

Ways and Means  
Lura, Chairperson  
Craft  
Rush

FILED JAN 15 1981

SENATE FILE 100

BY TAYLOR

Passed Senate, Date \_\_\_\_\_ Passed House, Date \_\_\_\_\_  
Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_  
Approved \_\_\_\_\_

### A BILL FOR

1 An Act relating to the Iowa income tax on individuals by  
2 providing that interest earned on deposits by individuals  
3 at financial institutions is excluded from gross income  
4 and providing an income tax credit equal to a proportion  
5 of the individual taxpayer's eligible savings and invest-  
6 ments.

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

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1 Section 1. NEW SECTION. Sections 2 through 4 of this  
2 Act may be cited as the savings and investment incentive Act  
3 and shall be codified as a new division of chapter 422.

4 Sec. 2. NEW SECTION. DEFINITIONS. As used in sections  
5 2 through 4 of this Act, unless the context otherwise requires:

6 1. "Consumer price index percentage" means, with respect  
7 to a calendar year, the percentage, if any, by which the con-  
8 sumer price index for the calendar year exceeds the consumer  
9 price index for the year immediately preceding the calendar  
10 year.

11 For purposes of this subsection, "consumer price index"  
12 means, with respect to a calendar year, the average of the  
13 monthly "Consumer Price Indexes for All Urban Consumers"  
14 published by the federal bureau of labor statistics for the  
15 one-year period ending on September 30 of the calendar year.

16 2. "Eligible net savings" means the excess at the close  
17 of the tax year of net savings over ineligible debt.

18 3. "Ineligible debt" means the sum at the close of the  
19 tax year of net increases in debt of the taxpayer other than  
20 debt for any of the following:

21 a. The purchase or repair of real property.

22 b. The repair of property, and the purchase of insurance,  
23 securing any debt of the taxpayer.

24 c. The payment of medical and tuition expenses of the  
25 taxpayer, the taxpayer's spouse, or a dependent of the  
26 taxpayer.

27 4. "Net income" means net income as defined in section  
28 422.7.

29 5. "Net savings" means the sum of the following:

30 a. Savings in certain businesses. The taxpayer's share  
31 of the change in the book value of a farm or nonfarm  
32 proprietorship, partnership, or closely held corporation,  
33 plus new money invested in these businesses, plus purchases  
34 of new businesses less sales, plus changes in loans to the  
35 businesses in the tax year.

1 b. Savings in liquid assets.

2 (1) Savings in checking accounts. The change in the  
3 balances in the taxpayer's personal checking accounts between  
4 the end of the preceding tax year and the end of the current  
5 tax year.

6 (2) Savings in savings accounts. The change in the  
7 balances in the taxpayer's savings accounts at savings and  
8 loan associations, banks, and credit unions, between the end  
9 of the preceding tax year and the end of the current tax year.

10 (3) Savings in United States savings bonds. The purchases  
11 of nonmarketable bonds issued by the United States minus  
12 redemptions in the tax year.

13 c. Savings in certain investment assets.

14 (1) Savings in publicly traded stock. Purchases of common  
15 and preferred stock in domestic corporations other than closely  
16 held corporations, shares in mutual funds and other investment  
17 companies, and shares in investment clubs, plus increases  
18 in credit balances at security dealers, less sales of the  
19 stock and shares, less increases in debit balances at security  
20 dealers, less increases in loans secured by the stocks either  
21 newly purchased or formerly held, in the tax year.

22 (2) Savings in certain marketable securities other than  
23 stock. Purchases of bills, certificates, notes, bonds, and  
24 debentures, issued by the United States or by domestic corpora-  
25 tions, less sales of such securities, less increases in loans  
26 secured by such bonds either newly purchased or formerly held,  
27 in the tax year.

28 d. Savings in mortgage assets and investment real estate  
29 consisting of any of the following:

30 (1) The net of amounts loaned less the principal payments  
31 received during the year on loans secured by mortgages.

32 (2) The net of purchases of, plus improvements in, less  
33 sales of, and less changes during the year in debt secured  
34 by real estate owned by the taxpayer, other than an owned  
35 business or profession. Included are houses owned for

1 investment purposes, properties put to commercial use,  
2 structures used for industrial purposes, and undeveloped land  
3 held for investment or building purposes.

4 e. Savings in company savings plans, retirement plans,  
5 and life insurance, consisting of any of the following:

6 (1) The net of contributions by the taxpayer to savings  
7 plans sponsored by companies for which the taxpayer worked,  
8 less lump sum withdrawals.

9 (2) The net of the taxpayer's contributions to retirement  
10 plans less lump sum withdrawals for the plans, not including  
11 social security contributions.

12 (3) Premium payments on, less borrowing against, whole  
13 life or term life insurance.

14 6. "Threshold savings amount" means an amount equal to  
15 the net income of the taxpayer for the tax year multiplied  
16 by the applicable percentage determined in accordance with  
17 the following table:

18	The applicable
19 If the net income is:	percentage is:
20 Not over \$10,000 .....	0
21 Over \$10,000 but not over \$12,000 .....	1
22 Over \$12,000 but not over \$15,000 .....	2
23 Over \$15,000 but not over \$20,000 .....	3
24 Over \$20,000 but not over \$25,000 .....	4
25 Over \$25,000 but not over \$50,000 .....	5
26 Over \$50,000 but not over \$100,000 .....	6
27 Over \$100,000 but not over \$200,000 .....	8
28 Over \$200,000 .....	10

29 Sec. 3. NEW SECTION. ALLOWANCE OF CREDIT. In the case  
30 of an individual, there shall be allowed as a credit against  
31 the tax imposed by section 422.5 for the tax year an amount  
32 equal to twenty-five percent of the excess of the eligible  
33 net savings of the taxpayer for the tax year, over the  
34 threshold savings amount of the taxpayer for the year.

35 Sec. 4. NEW SECTION. INFLATION ADJUSTMENT--LIMITATION

1 ON CREDIT.

2 1. Inflation adjustment for net income.

3 a. Not later than December 1 of each calendar year, the  
4 director of revenue shall prescribe a table which will apply  
5 in lieu of the table contained in section 2, subsection 6,  
6 of this Act with respect to tax years beginning in the suc-  
7 ceeding calendar year.

8 b. The table prescribed under paragraph a shall be the  
9 same as the table contained in section 2, subsection 6 of  
10 this Act, except the amount of net income, as in effect for  
11 the preceding calendar year, shall be increased by an amount  
12 equal to the product of each amount of net income and the  
13 consumer price index percentage for the preceding year.

14 2. Application with other credits. The credit allowed  
15 by section 3 of this Act for the tax year shall not exceed  
16 the amount of tax imposed by section 422.5 for the year,  
17 reduced by the sum of the credits allowable under section  
18 422.12.

19 Sec. 5. Section 422.7, Code 1981, is amended by adding  
20 the following new subsection:

21 NEW SUBSECTION. Subtract the amount of interest received  
22 from deposits with financial institutions, as defined in sec-  
23 tion 422.61, which are subject to taxation under division  
24 V of this chapter, or from credit unions subject to chapter  
25 533.

26 EXPLANATION

27 This bill, known as a Savings and Investment Incentive  
28 Act, excludes interest earned on an individual taxpayer's  
29 deposited savings from the taxpayer's gross income for Iowa  
30 individual income tax purposes. It also allows a credit equal  
31 to twenty-five percent of the excess of a taxpayer's eligible  
32 net income over the taxpayer's threshold savings amount against  
33 state income tax owed. Formulas for determining the threshold  
34 savings amount and for inflation adjustment of the modified  
35 adjusted gross income which determines the percentage threshold

1 savings amount are included in the bill. The bill takes  
2 effect July 1 following its enactment.

SENATE FILE 100  
FISCAL NOTE

REQUESTED BY SENATOR TAYLOR

In compliance with a written request there is hereby submitted a  
Fiscal Note for Senate File 100 pursuant to Joint Rule 16.

S.F. 100, An Act relating to the Iowa income tax on individuals by providing  
that interest earned on deposits by individuals at financial institutions is  
excluded from gross income and providing an income tax credit equal to a pro-  
portion of the individual taxpayer's eligible savings and investments.

This proposal provides for an exemption from individual income taxation of  
certain interest income and for a credit against tax due equal to twenty-five  
percent of "net savings." First, all interest income is excluded from taxation  
if earned by individuals and paid by credit unions and institutions subject to  
the Iowa franchise tax which includes banks, trust companies and savings and  
loan associations. Additionally, the proposal permits a credit against any  
individual income tax due equal to twenty-five percent of "net savings."  
The "net savings" base upon which the credit is to be figured includes quali-  
fied savings in excess of most kinds of debt which have been incurred during  
the tax year and which exceed a threshold savings amount which varies by income  
bracket from zero to ten percent of income. Types of savings which would be  
included in the base amount upon which the credit would be figured are:  
savings accounts and on U.S. savings bonds, savings in publicly traded stock  
and in marketable securities, savings in mortgage assets and investment real  
estate, and savings in retirement plans and life insurance.

Because information on certain types of savings used to calculate "net  
savings" is not available, a reliable estimate of the revenue loss is not  
possible, although the amount would be substantial.

SOURCE: DEPARTMENT OF REVENUE

RECEIVED BY THE SECRETARY OF THE SENATE, APRIL 3, 1981

FILED  
APRIL 7, 1981

BY GERRY D. RANKIN, DIRECTOR  
LEGISLATIVE FISCAL BUREAU