

July 12, 1959.

Bill File.

Senate File 286

By MILLER and POTTER.

Passed Senate, Date..... 4/13/59

Passed House, Date.....

Vote: Ayes 37 Nays 15

Vote: Ayes..... Nays.....

Approved.....

A BILL FOR

An Act to amend Chapter four hundred twenty-two (422), Code 1958, relating to the income tax on individuals.

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

1 Section 1. Section four hundred twenty-two point five

2 (422.5), Code 1958, is hereby amended as follows:

3 Amend subsection one (1) by striking all after the word

4 "thereof" in line two (2) and inserting in lieu thereof the

5 following: ", one percent."

6 Amend subsection two (2) by striking all after the word

7 "thereof" in line two (2) and inserting in lieu thereof the

8 following: ", two percent."

9 Amend subsection three (3) by striking all after the word

10 "thereof" in line two (2) and inserting in lieu thereof the

11 following: ", three percent."

12 Amend subsection four (4) by striking all after the word

13 "thereof" in line two (2) and inserting in lieu thereof the

14 following: ", four percent, and on all taxable income in

15 excess of four thousand dollars, four percent."

16 Strike lines one (1) through five (5) of subsection five (5).

1 Sec. 2. Section four hundred twenty-two point nine (422.9),

2 Code 1958, is hereby amended as follows:

3 Strike all after the word "deduction" in line one (1) of

4 subsection one (1) and insert in lieu thereof the following:

5 "of ten percent (10%) of the net income after deduction of
6 federal income tax, not to exceed five hundred dollars
7 (\$500.00)."

8 Amend subsection two (2), subparagraph "b" by striking
9 the first sentence and inserting in lieu thereof the following:

10 "Add the amount of federal income taxes (adjusted by any
11 federal income tax refunds) applicable to the tax year for
12 which said taxable income is being computed; also any of
13 said taxes paid during said tax year with respect to any
14 prior tax year and for which a deduction for Iowa income
15 tax purposes was not previously allowed or allowable under
16 the method of accounting of the taxpayer."

17 Further amend subsection two (2), subparagraph "b.", by
18 inserting after the word "each" in line nine (9) the following:
19 ". or equally, at their election".

20 Amend subsection three (3) by striking the period (.) at
21 the end of line three (3) and inserting in lieu thereof the
22 following: ", but the amount of the optional standard
23 deduction shall not exceed two hundred fifty dollars (\$250.00)
24 on the separate return of each spouse."

25 Add the following new subsection:

26 "The total of the exemptions allowed under the Internal
27 Revenue Code of 1954 for the taxpayer, his spouse, his
28 dependents, age sixty-five (65) of himself and his spouse,
29 and for blindness shall also be allowed in computing taxable
30 income. Where married persons file separately, the total of
31 such exemptions shall be divided between them according to
32 the applicability of the exemptions to each spouse under the
33 Internal Revenue Code of 1954."

1 Sec. 3. Section four hundred twenty-two point twelve
2 (422.12), Code 1958 is hereby deleted.

1 Sec. 4. Section four hundred twenty-two point thirteen
2 (422.13), Code 1958, is hereby amended by striking all of
3 subsections one (1) and two (2) and inserting in lieu thereof
4 the following:

5 "1. Every individual having a net income (minus the
6 deductions provided by subsections one (1) through four (4)
7 of section four hundred twenty-two point nine (422.9)) for
8 the tax year of six hundred dollars (\$600.00) or over, if
9 single or if married and not living with spouse, or having
10 such net income for the tax year of twelve hundred dollars
11 (\$1200.00) or over, if married and living with husband or
12 wife, shall make and sign a return. If husband and wife
13 living together have an aggregate of such net income of
14 twelve hundred dollars (\$1200.00) or over, each shall make
15 and sign a return unless the income of each is included in
16 one joint return.

17 In lieu of the amount of such net income, the requirements
18 for filing shall be twelve hundred dollars (\$1200.00) or more
19 if the taxpayer is single and age sixty-five (65) on or
20 before the close of the tax year; eighteen hundred dollars
21 (\$1800.00) if married and one spouse is age sixty-five (65)
22 on or before the close of the tax year; and twenty-four
23 hundred dollars (\$2400.00) if married and each spouse is
24 sixty-five (65) on or before the close of the tax year."

1 Sec. 5. Section four hundred twenty-two point fifteen
2 (422.15), Code 1958, subsection one (1), is hereby amended
3 by striking the words "one thousand" in lines thirteen (13)

4 and fourteen (14) thereof and inserting in lieu thereof the
5 following: "six-hundred".

1 Sec. 6. This Act shall be effective for tax years
2 commencing on or after January 1, 1959.

1 Sec. 7. If any provision of this Act or the application
2 thereof is held invalid, such invalidity shall not affect any
3 other provision or application thereof which can be given
4 effect without such invalid provision or application, and to
5 this end the provisions of this Act are declared severable.

EXPLANATION OF SENATE FILE 286

This bill is the same as S. F. 468, which passed the Senate 37-6 during the 1957 legislature.

The principal features of the bill are (1) adoption of the federal \$600.00 exemption structure (i. e. \$600.00 for the taxpayer, \$600.00 for his spouse, \$600.00 for each dependent, and a double exemption for age 65 or over of the taxpayer and his spouse, and for blindness), and (2) an increase in the maximum optional standard deduction from \$250.00 to \$500.00. The result is a more equitable recognition of the economic status of taxpayers with larger families and in the older age group.

Another feature of the bill is a change in the filing requirements to eliminate many of those returns, which have no mathematical possibility of showing a tax due, from being filed. This feature, coupled with the federal \$600.00 exemption structure, will have the following results:

Some 50,000 "no-pay" returns will be eliminated because they will not have to be filed.

Some 225,000 returns presently being filed as "no-pay" returns will show some small amount of tax due.

Some 25,000 "no-pay" returns will still be filed.

The savings in unnecessary and costly processing by the State Tax Commission are obvious.

In order to make up for the loss of revenue that would otherwise follow from the liberalizing of the exemption benefits and the maximum optional standard deduction, the tax rates have been changed as shown below—with the maximum rate applying at the \$4000.00 level instead of at the \$5000.00 level as at present:

Income Bracket	Present Rates (%)	New Rates (%)
\$ 1-\$1000.00	.75	1
1001- 2000.00	1.5	2
2001- 3000.00	2.25	3
3001- 4000.00	3.	4
4001 and over	3.75	4

Two years ago, the Income Tax Division of the State Tax Commission estimated that approximately the same revenue would be collected under this bill as was then being collected under the income tax at 80% of the full rate. However, sponsors of the bill have concluded that only present levels of revenue (at 75% of the full rate) would be collected.

Comparative taxes under the federal income tax, the present Iowa income tax (at 75% of the full rate), and the Iowa income tax under this bill are shown on the attached table. Note that these comparative taxes have been computed on the assumption that the optional standard deduction would be used. As a practical matter, many taxpayers itemize their deductions so that the actual tax would be less than that shown in the table, not only for federal purposes but for both present and proposed Iowa income tax purposes.

Adj. Gross Income	type tax	single, no depdt.	married, no depdt.	married, 1 depdt.	married, 2 depdt.	married, 3 depdt.	married, 4 depdt.	married couple, one 65	married couple, both 65
\$ 1,000	Federal Present Ia. S.F.	\$ 62. 0 2.44	\$ 0 0 0	\$ 0 0 0					
2,000	Federal Present Ia. S.F.	\$ 242. 2.55 9.82	122. 0 4.90	2 0 0	0 0 0	0 0 0	0 0 0	2 0 0	0 0 0
3,000	Federal Present Ia. S.F.	\$ 427. 17.50 24.32	305. 6.51 14.50	185. .17 7.33	65. 0 2.41	0 0 0	0 0 0	185. 7.67 7.33	65. 10.24 2.41
4,000	Federal Present Ia. S.F.	\$ 625. 36.19 43.11	485. 25.18 29.26	365. 21.10 19.42	245. 17.02 9.79	125. 12.94 4.87	5. 8.86 0	365. 28.60 17.26	245. 32.02 9.79
5,000	Federal Present Ia. S.F.	\$ 813. 59.33 66.56	656. 49.76 51.18	536. 46.53 36.42	416. 49.38 24.44	296. 40.07 14.60	176. 36.86 7.38	536. 54.03 36.42	416. 58.38 24.44
6,000	Federal Present Ia. S.F.	\$1048. 86.41 97.28	844. 78.97 78.24	720. 76.12 59.40	600. 72.12 45.	480. 70.12 30.60	360. 67.12 20.80	720. 83.62 59.40	600. 87.12 45.
8,000	Federal Present Ia. S.F.	\$1540. 142.87 155.36	1240. 139.12 142.40	1108. 136.57 123.68	976. 134.02 104.96	844. 131.47 86.24	720. 128.62 67.20	1108. 144.07 123.68	976. 149.02 104.96
10,000	Federal Present Ia. S.F.	\$2112. 196.42 211.52	1636. 199.27 206.56	1504. 196.72 187.84	1372. 194.17 169.12	1240. 191.62 150.40	1108. 189.07 131.68	1504. 204.22 187.84	1372. 209.17 169.12
15,000	Federal Present Ia. S.F.	\$4002. 313.05 336.92	2960. 337.12 353.60	2780. 336.37 336.80	2616. 335.02 319.36	2460. 333.37 301.60	2304. 331.72 283.84	2780. 343.87 336.80	2616. 350.02 319.36
25,000	Federal Present Ia. S.F.	\$8606. 515.40 527.76	6344. 585.22 618.24	6116. 585.27 603.36	5888. 587.32 588.48	5660. 588.37 573.60	5432. 589.42 558.72	6116. 592.77 603.36	5888. 602.32 588.48

COMPARATIVE TAXES

Amend Senate File 286 as follows:

1. Amend section 2, by striking all of line 15 after the word "allowed" and all of line 16 and inserting in lieu thereof a "period (.)".
2. Amend section 5, line 5, by striking the "hyphen (-)".

Filed

March 16, 1959.

By **MULLER**.

144 Sec. 10. Section four hundred twenty-two point
145 twenty-one (422.21), Code 1958, is hereby amended by
146 striking the period (.) in line six (6) and inserting in
147 lieu thereof the following: "; provided that such form
148 shall be simple and not in excess of one page in length,
149 and provided further that no resident individual shall be
150 required directly or through the exercise of an election to
151 file a copy of his federal income tax return with his Iowa
152 income tax return."

Filed
March 30, 1959.

Adopted
4-13

By COMMITTEE ON TAX REVISION,
DUANE E. DEWEL, Chairman.

SENATE FILE 286

- 1 Amend Senate File 286 as follows:
2 1. Strike lines 26 through 33 of section 2 and insert
3 in lieu thereof the following: "There shall also be allowed
4 in computing taxable income deductions of five hundred dollars
5 (\$500.00) each for the taxpayer, his spouse, each of his
6 dependents, age sixty-five (65) of the taxpayer, age sixty-five
7 (65) of his spouse, and for 'blindness' of the taxpayer and/or
8 his spouse as defined by the Internal Revenue Code of 1954.
9 Where married persons file separately, the total of such deductions
10 shall be divided between them according to their applicability
11 to each such married person."
12 2. Strike from line 8 of section 4 the phrase "six
13 hundred dollars (\$600.00)" and insert in lieu thereof "five-
14 hundred dollars (\$500.00)".
15 3. Strike from lines 10 and 11 of section 4 the phrase
16 "twelve hundred dollars (\$1200.00)" and insert in lieu thereof
17 "one thousand dollars (\$1000.00)".
18 4. Strike from line 14 the phrase "twelve hundred dollars
19 (\$1200.00)" and insert in lieu thereof "one thousand dollars
20 (\$1000.00)".
21 5. Strike from line 18 the phrase "twelve hundred dollars
22 (\$1200.00)" and insert in lieu thereof "one thousand dollars
23 (\$1000.00)".
24 6. Strike from lines 20 and 21 the phrase "eighteen
25 hundred dollars (\$1800.00)" and insert in lieu thereof "fifteen
26 hundred dollars (\$1500.00)".
27 7. Strike from lines 22 and 23 the phrase "twenty-four
28 hundred dollars (\$2400.00)" and insert in lieu thereof "two
29 thousand dollars (\$2000.00)".
30 8. Strike the word "six" in line 5 of section 5 and
31 insert in lieu thereof the word "five".

Filed
April 1, 1959.

Adopted
4/13/59

By MILLER.

SENATE FILE 286

- 1 Amend Senate File 286 by adding the following new
2 section 6 and renumbering the remaining sections:
3 "Sec. 6. Section four hundred twenty-two point twenty-one
4 (422.21), Code 1958, is hereby amended by striking the
5 period (.) in line six (6) and inserting in lieu thereof the
6 following: "; provided that such form shall be simple and
7 not in excess of one eight and one-half by eleven (8½ x 11)
8 inch page, and provided further that no resident individual
9 shall be required directly or through the exercise of an
10 option to file a copy of his federal income tax return with
11 his Iowa income tax return."

Filed and adopted
April 13, 1959.

By MILLER, DEWEL and POTTER.

SENATE FILE 286

- 1 Amend the committee amendment to Senate File 286, filed
2 March 30, 1959, by striking all of lines 16 and 17.

Filed and adopted
April 13, 1959.

By POTTER.

1

SENATE FILE 286

Amend Senate File 286 by striking all after the enacting clause and inserting in lieu thereof the following:

"Section 1. Section four hundred twenty-two point four (422.4), Code 1958, is hereby amended by striking sections one (1) through thirteen (13), inclusive, and inserting in lieu thereof the following:

1. The term "Iowa adjusted gross income" means the taxable income computed for federal income tax purposes under the Internal Revenue Code of 1954 with the following adjustments:

- a. Subtract interest and dividends received from federal securities;
- b. Add interest and dividends received from foreign securities and from securities of state and other political subdivisions exempt from federal income tax under the Internal Revenue Code of 1954;
- c. Add the amount of any deduction for Iowa Income Tax used in computing said taxable income;
- d. Where said taxable income includes capital gains or losses, or gains or losses from property other than capital assets, and such gains or losses have been determined by using a basis established prior to January 1, 1934, an adjustment may be made, under rules and regulations prescribed by the state tax commission, to reflect the difference resulting from the use of a basis of cost or January 1, 1934, fair market value, less depreciation allowed or allowable, whichever is

higher. Provided that the basis shall be fair market value as of January 1, 1955, less depreciation allowed or allowable, in the case of property acquired prior to that date if use of a prior basis is declared to be invalid.

2. The word "person" includes individuals and fiduciaries.

3. The word "individual" means a natural person; and where an individual is permitted to file as a corporation under the provisions of the Internal Revenue Code of 1954, such fictional status shall not be recognized for purposes of this chapter, and such individual's Iowa adjusted gross income shall be computed as required under the provisions of subsection one (1) as if that individual were filing as an individual under the provisions of the Internal Revenue Code of 1954.

4. The term "tax year" means the calendar year or the fiscal year ending during a calendar year upon the basis of which the Iowa adjusted gross income is computed.

5. The term "fiscal year" shall have the same meaning for Iowa income tax purposes as it has for federal income tax purposes under the Internal Revenue Code of 1954.

6. The word "fiduciary" means a guardian, trustee, executor, administrator, receiver, conservator, or any person, whether individual or corporate, acting in any fiduciary capacity for any person, trust or estate.

7. The word "received" means "received or accrued", and the term "received or accrued" shall be construed according to the method of accounting used in computing taxable income for federal income tax purposes under the Internal Revenue Code of 1954.

8. The word "resident" applies only to individuals and fiduciaries and includes any individual or fiduciary domiciled or maintaining a permanent place of abode within the state.

9. The word "nonresident" applies only to individuals and fiduciaries and includes all individuals and fiduciaries who are not residents.

10. The term "withholding agent" means any individual, fiduciary, corporation, association, or partnership, in whatever capacity acting, including all officers and employees of the state or of any municipal corporation or political subdivision of the state, obligated to pay or having control of paying to any non-resident any gross receipts from sources within the state in excess of fifteen hundred dollars (\$1,500.00) in any calendar year.

Further amend section four hundred twenty-two point four (422.4) by renumbering subsection fourteen (14).

72 Sec. 2. Section four hundred twenty-two point five
73 (422.5), Code 1958, is hereby amended to read as follows:
74 "A tax is hereby imposed on the Iowa adjusted gross income
75 of resident individuals, which tax shall be levied, collected,
76 and paid annually at a rate of eight (8) percent of the amount
77 of the federal income tax thereon, computed by using the rates
78 and dividend and retirement-income credits provided under the
79 Internal Revenue Code of 1954.

80 Sec. 3. Section four hundred twenty-two point six
81 (422.6), Code 1958, is hereby amended by striking the word
82 "taxable" in line four (4) and inserting in lieu thereof the
83 words "Iowa adjusted gross".

84 Sec. 4. Section four hundred twenty-two point eight
85 (422.8), Code 1958, is hereby amended to read as follows:

86 "1. In the case of operation of a business, in a state
87 other than Iowa by an individual, estate or trust, the
88 proportional part of the federal income tax attributable to
89 the net income from such business shall be deducted in
90 computing the federal income tax subject to the rate provided
91 in section four hundred twenty-two point five (422.5),
92 provided a state income tax has been or will be paid on such
93 net income to said other state and provided further that
94 said other state allows a similar allocation of federal
95 income tax or an allocation of net income from the operation
96 of a business outside said other state.

97 "2. In the case of a nonresident individual, estate or
98 trust, if any net income is received from a business, trade,
99 profession, or occupation carried on partly within and partly
100 without the state of Iowa, only the proportional part of the
101 federal income tax attributable to the Iowa portion of such
102 net income shall be subject to the rate provided in section
103 four hundred twenty-two point five (422.5). The Iowa portion
104 of such net income shall be that which is fairly and equitably
105 attributable to that part of the business, trade, profession,
106 or occupation carried on within the state of Iowa. For this
107 purpose, income from any property, trust, estate or other
108 source within Iowa shall be allocated to Iowa, except that
109 annuities, interest on bank deposits and interest-bearing
110 obligations, and dividends shall be allocated to Iowa only
111 to the extent to which the same are derived from a business,
112 trade, profession, or occupation carried on within the state
113 of Iowa.

114 Sec. 5. Sections four hundred twenty-two point seven
115 (422.7), four hundred twenty-two point nine (422.9), four
116 hundred twenty-two point twelve (422.12), four hundred
117 twenty-two point fourteen (422.14), subsection one (1),
118 four hundred twenty-two point eighteen (422.18), and four
119 hundred twenty-two point nineteen (422.19), Code 1958, are
120 hereby repealed.

121 Sec. 6. Section four hundred twenty-two point thirteen
122 (422.13), Code 1958, is hereby amended to read as follows:

123 "Every person required to make and file an income tax
124 return under the provisions of the Internal Revenue Code of
125 1954 shall make, sign and file a return."

126 Sec. 7. Section four hundred twenty-two point sixteen
127 (422.16), subsection one (1), Code 1958, is hereby amended by
128 striking from line four (4) the words "gross income" and
129 inserting in lieu thereof the words "gross receipts" from
130 sources within the state". Further amend said subsection
131 by striking from line seventeen (17) thereof the words
132 "twenty percent of the gross income" and inserting in lieu
133 thereof the words "ten percent of the gross receipts from
134 sources within the state".

135 Sec. 8. This Act shall be effective for tax years
136 commencing on or after January 1, 1959.

137 Sec. 9. Amend the title of Senate File 286 by striking
138 all after the word "Act" and inserting in lieu thereof the
139 following: "to amend chapter four hundred twenty-two (422),
140 Code 1958, to adopt a percentage-of-federal-income-tax approach
141 in computing the Iowa income tax of individuals, estates, and trusts,
142 and to require the state tax commission to issue short and simple
143 income tax return forms."