

House File 464 - Introduced

HOUSE FILE 464

BY BOSSMAN

A BILL FOR

1 An Act providing for the establishment of recreation savings
2 accounts and a related individual income tax exemption, and
3 including applicability provisions.

4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 Section 1. Section 422.7, Code 2019, is amended by adding
2 the following new subsection:

3 NEW SUBSECTION. 48. *a.* Subtract the sum of the following
4 amounts:

5 (1) The amount of contributions made by an account holder
6 during the tax year to the account holder's recreation savings
7 accounts, not to exceed two thousand dollars per year.

8 (2) To the extent included, income from interest received
9 from the account holder's recreation savings accounts.

10 *b.* Add, to the extent previously deducted under paragraph
11 "a", the amount withdrawn during the tax year from an account
12 holder's recreation savings account for purposes other than
13 the payment or reimbursement of the designated beneficiary's
14 eligible recreation costs. For purposes of this paragraph,
15 the transfer of amounts between different recreation savings
16 accounts of the same account holder by a person other than the
17 account holder shall not cause such transfer to be considered
18 a withdrawal.

19 *c.* For any amount considered a withdrawal required to be
20 added to net income pursuant to paragraph "b", the account
21 holder shall be assessed a penalty equal to ten percent of
22 the amount of the withdrawal. The penalty shall not apply
23 to withdrawals made by reason of the death of the account
24 holder, or to withdrawals made pursuant to a garnishment,
25 level, or other order, including but not limited to an order in
26 bankruptcy code, 11 U.S.C. §101 et seq.

27 *d.* For purposes of this subsection, "account holder",
28 "designated beneficiary", "eligible recreation costs", and
29 "recreation savings account" mean the same as defined in section
30 541C.2.

31 Sec. 2. NEW SECTION. 541C.1 Short title.

32 This chapter may be cited as the "Iowa Recreation Savings
33 Account Act".

34 Sec. 3. NEW SECTION. 541C.2 Definitions.

35 As used in this chapter, unless the context otherwise

1 requires:

2 1. "*Account holder*" means an individual who establishes,
3 either individually or jointly with the individual's spouse, a
4 recreation savings account pursuant to section 541C.3.

5 2. "*Department*" means the department of revenue.

6 3. "*Designated beneficiary*" means an individual meeting the
7 requirements of section 541C.3, subsection 2, and designated
8 by an account holder as beneficiary of the account holder's
9 recreation savings account pursuant to section 541C.3,
10 subsection 2.

11 4. *a.* "*Eligible recreation costs*" means a cost, fee, tax,
12 or payment incurred by, or charged or assigned to, a designated
13 beneficiary for the purchase of any of the following:

14 (1) Sport or recreational equipment, as defined in section
15 423.3, subsection 68.

16 (2) Clothing worn in conjunction with sport, exercise, or
17 recreation.

18 (3) Personal wellness services, including but not limited
19 to a fitness club or gym membership, or consultation with a
20 personal trainer.

21 (4) Organized or unorganized sports, lessons, programs, or
22 other recreational activities.

23 *b.* "*Eligible recreation costs*" includes any cost, fee, tax,
24 or payment as provided in paragraph "*a*", which is made for the
25 direct benefit of the designated beneficiary, the designated
26 beneficiary's spouse, or a dependent child of the designated
27 beneficiary.

28 5. "*Financial institution*" means the same as defined in
29 section 541B.2.

30 6. "*Individual*" means a natural person.

31 7. "*Recreation savings account*" means an account that
32 meets the requirements of sections 541C.3 and 541C.4 and that
33 was established for the purpose of paying or reimbursing a
34 designated beneficiary's eligible recreation costs.

35 8. "*Resident*" means the same as defined in section 422.4.

1 Sec. 4. NEW SECTION. **541C.3 Recreation savings account.**

2 1. *Establishment of account.*

3 a. Beginning January 1, 2020, an individual may open an
4 interest-bearing savings account with a financial institution
5 and designate the entire account as a recreation savings
6 account for the purpose of paying or reimbursing a designated
7 beneficiary's eligible recreation costs. The recreation
8 savings account designation shall be made no later than April
9 30 of the year following the tax year during which the account
10 is opened, on forms provided by the department.

11 b. A married couple electing to file a joint Iowa individual
12 income tax return may establish a joint recreation savings
13 account. Married taxpayers electing to file separate tax
14 returns or separately on a combined tax return for Iowa tax
15 purposes shall not establish or maintain a joint recreation
16 savings account.

17 c. An individual may establish more than one recreation
18 savings account, provided each account has a different
19 designated beneficiary.

20 2. *Designation of beneficiary.*

21 a. The account holder shall designate one individual as
22 beneficiary of the recreation savings account. The designation
23 shall be made on forms provided by the department and no later
24 than April 30 of the year following the tax year during which
25 the account is opened. The account holder may change the
26 designated beneficiary of the recreation savings account at any
27 time.

28 b. The account holder and designated beneficiary of a
29 recreation savings account may be the same individual.

30 c. An individual may be the designated beneficiary of more
31 than one recreation savings account.

32 d. The designated beneficiary of a recreation savings
33 account must be a resident.

34 Sec. 5. NEW SECTION. **541C.4 Account administration —**
35 **account holder responsibilities.**

1 1. *Account contributions.* Contributions to a recreation
2 savings account may be made by any person in the form of cash.
3 There is no limitation on the amount of contributions that may
4 be made to or retained in a recreation savings account.

5 2. *Account expenses.* The account holder shall not use funds
6 held in a recreation savings account to pay expenses, if any,
7 of administering the account, except that all fees and charges
8 assessed by the financial institution may be deducted from the
9 account by the financial institution where the account is held.

10 3. *Required reports.* The account holder shall submit the
11 following information to the department:

12 *a.* An annual report for the recreation savings account
13 on forms furnished by the department. The report shall be
14 included with the Iowa income tax return of the account holder.

15 *b.* A copy of the federal internal revenue service form
16 1099, or other similar federal internal revenue service income
17 reporting form, if any, issued for the recreation savings
18 account to the account holder by the financial institution
19 where the account is held. The form shall be included with the
20 Iowa income tax return of the account holder.

21 *c.* Upon a withdrawal of funds from a recreation savings
22 account, a transaction report on forms furnished by the
23 department.

24 4. *Withdrawal of funds.* The account holder may withdraw
25 funds from a recreation savings account at any time.

26 Sec. 6. NEW SECTION. 541C.5 Financial institution
27 protections.

28 Nothing in this chapter shall be construed to require a
29 financial institution to do any of the following, or to be
30 responsible or liable for any of the following:

31 1. Designate or label within the financial institution's
32 account contracts, systems, or in any other manner, an account
33 as a recreation savings account.

34 2. Ascertain or verify the purpose of a withdrawal of funds
35 from a recreation savings account, or track the destination or

1 use of the withdrawn funds.

2 3. Allocate funds in a recreation savings account to a
3 designated beneficiary or among joint account holders.

4 4. Report any information to the department or any other
5 governmental agency.

6 5. Determine or ensure that an account satisfies the
7 requirements to be a recreation savings account.

8 6. Determine or ensure that funds withdrawn from a
9 recreation savings account are used for the payment or
10 reimbursement of a designated beneficiary's eligible recreation
11 costs.

12 7. Report or remit taxes or penalties related to the
13 ownership or use of a recreation savings account.

14 8. Include the name of a beneficiary in the title of a
15 recreation savings account, or document the change of any
16 beneficiary to a recreation savings account.

17 Sec. 7. NEW SECTION. 541C.6 Tax considerations.

18 The state income tax treatment of a recreation savings
19 account shall be as provided in section 422.7, subsection 48.

20 Sec. 8. NEW SECTION. 541C.7 Rules and forms.

21 1. The department shall adopt rules to implement and
22 administer this chapter, including but not limited to rules
23 that identify transactions which qualify as eligible recreation
24 costs.

25 2. The department shall create and make available forms
26 to be used in complying with this chapter, including but not
27 limited to the following:

28 a. A form for designating an account as a recreation savings
29 account pursuant to section 541C.3, subsection 1, paragraph
30 "a".

31 b. A form for designating an individual as beneficiary
32 of a recreation savings account pursuant to section 541C.3,
33 subsection 2, paragraph "a".

34 c. A recreation savings account annual report as required in
35 section 541C.4, subsection 3, paragraph "a". The report shall

1 require, at a minimum, a list of transactions occurring on the
2 account during the tax year, and shall identify any supporting
3 documentation to be included with the report or maintained by
4 the taxpayer.

5 *d.* A transaction report as required in section 541C.4,
6 subsection 3, paragraph "c", which report shall require, at a
7 minimum, information regarding the eligible recreation costs
8 to which any withdrawn funds were applied, and information
9 regarding the amount of funds remaining, if any, in a
10 recreation savings account.

11 Sec. 9. APPLICABILITY. The following provision of this Act
12 applies to tax years beginning on or after January 1, 2020:

13 The section of this Act enacting section 422.7, subsection
14 48.

15 EXPLANATION

16 The inclusion of this explanation does not constitute agreement with
17 the explanation's substance by the members of the general assembly.

18 This bill allows individuals, on or after January 1, 2020,
19 to open an interest-bearing savings account with a state or
20 federally chartered bank, savings and loan association, credit
21 union, or trust company in this state and designate the account
22 as a recreation savings account (account) for the purpose of
23 financing eligible recreation costs. "Eligible recreation
24 costs" is defined as a cost, fee, tax, or payment incurred by
25 the beneficiary of the account (designated beneficiary) for the
26 purchase of sport or recreational equipment, personal wellness
27 services, or recreational activities for the benefit of the
28 designated beneficiary's immediate family. The account may
29 be established individually, or jointly with a spouse if the
30 married couple files a joint Iowa income tax return.

31 To establish the account, the bill requires the account
32 holder to submit certain forms to the department of revenue
33 (department) designating the account as a recreation savings
34 account, and identifying the designated beneficiary. These
35 designation forms must be submitted no later than April 30 of

1 the year following the tax year during which the account is
2 opened. An individual may establish more than one account,
3 provided each account has a different designated beneficiary.
4 The account holder may change the designated beneficiary at any
5 time, and may designate himself or herself as the designated
6 beneficiary. In addition, an individual may be the designated
7 beneficiary of more than one account. The designated
8 beneficiary must be a resident of Iowa.

9 Contributions to an account may be made in the form of cash
10 by any person and in any amount. There is no limitation on the
11 amount that may be retained in an account. In addition, the
12 account holder may withdraw funds from an account at any time.
13 Account funds shall not be used to pay expenses, if any, of
14 administering the account, except that fees and charges may be
15 deducted from the account by the financial institution where
16 the account is held. The bill requires an account holder to
17 submit certain reports to the department, including an annual
18 report for the account, a transaction report upon a withdrawal
19 of funds from the account, and a copy of any federal Internal
20 Revenue Service form 1099 or other similar income statement
21 issued for the account.

22 The bill provides protection to financial institutions from
23 being required to perform, and from being responsible or liable
24 for, certain activities as described in the bill with respect
25 to accounts. The bill requires the department to create forms
26 required to be filed by account holders, and to adopt rules to
27 implement and administer the bill, including but not limited
28 to rules identifying transactions which qualify as "eligible
29 recreation costs".

30 The bill provides two individual income tax incentives
31 relating to the accounts. First, an account holder is
32 allowed to deduct from the individual income tax the amount of
33 contributions made during the year by the account holder to
34 the account holder's accounts, not to exceed \$2,000 per year.
35 Second, the bill exempts from the individual income tax any

1 interest received from the account holder's accounts.

2 The bill requires an account holder to add to net income for
3 purposes of calculating the individual income tax any amount
4 of a nonqualified withdrawal from an account to the extent it
5 was previously deducted as a contribution. Amounts transferred
6 between different accounts of the same account holder by
7 a person other than the account holder are not considered
8 nonqualified withdrawals. Nonqualified withdrawals required to
9 be added to net income are also subject to a penalty equal to 10
10 percent of the nonqualified withdrawal, unless the withdrawal
11 was made by reason of the death of the account holder, or was
12 made pursuant to a garnishment, levy, or other order, including
13 an order in bankruptcy following a filing for protection under
14 the federal bankruptcy code.

15 The tax provisions of the bill apply to tax years beginning
16 on or after January 1, 2020.