March 15, 1957.
Passed on File.

Senate File 428
By TAX REVISION COMMITTEE.

Passed Senate, Date.................... Passed House, Date......................
Vote: Ayes............. Nays............. Vote: Ayes............. Nays.............
Approved...

A BILL FOR

An Act relating to the income tax.

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

Section 1. Section four hundred twenty-two point four (422.4), Code 1954, as amended by chapter two hundred eight (208), sections one (1), two (2) and three (3), Acts of the Fifty-sixth General Assembly, is hereby amended by striking subsection fourteen (14) and enacting in lieu thereof the following:

"The term 'withholding agent' means any individual, fiduciary, corporation, partnership or association in whatever capacity acting, and including all officers and employees of the state of Iowa or of any municipal corporation of the state or of any school district or school board of the state, or of any political subdivision of the state of Iowa, that is obligated to pay or has control of paying or does pay to any nonresident of the state of Iowa or his agent any income that is subject to the Iowa income tax in the hands of such nonresident."

Sec. 2. Section four hundred twenty-two point five (422.5), Code 1954, as amended by chapter two hundred eight (208), section four (4), Acts of the Fifty-sixth General Assembly, is hereby repealed and the following enacted in lieu thereof:

"Tax imposed. A tax is hereby imposed upon every resident of the state and upon that part of the taxable income of any nonresident which is derived from any property, trust, or other source within this state, including any business, trade, profession, or occupation carried on within this state, which tax shall be levied, collected, and paid annually upon and with respect to his entire taxable income as herein defined at the following rates:

1. On the first two thousand (2000) dollars of taxable income, or any part thereof, two (2) percent.

2. On the second two thousand (2000) dollars of taxable income, or any part thereof, four (4) percent.

3. On the third two thousand (2000) dollars of taxable income, or any part thereof, six (6) percent.

4. On the fourth two thousand (2000) dollars of taxable income, or any part thereof, eight (8) percent.

5. On all taxable income in excess of eight thousand (8000) dollars, ten (10) percent.

The tax herein levied shall be computed and collected as hereinafter provided.

The provisions of this division shall apply to all salaries received by federal officials or employees of the United States government as provided for herein."

Sec. 3. Chapter four hundred twenty-two (422), Code 1954, as amended is hereby amended by adding a new section as follows:

"The tax determined under section four hundred twenty-two point five (422.5) of the Code shall be reduced by ten (10) percent thereof, and the remainder shall be the tax payable."

Sec. 4. Section four hundred twenty-two point nine (422.9), Code 1954, as amended by chapter two hundred eight

(208), section eight (8), Acts of the Fifty-sixth General Assembly, is hereby repealed and the following enacted in lieu thereof:

"Deductions from net income. In computing taxable income of individuals there shall be deducted from net income the larger of the following amounts:

1. After deduction of federal income tax, an optional standard deduction of ten (10) percent of the net income not to exceed five hundred (500) dollars. In the case of married persons filing separately the standard deduction shall not exceed two hundred fifty (250) dollars for either of the persons filing separately.

2. The total of contributions, interest, taxes, except Iowa income tax, medical expense, child care expenses, losses and miscellaneous expenses, deductible for federal income tax purposes under the Internal Revenue Code of 1954, as amended through December 31, 1956. In addition to the foregoing a deduction shall be allowed for the amount of federal income tax computed to be due for the tax year, and for any federal income tax paid during said year which is applicable to any prior tax year and for which a deduction for Iowa income tax purposes was not previously allowed or allowable under the method of accounting of the taxpayer.

Where married persons file separately the total deductions provided for herein shall be divided between them according to the portion thereof paid or accrued by each.

3. Where married persons file separately, both must use the optional standard deduction if either elects to use it.

4. A taxpayer affected by section four hundred twenty-two

point eight (122.8) of the Code shall, if the optional standard deduction is not used, be permitted to deduct only such portion of the total referred to in subsection two (2) above as is fairly and equitably allocable to Iowa under rules and regulations prescribed by the state tax commission.

5. a. Allowance of deductions. In the case of an individual, the exemptions provided by this subsection shall be allowed as deductions in computing taxable income.

b. Taxpayer and spouse. An exemption of six hundred (600) dollars for the taxpayer, and an additional exemption of six hundred (600) dollars for the spouse of the taxpayer if a separate return is made by the taxpayer, and if the spouse, for the calendar year in which the taxable year of the taxpayer begins, has no gross income and is not the dependent of another taxpayer.

c. Additional exemption for taxpayer or spouse aged sixty-five (65) or more, or head of household.

(1) For taxpayer. An additional exemption of six hundred (600) dollars for the taxpayer if he has attained the age of sixty-five (65) before the close of his taxable year.

(2) For spouse. An additional exemption of six hundred (600) dollars for the spouse of the taxpayer if a separate return is made by the taxpayer, and if the spouse has attained the age of sixty-five (65) before the close of such taxable year, and, for the calendar year in which the taxable year of the taxpayer begins, has no gross income and is not the dependent of another taxpayer.

(3) For head of household, an additional exemption of six hundred (600) dollars. As used in this section the term 'head

of household' shall have the same meaning as provided by the Internal Revenue Code of 1954, as amended through December 31, 1956.

d. Additional exemption for blindness of taxpayer or spouse.

(1)) For taxpayer. An additional exemption of six hundred (600) dollars for the taxpayer if he is blind at the close of his taxable year.

(2) For Spouse. An additional exemption of six hundred (600) dollars for the spouse of the taxpayer if a separate return is made by the taxpayer, and if the spouse is blind and, for the calendar year in which the taxable year of the taxpayer begins, has no gross income and is not the dependent of another taxpayer. For purposes of this paragraph, the determination of whether the spouse is blind shall be made as of the close of the taxable year of the taxpayer; except that if the spouse dies during such taxable year such determination shall be made as of the time of such death.

(3) Blindness defined. For purposes of this subsection an individual is blind only if his central visual acuity does not exceed 20-200 in the better eye with correcting lenses, or if his visual acuity is greater than 20-200 but is accompanied by a limitation in the fields of vision such that the widest diameter of the visual field subtends an angle no greater than twenty (20) degrees.

e. Additional exemption for dependents. An exemption of six hundred (600) dollars for each dependent. As used in this subsection, the term 'dependent' will have the same meaning as provided by the Internal Revenue Code of 1954, as amended through December 31, 1956.

f. Estates and trusts. In the case of estates or trusts the exemption shall be six hundred (600) dollars."

Sec. 5. Section four hundred twenty-two point twelve (422.12), Code 1954, as amended by chapter two hundred eight (208), section ten (10), Acts of the Fifty-sixth General Assembly, is hereby repealed and the following enacted in lieu thereof:

"Determination of marital status. The determination of whether an individual is married shall be made as of the close of his tax year unless his spouse dies during his tax year, in which case such determination shall be made as of the date of such death An individual legally separated from his spouse under a decree of divorce or of separate maintenance shall not be considered as married."

Sec. 6. Section four hundred twenty-two point thirteen (422.13), Code 1954, as amended by chapter two hundred eight (208), sections eleven (11) and twelve (12), Acts of the Fifty-sixth General Assembly, is hereby amended by striking all of subsections one (1) and two (2), of said section, and substituting therefor the following:

"1. Every individual having a taxable income for the tax year, from sources taxable under this division, of six hundred (600) dollars or over, if single, or if married and not living with husband or wife, or having a taxable income for the tax year of twelve hundred (1200) dollars or over, if married and living with husband or wife, shall make and sign a return.

2. If husband and wife living together have an aggregate taxable income of twelve hundred (1200) dollars or over, each

shall make such return unless the income of each is included in one joint return.

3. The requirement for filing provided by this section shall be twelve hundred (1200) dollars or more if the taxpayer is single and has attained the age of sixty-five (65) years before the close of the taxable year; eighteen hundred (1800) dollars if married and one spouse has attained the age of sixty-five (65) before the close of the taxable year or twenty-four hundred (2400) dollars if married and each spouse has attained the age of sixty-five (65) before the close of the taxable year.

4. In the case of a joint return by husband and wife, under the provisions of this section, the tax imposed shall be twice the tax which would be imposed if the taxable income were cut in half. A return of a surviving spouse shall be treated as a joint return of a husband and wife. The provisions of the Internal Revenue Code of 1954, as amended through December 31, 1956, relating to joint returns shall apply to joint returns made under this provision insofar as they are applicable."

Subsections three (3) and four (4) of section four hundred twenty-two point thirteen (422.13) are hereby renumbered as subsections five (5) and six (6), respectively.

Sec. 7. Section four hundred twenty-two point fifteen (422.15), Code 1954, as amended by chapter two hundred eight (208), sections fifteen (15) and sixteen (16), Acts of the Fifty-sixth General Assembly, is hereby amended by striking all of subsection one (1) of said section and inserting in lieu thereof the following:

"1. Every person or corporation being a resident of or having a place of business in this state, in whatever capacity acting, including lessees or mortgagors of real or personal property, fiduciaries, employers and all officers and employees of the state or of any political subdivision of the state, having the control, receipt, custody, disposal or payment of interest (other than interest coupons payable to bearer), rent, salaries, wages, premiums, annuities, compensations, remunerations, emoluments or other fixed or determinable annual or periodical gains, profits and income amounting to six hundred (600) dollars or over, paid or payable during any year to any individual, whether a resident of this state or not, shall make complete return thereof to the commission, under such regulations and in such form and manner and to such extent as may be prescribed by it. Any person or corporation willfully failing to make a complete return thereof to the commission, as provided in this section, shall be subject to a penalty of not less than ten (10) dollars for each and every failure to make a return in the case of any individual to whom a payment of six hundred (600) dollars or over has been made to a maximum amount of two hundred fifty (250) dollars. Such penalty shall be collected by the state tax commission from the person or corporation liable to make such return and shall be enforceable by a lien upon all property and rights to property belonging to said person or corporation, as provided by section four hundred twenty-two point twenty-six (422.26) of the Code."

Sec. 8. This Act shall be used as a basis for computing income tax for all tax years commencing after December 31, 1956.

Sec. 9. If any provision of this Act or the application thereof to any person or circumstance is held invalid, such invalidity shall not affect other provisions or applications of this Act which can be given effect without the invalid provision or application, and to this end the provisions of this Act are declared severable.

EXPLANATION OF SENATE FILE 428

This bill is a major revision of the personal income tax law. Its major provision is the split income feature allowing husbands and wives to split their total income just as in the federal income tax. Other provisions include $600 exemptions in place of the present credit against tax; 10 percent standard deduction and a new rate schedule to go with the split income feature.

In the main, the provisions are designed to simplify the tax by making it more in line with federal income tax procedures.