corporations and financial institutions faced lower 179 expensing limits for Tax Year 2018.

Bill Summary

Expands the higher Section 179 expensing limits available to individual taxpayers for TY 2018 to S-Corporations, C-Corporations, and financial institutions. The bill limits the maximum deduction for these entities to $70,000 with a $280,000 phase out.

The bill takes effect immediately and applies retroactive to Tax Year 2018.

Fiscal Summary

General Fund revenue will be reduced by an estimated $620,000 in FY 2019 and $430,000 in FY 2020. Because these entities could deduct these expenses over a period of seven years if this change is not made, the bill will have a positive fiscal impact over the next seven years of approximately $1 million.