

**CHAPTER 1197****TAX REVISIONS AND RELATED MATTERS**

S.F. 2449

**AN ACT** changing the computation of the inflation factors for the tax brackets and standard deduction under the individual income tax; changing the computation of taxable income of shareholders of certain subchapter S corporations; increasing the amount of the appropriations for homestead credit, military service credit, and low-income elderly and disabled credit and reimbursement claims; providing tax credits for livestock production; increasing the regular program foundation base level under the school aid program; requiring full funding for certain property tax credits; and providing effective and applicability date provisions.

*Be It Enacted by the General Assembly of the State of Iowa:*

**DIVISION I  
INDEXATION**

Section 1. Section 422.4, subsection 1, paragraph a, Code 1995, is amended to read as follows:

a. "Annual inflation factor" means an index, expressed as a percentage, determined by the department by October 15 of the calendar year preceding the calendar year for which the factor is determined, which reflects the purchasing power of the dollar as a result of inflation during the fiscal year ending in the calendar year preceding the calendar year for which the factor is determined. In determining the annual inflation factor, the department shall use the annual percent change, but not less than zero percent, in the ~~implicit price deflator for the gross national product~~ gross domestic product price deflator computed for the second quarter of the calendar year by the bureau of economic analysis of the United States department of commerce and shall add ~~one-half~~ all of that percent change to one hundred percent. The annual inflation factor and the cumulative inflation factor shall each be expressed as a percentage rounded to the nearest one-tenth of one percent. The annual inflation factor shall not be less than one hundred percent.

Sec. 2. Section 422.4, subsection 1, paragraph d, Code 1995, is amended by striking the paragraph.

Sec. 3. Section 422.4, subsection 2, paragraph a, Code 1995, is amended to read as follows:

a. "Annual standard deduction factor" means an index, expressed as a percentage, determined by the department by October 15 of the calendar year preceding the calendar year for which the factor is determined, which reflects the purchasing power of the dollar as a result of inflation during the fiscal year ending in the calendar year preceding the calendar year for which the factor is determined. In determining the annual standard deduction factor, the department shall use the annual percent change, but not less than zero percent, in the ~~implicit price deflator for the gross national product~~ gross domestic product price deflator computed for the second quarter of the calendar year by the bureau of economic analysis of the United States department of commerce and shall add ~~one-half~~ all of that percent change to one hundred percent. The annual standard deduction factor and the cumulative standard deduction factor shall each be expressed as a percentage rounded to the nearest one-tenth of one percent. The annual standard deduction factor shall not be less than one hundred percent.

Sec. 4. This division of this Act, being deemed of immediate importance, takes effect upon enactment and applies to the computation of the annual inflation factor and annual standard deduction factor for calendar years beginning on or after January 1, 1996. The department of revenue and finance shall adjust the annual inflation factor and annual standard deduction factor previously computed for the 1996 calendar year to reflect the change made in the computation of those factors in this Act.

DIVISION II  
SCHOOL PROPERTY TAX

Sec. 5. Section 257.1, subsection 2, unnumbered paragraph 2, Code Supplement 1995, is amended to read as follows:

For the budget year commencing July 1, ~~1991~~ 1996, and for each succeeding budget year the regular program foundation base per pupil is ~~eighty-three~~ eighty-seven and five-tenths percent of the regular program state cost per pupil, except that the regular program foundation base per pupil for the portion of weighted enrollment that is additional enrollment because of special education is seventy-nine percent of the regular program state cost per pupil. For the budget year commencing July 1, 1991, and for each succeeding budget year the special education support services foundation base is seventy-nine percent of the special education support services state cost per pupil. The combined foundation base is the sum of the regular program foundation base and the special education support services foundation base.

Sec. 6. This division of this Act, being deemed of immediate importance, takes effect upon enactment and applies to the computation of school foundation aid payable during school budget years beginning on or after July 1, 1996.

DIVISION III  
HOMESTEAD, MILITARY, AND ELDERLY OR DISABLED  
TAX CREDIT AND REIMBURSEMENT CLAIMS

\*Sec. 7. Section 8.59, Code 1995, is amended to read as follows:

**8.59 APPROPRIATIONS FREEZE.**

*Notwithstanding contrary provisions of the Code, the amounts appropriated under the applicable sections of the Code for fiscal years commencing on or after July 1, 1993, are limited to those amounts expended under those sections for the fiscal year commencing July 1, 1992. If an applicable section appropriates moneys to be distributed to different recipients and the operation of this section reduces the total amount to be distributed under the applicable section, the moneys shall be prorated among the recipients. As used in this section, "applicable sections" means the following sections: 53.50, 229.35, 230.8, 230.11, 405A.8, 411.20, ~~425.1, 425.39, 426A.1,~~ 663.44, and 822.5.\**

\*Sec. 8. Section 425.1, subsection 1, Code 1995, is amended to read as follows:

1. A homestead credit fund is created. There is appropriated annually from the general fund of the state to the department of revenue and finance to be credited to the homestead credit fund, ~~an amount sufficient~~ the sum of one hundred fourteen million four hundred thousand dollars to implement this chapter.

*The director of revenue and finance shall issue warrants on the homestead credit fund payable to the county treasurers of the several counties of the state under this chapter.\**

\*Sec. 9. Section 425.39, Code 1995, is amended to read as follows:

1. The extraordinary property tax credit and reimbursement fund is created. There is appropriated annually from the general fund of the state to the department of revenue and finance to be credited to the extraordinary property tax credit and reimbursement fund, from funds not otherwise appropriated, ~~an amount sufficient~~ the sum of twelve million five hundred thousand dollars to implement this division.

2. ~~If the amount appropriated under subsection 1, as limited by section 8.59, plus any supplemental appropriation made for purposes of this section for a fiscal year is insufficient to pay all claims in full, the director shall pay, in full, all claims to be paid during the fiscal year for reimbursement of rent constituting property taxes paid or if moneys are insufficient to pay all such claims on a pro rata basis. If the amount of claims for credit for property taxes due to be paid during the fiscal year exceed the amount remaining after~~

\*Item veto; see message at end of the Act

payment to renters, the director of revenue and finance shall prorate the payments to the counties for the property tax credit. In order for the director to carry out the requirements of this subsection, notwithstanding any provision to the contrary in this division, claims for reimbursement for rent constituting property taxes paid filed before May 1 of the fiscal year shall be eligible to be paid in full during the fiscal year and those claims filed on or after May 1 of the fiscal year shall be eligible to be paid during the following fiscal year and the director is not required to make payments to counties for the property tax credit before June 15 of the fiscal year.\*

\*Sec. 10. Section 426A.1, Code 1995, is amended to read as follows:  
426A.1 APPROPRIATION.

There is appropriated from the general fund of the state the ~~amounts necessary~~ sum of two million eight hundred thousand dollars to fund the credits provided under this chapter.\*

\*Sec. 11. It is the intent of the general assembly to provide property tax relief to the citizens of Iowa by fully funding the homestead credit, the elderly and disabled credit, and military tax exemption. The general assembly directs local officials to join the general assembly in providing property tax relief to the fullest extent possible by reducing property tax levies in proportion to increased reimbursement from the state. However, the general assembly recognizes that the most efficient method of achieving property tax relief is through a locally determined strategy based upon the fiscal needs of the local government. This section applies to the 1996-1997 fiscal year only.\*

\*Sec. 12. This division of this Act takes effect July 1, 1996, and applies to homestead, military service, and elderly or disabled tax credit and rent reimbursement claims payable in fiscal years beginning on or after July 1, 1996.\*

#### DIVISION IV SUBCHAPTER S CORPORATIONS

Sec. 13. Section 422.4, Code 1995, is amended by adding the following new subsection:  
NEW SUBSECTION. 17A. The term "value-added corporation" means a corporation that purchases, receives, or holds personal property of any description and which adds to its value by a process of manufacturing, construction, processing, or combining of different materials, and shall specifically include the economic activity identified in divisions C and D of the standard industrial classification codes appearing in 13 C.F.R. ch. 1(1-1-94 edition), with a view to selling the finished product for gain or profit. A corporation engaged in more than one business activity is a value-added corporation if more than fifty percent of its gross receipts, figured on a three-year annual average, or such shorter period as the corporation shall have been in existence, are from the processes previously identified.

Sec. 14. Section 422.5, subsection 1, paragraph j, Code 1995, is amended to read as follows:

j. (1) The tax imposed upon the taxable income of a nonresident shall be computed by reducing the amount determined pursuant to paragraphs "a" through "i" by the amounts of nonrefundable credits under this division and by multiplying this resulting amount by a fraction of which the nonresident's net income allocated to Iowa, as determined in section 422.8, subsection 2, paragraph "a", is the numerator and the nonresident's total net income computed under section 422.7 is the denominator. This provision also applies to individuals who are residents of Iowa for less than the entire tax year.

(2) The tax imposed upon the taxable income of a resident shareholder in a value-added corporation which has in effect for the tax year an election under subchapter S of the Internal Revenue Code and carries on business within and without the state may be computed by reducing the amount determined pursuant to paragraphs "a" through "i" by

\*Item veto; see message at end of the Act

the amounts of nonrefundable credits under this division and by multiplying this resulting amount by a fraction of which the resident's net income allocated to Iowa, as determined in section 422.8, subsection 2, paragraph "b", is the numerator and the resident's total net income computed under section 422.7 is the denominator. This paragraph also applies to individuals who are residents of Iowa for less than the entire tax year.

(a) In order for a resident shareholder in a value-added corporation which has in effect for the tax year an election under subchapter S of the Internal Revenue Code and carries on business within and without the state, to claim the benefits of apportionment of income of the value-added corporation, the taxpayer must completely fill out the return, determine the taxpayer's income tax liability without the benefit of apportionment of the value-added corporation's income, and pay the amount of tax owed. The taxpayer shall recompute the taxpayer's income tax liability, by applying the provisions of this subparagraph on a special return. This special return shall be filed under rules of the director and constitutes a claim for refund of the difference between the amount of tax the taxpayer paid as determined without the provisions of this subparagraph and the amount of tax determined with the provisions of this subparagraph.

(b) This subparagraph shall not affect the amount of the taxpayer's checkoff to the Iowa election campaign fund under section 56.18, the checkoff for the fish and game fund in section 107.16, the credits from tax provided in sections 422.10, 422.11A, and 422.12 and the allocation of these credits between spouses if the taxpayers filed separate returns or separately on combined returns.

(c) For any tax year, the aggregate amount of refund claims that shall be paid pursuant to this subparagraph shall not exceed five million dollars. If, for a tax year, the aggregate amount of refund claims filed pursuant to this subparagraph exceeds five million dollars, each claim for refund shall be paid on a pro rata basis so that the aggregate amount of refund claims does not exceed five million dollars. In the case where refund claims are not paid in full, the amount of the refund to which the taxpayer is entitled under this subparagraph is the pro rata amount that was paid and the taxpayer is not entitled to a refund of the unpaid portion and is not entitled to carry that amount forward or backward to another tax year. Taxpayers shall not use refunds as estimated payments for the succeeding tax year. Taxpayers whose tax years begin on January 1 must file their refund claims by October 31 of the calendar year following the end of their tax year to be eligible for refunds. Taxpayers whose tax years begin on a date other than January 1 must file their refund claims by the end of the tenth month following the end of their tax years to be eligible. The department shall determine on February 1 of the second succeeding calendar year if the total amount of claims for refund exceeds five million dollars for the tax year. Notwithstanding any other provision, interest shall not be due on any refund claims that are paid by the last day of February of the second succeeding calendar year. If the claim is not payable on February 1 of the second succeeding calendar year, because the taxpayer is a fiscal year filer, then the amount of the claim allowed shall be in the same ratio as the refund claims available on February 1 of the second succeeding calendar year. These claims shall be funded by moneys appropriated for payment of individual income tax refunds.

Sec. 15. Section 422.5, subsection 1, paragraph k, unnumbered paragraph 4, Code 1995, is amended to read as follows:

In the case of a resident, including a resident estate or trust, the state's apportioned share of the state alternative minimum tax is one hundred percent of the state alternative minimum tax computed in this subsection. In the case of a resident or part year resident shareholder in a value-added corporation which has in effect for the tax year an election under subchapter S of the Internal Revenue Code and carries on business within and without the state, a nonresident, including a nonresident estate or trust, or an individual, estate, or trust that is domiciled in the state for less than the entire tax year, the state's apportioned share of the state alternative minimum tax is the amount of tax computed under this subsection, reduced by the applicable credits in sections 422.10 through 422.12

and this result multiplied by a fraction with a numerator of the sum of state net income allocated to Iowa as determined in section 422.8, subsection 2, paragraph "a" or "b" as applicable, plus tax preference items, adjustments, and losses under subparagraph (1) attributable to Iowa and with a denominator of the sum of total net income computed under section 422.7 plus all tax preference items, adjustments, and losses under subparagraph (1). In computing this fraction, those items excludable under subparagraph (1) shall not be used in computing the tax preference items. Married taxpayers electing to file separate returns or separately on a combined return must allocate the minimum tax computed in this subsection in the proportion that each spouse's respective preference items, adjustments, and losses under subparagraph (1) bear to the combined preference items, adjustments, and losses under subparagraph (1) of both spouses.

Sec. 16. Section 422.8, subsection 2, Code 1995, is amended to read as follows:

2. a. Nonresident's net income allocated to Iowa is the net income, or portion thereof of net income, which is derived from a business, trade, profession, or occupation carried on within this state or income from any property, trust, estate, or other source within Iowa. However, income derived from a business, trade, profession, or occupation carried on within this state and income from any property, trust, estate, or other source within Iowa shall not include distributions from pensions, including defined benefit or defined contribution plans, annuities, individual retirement accounts, and deferred compensation plans or any earnings attributable thereto so long as the distribution is directly related to an individual's documented retirement and received while the individual is a nonresident of this state. If a business, trade, profession, or occupation is carried on partly within and partly without the state, only the portion of the net income which is fairly and equitably attributable to that part of the business, trade, profession, or occupation carried on within the state is allocated to Iowa for purposes of section 422.5, subsection 1, paragraph "j", and section 422.13 and income from any property, trust, estate, or other source partly within and partly without the state is allocated to Iowa in the same manner, except that annuities, interest on bank deposits and interest-bearing obligations, and dividends are allocated to Iowa only to the extent to which they are derived from a business, trade, profession, or occupation carried on within the state.

b. A resident's income allocable to Iowa is the income determined under section 422.7 reduced by items of income and expenses from a subchapter S corporation which is a value-added corporation that carries on business within and without the state when those items of income and expenses pass directly to the shareholders under provisions of the Internal Revenue Code. These items of income and expenses are increased by the greater of the following:

(1) The net income or loss of the corporation which is fairly and equitably attributable to this state under section 422.33, subsections 2 and 3.

(2) Any cash or the value of property distributions which are made only to the extent that they are paid from income upon which Iowa income tax has not been paid, as determined under rules of the director, reduced by fifty percent of the amount of any of these distributions that are made to enable the shareholder to pay federal income tax on items of income, loss, and expenses from the corporation.

Sec. 17. Section 422.8, Code 1995, is amended by adding the following new subsection:  
**NEW SUBSECTION. 6.** If the resident or part-year resident is a shareholder of a value-added corporation which has in effect an election under subchapter S of the Internal Revenue Code, subsections 1 and 3 do not apply to any income taxes paid to another state or foreign country on the income from the value-added corporation which has in effect an election under subchapter S of the Internal Revenue Code.

Sec. 18. This division of this Act, being deemed of immediate importance, takes effect upon enactment and applies retroactively to January 1, 1996, for tax years beginning on or after that date.

DIVISION V  
LIVESTOCK PRODUCTION TAX CREDIT

Sec. 19. NEW SECTION. 422.120 LIVESTOCK PRODUCTION TAX CREDIT ALLOWED.

1. a. There is allowed a state tax credit for livestock production operations located in the state. The amount of the credit equals ten cents for each corn equivalent consumed by the livestock in the production operation as specified under this section. The credit shall be refunded as provided in section 422.121.

b. The credit shall be available to an individual or corporate taxpayer who owns livestock, if all of the following apply:

(1) The total net worth of the taxpayer during the taxpayer's tax year is less than one million dollars.

(2) The taxpayer receives, or accrues in the case of an accrual-basis taxpayer, more than one-half of the taxpayer's gross income from farming or ranching operations during the tax year. Gross income from farming or ranching is the amount reported as gross income on schedule F, or the equivalent schedule, of the taxpayer's income tax return, the total gains from sales of breeding livestock, and, if applicable, the taxpayer's distributive share of income from farming or ranching from a partnership, limited liability company, subchapter S corporation, or an estate or trust. To determine whether a taxpayer receives more than one-half of gross income from farming or ranching, the taxpayer's amount of gross income from farming or ranching shall be divided by the taxpayer's total gross income as defined in section 61 of the federal Internal Revenue Code.

2. The amount of the credit per operation is determined by adding together for each head of livestock in the operation the product of ten cents times the number of corn equivalents consumed by that head of livestock. The amount of livestock production credit per operation per tax year shall not exceed three thousand dollars and the amount of livestock production credit per taxpayer per tax year shall not exceed three thousand dollars.

The maximum amount of corn equivalents for a head of livestock in a production operation is the following:

a. Hog operations:	Corn equivalents:
(1) Farrow to finish	13.0
(2) Farrow to feeder pig	2.6
(3) Finishing feeder pigs	10.4
b. Poultry operations:	
(1) Layers	0.88
(2) Turkeys	1.5
(3) Broilers	0.15
c. Beef operations:	
(1) Cow-calf	111.5
(2) Stocker	41.5
(3) Feedlot	75.0
(4) Dairy	350.0
d. Sheep operations:	
(1) Ewe flock	20.5
(2) Feedlot	4.1

3. If the livestock operation is carried on partly within and partly without the state, the portion of the operation attributable to this state shall be determined pursuant to rules adopted by the department. The department may adjust the allocation upon request of the taxpayer in order to reflect the actual livestock operation carried on within this state.

4. An individual may claim the livestock production tax credit allowed a partnership, limited liability company, subchapter S corporation, or estate or trust electing to have the income taxed directly to the individual. The amount claimed by the individual shall be based upon the pro rata share of the individual's earning of the partnership, limited liability company, subchapter S corporation, or estate or trust.

5. A fraudulent claim for a credit refund under this division shall cause the forfeiture of any right or interest to a tax credit refund in subsequent tax years under this division.

Sec. 20. NEW SECTION. 422.121 APPROPRIATION.

Beginning with the fiscal year beginning July 1, 1997, there is appropriated annually from the general fund of the state two million dollars to refund the credits allowed under this division.

Sec. 21. NEW SECTION. 422.122 REFUND OF LIVESTOCK PRODUCTION CREDIT CLAIMS.

1. Each tax year the total amount of livestock production credit refund claims that shall be paid pursuant to section 422.120 shall not exceed the amount appropriated by the general assembly for that purpose. If the total dollar amount of the refund claims exceeds that amount, each claim shall be paid an amount equal to that amount divided by the total number of claims, not to exceed the amount of the taxpayer's claim. Remaining funds shall be prorated among those claims not paid in full in the proportion that each such claim bears to the total amount of such claims not paid in full.

2. In the case where refund claims are not paid in full, the amount of the refund to which the taxpayer is entitled is the amount computed in subsection 1, and paid to the taxpayer, and the taxpayer is not entitled to any unpaid portion of a claim and is not entitled to carry forward or backward to another tax year any unpaid portion of a claim. A taxpayer shall not use a refund as an estimated payment for the succeeding tax year.

3. A taxpayer must file a claim for refund within ten months from the last day of the taxpayer's tax year. An extension for filing shall not be allowed. The department shall determine by February 28 of the calendar year following the calendar year in which the claims were filed if the total amount of claims for refund exceeds the amount appropriated for that purpose by the general assembly for the tax year. If the claim is not payable on February 28 because the taxpayer is a fiscal year filer, the claim shall be considered as a claim filed for the following tax year.

4. A claim for refund shall be made on claim forms to be made available by the department. In order for a taxpayer to have a valid refund claim, the taxpayer must supply legible copies of documents the director deems necessary to verify the amount of the refund.

Sec. 22. FISCAL YEAR 1997-1998 APPROPRIATION. Notwithstanding the livestock production operations described in section 422.120, for the tax year beginning on or after January 1, 1996, the appropriation in section 422.121 shall only be used to satisfy claims for cow-calf production.

Sec. 23. APPLICABILITY. This division of this Act applies to tax years beginning on or after January 1, 1996.

#### DIVISION VI SCHOOL STUDY GOALS

Sec. 24. It is the intent of the general assembly to support the study of the department of education required in 1996 Iowa Acts, House File 2477, if enacted,\* with the specified goals of increasing the capacity of the whole school to meet the needs of all children; increasing support available to at-risk students; and ensuring predictable and equitable special education funding at both the state and local levels; and with the additional goal of achieving parity between the percentage of regular program state cost per pupil and the percentage for that portion of weighted enrollment that is additional enrollment because of special education which constitute the regular program foundation base and the percentage of special education support services state cost per pupil which constitutes the special education support services foundation base.

\*Chapter 1215 herein

DIVISION VII  
FUNDING CREDITS AND EXEMPTIONS

*\*Sec. 25. NEW SECTION. 25B.7 FUNDING PROPERTY TAX CREDITS AND EXEMPTIONS.*

1. *Beginning with property taxes due and payable in the fiscal year beginning July 1, 1997, the cost of providing a property tax credit or property tax exemption which is enacted by the general assembly on or after January 1, 1997, shall be fully funded by the state. If a state appropriation made to fund a credit or exemption which is enacted on or after January 1, 1997, is not sufficient to fully fund the credit or exemption, the political subdivision shall be required to extend to the taxpayer only that portion of the credit or exemption funded by the state appropriation. The department of revenue and finance shall determine the portion of the credit or exemption which will be funded by the state appropriation.*

2. *The requirement for fully funding and the consequences of not fully funding credits and exemptions under subsection 1 also apply to all of the following:*

- a. *Homestead tax credit pursuant to sections 425.1 through 425.15.*
- b. *Elderly, low-income, and disabled property tax credits pursuant to sections 425.16 through 425.40.*
- c. *Military service property tax credits and exemptions pursuant to chapter 426A and sections 427.3 through 427.7.\**

Sec. 26. This division of this Act takes effect July 1, 1996.

*Approved May 29, 1996, except the items which I hereby disapprove and which are designated as Sections 7, 8, 9, 10, 11, and 12 in their entirety; and Section 25 in its entirety. My reasons for vetoing these items are delineated in the item veto message pertaining to this Act to the Secretary of State this same date, a copy of which is attached hereto.*

TERRY E. BRANSTAD, Governor

Dear Mr. Secretary:

I hereby transmit Senate File 2449, an Act changing the computation of the inflation factors for the tax brackets and standard deduction under the individual income tax; changing the computation of taxable income of shareholders of certain subchapter S corporations; increasing the amount of the appropriations for homestead credit, military service credit, and low-income elderly and disabled credit and reimbursement claims; providing tax credits for livestock production; increasing the regular program foundation base level under the school aid program; requiring full funding for certain property tax credits; and providing effective and applicability date provisions.

Senate File 2449 represents the second year of a major commitment to reduce the tax burden for Iowa families and businesses. Following up on last year's \$100 million reduction, this bill contains an additional \$90 million of actual tax reductions in fiscal year 1997. The value of these reductions will grow in the future.

I am especially pleased that Iowa's income tax rates will now be fully indexed to inflation, as I had recommended, so that Iowans will not be pushed into higher tax brackets simply as a result of inflationary growth in their incomes. Also, Iowa's competitive position will be enhanced as a result of changes in the taxation of certain Subchapter S corporations. While this action does not totally remove the inequity in the way that Iowa Sub-S corporations are treated, it does begin to remove the disincentive for a Sub-S corporation to locate or expand in Iowa. Tax changes for smaller cow-calf operations will also enhance Iowa's economic growth.

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*\*Item veto; see message at end of the Act*

Most significantly, Senate File 2449 will decrease the tax burden for property taxpayers by enhancing the state's share of K-12 school funding. An increase in the program foundation base level from 83 percent to 87.5 percent will result in annual property tax savings of \$85 million.

Senate File 2449 is, therefore, approved on this date with the following exceptions, which I hereby disapprove.

I am unable to approve the items designated as Sections 7, 8, 9, 10, 11 and 12, in their entirety. These items would provide for full funding of certain property tax credits. While property taxpayers already enjoy the full benefit of the homestead, military and the elderly or disabled tax credits, the cost to local governments of providing these credits is not currently fully reimbursed by the state. These sections would appropriate a total of \$22.5 million to local governments.

While the concept of full funding for these tax credits has been characterized as property tax relief, in fact there is no assurance of property tax relief. Local budgets for fiscal year 1997 have already been set, meaning none of these funds would be used for tax relief this year. Future tax relief would depend on what each local government chooses to do with the additional funds. I feel there are better alternatives to changing Iowa's property tax system, and instead invite local governments to join in a more comprehensive review aimed at making the overall system simpler, more predictable, and giving local governments greater flexibility in their budgets.

I am unable to approve the item designated as Section 25, in its entirety. This item provides that if the state ever fails to fully fund a property tax credit in the future, the local government may reduce the amount of credit to the taxpayer in an amount equivalent to the shortfall. This action would place the taxpayer at a permanent disadvantage, when the taxpayer, instead, should be protected.

For the above reasons, I respectfully disapprove these items in accordance with Amendment IV of the Amendments of 1968 to the Constitution of the State of Iowa. All other items in Senate File 2449 are hereby approved as of this date.

Sincerely,  
TERRY E. BRANSTAD, *Governor*

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**CHAPTER 1198**  
**FAMILY FARM TAX CREDIT**  
*H.F. 560*

**AN ACT** relating to the definition of "designated person" for purposes of the family farm tax credit and providing effective and applicability dates.

*Be It Enacted by the General Assembly of the State of Iowa:*

Section 1. Section 425A.2, subsection 4, Code 1995, is amended to read as follows:

4. "Designated person" means one of the following:

a. If the owner is an individual, the designated person includes the owner of the tract ~~or a person related to the owner as, the owner's spouse, parent, grandparent, the owner's~~