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SENATE FILE 481
BY COMMITTEE ON WAYS AND MEANS
(formerly SSB 237)
Approved (H. 832)

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Vote: Ayes 26 Nays 24 Vote: Ayes 62 Nays 37
Approved June 4, 1987

A BILL FOR

1 An Act relating to state tax revenues and expenditures by
2 altering the individual income tax rates, standard deductions,
3 and personal exemptions and credits; increasing the state
4 sales, services, and use tax and providing for refunds for
5 certain contractors as a result of that increase; specifying
6 the rate of the cigarette and little cigar and tobacco
7 products taxes, when they may be altered and specifying when a
8 cigarette and little cigar inventory tax is imposed; adjusting
9 the homestead property tax credit and the elderly and disabled
10 credit and reimbursement schedule; decreasing the school
11 foundation property tax levy; adjusting the allowable growth
12 and state aid under the school foundation formula; and
13 providing effective dates.

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

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SF 481

1 Section 1. Section 98.6, subsection 2, Code 1987, is
2 amended to read as follows:

3 2. Notwithstanding subsection 1, there is imposed and
4 shall be collected and paid to the department a tax on all
5 cigarettes used or otherwise disposed of in this state for any
6 purpose ~~at the rate of nine mills on each cigarette for the~~
7 ~~period beginning July 17, 1981 and ending September 30, 1985~~
8 and at the rate of thirteen mills on each cigarette beginning
9 October 1, 1985. The rate of tax imposed on all cigarettes as
10 of October 1, 1985 applies until such time as the general
11 assembly specifically alters the rate.

12 Sec. 2. NEW SECTION. 98.40 INVENTORY TAX.

13 1. All persons required to be licensed under section 98.13
14 as distributors having in their possession and held for resale
15 on the effective date of an increase in the tax rate
16 cigarettes or little cigars upon which the tax under section
17 98.6 or 98.43 has been paid, unused cigarette tax stamps which
18 have been paid for under section 98.8, or unused metered
19 imprints which have been paid for under section 98.12 shall be
20 subject to an inventory tax on the items as provided in this
21 section.

22 2. Persons subject to the inventory tax imposed under this
23 section shall take an inventory as of the close of the busi-
24 ness day next preceding the effective date of the increased
25 tax rate of those items subject to the inventory tax for the
26 purpose of determining the tax due. These persons shall
27 report the tax on forms provided by the department of revenue
28 and finance and remit the tax due within thirty days of the
29 prescribed inventory date. The department of revenue and
30 finance shall adopt rules as are necessary to carry out this
31 section.

32 3. The rate of the inventory tax on each item subject to
33 the tax as specified in subsection 1 is equal to the
34 difference between the amount paid on each item under section
35 98.6, 98.8, 98.12, or 98.43 prior to the tax increase and the

1 amount that is to be paid on each similar item under section
2 98.6, 98.8, 98.12, or 98.43 after the tax increase except that
3 in computing the rate of the inventory tax any discount
4 allowed or allowable under section 98.8 shall not be
5 considered.

6 Sec. 3. Section 98.43, subsections 1 and 2, Code 1987, are
7 amended to read as follows:

8 1. A tax is imposed upon all tobacco products in this
9 state and upon any person engaged in business as a distributor
10 thereof, at the rate of fifteen percent of the wholesale sales
11 price of the tobacco products, except little cigars as defined
12 in section 98.42. Little cigars shall be subject to the same
13 rate of tax imposed upon cigarettes in section 98.6, payable
14 at the time and in the manner provided in section 98.6; and
15 stamps shall be affixed as provided in division I of this
16 chapter. The rate of tax imposed under this subsection as of
17 July 1, 1985 applies until such time as the general assembly
18 specifically alters the rate. The tax on tobacco products,
19 excluding little cigars, shall be imposed at the time the
20 distributor does any of the following:

21 a. Brings, or causes to be brought, into this state from
22 without the state tobacco products for sale.

23 b. Makes, manufactures, or fabricates tobacco products in
24 this state for sale in this state.

25 c. Ships or transports tobacco products to retailers in
26 this state, to be sold by those retailers.

27 2. A tax is imposed upon the use or storage by consumers
28 of tobacco products in this state, and upon the consumers, at
29 the rate of fifteen percent of the cost of the tobacco
30 products.

31 The tax imposed by this subsection shall not apply if the
32 tax imposed by subsection 1 on the tobacco products has been
33 paid. The rate of tax imposed under this subsection as of
34 July 1, 1985 applies until such time as the general assembly
35 specifically alters the rate.

1 This tax shall not apply to the use or storage of tobacco
2 products in quantities of:

- 3 a. Less than 25 cigars.
- 4 b. Less than 10 oz. snuff or snuff powder.
- 5 c. Less than 1 lb. smoking or chewing tobacco or other
6 tobacco products not specifically mentioned herein, in the
7 possession of any one consumer.

8 Sec. 4. Section 422.3, subsection 5, Code 1987, is amended
9 by striking the subsection and inserting in lieu thereof the
10 following:

11 5. "Internal Revenue Code" means the Internal Revenue Code
12 of 1954, prior to the date of its redesignation as the
13 Internal Revenue Code of 1986 by the Tax Reform Act of 1986,
14 or means the Internal Revenue Code of 1986 as amended to and
15 including January 1, 1987, whichever is applicable.

16 Sec. 5. Section 422.4, subsection 17, Code 1987, is
17 amended to read as follows:

18 17. a. "Annual inflation factor" means ~~an index,~~
19 ~~expressed as a percentage, determined by the department each~~
20 ~~year to reflect the purchasing power of the dollar as a result~~
21 ~~of inflation during the preceding calendar year. -- For the 1981~~
22 ~~and subsequent calendar years, "annual inflation factor" means~~
23 an index, expressed as a percentage, determined by the
24 department by October 15 of the calendar year preceding the
25 calendar year for which the factor is determined to reflect
26 the purchasing power of the dollar as a result of inflation
27 during the fiscal year ending in the calendar year preceding
28 the calendar year for which the factor is determined. In
29 determining the annual inflation factor, the department shall
30 use the annual percent change, but not less than zero percent,
31 in the implicit price deflator for the gross national product
32 ~~computed for the whole calendar year or for the second quarter~~
33 ~~of the calendar year, in the case of the annual inflation~~
34 ~~factor for the 1981 and subsequent calendar years, by the~~
35 bureau of economic analysis of the United States department of

1 commerce and shall add two-fourths ~~for the 1980 and subsequent~~
2 ~~calendar years~~ of that percent change to one hundred percent.
3 ~~The annual inflation factor for the 1979 calendar year is one~~
4 ~~hundred two point three percent.~~ The annual inflation factor
5 and the cumulative inflation factor shall each be expressed as
6 a percentage rounded to the nearest one-tenth of one percent.
7 The annual inflation factor shall not be less than one hundred
8 percent.

9 b. "Cumulative inflation factor" means the product of the
10 annual inflation factor for the ~~1978~~ 1988 calendar year and
11 all annual inflation factors for subsequent calendar years as
12 determined pursuant to this subsection. The cumulative
13 inflation factor applies to all tax years beginning on or
14 after January 1 of the calendar year for which the latest
15 annual inflation factor has been determined.

16 c. The annual inflation factor for the ~~1978~~ 1988 calendar
17 year is one hundred percent.

18 d. Notwithstanding the computation of the annual inflation
19 factor under paragraph "a" ~~of this subsection,~~ the annual
20 inflation factor is one hundred percent for any calendar year
21 in which the unobligated state general fund balance on June 30
22 ~~as certified by the director of revenue and finance by~~
23 ~~September 10 of the fiscal year beginning in that calendar~~
24 ~~year is less than sixty million dollars.~~ However, for the
25 ~~1981 and subsequent calendar years,~~ the annual inflation
26 ~~factor is one hundred percent for any calendar year if the~~
27 ~~unobligated state general fund balance on June 30 of the~~
28 ~~calendar year preceding the calendar year for which the factor~~
29 ~~is determined,~~ as certified by the director of revenue and
30 finance by October 10, is less than sixty million dollars.

31 Sec. 6. Section 422.5, subsection 1, paragraphs a through
32 m, Code 1987, are amended by striking the paragraphs and
33 inserting in lieu thereof the following:

34 a. For a single person other than a head of household, the
35 tax rates are as follows:

1 (1) On all taxable income from zero through three thousand
2 dollars, three percent.

3 (2) On all taxable income exceeding three thousand dollars
4 but not exceeding twelve thousand dollars, five percent.

5 (3) On all taxable income exceeding twelve thousand dol-
6 lars, seven and nine-tenths percent.

7 b. For a married couple filing jointly, a surviving
8 spouse, a qualifying widow, and a head of household, the tax
9 rates are as follows:

10 (1) On all taxable income from zero through four thousand
11 five hundred dollars, three percent.

12 (2) On all taxable income exceeding four thousand five
13 hundred dollars but not exceeding eighteen thousand dollars,
14 five percent.

15 (3) On all taxable income exceeding eighteen thousand
16 dollars, seven and nine-tenths percent.

17 c. For a married person filing separately, an estate, and
18 a trust, the tax rates are as follows:

19 (1) On all taxable income from zero through two thousand
20 two hundred fifty dollars, three percent.

21 (2) On all taxable income exceeding two thousand two
22 hundred fifty dollars but not exceeding nine thousand dollars,
23 five percent.

24 (3) On all taxable income exceeding nine thousand dollars,
25 seven and nine-tenths percent.

26 The tax rates and bracket amounts in paragraphs "a" through
27 "c" are effective for tax years beginning on or after January
28 1, 1987 but before January 1, 1988.

29 Sec. 7. Section 422.5, subsection 1, paragraphs a through
30 m, Code 1987, are amended by striking the paragraphs and
31 inserting in lieu thereof the following:

32 a. For a single person other than a head of household, the
33 tax rates are as follows:

34 (1) On all taxable income from zero through two thousand
35 dollars, three percent.

1 (2) On all taxable income exceeding two thousand dollars
2 but not exceeding ten thousand dollars, five percent.

3 (3) On all taxable income exceeding ten thousand dollars,
4 seven and nine-tenths percent.

5 b. For a married couple filing jointly, a surviving
6 spouse, a qualifying widow, and a head of household, the tax
7 rates are as follows:

8 (1) On all taxable income from zero through three thousand
9 dollars, three percent.

10 (2) On all taxable income exceeding three thousand dollars
11 but not exceeding fifteen thousand dollars, five percent.

12 (3) On all taxable income exceeding fifteen thousand
13 dollars, seven and nine-tenths percent.

14 c. For a married person filing separately, an estate, and
15 a trust, the tax rates are as follows:

16 (1) On all taxable income from zero through one thousand
17 five hundred dollars, three percent.

18 (2) On all taxable income exceeding one thousand five
19 hundred dollars but not exceeding seven thousand five hundred
20 dollars, five percent.

21 (3) On all taxable income exceeding seven thousand five
22 hundred dollars, seven and nine-tenths percent.

23 The tax rates and bracket amounts in paragraph "a" through
24 "c" are effective for tax years beginning on or after January
25 1, 1988.

26 Sec. 8. Section 422.5, subsection 1, paragraph n, Code
27 1987, is amended to read as follows:

28 n d. The tax imposed upon the taxable income of a
29 nonresident shall be computed by reducing the amount
30 determined pursuant to paragraphs "a" through "c" by the
31 amounts of nonrefundable credits under this division and by
32 multiplying this resulting amount by a fraction of which the
33 nonresident's net income allocated to Iowa, as determined in
34 section 422.8, subsection 2, is the numerator and the
35 nonresident's total net income computed under section 422.7 is

1 the denominator. This provision also applies to individuals
2 who are residents of Iowa for less than the entire tax year.

3 Sec. 9. Section 422.5, subsection 1, paragraph o,
4 unnumbered paragraph 1, Code 1987, is amended to read as
5 follows:

6 There is imposed upon every resident and nonresident of
7 this state, including estates and trusts, the greater of the
8 tax determined in paragraphs "a" through "n" "d" or the state
9 alternative minimum tax equal to nine percent of the state
10 alternative minimum taxable income of the taxpayer as computed
11 under this paragraph.

12 Sec. 10. Section 422.5, subsections 6 and 7, Code 1987,
13 are amended to read as follows:

14 6. A person who is disabled, is sixty-two years of age or
15 older or is the surviving spouse of an individual or survivor
16 having an insurable interest in an individual who would have
17 qualified for the exemption under this paragraph for this tax
18 year and receives one or more annuities from the United States
19 civil service retirement and disability trust fund, and whose
20 net income, as defined in section 422.7, is sufficient to
21 require that the tax be imposed upon it under this section,
22 may determine final taxable income for purposes of imposition
23 of the tax by excluding the amount of annuities received from
24 the United States civil service retirement and disability
25 trust fund, which are not already excluded in determining net
26 income, as defined in section 422.7, up to a maximum each tax
27 year of five thousand five-hundred six hundred twenty-seven
28 dollars for a person who files a separate state income tax
29 return and eight thousand one hundred eighty-four dollars
30 total for a husband and wife who file a joint state income tax
31 return. However, a surviving spouse who is not disabled or
32 sixty-two years of age or older can only exclude the amount of
33 annuities received as a result of the death of the other
34 spouse. The amount of the exemption shall be reduced by the
35 amount of any social security benefits received. For the

1 purpose of this section, the amount of annuities received from
2 the United States civil service retirement and disability
3 trust fund taxable under the Internal Revenue Code of 1954
4 shall be included in net income for purposes of determining
5 eligibility under the five thousand dollar or less exclusion.

6 7. Upon determination of the latest cumulative inflation
7 factor, the director shall multiply each dollar amount set
8 forth in subsection 1, paragraphs "a" through "c" of this
9 section, and each dollar amount specified in this section as
10 the maximum amount of annuities received which may be excluded
11 in determining final taxable income, by this cumulative
12 inflation factor, shall round off the resulting product to the
13 nearest one dollar, and shall incorporate the result into the
14 income tax forms and instructions for each tax year.

15 Sec. 11. Section 422.8, subsection 2, Code 1987, is
16 amended to read as follows:

17 2. Nonresident's net income allocated to Iowa is the net
18 income, or portion thereof, which is derived from a business,
19 trade, profession, or occupation carried on within this state
20 or income from any property, trust, estate, or other source
21 within Iowa. If any business, trade, profession, or
22 occupation is carried on partly within and partly without the
23 state, only the portion of the net income which is fairly and
24 equitably attributable to that part of the business, trade,
25 profession, or occupation carried on within the state is
26 allocated to Iowa for purposes of section 422.5, subsection 1,
27 paragraph "d" and section 422.13 and income from any
28 property, trust, estate, or other source partly within and
29 partly without the state is allocated to Iowa in the same
30 manner, except that annuities, interest on bank deposits and
31 interest-bearing obligations, and dividends are allocated to
32 Iowa only to the extent to which they are derived from a
33 business, trade, profession, or occupation carried on within
34 the state. However, income received by an individual who is a
35 resident of another state is not allocated to Iowa if the

1 income is subject to an income tax imposed by the state where
2 the individual resides, and if the state of residence allows a
3 similar exclusion for income received in that state by
4 residents of Iowa. In order to implement the exclusions, the
5 director shall designate by rule the states which allow a
6 similar exclusion for income received by residents of Iowa,
7 and may enter into agreements with other states to provide
8 that similar exclusions will be allowed, and to provide
9 suitable withholding requirements in each state.

10 Sec. 12. Section 422.9, subsection 1, unnumbered paragraph
11 1, Code 1987, is amended by striking the paragraph and
12 inserting in lieu thereof the following:

13 For a single person who is not a head of household, a
14 married couple filing jointly, a surviving spouse, a
15 qualifying widow, a head of household, or a married person
16 filing separately an optional standard deduction equal to the
17 amount of the standard deduction determined under section
18 63(c) of the Internal Revenue Code for that filing status.

19 Sec. 13. Section 422.9, subsection 2, paragraph b, Code
20 1987, is amended by striking the paragraph and inserting in
21 lieu thereof the following:

22 b. For tax years beginning on or after January 1, 1987 but
23 before January 1, 1988, add the amount of federal income tax
24 paid during the tax year for the previous tax year to the
25 extent that the federal income tax paid was not the result of
26 an adjustment to the return for the previous tax year. For
27 tax years beginning on or after January 1, 1987, add the
28 amount of federal income tax paid during the tax year which is
29 the result of an adjustment to a federal return for a tax year
30 beginning prior to January 1, 1987. Subtract the amount of
31 federal income tax refund received during the tax year to the
32 extent that the federal income tax that was refunded had been
33 deducted on a return for a prior tax year. Married persons
34 who have filed a joint federal income tax return and who file
35 separately shall divide the federal income tax paid or the

1 federal income tax refund between them in the ratio of the
2 federal adjusted gross income of each spouse to the adjusted
3 gross income of both spouses for the tax year which resulted
4 in the income tax payment or the income tax refund.

5 Sec. 14. Section 422.9, Code 1987, is amended by adding
6 after subsection 2 the following new subsection and
7 renumbering the other subsections:

8 NEW SUBSECTION. 3. In addition to the amount deducted
9 under subsection 1 or 2, the taxpayer may deduct the amount of
10 the applicable personal exemptions allowed under section 151
11 or 642(b) of the Internal Revenue Code.

12 Sec. 15. Section 422.12, subsection 1, Code 1987, is
13 amended by striking the subsection.

14 Sec. 16. Section 422.12, Code 1987, is amended by adding
15 the following new subsection:

16 NEW SUBSECTION. 4. a. A homestead credit equal to the
17 amount determined under paragraph "b". However, the credit
18 under this subsection is not allowed to the taxpayer if any of
19 the following circumstances apply:

20 (1) The taxpayer received the additional property tax
21 credit under sections 425.16 through 425.39 for taxes due
22 during a fiscal year beginning in the tax year or received a
23 reimbursement for rent constituting property tax paid under
24 sections 425.16 through 425.39 for rent paid during the year
25 preceding the tax year.

26 (2) The taxpayer is claimed as a dependent on the state or
27 federal income tax return of another individual for the tax
28 year.

29 (3) The taxpayer did not actually pay property taxes or
30 rent during the tax year on the homestead.

31 b. (1) If the taxpayer owns the homestead at the
32 beginning of the tax year, the homestead credit is determined
33 in accordance with the following schedule:

34 Property taxes actually paid by the tax-
35 Taxpayer's net payer on the homestead:

1 income:	\$100 - 399.99	\$400 - 799.99	\$800 or more
2 \$ 0 - 9,999.99	\$15	\$25	\$35
3 10,000 - 24,999.99	10	20	30
4 25,000 - 49,999.99	5	15	25

5 (2) If the taxpayer rents the homestead at the beginning
 6 of the tax year, the homestead credit is determined in
 7 accordance with the following schedule:

8 Taxpayer's net	Rent actually paid by the taxpayer for the		
9 income:	\$400-1,599.99	\$1,600-3,199.99	\$3,200 or more
10 \$ 0 - 9,999.99	\$15	\$25	\$35
11 10,000 - 24,999.99	10	20	30
12 25,000 - 49,999.99	5	15	25

13 (3) Each homestead credit amount in the schedules in this
 14 paragraph is increased by five dollars for tax years beginning
 15 in the 1988 calendar year and increased by an additional five
 16 dollars for tax years beginning on or after January 1, 1989.

17 c. For purposes of the homestead credit under this
 18 subsection, "homestead" means the same as defined in section
 19 425.17, except that the term "base year" as used in that
 20 definition shall mean "tax year".

21 Sec. 17. Section 422.21, unnumbered paragraph 4, Code
 22 1987, is amended to read as follows:

23 The director shall determine for the ~~1979~~ 1989 and
 24 subsequent calendar years the annual and cumulative inflation
 25 factors for those calendar years to be applied to tax years
 26 beginning on or after January 1 of that calendar year. The
 27 director shall compute the new dollar amounts as specified
 28 therein to be adjusted in section 422.5 by the latest
 29 cumulative inflation factor and round off the result to the
 30 nearest one dollar. The annual and cumulative inflation
 31 factors determined by the director are not rules as defined in
 32 section 17A.2, subsection 7.

33 Sec. 18. Section 422.43, subsections 1, 2, 6, and 10, Code
 34 1987, are amended to read as follows:
 35

1 1. There is imposed a tax of ~~four~~ five percent upon the
2 gross receipts from all sales of tangible personal property,
3 consisting of goods, wares, or merchandise, except as
4 otherwise provided in this division, sold at retail in the
5 state to consumers or users; a like rate of tax upon the gross
6 receipts from the sales, furnishing or service of gas,
7 electricity, water, heat, and communication service, including
8 the gross receipts from such sales by any municipal
9 corporation furnishing gas, electricity, water, heat, and
10 communication service to the public in its proprietary
11 capacity, except as otherwise provided in this division, when
12 sold at retail in the state to consumers or users; a like rate
13 of tax upon the gross receipts from all sales of tickets or
14 admissions to places of amusement, fairs, and athletic events
15 except those of elementary and secondary educational
16 institutions; and a like rate of tax upon that part of private
17 club membership fees or charges paid for the privilege of
18 participating in any athletic sports provided club members.

19 2. There is imposed a ~~tax-of-four-percent~~ like rate of tax
20 upon the gross receipts derived from the operation of all
21 forms of amusement devices and games of skill, games of
22 chance, raffles, and bingo games as defined in chapter 99B,
23 operated or conducted within the state of Iowa, the tax to be
24 collected from the operator in the same manner as is provided
25 for the collection of taxes upon the gross receipts of tickets
26 or admission fees as provided in this section. The tax shall
27 also be imposed upon the gross receipts derived from the sale
28 of lottery tickets or shares pursuant to chapter 99E. The tax
29 on the lottery tickets or shares shall be included in the
30 sales price and distributed to the general fund as provided in
31 section 99E.10.

32 6. There is imposed a ~~tax-of-four-percent~~ like rate of tax
33 upon the gross receipts from the sales of optional service or
34 warranty contracts which provide for the furnishing of labor
35 and materials and require the furnishing of any taxable

1 service enumerated under this section. The gross receipts are
2 subject to tax even if some of the services furnished are not
3 enumerated under this section. For the purpose of this
4 division, the sale of an optional service or warranty contract
5 is a sale of tangible personal property. Additional sales,
6 services, or use tax shall not be levied on services, parts,
7 or labor provided under optional service or warranty contracts
8 which are subject to tax under this section.

9 10. There is imposed a tax of ~~four~~ five percent upon the
10 gross receipts from the rendering, furnishing, or performing
11 of services as defined in section 422.42.

12 Sec. 19. Section 422.47, Code 1987, is amended by adding
13 the following new subsection:

14 NEW SUBSECTION. Construction contractors may make
15 application to the department for a refund of the additional
16 one percent tax paid under this division or the additional one
17 percent tax paid under chapter 423 by reason of the increase
18 in the tax from four to five percent for taxes paid on goods,
19 wares, or merchandise under the following conditions:

20 a. The goods, wares, or merchandise are incorporated into
21 an improvement to real estate in fulfillment of a written
22 contract fully executed prior to June 1, 1987. The refund
23 shall not apply to equipment transferred in fulfillment of a
24 mixed construction contract.

25 b. The contractor has paid to the department or to a
26 retailer the full five percent tax.

27 c. The claim is filed on forms provided by the department
28 and is filed within one year of the date the tax is paid.

29 A contractor who makes an erroneous application for refund
30 is liable for payment of the excess refund paid plus interest
31 at the rate in effect under section 421.7. In addition, a
32 contractor who willfully makes a false application for refund
33 is guilty of a simple misdemeanor and is liable for a penalty
34 equal to seventy-five percent of the excess refund claimed.

35 Excess refunds, penalties, and interest due under this

1 subsection may be enforced and collected in the same manner as
2 the tax imposed by this division.

3 Sec. 20. Section 423.2, Code 1987, is amended to read as
4 follows:

5 423.2 IMPOSITION OF TAX.

6 An excise tax is imposed on the use in this state of
7 tangible personal property purchased for use in this state, at
8 the rate of ~~four~~ five percent of the purchase price of the
9 property. The excise tax is imposed upon every person using
10 the property within this state until the tax has been paid
11 directly to the county treasurer or the state department of
12 transportation, to a retailer, or to the department. An
13 excise tax is imposed on the use in this state of services
14 enumerated in section 422.43 at the rate of ~~four~~ five percent.
15 This tax is applicable ~~where~~ if services are rendered,
16 furnished, or performed in this state or ~~where~~ if the product
17 or result of the service is used in this state. This tax is
18 imposed on every person using the services or the product of
19 the services in this state until the user has paid the tax
20 either to an Iowa use tax permit holder or to the department.

21 Sec. 21. Section 425.1, Code 1987, is amended by adding
22 the following new subsection:

23 NEW SUBSECTION. 7. The amount of the homestead credit
24 allowed under this section on a homestead with an actual value
25 equal to or greater than seventy-five thousand dollars is as
26 follows:

27 Actual value of home- 28 stead:	Percentage of the amount of homestead credit:
29 \$ 75,000 - 99,999.99	75%
30 100,000 - 124,999.99	50
31 125,000 - 149,999.99	25
32 150,000 and over	0

33 Sec. 22. Section 425.23, subsection 1, Code 1987, is
34 amended to read as follows:

35 1. The tentative credit or reimbursement shall be

1 determined in accordance with the following schedule:
2
3 Percent of property taxes
4 due or rent constituting
5 If the household property taxes paid allowed
6 income is: as a credit or reimbursement:

6	\$	0 - 4,999.99	.....	100%
7		5,000 - 5,999.99	.....	70 <u>90</u>
8		6,000 - 6,999.99	.....	50 <u>80</u>
9		7,000 - 7,999.99	.....	40 <u>70</u>
10		8,000 - 8,999.99	.....	30 <u>60</u>
11		9,000 - 11,999.99 <u>9,999.99</u>	.....	25 <u>50</u>
12		<u>10,000 - 10,999.99</u>	.....	40
13		<u>11,000 - 11,999.99</u>	.....	30
14		<u>12,000 - 12,999.99</u>	.....	20
15		<u>13,000 - 13,999.99</u>	.....	10

16 Sec. 23. Section 442.2, subsection 1, Code 1987,
17 is amended to read as follows:

18 1. Each school district shall cause to be levied each
19 year, for the school general fund, a foundation property tax
20 of five dollars and forty cents per thousand dollars of
21 assessed valuation on all taxable property in the district
22 except as provided in subsection 5. For the purpose of this
23 chapter, a school district is defined as a school corporation
24 organized under chapter 274.

25 However, commencing with the budget year beginning July 1,
26 1987, and continuing for succeeding budget years, a
27 reorganized school district shall cause a foundation property
28 tax of four dollars and forty cents per thousand dollars of
29 assessed valuation to be levied on all taxable property which,
30 in the year preceding the reorganization, was within a school
31 district affected by the reorganization as defined in section
32 275.1 and which had a certified enrollment of less than six
33 hundred. ~~In-succeeding-school-years,-the-foundation-property~~
34 ~~tax-levy-on-that-portion-should-be-increased-twenty-cents-per~~
35 ~~year-until-it-reaches-the-rate-of-five-dollars-and-forty-cents~~

1 per-thousand-dollars-of-assessed-valuation.

2 For purposes of this section, a reorganized school district
3 is one in which reorganization was approved in an election
4 pursuant to sections 275.18 and 275.20 and will take effect on
5 or after July 1, 1986.

6 Sec. 24. Section 442.2, Code 1987, is amended by adding
7 the following new subsection:

8 NEW SUBSECTION. 5. Notwithstanding subsection 1, the
9 foundation property tax levied on residential, agricultural,
10 railroad, and commercial property for the fiscal year
11 beginning July 1, 1988, is five dollars per thousand dollars
12 of assessed valuation. In succeeding years, the foundation
13 property tax levy on such property shall be decreased ten
14 cents per year until it reaches the rate of four dollars and
15 forty cents per thousand dollars of assessed valuation which
16 levy rate shall continue as the foundation property tax levy
17 on such property for subsequent years.

18 Sec. 25. Section 442.3, Code 1987, is amended to read as
19 follows:

20 442.3 STATE FOUNDATION BASE.

21 The state foundation base for the school year beginning
22 July 1, 1986 is eighty percent of the state cost per pupil.
23 The state foundation base for the school year beginning July
24 1, 1987 and for each succeeding school year is eighty-one and
25 one-half percent of the state cost per pupil. ~~For each~~
26 ~~succeeding school year, the state foundation base shall be~~
27 ~~increased by the amount of one-half percent of the state cost~~
28 ~~per pupil, up to a maximum of eighty-five percent of the state~~
29 ~~cost per pupil.~~ The district foundation base is the larger of
30 the state foundation base or the amount per pupil which the
31 district will receive from foundation property tax and state
32 school foundation aid.

33 Sec. 26. Section 442.7, subsection 1, paragraph a, Code
34 1987, is amended by adding the following new unnumbered
35 paragraph:

1 NEW UNNUMBERED PARAGRAPH. However, for computing the state
2 percent of growth to be used for the school years beginning
3 July 1, 1988 and July 1, 1989, the revenues received as a
4 result of the increase in taxes in this Act or as a result of
5 the coupling with the federal income tax changes under House
6 File 153 shall not be considered revenues received for the
7 state general fund for purposes of determining the percentages
8 under subparagraph (1) or (2).

9 Sec. 27. This section applies in regard to the increase in
10 the state sales, services, and use tax from four to five
11 percent under sections 18 and 20. The use tax rate of five
12 percent applies to motor vehicles subject to registration
13 which are registered on or after June 1, 1987. The five
14 percent use tax rate will apply to the use of property when
15 the first taxable use in this state occurs on or after June 1,
16 1987. The five percent rate will apply to the gross receipts
17 from the sale, furnishing, or service of gas, electricity,
18 water, heat, and communication service if the date of billing
19 the customer is on or after June 1, 1987. In the case of a
20 service contract entered into prior to June 1, 1987 which
21 contract calls for periodic payments, the five percent rate
22 will apply to those payments made or due on or after June 1,
23 1987. This periodic payment would apply, but not be limited
24 to, tickets of admissions, private club membership fees,
25 sources of amusement, equipment rental, dry cleaning, reducing
26 salons, dance schools, and all other services subject to tax,
27 except the aforementioned utility services which are subject
28 to a special transitional rule. Unlike periodic payment under
29 service contracts, installments sales of goods, wares, and
30 merchandise are subject to the full amount of sales or use tax
31 when the sales contract is entered into or the property is
32 used in Iowa.

33 Sec. 28. Section 6 of this Act is retroactive to January
34 1, 1987 for tax years beginning on or after that date but
35 before January 1, 1988. Section 6 of this Act is repealed

1 January 1, 1988 for tax years beginning on or after that date.

2 Sec. 29. Section 7 of this Act is effective January 1,
3 1988 for tax years beginning on or after that date.

4 Sec. 30. Sections 18, 19, 20, and 27 of this Act are
5 effective June 1, 1987.

6 Sec. 31. Sections 4, 5, and 8 through 17 of this Act are
7 retroactive to January 1, 1987 for tax years beginning on or
8 after that date.

9 Sec. 32. Section 21 of this Act is retroactive to January
10 1, 1987 for homestead credit claims filed or on file on or
11 after that date for taxes payable in the fiscal years
12 beginning on or after July 1, 1988.

13 Sec. 33. Section 22 of this Act is retroactive to January
14 1, 1988 for property tax credit claims filed on or after
15 January 1, 1988 for taxes payable in the fiscal year beginning
16 July 1, 1988 and ending June 30, 1989 and for any subsequent
17 years. Section 21 of this Act is applicable to rent
18 reimbursement claims filed on or after January 1, 1989 for
19 rents paid in calendar year 1988 and subsequent calendar
20 years.

21 Sec. 34. This Act, being deemed of immediate importance is
22 effective upon enactment.

23 EXPLANATION

24 Sections 1 through 3 provide that the rate of the cigarette
25 tax on October 1, 1985 and tobacco products tax on July 1,
26 1985 will remain the same until specifically changed by the
27 general assembly and places in the Code an inventory tax which
28 will be imposed when the rates are changed.

29 Sections 4, 5, 8 through 11, and 17 are coordinating
30 sections.

31 Section 6 alters the individual tax rates to 3%, 5%, and
32 7.9% for the 1987 tax years and section 7 alters the 1987 tax
33 year brackets but keeps the same three tax rates for tax years
34 beginning after 1987.

35 Sections 12 through 16 provide that the standard deduction

1 and the personal deductions will be the same as that for
2 federal tax purposes, eliminates the deduction for federal
3 income taxes paid, repeals the personal exemption credits, and
4 allows a homestead credit for both owners and renters with net
5 incomes under a set amount.

6 Sections 18 through 20 increase the state sales and use tax
7 from four to five percent beginning June 1, 1987 and section
8 27 clarifies its applicability. Also a refund of the one
9 percent increase is provided for a construction contractor if
10 the property purchased was used in making an improvement to
11 real estate in fulfillment of a written contract fully
12 executed prior to June 1, 1987.

13 Sections 21 and 22 alter the homestead property tax credit
14 by phasing out the amount of credit allowed for owners whose
15 market value of their homesteads exceed certain amounts and by
16 changing the additional homestead tax credit and reimbursement
17 schedule to increase the income level and the percentage
18 amounts.

19 Sections 23 through 26 amend the school foundation formula
20 by decreasing the levy, freezing the state foundation base,
21 and excluding certain state revenues in determining the
22 allowable growth percentages.

23 Sections 28 through 34 provide effective dates.

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SENATE FILE 481

S-3269

1 Amend Senate File 481 as follows:

2 1. Page 10, line 31, by inserting after the word
3 "owns" the following: "and occupies".

4 2. Page 11, line 5, by inserting after the word
5 "homestead" the following: "from the owner".

6 3. Page 11, line 17, by striking the words and
7 figures "on or after January 1, 1989." and inserting
8 the following: "in the 1989 calendar year. The
9 homestead credit amount in the schedules for tax years
10 beginning in the 1989 calendar year shall continue for
11 succeeding tax years."

12 4. Page 14, by inserting after line 32 the
13 following:

14 "Sec. 100. Section 425.17, subsections 5 and 9,
15 Code 1987, are amended to read as follows:

16 5. "Claimant" means a person filing a claim for
17 credit or reimbursement under this division who has
18 attained the age of sixty-five years on or before
19 December 31 of the base year, or who is a surviving
20 spouse having or an unmarried person who has been
21 granted a dissolution of marriage under chapter 598 or
22 has been granted a divorce or dissolution of marriage
23 recognized in this state if the surviving spouse or
24 the unmarried person has attained the age of fifty-
25 five years on or before December 31 of the base year,
26 or who is totally disabled and was totally disabled on
27 or before December 31 of the base year, and was
28 domiciled in this state during the entire base year
29 and is domiciled in this state at the time the claim
30 is filed or at the time of the person's death in the
31 case of a claim filed by the executor or administrator
32 of the claimant's estate. "Claimant" includes a
33 vendee in possession under a contract for deed and may
34 include one or more joint tenants or tenants in
35 common. In the case of a claim for rent constituting
36 property taxes paid, the claimant shall have rented
37 the property during any part of the base year. If a
38 homestead is occupied by two or more persons, and more
39 than one person is able to qualify as a claimant, the
40 persons may determine among them who will be the
41 claimant. If they are unable to agree, the matter
42 shall be referred to the director of revenue and
43 finance not later than October 31 of each year and the
44 director's decision shall be is final.

45 9. "Property taxes due" means property taxes
46 including any special assessments, but exclusive of
47 delinquent interest and charges for services, due on a
48 claimant's homestead in this state, but includes only
49 property taxes for which the claimant is liable and
50 which will actually be paid by the claimant. However,

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1 if the claimant is a person whose property taxes have
2 been suspended under sections 427.8 and 427.9,
3 "property taxes due" means property taxes including
4 any special assessments, but exclusive of delinquent
5 interest and charges for services, due on a claimant's
6 homestead in this state, but includes only property
7 taxes for which the claimant is liable and which would
8 have to be paid by the claimant if the payment of the
9 taxes ~~have~~ has not been suspended pursuant to sections
10 427.8 and 427.9. "Property taxes due" shall be
11 computed ~~with-no~~ without a deduction for any credit
12 under this division or for any homestead credit
13 allowed under section 425.1. Each claim shall be
14 based upon the taxes due during the fiscal year next
15 following the base year. If a homestead is owned by
16 two or more persons as joint tenants or tenants in
17 common, and one or more of the persons are not a
18 ~~member~~ members of the claimant's household, "property
19 taxes due" is that part of property taxes due on the
20 homestead which equals the ownership percentage of the
21 claimant and the claimant's household. The county
22 treasurer shall include with the tax receipt a
23 statement that if the owner of the property is sixty-
24 five years of age or over or is totally disabled, or
25 is a surviving spouse ~~of-such-person-who~~ or an
26 unmarried person who has been granted a dissolution of
27 marriage under chapter 598 or has been granted a
28 divorce or dissolution of marriage recognized in this
29 state and the surviving spouse or the unmarried person
30 is over fifty-five years of age, the person may be
31 eligible for the credit allowed under this division.
32 If a homestead is an integral part of a farm, the
33 claimant may use the total property taxes due for the
34 larger unit. If a homestead is an integral part of a
35 multidwelling or multipurpose building the property
36 taxes due for the purpose of this subsection shall be
37 prorated to reflect the portion which the value of the
38 property that the household occupies as its homestead
39 is to the value of the entire structure. For purposes
40 of this subsection, "unit" refers to that parcel of
41 property covered by a single tax statement of which
42 the homestead is a part."

43 5. Page 18, by inserting after line 12 the
44 following:

45 "Sec. ____ . Section 100 of this Act is applicable
46 to property tax credit claims filed on or after
47 January 1, 1988 for taxes payable in the fiscal year
48 beginning July 1, 1988 and ending June 30, 1989 and
49 for any subsequent years. Section 100 of this Act is
50 applicable to rent reimbursement claims filed on or

3269 pg. 3

1 after January 1, 1989 for rents paid in calendar year
2 1988 and subsequent calendar years."
3 6. Title page, line 10, by inserting after the
4 word "schedule;" the following: "extending to
5 divorced persons the benefits of the additional
6 property tax relief for owning or renting a
7 homestead;"

S-3269

Filed March 25, 1987

BY EDGAR H. HOLDEN

Placed o/c 4/7 (p. 1146)

SENATE FILE 481

S-3270

1 Amend Senate File 481 as follows:

2 1. Page 8, by inserting after line 14 the
3 following:

4 "Sec. 70. Section 422.7, Code 1987, is amended by
5 adding the following new subsections:

6 NEW SUBSECTION. Subtract, to the extent included,
7 the amount received as a scholarship or fellowship by
8 a graduate research assistant at an institute of
9 higher education in the state to the extent it would
10 be excluded under section 117 of the Internal Revenue
11 Code in effect on December 31, 1986.

12 NEW SUBSECTION. Subtract, to the extent included,
13 the amounts paid or expenses incurred by the
14 taxpayer's employer for educational assistance to the
15 employee which would have been excluded under section
16 127 of the Internal Revenue Code but for the fact the
17 amount of the educational assistance furnished
18 exceeded the maximum exclusion amount in section
19 127(a)(2) of the Internal Revenue Code."

20 2. Page 9, by inserting after line 9 the
21 following:

22 "Sec. 75. Section 422.9, subsection 2, Code 1987,
23 is amended by adding the following new lettered
24 paragraphs:

25 NEW LETTERED PARAGRAPH. g. Add the amount of
26 interest paid, to the extent not already included, on
27 a student loan made under a federal or state
28 guaranteed student loan program.

29 NEW LETTERED PARAGRAPH. h. Add the amount of
30 educational and related expenses, to the extent not
31 already included, that are deductible under section
32 162 of the Internal Revenue Code in effect on December
33 31, 1986."

34 3. Page 18, line 6, by inserting before the word
35 "of" the following: ", 70, and 75".

S-3270

Filed March 25, 1987

BY JACK NYSTROM

Placed o/c 4/7 (p. 1146)

SENATE FILE 481

S-3452

1 Amend the Bruner et al amendment, S-3447, to Senate
2 File 481 as follows:

3 1. Page 9, by inserting after line 21 the
4 following:

5 "Sec. 90. 1984 Iowa Acts, chapter 1240, section
6 12, is amended to read as follows:

7 SEC. 12. This Act, except for section 8, applies
8 to the estates of persons dying on or after its
9 effective date and in the case of section 1 of this
10 Act, also applies to property passing by deed, grant,
11 sale, gift, or transfer made on or after the effective
12 date.

13 Sec. _____. Notwithstanding any other provision of
14 law, a person entitled to a refund of state
15 inheritance tax as a result of section 90 of this Act
16 shall have until January 1, 1988 to file a claim for
17 refund of the state inheritance tax.

18 Sec. _____. Section 90 of this Act is retroactive to
19 July 1, 1984."

20 2. Renumber as necessary.

S-3452

Filed April 7, 1987

WITHDRAWN (p. 1145)

BY JOE J. WELSH

SENATE FILE 481

7
1 Amend Senate File 481 as follows:

2 1. Page 4, line 10, by striking the figure "1988"
3 and inserting the following: "1987".

4 2. Page 4, line 16, by striking the figure "1988"
5 and inserting the following: "1987".

6 3. By striking page 4, line 31 through page 6,
7 line 25 and inserting the following:

8 "Sec. 6. Section 422.5, subsection 1, paragraphs a
9 through m, Code 1987, are amended by striking the
10 paragraphs and inserting in lieu thereof the
11 following:

12 a. On all taxable income from zero through five
13 thousand dollars, three percent.

14 b. On all taxable income exceeding five thousand
15 dollars but not exceeding ten thousand dollars, four
16 percent.

17 c. On all taxable income exceeding ten thousand
18 dollars, six and one-half percent.

19 In addition to the tax imposed under paragraphs "a"
20 through "c", an additional tax is imposed on a
21 taxpayer whose taxable income exceeds twenty-five
22 thousand dollars at a rate of one and three-fourths
23 percent of the taxable income exceeding twenty-five
24 thousand dollars but not exceeding thirty-five
25 thousand dollars and at a rate of one and one-fourth
26 percent of the taxable income exceeding thirty-five
27 thousand dollars but not exceeding forty-five thousand
28 dollars."

29 4. Page 7, line 12, by striking the word and
30 figures "6 and 7" and inserting the following: "2, 6,
31 7, and 10".

32 5. Page 7, by inserting after line 13 the
33 following:

34 "2. However, no tax shall be imposed on any
35 resident or nonresident whose net income, as defined
36 in section 422.7, is five seven thousand dollars or
37 less; but in the event that the payment of tax under
38 this division would reduce the net income to less than
39 five seven thousand dollars, then the tax shall be
40 reduced to that amount which would result in allowing
41 the taxpayer to retain a net income of five seven
42 thousand dollars. The preceding sentence does not
43 apply to estates or trusts. For the purpose of this
44 subsection, the entire net income, including any part
45 thereof not allocated to Iowa, shall be taken into
46 account. If the combined net income of a husband and
47 wife exceeds five seven thousand dollars, neither of
48 them shall receive the benefit of this subsection, and
49 it is immaterial whether they file a joint return or
50 separate returns. A person who is claimed as a

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1 dependent by another person as defined in section
2 422.12 shall not receive the benefit of this
3 subsection if the person claiming the dependent has
4 net income exceeding five seven thousand dollars or
5 the person claiming the dependent and the person's
6 spouse have combined net income exceeding five seven
7 thousand dollars."

8 6. Page 8, line 5, by striking the word "five"
9 and inserting the following: "five seven".

10 7. Page 8, by inserting after line 14 the
11 following:

12 "10. In addition to the other taxes imposed by
13 this section, a tax is imposed on the amount of a lump
14 sum distribution for which the taxpayer has elected
15 under section 402(e) of the Internal Revenue Code of
16 1954 to be separately taxed for federal income tax
17 purposes for the tax year. The rate of tax is equal
18 to twenty-five percent of the separate federal tax
19 imposed on the amount of the lump sum distribution. A
20 nonresident is liable for this tax only on that
21 portion of the lump sum distribution allocable to
22 Iowa. The total amount of the lump sum distribution
23 subject to separate federal tax shall be included in
24 net income for purposes of determining eligibility
25 under the five seven thousand dollar or less
26 exclusion.

27 Sec. 50. Section 422.7, subsections 6, 8, and 19,
28 Code 1987, are amended to read as follows:

29 6. Individual taxpayers and married taxpayers who
30 file a joint federal income tax return and who elect
31 to file a joint return ~~or separate returns or~~
32 ~~separate-filing-on-a-combined-return~~ for Iowa income
33 tax purposes, may avail themselves of the disability
34 income exclusion and shall compute the amount of the
35 disability income exclusion subject to the limitations
36 for joint federal income tax return filers provided by
37 section 105(d) of the Internal Revenue Code of 1954.
38 The disability income exclusion provided in section
39 105(d) of the Internal Revenue Code of 1954, as
40 amended up to and including December 31, 1982,
41 continues to apply for state income tax purposes for
42 tax years beginning on or after January 1, 1984.

43 8. Married taxpayers who file a joint federal
44 income tax return and who elect to file separate
45 returns ~~or separate-filing-on-a-combined-return~~ for
46 Iowa income tax purposes, may avail themselves of the
47 expensing of business assets and capital loss
48 provisions of sections 179(a) and 1211(b) respectively
49 of the Internal Revenue Code of 1954 and shall compute
50 the amount of expensing of business assets and capital

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1 loss subject to the limitations for joint federal
2 income tax return filers provided by sections 179(b)
3 and 1211(b) respectively of the Internal Revenue Code
4 of-1954.

5 19. Married taxpayers, who file a joint federal
6 income tax return and who elect to file separate
7 returns ~~or who elect separate filing on a combined~~
8 return for state income tax purposes, shall include in
9 net income any social security benefits or tier 1
10 railroad retirement benefits received to the same
11 extent as those benefits are taxable on the taxpayer's
12 joint federal return for that year under section 86 of
13 the Internal Revenue Code of-1954. The benefits
14 included in net income must be allocated between the
15 spouses in the ratio of the social security benefits
16 or tier 1 railroad retirement benefits received by
17 each spouse to the total of these benefits received by
18 both spouses."

19 8. By striking page 9, line 10 through page 11,
20 line 21 and inserting the following:

21 "Sec. 51. Section 422.12, subsection 2, unnumbered
22 paragraph 2, Code 1987, is amended to read as follows:

23 Married taxpayers electing to file separate returns
24 ~~or filing separately on a combined return~~ must
25 allocate the child and dependent care credit to each
26 spouse in the proportion that each spouse's respective
27 net income bears to the total combined net income.
28 Taxpayers affected by the allocation provisions of
29 section 422.8 shall be permitted a deduction for the
30 credit only in the amount fairly and equitably
31 allocable to Iowa under rules prescribed by the
32 director.

33 Sec. 52. Section 422.12, Code 1987, is amended by
34 adding the following new subsections:

35 NEW SUBSECTION. 4. A two-earner credit for
36 married taxpayers filing jointly. The credit is equal
37 to one percent of the qualified earned income of the
38 spouse with the lower qualified earned income not to
39 exceed fifty dollars. For purposes of this credit the
40 term "qualified earned income" means the same as
41 provided in section 221 of the Internal Revenue Code
42 in effect on December 31, 1986, except that only
43 qualified earned income from Iowa sources shall be
44 considered for the credit. Nonresidents may claim the
45 credit only to the extent that both spouses have
46 qualified earned income from Iowa sources.

47 NEW SUBSECTION. 5. Upon determination of the
48 latest cumulative inflation factor, the director shall
49 multiply each dollar amount of the personal exemptions
50 set forth in subsection 1 and each dollar amount of

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1 the two-earner credit set forth in subsection 4, by
2 this cumulative inflation factor, shall round off the
3 resulting product to the nearest one dollar, and shall
4 incorporate the result into the income tax forms and
5 instructions for each tax year.

6 Sec. 53. Section 422.13, subsection 1, paragraph
7 b, Code 1987, is amended to read as follows:

8 b. The individual has net income of four seven
9 thousand dollars or more for the tax year from sources
10 taxable under this division."

11 9. Page 11, line 24, by striking the figure
12 "1989" and inserting the following: "1988".

13 10. Page 11, line 29, by striking the word and
14 figure "section 422.5" and inserting the following:
15 "section sections 422.5 and 422.12".

16 11. By striking page 14, line 21 through page 17,
17 line 8.

18 12. Page 17, line 34, by striking the word "but"
19 and inserting the following: "."

20 13. By striking page 17, line 35 through page 18,
21 line 3.

22 14. Page 18, line 6, by striking the words and
23 figures "and 8 through 17" and inserting the
24 following: "8, 9, 10, 11, 17, 50, 51, 52, and 53".

25 15. Page 18, by striking lines 9 through 20.

26 16. Title page, lines 2 and 3, by striking the
27 words "standard deductions, and personal exemptions
28 and".

29 17. Title page, line 8, by striking the word "
30 adjusting".

31 18. Title page, by striking lines 9 through 12
32 and inserting the following: "and".

33 19. By renumbering as necessary.

S-3277

Filed March 25, 1987

Placed o/c 4/7 (p. 1146)

FORREST SCHWENGELS	BY CALVIN O. HULTMAN
JIM LIND	JOHN W. JENSEN
WILMER RENSINK	RICHARD VANDE HOEF
JOY C. CORNING	LEE W. HOLT
JACK W. HESTER	RICHARD F. DRAKE
RAY TAYLOR	NORMAN J. GOODWIN
EDGAR H. HOLDEN	JULIA GENTLEMAN

SENATE FILE 481

3432

1 Amend the amendment, S-3277, to Senate File 481 as
2 follows:
3 1. Page 1, by inserting after line 11 the
4 following:
5 "a. For all taxpayers, except a married person
6 filing separately, the tax rates are as follows:"
7 2. Page 1, line 12, by striking the following:
8 "a." and inserting the following: "(1)".
9 3. Page 1, line 14, by striking the following:
10 "b." and inserting the following: "(2)".
11 4. Page 1, line 17, by striking the following:
12 "c." and inserting the following: "(3)".
13 5. Page 1, lines 19 and 20, by striking the
14 following: "paragraphs "a" through "c"" and inserting
15 the following: "subparagraphs (1) through (3)".
16 6. Page 1, line 28, by striking the words
17 "dollars."" and inserting the following: "dollars."
18 b. For a married person filing separately, the tax
19 rates are as follows:
20 (1) On all taxable income from zero through two
21 thousand five hundred dollars, three percent.
22 (2) On all taxable income exceeding two thousand
23 five hundred dollars but not exceeding five thousand
24 dollars, four percent.
25 (3) On all taxable income exceeding five thousand
26 dollars, six and one-half percent.
27 In addition to the tax imposed under subparagraphs
28 (1) through (3), an additional tax is imposed on a
29 taxpayer whose taxable income exceeds twelve thousand
30 five hundred dollars at a rate of one and three-
31 fourths percent of the taxable income exceeding twelve
32 thousand five hundred dollars but not exceeding
33 seventeen thousand five hundred dollars and at a rate
34 of one and one-fourth percent of the taxable income
35 exceeding seventeen thousand five hundred dollars but
36 not exceeding twenty-two thousand five hundred
37 dollars.""

S-3432

Filed April 6, 1987

Placed o/o 4/7 (p. 1147)

BY CALVIN O. HULTMAN

SENATE FILE 481

S-3275

- 1 Amend Senate File 481 as follows:
 2 1. By striking page 11, line 34 through page 14,
 line 20.
 4 2. Page 17, by striking lines 9 through 32.
 5 3. Page 18, by striking lines 4 and 5.
 6 4. Title page, lines 3 through 5, by striking the
 7 words "increasing the state sales, services, and use
 8 tax and providing for refunds for certain contractors
 9 as a result of that increase;".

S-3275

Filed March 25, 1987

Placed c/o 4/7 (p. 1146)

	BY CALVIN O. HULTMAN
JULIA GENTLEMAN	EDGAR H. HOLDEN
LINN FUHRMAN	JOHN W. JENSEN
FORREST SCHWENGELS	RICHARD VANDE HOEF
JACK W. HESTER	LEE W. HOLT
RAY TAYLOR	NORMAN J. GOODWIN

SENATE FILE 481

S-3397

- 1 Amend Senate File 481 as follows:
 2 1. Page 1, by striking lines 9 through 11 and
 3 inserting the following: "October 1, 1985 and at the
 4 rate of eighteen mills on each cigarette beginning
 5 July 1, 1987.
 6 Sec. . Section 98.35, Code 1987, is amended to
 7 read as follows:
 8 98.35 TAX AND FEES PAID TO GENERAL FUND.
 9 The proceeds derived from the sale of stamps and
 10 the payment of taxes, fees and penalties provided for
 11 under this chapter, and the permit fees received from
 12 all permits issued by the department, shall be
 13 credited to the general fund of the state. Beginning
 14 July 1, 1987, the department shall determine, to the
 15 extent possible, the amount of the revenue resulting
 16 from the increase in the tax under section 98.6 from
 17 thirteen mills to eighteen mills. This amount shall
 18 be deposited in a special account in the general fund
 19 and shall be used only to reimburse, on a pro rata
 20 basis, counties which have paid costs under chapters
 21 222 and 230. Revenues credited to this special
 22 account during a fiscal year shall be used to
 23 reimburse the counties for payments made by them
 24 during that fiscal year. The treasurer of state shall
 25 adopt rules for the reimbursement to the counties.
 26 All permit fees provided for in this chapter and
 27 collected by cities in the issuance of permits granted
 28 by the cities shall be paid to the treasurer of the
 29 city where the permit is effective, or to another city
 30 officer as designated by the council, and credited to
 1 the general fund of the city. Permit fees so
 2 collected by counties shall be paid to the county
 33 treasurer."

S-3397

Filed April 3, 1987

Placed c/o 4/7 (p. 1147)

BY JAMES R. RIORDAN

SENATE FILE 481

S-3447

1 Amend Senate File 481 as follows:

2 1. By striking everything after the enacting
3 clause and inserting the following:

4 "Section 1. Section 422.3, subsection 5, Code
5 1987, is amended by striking the subsection and
6 inserting in lieu thereof the following:

7 5. "Internal Revenue Code" means the Internal
8 Revenue Code of 1954, prior to the date of its
9 redesignation as the Internal Revenue Code of 1986 by
10 the Tax Reform Act of 1986, or means the Internal
11 Revenue Code of 1986 as amended to and including
12 January 1, 1987, whichever is applicable.

13 Sec. 2. Section 422.4, subsection 17, Code 1987,
14 is amended to read as follows:

15 17. a. "Annual inflation factor" means ~~an index~~
16 ~~expressed as a percentage determined by the~~
17 ~~department each year to reflect the purchasing power~~
18 ~~of the dollar as a result of inflation during the~~
19 ~~preceding calendar year. For the 1981 and subsequent~~
20 ~~calendar years, "annual inflation factor" means an~~
21 index, expressed as a percentage, determined by the
22 department by October 15 of the calendar year
23 preceding the calendar year for which the factor is
24 determined to reflect the purchasing power of the
25 dollar as a result of inflation during the fiscal year
26 ending in the calendar year preceding the calendar
27 year for which the factor is determined. In
28 determining the annual inflation factor, the
29 department shall use the annual percent change, but
30 not less than zero percent, in the implicit price
31 deflator for the gross national product computed for
32 ~~the whole calendar year or for the second quarter of~~
33 ~~the calendar year, in the case of the annual inflation~~
34 ~~factor for the 1981 and subsequent calendar years, by~~
35 the bureau of economic analysis of the United States
36 department of commerce and shall add two-fourths for
37 ~~the 1980 and subsequent calendar years~~ of that percent
38 change to one hundred percent. ~~The annual inflation~~
39 ~~factor for the 1979 calendar year is one hundred two~~
40 ~~point three percent. The annual inflation factor and~~
41 the cumulative inflation factor shall each be
42 expressed as a percentage rounded to the nearest one-
43 tenth of one percent. The annual inflation factor
44 shall not be less than one hundred percent.

45 b. "Cumulative inflation factor" means the product
46 of the annual inflation factor for the ~~1978~~ 1988
47 calendar year and all annual inflation factors for
48 subsequent calendar years as determined pursuant to
49 this subsection. The cumulative inflation factor
50 applies to all tax years beginning on or after January

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1 1 of the calendar year for which the latest annual
2 inflation factor has been determined.

3 c. The annual inflation factor for the ~~1978~~ 1988
4 calendar year is one hundred percent.

5 d. Notwithstanding the computation of the annual
6 inflation factor under paragraph "a" ~~of this~~
7 subsection, the annual inflation factor is one hundred
8 percent for any calendar year in which the unobligated
9 state general fund balance on June 30 ~~as certified by~~
10 ~~the director of revenue and finance by September 10 of~~
11 ~~the fiscal year beginning in that calendar year is~~
12 ~~less than sixty million dollars. -- However, for the~~
13 ~~1981 and subsequent calendar years, the annual~~
14 ~~inflation factor is one hundred percent for any~~
15 ~~calendar year if the unobligated state general fund~~
16 ~~balance on June 30 of the calendar year preceding the~~
17 ~~calendar year for which the factor is determined, as~~
18 certified by the director of revenue and finance by
19 October 10, is less than sixty million dollars.

20 Sec. 3. Section 422.5, subsection 1, paragraphs a
21 through m, Code 1987, are amended by striking the
22 paragraphs and inserting in lieu thereof the
23 following:

24 a. For a single person other than a head of
25 household, the tax rates are as follows:

26 (1) On all taxable income from zero through three
27 thousand dollars, four percent.

28 (2) On all taxable income exceeding three thousand
29 dollars but not exceeding eleven thousand dollars, six
30 percent.

31 (3) On all taxable income exceeding eleven
32 thousand dollars, ten and one-half percent.

33 b. For a married couple filing jointly, a
34 surviving spouse, a qualifying widow, and a head of
35 household, the tax rates are as follows:

36 (1) On all taxable income from zero through four
37 thousand five hundred dollars, four percent.

38 (2) On all taxable income exceeding four thousand
39 five hundred dollars but not exceeding sixteen
40 thousand five hundred dollars, six percent.

41 (3) On all taxable income exceeding sixteen
42 thousand five hundred dollars, ten and one-half
43 percent.

44 c. For a married person filing separately, an
45 estate, and a trust, the tax rates are as follows:

46 (1) On all taxable income from zero through two
47 thousand two hundred fifty dollars, four percent.

48 (2) On all taxable income exceeding two thousand
49 two hundred fifty dollars but not exceeding eight
50 thousand two hundred fifty dollars, six percent.

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1 (3) On all taxable income exceeding eight thousand
2 two hundred fifty dollars, ten and one-half percent.

3 The tax rates and bracket amounts in paragraphs "a"
4 through "c" are effective for tax years beginning on
5 or after January 1, 1987 but before January 1, 1988.

6 Sec. 4. Section 422.5, subsection 1, paragraphs a
7 through m, Code 1987, are amended by striking the
8 paragraphs and inserting in lieu thereof the
9 following:

10 a. For a single person other than a head of
11 household, the tax rates are as follows:

12 (1) On all taxable income from zero through two
13 thousand dollars, four percent.

14 (2) On all taxable income exceeding two thousand
15 dollars but not exceeding eleven thousand dollars, six
16 percent.

17 (3) On all taxable income exceeding eleven
18 thousand dollars, ten and one-half percent.

19 b. For a married couple filing jointly, a
20 surviving spouse, a qualifying widow, and a head of
21 household, the tax rates are as follows:

22 (1) On all taxable income from zero through three
23 thousand dollars, four percent.

24 (2) On all taxable income exceeding three thousand
25 dollars but not exceeding sixteen thousand five
26 hundred dollars, six percent.

27 (3) On all taxable income exceeding sixteen
28 thousand five hundred dollars, ten and one-half
29 percent.

30 c. For a married person filing separately, an
31 estate, and a trust, the tax rates are as follows:

32 (1) On all taxable income from zero through one
33 thousand five hundred dollars, four percent.

34 (2) On all taxable income exceeding one thousand
35 five hundred dollars but not exceeding eight thousand
36 two hundred fifty dollars, six percent.

37 (3) On all taxable income exceeding eight thousand
38 two hundred fifty dollars, ten and one-half percent.

39 The tax rates and bracket amounts in paragraph "a"
40 through "c" are effective for tax years beginning on
41 or after January 1, 1988.

42 Sec. 5. Section 422.5, subsection 1, paragraph n,
43 Code 1987, is amended to read as follows:

44 n d. The tax imposed upon the taxable income of a
45 nonresident shall be computed by reducing the amount
46 determined pursuant to paragraphs "a" through "m" "c"
47 by the amounts of nonrefundable credits under this
48 division and by multiplying this resulting amount by a
49 fraction of which the nonresident's net income
50 allocated to Iowa, as determined in section 422.8,

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1 subsection 2, is the numerator and the nonresident's
2 total net income computed under section 422.7 is the
3 denominator. This provision also applies to
4 individuals who are residents of Iowa for less than
5 the entire tax year.

6 Sec. 6. Section 422.5, subsection 1, paragraph o,
7 unnumbered paragraph 1, Code 1987, is amended to read
8 as follows:

9 There is imposed upon every resident and
10 nonresident of this state, including estates and
11 trusts, the greater of the tax determined in
12 paragraphs "a" through "n" "d" or the state
13 alternative minimum tax equal to nine percent of the
14 state alternative minimum taxable income of the
15 taxpayer as computed under this paragraph.

16 Sec. 7. Section 422.5, subsections 6 and 7, Code
17 1987, are amended to read as follows:

18 6. A person who is disabled, is sixty-two years of
19 age or older or is the surviving spouse of an
20 individual or survivor having an insurable interest in
21 an individual who would have qualified for the
22 exemption under this paragraph for this tax year and
23 receives one or more annuities from the United States
24 civil service retirement and disability trust fund,
25 and whose net income, as defined in section 422.7, is
26 sufficient to require that the tax be imposed upon it
27 under this section, may determine final taxable income
28 for purposes of imposition of the tax by excluding the
29 amount of annuities received from the United States
30 civil service retirement and disability trust fund,
31 which are not already excluded in determining net
32 income, as defined in section 422.7, up to a maximum
33 each tax year of five thousand five-hundred six
34 hundred twenty-seven dollars for a person who files a
35 separate state income tax return and eight thousand
36 one hundred eighty-four dollars total for a husband
37 and wife who file a joint state income tax return.
38 However, a surviving spouse who is not disabled or
39 sixty-two years of age or older can only exclude the
40 amount of annuities received as a result of the death
41 of the other spouse. The amount of the exemption
42 shall be reduced by the amount of any social security
43 benefits received. For the purpose of this section,
44 the amount of annuities received from the United
45 States civil service retirement and disability trust
46 fund taxable under the Internal Revenue Code of 1954
47 shall be included in net income for purposes of
48 determining eligibility under the five thousand dollar
49 or less exclusion.

50 7. Upon determination of the latest cumulative

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1 inflation factor, the director shall multiply each
2 dollar amount set forth in subsection 1, paragraphs
3 "a" through "c" of this section, and each dollar
4 amount specified in this section as the maximum amount
5 of annuities received which may be excluded in
6 determining final taxable income, by this cumulative
7 inflation factor, shall round off the resulting
8 product to the nearest one dollar, and shall
9 incorporate the result into the income tax forms and
10 instructions for each tax year.

11 Sec. 8. Section 422.8, subsection 2, Code 1987, is
12 amended to read as follows:

13 2. Nonresident's net income allocated to Iowa is
14 the net income, or portion thereof, which is derived
15 from a business, trade, profession, or occupation
16 carried on within this state or income from any
17 property, trust, estate, or other source within Iowa.
18 If any business, trade, profession, or occupation is
19 carried on partly within and partly without the state,
20 only the portion of the net income which is fairly and
21 equitably attributable to that part of the business,
22 trade, profession, or occupation carried on within the
23 state is allocated to Iowa for purposes of section
24 422.5, subsection 1, paragraph "d" and section
25 422.13 and income from any property, trust, estate, or
26 other source partly within and partly without the
27 state is allocated to Iowa in the same manner, except
28 that annuities, interest on bank deposits and
29 interest-bearing obligations, and dividends are
30 allocated to Iowa only to the extent to which they are
31 derived from a business, trade, profession, or
32 occupation carried on within the state. However,
33 income received by an individual who is a resident of
34 another state is not allocated to Iowa if the income
35 is subject to an income tax imposed by the state where
36 the individual resides, and if the state of residence
37 allows a similar exclusion for income received in that
38 state by residents of Iowa. In order to implement the
39 exclusions, the director shall designate by rule the
40 states which allow a similar exclusion for income
41 received by residents of Iowa, and may enter into
42 agreements with other states to provide that similar
43 exclusions will be allowed, and to provide suitable
44 withholding requirements in each state.

45 Sec. 9. Section 422.9, subsection 1, unnumbered
46 paragraph 1, Code 1987, is amended by striking the
47 paragraph and inserting in lieu thereof the following:

48 For a single person who is not a head of household,
49 a married couple filing jointly, a surviving spouse, a
50 qualifying widow, a head of household, or a married

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1 person filing separately an optional standard deduc-
2 tion equal to the amount of the standard deduction
3 determined under section 63(c) of the Internal Revenue
4 Code for that filing status. In addition to the
5 optional standard deduction, the individual may deduct
6 the amount of federal income tax.

7 Sec. 10. Section 422.9, Code 1987, is amended by
8 adding after subsection 2 the following new subsection
9 and renumbering the other subsections:

10 NEW SUBSECTION. 3. In addition to the amount
11 deducted under subsection 1 or 2, the taxpayer may
12 deduct the amount of the applicable personal
13 exemptions allowed under section 151 or 642(b) of the
14 Internal Revenue Code.

15 Sec. 11. Section 422.12, subsection 1, Code 1987,
16 is amended by striking the subsection.

17 Sec. 12. Section 422.21, unnumbered paragraph 4,
18 Code 1987, is amended to read as follows:

19 The director shall determine for the ~~1979~~ 1989 and
20 subsequent calendar years the annual and cumulative
21 inflation factors for those calendar years to be
22 applied to tax years beginning on or after January 1
23 of that calendar year. The director shall compute the
24 new dollar amounts as specified therein to be adjusted
25 in section 422.5 by the latest cumulative inflation
26 factor and round off the result to the nearest one
27 dollar. The annual and cumulative inflation factors
28 determined by the director are not rules as defined in
29 section 17A.2, subsection 7.

30 Sec. 13. Section 422.43, subsections 1, 2, 6, and
31 10, Code 1987, are amended to read as follows:

32 1. There is imposed a tax of ~~four~~ five percent
33 upon the gross receipts from all sales of tangible
34 personal property, consisting of goods, wares, or
35 merchandise, except as otherwise provided in this
36 division, sold at retail in the state to consumers or
37 users; a like rate of tax upon the gross receipts from
38 the sales, furnishing or service of gas, electricity,
39 water, heat, and communication service, including the
40 gross receipts from such sales by any municipal
41 corporation furnishing gas, electricity, water, heat,
42 and communication service to the public in its
43 proprietary capacity, except as otherwise provided in
44 this division, when sold at retail in the state to
45 consumers or users; a like rate of tax upon the gross
46 receipts from all sales of tickets or admissions to
47 places of amusement, fairs, and athletic events except
48 those of elementary and secondary educational
49 institutions; and a like rate of tax upon that part of
50 private club membership fees or charges paid for the

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1 privilege of participating in any athletic sports
2 provided club members.

3 2. There is imposed a tax-of-four-percent like
4 rate of tax upon the gross receipts derived from the
5 operation of all forms of amusement devices and games
6 of skill, games of chance, raffles, and bingo games as
7 defined in chapter 99B, operated or conducted within
8 the state of Iowa, the tax to be collected from the
9 operator in the same manner as is provided for the
10 collection of taxes upon the gross receipts of tickets
11 or admission fees as provided in this section. The
12 tax shall also be imposed upon the gross receipts
13 derived from the sale of lottery tickets or shares
14 pursuant to chapter 99E. The tax on the lottery
15 tickets or shares shall be included in the sales price
16 and distributed to the general fund as provided in
17 section 99E.10.

18 6. There is imposed a tax-of-four-percent like
19 rate of tax upon the gross receipts from the sales of
20 optional service or warranty contracts which provide
21 for the furnishing of labor and materials and require
22 the furnishing of any taxable service enumerated under
23 this section. The gross receipts are subject to tax
24 even if some of the services furnished are not
25 enumerated under this section. For the purpose of
26 this division, the sale of an optional service or
27 warranty contract is a sale of tangible personal
28 property. Additional sales, services, or use tax
29 shall not be levied on services, parts, or labor
30 provided under optional service or warranty contracts
31 which are subject to tax under this section.

32 10. There is imposed a tax of four five percent
33 upon the gross receipts from the rendering,
34 furnishing, or performing of services as defined in
35 section 422.42.

36 Sec. 14. Section 422.47, Code 1987, is amended by
37 adding the following new subsection:

38 NEW SUBSECTION. Construction contractors may make
39 application to the department for a refund of the
40 additional one percent tax paid under this division or
41 the additional one percent tax paid under chapter 423
42 by reason of the increase in the tax from four to five
43 percent for taxes paid on goods, wares, or merchandise
44 under the following conditions:

45 a. The goods, wares, or merchandise are
46 incorporated into an improvement to real estate in
47 fulfillment of a written contract fully executed prior
48 to June 1, 1987. The refund shall not apply to
49 equipment transferred in fulfillment of a mixed
50 construction contract.

April 8, 1987

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1 b. The contractor has paid to the department or to
2 a retailer the full five percent tax.

3 c. The claim is filed on forms provided by the
4 department and is filed within one year of the date
5 the tax is paid.

6 A contractor who makes an erroneous application for
7 refund is liable for payment of the excess refund paid
8 plus interest at the rate in effect under section
9 421.7. In addition, a contractor who willfully makes
10 a false application for refund is guilty of a simple
11 misdemeanor and is liable for a penalty equal to
12 seventy-five percent of the excess refund claimed.
13 Excess refunds, penalties, and interest due under this
14 subsection may be enforced and collected in the same
15 manner as the tax imposed by this division.

16 Sec. 15. Section 423.2, Code 1987, is amended to
17 read as follows:

18 423.2 IMPOSITION OF TAX.

19 An excise tax is imposed on the use in this state
20 of tangible personal property purchased for use in
21 this state, at the rate of four five percent of the
22 purchase price of the property. The excise tax is
23 imposed upon every person using the property within
24 this state until the tax has been paid directly to the
25 county treasurer or the state department of
26 transportation, to a retailer, or to the department.
27 An excise tax is imposed on the use in this state of
28 services enumerated in section 422.43 at the rate of
29 four five percent. This tax is applicable where if
30 services are rendered, furnished, or performed in this
31 state or where if the product or result of the service
32 is used in this state. This tax is imposed on every
33 person using the services or the product of the
34 services in this state until the user has paid the tax
35 either to an Iowa use tax permit holder or to the
36 department.

37 Sec. 16. Section 442.7, subsection 1, paragraph a,
38 Code 1987, is amended by adding the following new
39 unnumbered paragraph:

40 NEW UNNUMBERED PARAGRAPH. However, the computation
41 in determining the state percent of growth shall not
42 include revenues generated as a result of state tax
43 increases or increased revenues resulting from reduced
44 federal taxes.

45 Sec. 17. This section applies in regard to the
46 increase in the state sales, services, and use tax
47 from four to five percent under sections 13 and 15.
48 The use tax rate of five percent applies to motor
49 vehicles subject to registration which are registered
50 on or after June 1, 1987. The five percent use tax

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rate will apply to the use of property when the first taxable use in this state occurs on or after June 1, 1987. The five percent rate will apply to the gross receipts from the sale, furnishing, or service of gas, electricity, water, heat, and communication service if the date of billing the customer is on or after June 1, 1987. In the case of a service contract entered into prior to June 1, 1987 which contract calls for periodic payments, the five percent rate will apply to those payments made or due on or after June 1, 1987. This periodic payment would apply, but not be limited to, tickets of admissions, private club membership fees, sources of amusement, equipment rental, dry cleaning, reducing salons, dance schools, and all other services subject to tax, except the aforementioned utility services which are subject to a special transitional rule. Unlike periodic payment under service contracts, installments sales of goods, wares, and merchandise are subject to the full amount of sales or use tax when the sales contract is entered into or the property is used in Iowa.

Sec. 18. Section 3 of this Act is retroactive to January 1, 1987 for tax years beginning on or after that date but before January 1, 1988. Section 3 of this Act is repealed January 1, 1988 for tax years beginning on or after that date.

Sec. 19. Section 4 of this Act is effective January 1, 1988 for tax years beginning on or after that date.

Sec. 20. Sections 13 through 15 and section 17 of this Act are effective June 1, 1987.

Sec. 21. Sections 1, 2, and 5 through 12 of this Act are retroactive to January 1, 1987 for tax years beginning on or after that date.

Sec. 22. This Act, being deemed of immediate importance is effective upon enactment."

2. Title page, by striking lines 5 through 12 and inserting the following: "certain contractors as a result of that increase; adjusting the allowable growth under the school foundation formula; and".

S-3447

Filed April 7, 1987

ADOPTED *as amended by 3450 4/7/87 (p. 1146)*

BY CHARLES BRUNER
BILL HUTCHINS
MICHAEL E. GRONSTAL
EMIL J. HUSAK

SENATE FILE 481

S-3416

1 Amend Senate File 481 as follows:

2 1. Page 11, by inserting after line 21 the
3 following:

4 "Sec. 60. Section 422.16, subsection 1, unnumbered
5 paragraph 1, Code 1987, is amended to read as follows:

6 Every withholding agent and every employer as
7 defined in this chapter and further defined in the
8 Internal Revenue Code of 1954, with respect to income
9 tax collected at source, making payment of wages to a
10 nonresident employee working in Iowa, or to a resident
11 employee, shall deduct and withhold from the wages an
12 amount which will approximate the employee's annual
13 tax liability on a calendar year basis, calculated on
14 the basis of tables to be prepared by the department
15 and schedules or percentage rates, based on the wages,
16 to be prescribed by the department. Every employee or
17 other person shall declare to the employer or
18 withholding agent the number of the employee's or
19 other person's personal exemptions and dependency
20 exemptions or credits to be used in applying the
21 tables and schedules or percentage rates. However, no
22 greater number of personal or dependency exemptions or
23 credits may be declared by the employee or other
24 person than the number to which the employee or other
25 person is entitled except as allowed under section
26 3402(m)(1) of the Internal Revenue Code of 1954 or is
27 allowed under rules prescribed by the director for
28 payments of alimony or separate maintenance. The
29 claiming of exemptions, alimony, or separate
30 maintenance payments, or credits in excess of
31 entitlement is a serious misdemeanor."

32 2. Page 18, line 6, by inserting before the word
33 "of" the following: ", and 60".

34 3. Title page, line 2, by inserting after the
35 word "rates," the following: "withholding,".

S-3416

Filed April 6, 1987

BY JOY C. CORNING

Revised 4/7 (p. 1147)

SENATE FILE 481

48

1 Amend the Bruner et al amendment, S-3447, to Senate
2 File 481 as follows:

3 1. Page 1, line 46, by striking the figure "1988"
4 and inserting the following: "1987".

5 2. Page 2, line 3, by striking the figure "1988"
6 and inserting the following: "1987".

7 3. By striking page 2, line 20 through page 3,
8 line 41, and inserting the following:

9 "Sec. 3. Section 422.5, subsection 1, paragraphs a
10 through m, Code 1987, are amended by striking the
11 paragraphs and inserting in lieu thereof the
12 following:

13 a. For all taxpayers except a married person
14 filing separately, the tax rates are as follows:

15 (1) On all taxable income from zero through five
16 thousand dollars, three percent.

17 (2) On all taxable income exceeding five thousand
18 dollars but not exceeding ten thousand dollars, four
19 percent.

20 (3) On all taxable income exceeding ten thousand
21 dollars, six and one-half percent.

22 In addition to the tax imposed under subparagraphs

23 (1) through (3), an additional tax is imposed on a
24 taxpayer whose taxable income exceeds twenty-five
25 thousand dollars at a rate of one and three-fourths
26 percent of the taxable income exceeding twenty-five
27 thousand dollars but not exceeding thirty-five
28 thousand dollars and at a rate of one and one-fourth
29 percent of the taxable income exceeding thirty-five
30 thousand dollars but not exceeding forty-five thousand
31 dollars.

32 b. For a married person filing separately, the tax
33 rates are as follows:

34 (1) On all taxable income from zero through two
35 thousand five hundred dollars, three percent.

36 (2) On all taxable income exceeding two thousand
37 five hundred dollars but not exceeding five thousand
38 dollars, four percent.

39 (3) On all taxable income exceeding five thousand
40 dollars, six and one-half percent.

41 In addition to the tax imposed under subparagraphs

42 (1) through (3), an additional tax is imposed on a
43 taxpayer whose taxable income exceeds twelve thousand
44 five hundred dollars at a rate of one and three-
45 fourths percent of the taxable income exceeding twelve
46 thousand five hundred dollars but not exceeding
47 seventeen thousand five hundred dollars and at a rate
48 of one and one-fourth percent of the taxable income
exceeding seventeen thousand five hundred dollars but
not exceeding twenty-two thousand five hundred

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1 dollars."

2 4. Page 4, line 16, by striking the word and
3 figures "6 and 7" and inserting the following: "2, 6,
4 7, and 10".

5 5. Page 4, by inserting after line 17 the
6 following:

7 "2. However, no tax shall be imposed on any
8 resident or nonresident whose net income, as defined
9 in section 422.7, is five seven thousand dollars or
10 less; but in the event that the payment of tax under
11 this division would reduce the net income to less than
12 five seven thousand dollars, then the tax shall be
13 reduced to that amount which would result in allowing
14 the taxpayer to retain a net income of five seven
15 thousand dollars. The preceding sentence does not
16 apply to estates or trusts. For the purpose of this
17 subsection, the entire net income, including any part
18 thereof not allocated to Iowa, shall be taken into
19 account. If the combined net income of a husband and
20 wife exceeds five seven thousand dollars, neither of
21 them shall receive the benefit of this subsection, and
22 it is immaterial whether they file a joint return or
23 separate returns. A person who is claimed as a
24 dependent by another person as defined in section
25 422.12 shall not receive the benefit of this
26 subsection if the person claiming the dependent has
27 net income exceeding five seven thousand dollars or
28 the person claiming the dependent and the person's
29 spouse have combined net income exceeding five seven
30 thousand dollars."

31 6. Page 4, line 48, by striking the word "five"
32 and inserting the following: "five seven".

33 7. Page 5, by inserting after line 10 the
34 following:

35 "10. In addition to the other taxes imposed by
36 this section, a tax is imposed on the amount of a lump
37 sum distribution for which the taxpayer has elected
38 under section 402(e) of the Internal Revenue Code of
39 1954 to be separately taxed for federal income tax
40 purposes for the tax year. The rate of tax is equal
41 to twenty-five percent of the separate federal tax
42 imposed on the amount of the lump sum distribution. A
43 nonresident is liable for this tax only on that
44 portion of the lump sum distribution allocable to
45 Iowa. The total amount of the lump sum distribution
46 subject to separate federal tax shall be included in
47 net income for purposes of determining eligibility
48 under the five seven thousand dollar or less
49 exclusion.

50 Sec. 50. Section 422.7, subsections 6, 8, and 19,

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Code 1987, are amended to read as follows:

6. Individual taxpayers and married taxpayers who file a joint federal income tax return and who elect to file a joint return, or separate returns or separate-filing-on-a-combined-return for Iowa income tax purposes, may avail themselves of the disability income exclusion and shall compute the amount of the disability income exclusion subject to the limitations for joint federal income tax return filers provided by section 105(d) of the Internal Revenue Code of-1954. The disability income exclusion provided in section 105(d) of the Internal Revenue Code of-1954, as amended up to and including December 31, 1982,

continues to apply for state income tax purposes for tax years beginning on or after January 1, 1984.

8. Married taxpayers who file a joint federal income tax return and who elect to file separate returns or-separate-filing-on-a-combined-return for Iowa income tax purposes, may avail themselves of the expensing of business assets and capital loss provisions of sections 179(a) and 1211(b) respectively of the Internal Revenue Code of-1954 and shall compute the amount of expensing of business assets and capital loss subject to the limitations for joint federal income tax return filers provided by sections 179(b) and 1211(b) respectively of the Internal Revenue Code of-1954.

19. Married taxpayers, who file a joint federal income tax return and who elect to file separate returns or-who-elect-separate-filing-on-a-combined return for state income tax purposes, shall include in net income any social security benefits or tier 1 railroad retirement benefits received to the same extent as those benefits are taxable on the taxpayer's joint federal return for that year under section 86 of the Internal Revenue Code of-1954. The benefits included in net income must be allocated between the spouses in the ratio of the social security benefits or tier 1 railroad retirement benefits received by each spouse to the total of these benefits received by both spouses."

8. By striking page 5, line 45 through page 6, line 16 and inserting the following:

"Sec. 51. Section 422.12, subsection 2, unnumbered paragraph 2, Code 1987, is amended to read as follows:
Married taxpayers electing to file separate returns or-filing-separately-on-a-combined-return must allocate the child and dependent care credit to each spouse in the proportion that each spouse's respective net income bears to the total combined net income.

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Taxpayers affected by the allocation provisions of section 422.8 shall be permitted a deduction for the credit only in the amount fairly and equitably allocable to Iowa under rules prescribed by the director.

Sec. 52. Section 422.12, Code 1987, is amended by adding the following new subsections:

NEW SUBSECTION. 4. A two-earner credit for married taxpayers filing jointly. The credit is equal to one percent of the qualified earned income of the spouse with the lower qualified earned income not to exceed fifty dollars. For purposes of this credit the term "qualified earned income" means the same as provided in section 221 of the Internal Revenue Code in effect on December 31, 1986, except that only qualified earned income from Iowa sources shall be considered for the credit. Nonresidents may claim the credit only to the extent that both spouses have qualified earned income from Iowa sources.

NEW SUBSECTION. 5. Upon determination of the latest cumulative inflation factor, the director shall multiply each dollar amount of the personal exemptions set forth in subsection 1 and each dollar amount of the two-earner credit set forth in subsection 4, by this cumulative inflation factor, shall round off the resulting product to the nearest one dollar, and shall incorporate the result into the income tax forms and instructions for each tax year.

Sec. 53. Section 422.13, subsection 1, paragraph b, Code 1987, is amended to read as follows:

b. The individual has net income of ~~four~~ seven thousand dollars or more for the tax year from sources taxable under this division."

9. Page 6, line 19, by striking the figure "1989" and inserting the following: "1988".

10. Page 6, line 25, by striking the word and figure "section 422.5" and inserting the following: "section sections 422.5 and 422.12".

11. Page 8, by striking lines 37 through 44.

12. Page 9, by striking lines 24 through 29 and inserting the following: "that date."

13. Page 9, line 32, by inserting after the figure "12" the following: ", 50, 51, 52, and 53".

14. Page 9, lines 39 and 40, by striking the words "adjusting the allowable growth under the school foundation formula;".

S-3448

Filed April 7, 1987

LOST (p. 1144)

	BY CALVIN O. HULTMAN
RICHARD VANDE HOEF	RICHARD F. DRAKE
LEE W. HOLT	JACK W. HESTER
WILMER RENSINK	NORMAN J. GOODWIN
JULIA GENTLEMAN	JOY C. CORNING
JIM LIND	JOHN W. JENSEN
FORREST SCHWENGELS	

1 Amend the Bruner et al amendment, S-3447, to Senate
2 File 481 as follows:

3 1. Page 8, by inserting after line 15 the
4 following:

5 "Sec. ____ . NEW SECTION. 422B.11 REFUNDS FOR
6 CONSTRUCTION CONTRACTORS.

7 1. Construction contractors may make application
8 to the department of revenue and finance for a refund
9 of the additional local option sales and services tax
10 paid under section 422B.8 by reason of the imposition
11 or increase in the tax rate, as appropriate, for taxes
12 paid on goods, wares, or merchandise under the
13 following conditions:

14 a. The goods, wares, or merchandise are
15 incorporated into an improvement to real estate in
16 fulfillment of a written contract fully executed prior
17 to the imposition or increase in rate, as appropriate.
18 The refund shall not apply to equipment transferred in
19 fulfillment of a mixed construction contract.

20 b. The contractor has paid to the department or to
21 a retailer the full local option sales and services
22 tax.

23 c. The claim is filed on forms provided by the
24 department and is filed within one year of the date
25 the tax is paid.

26 2. A contractor who makes an erroneous application
27 for refund shall be liable for payment of the excess
28 refund paid plus interest at the rate in effect under
29 section 421.7. In addition, a contractor who
30 willfully makes a false application for refund is
31 guilty of a simple misdemeanor and is liable for a
32 penalty equal to fifty percent of the excess refund
33 claimed. Excess refunds, penalties, and interest due
34 under this subsection may be enforced and collected in
35 the same manner as the tax imposed by section 422B.8."

36 2. Page 9, line 39, by inserting after the word
37 "increase" the following: "and as a result of the
38 imposition or increase in a local option sales and
39 services tax".

S-3451

Filed April 7, 1987

BY JOE J. WELSH

WITHDRAWN (p. 1145)

SENATE FILE 481

S-3453

1 Amend the Bruner et al amendment, S-3447, to Senate
2 File 481 as follows:

3 1. By striking page 6, line 30 through page 8,
4 line 36.

5 2. By striking page 8, line 45 through page 9,
6 line 21.

7 3. Page 9, by striking lines 30 and 31.

8 4. Page 9, line 37, by striking the figure "5"
9 and inserting the following: "3".

10 5. Page 9, lines 38 and 39, by striking the words
11 "certain contractors as a result of that increase" and
12 inserting the following: "and personal exemptions and
13 credits".

S-3453

Filed April 7, 1987

BY CALVIN O. HULTMAN

LOST (p. 1145)

SENATE FILE 481

S-3450

1 Amend the Bruner et al amendment, S-3447, to Senate
2 File 481 as follows:

3 1. Page 6, by inserting after line 16 the
4 following:

5 "Sec. 60. Section 422.16, subsection 1, unnumbered
6 paragraph 1, Code 1987, is amended to read as follows:

7 Every withholding agent and every employer as
8 defined in this chapter and further defined in the
9 Internal Revenue Code ~~of-1954~~, with respect to income
10 tax collected at source, making payment of wages to a
11 nonresident employee working in Iowa, or to a resident
12 employee, shall deduct and withhold from the wages an
13 amount which will approximate the employee's annual
14 tax liability on a calendar year basis, calculated on
15 the basis of tables to be prepared by the department
16 and schedules or percentage rates, based on the wages,
17 to be prescribed by the department. Every employee or
18 other person shall declare to the employer or
19 withholding agent the number of the employee's or
20 other person's personal exemptions and dependency
21 exemptions or credits to be used in applying the
22 tables and schedules or percentage rates. However, no
23 greater number of personal or dependency exemptions or
24 credits may be declared by the employee or other
25 person than the number to which the employee or other
26 person is entitled except as allowed under section
27 3402(m)(1) of the Internal Revenue Code ~~of-1954~~ or is
28 allowed under rules prescribed by the director for
29 payments of alimony or separate maintenance. The
30 claiming of exemptions, alimony or separate
31 maintenance payments, or credits in excess of
32 entitlement is a serious misdemeanor."

33 2. Page 9, line 32, by inserting before the word
34 "of" the following: ", and 60".

35 3. Page 9, by inserting after line 36 the
36 following:

37 " . Title page, line 2, by inserting after the
38 word "rates," the following: "withholding,"."

S-3450

Filed April 7, 1987

BY JOY C. CORNING

ADOPTED (p. 1145)

STATE OF IOWA

FISCAL NOTE TO

LSB No. 2743S
Staff ID. RJH

Q. BY SENATOR BRUNER

SENATE FILE 481

In compliance with a written request received March 23, 1987, a fiscal note for SENATE FILE 481 is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note are available from the Legislative Fiscal Bureau to members of the Legislature upon request.

SENATE FILE 481 makes several changes to state tax revenues and expenditures. The bill (1) alters the personal exemptions, standard deductions, and tax rates of the individual income tax; (2) increases the state sales, services and use tax by one cent; (3) adjusts the homestead and elderly and disabled property tax credits; (4) decreases the school foundation property tax levy, and (5) changes the provision for allowable growth and state aid under the school foundation formula.

The bill also specifies the rate of the cigarette and tobacco products taxes, states when the taxes may be altered, and provides for the imposition of an inventory tax on cigarettes and tobacco products. Senate File 481 also provides for certain contractors to receive refunds as a result of the sales, services and use tax increase. The bill also updates references to the federal Internal Revenue Code.

INDIVIDUAL INCOME TAX

Tax rates--For tax year 1987, the following tax rates and taxable income brackets apply under Senate File 481:

SINGLE TAXPAYERS		MARRIED JOINT		MARRIED SEPARATE	
Taxable Income	Rate	Taxable Income	Rate	Taxable Income	Rate
\$ 0 - 3,000	3%	\$ 0 - 4,500	3%	\$ 0 - 2,250	3%
3 - 12,000	5	4,500 - 18,000	5	2,250 - 9,000	5
above 12,000	7.9	above 18,000	7.9	above 9,000	7.9

For tax year 1988 and subsequent tax years, the following tax rates and taxable income brackets apply:

SINGLE TAXPAYERS		MARRIED JOINT		MARRIED SEPARATE	
Taxable Income	Rate	Taxable Income	Rate	Taxable Income	Rate
\$ 0 - 2,000	3%	\$ 0 - 3,000	3%	\$ 0 - 1,500	3%
2 - 10,000	5	3 - 15,000	5	1,500 - 7,500	5
above 10,000	7.9	above 15,000	7.9	above 7,500	7.9

Sections 12 through 15 of the bill provide that the standard deduction and the personal exemption for Iowa purposes will be the same as the federal standard deduction and personal exemption. For the 1987 tax year, the standard deduction will be \$3,800 on a joint return and \$2,570 for an unmarried individual; for tax year 1988 and beyond, the amounts are \$5,000 and \$3,000, respectively.

Under section 16 of Senate File 481, certain taxpayers are eligible for an income tax credit based on the amount of property tax paid (in the case of a homeowner), or on the amount of rent actually paid for the homestead (in the case of a renter).

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Fiscal Effect. The impact of the individual income tax changes is summarized below.

	General Fund Impact, millions	
	<u>FY 1988</u>	<u>FY 1989</u>
Tax rate changes	\$ 13.0	\$ 18.3
Federal deductibility transition	(30.0)	
Homeowner/renter credit	(18.0)	(22.0)
	=====	=====
Net effect	\$(35.0)	\$(4.0)

SALES TAX

Sections 18 through 20 of Senate File 481 increase the state sales, services and use tax from four percent to five percent. Construction contractors may apply to the Department of Revenue and Finance for a refund of the additional tax paid under certain conditions; the fiscal effect of this provision is unknown.

Fiscal Effect. The increase in the sales and services tax is expected to increase General Fund revenues by approximately \$195 million for FY 1988. Of this amount, it is estimated that \$15 million is attributable to the June 1, 1987 effective date of the tax increase.

Road use tax fund: By increasing the use tax by one cent, an estimated \$20 million in additional revenue will be deposited into the road use tax fund in FY 1988, and an additional \$21 million will be deposited in FY 1989.

HOMESTEAD, ELDERLY PROPERTY TAX CREDIT

Sections 11 and 22 of the bill make adjustments to the homestead property tax credit and the elderly and disabled property tax credit under chapter 425 of the Code. The bill restricts the homestead credit given if the actual value of the homestead is equal to or exceeds \$75,000 as follows:

ACTUAL VALUE OF HOMESTEAD	PERCENTAGE OF AMOUNT OF HOMESTEAD CREDIT
\$ 75,000 - 99,999.99	75%
100,000 - 124,999.99	50
125,000 - 149,999.99	25
150,000 and over	0

The elderly and disabled property tax credit is expanded so that taxpayers with household income under \$14,000 qualify for the credit. In addition, the percentage of property taxes due or rent constituting property taxes paid which is allowed as a credit or reimbursement is changed to reflect a 10 percentage point decrease as qualified household income increases.

Fiscal Effect. The phase out of the homestead property tax credit is

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LSB No. 2743S
Staff ID. RJH

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estimated to save \$2 million in General Fund revenue in FY 1989, while the adjustments in the elderly and disabled property tax credit will increase General Fund expenditures by approximately \$5 million in FY 1989.

SCHOOL FOUNDATION FORMULA

Sections 23 through 26 of the bill make certain changes to the school foundation formula used to finance local school districts. Beginning in FY 1989, the foundation property tax levied on agricultural, commercial, railroad, and residential property is reduced from \$5.40 per \$1,000 of assessed valuation to \$5.00 per \$1,000 of assessed valuation. The state foundation base is frozen, beginning in FY 1988, at 81.5 percent of the state cost per pupil.

Fiscal Effect. For FY 1989, it is estimated that approximately \$25 million in additional General Fund expenditures will be needed to fund the reduction in the foundation property tax; freezing the state foundation base is expected to reduce General Fund expenditures by \$8 million during FY 1989.

SENATE FILE 481, GENERAL FUND ESTIMATE OF FISCAL EFFECT

Assumptions

1. Full "coupling" with the tax law changes made in the Tax Reform Act of 1986 is assumed.
2. Federal deductibility is disallowed.
3. Married filing separately on a combined return is disallowed.
4. The minimum adjusted gross income exemption is disallowed.
5. A two-earner tax credit is not included in the estimate.
6. The sales and use tax base, independent of the June 1 rate change, is estimated to increase at a three percent annual rate between FY 1988 and FY 1989.

	General Fund Impact, millions	
	<u>FY 1988</u>	<u>FY 1989</u>
Tax rate changes	\$ 13.0	\$ 18.3
Federal deductibility transition	(30.0)	
Homeowner/renter credit	(18.0)	(22.0)
Coupling revenue:		
Prior year effect	9.0	
Corporate income tax	15.0	15.0

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Property tax impacts:		
Elderly tax credit		(5.0)
Foundation levy reduction		(25.0)
State foundation base		8.0
Homestead credit phase out		2.0
Sales and use tax	195.0	185.4
	=====	=====
Total	184.0	176.7
Less coupling impact	170.3	161.3
	=====	=====
NET EFFECT	\$ 13.7	\$ 15.4

SOURCE: Department of Revenue and Finance

(LSB 2743S, RJH)

Dennis Chouty
 Fiscal Director
 Legislative Fiscal Bureau
 Date: 3/25/87

Filed by the Sec. of the Senate March 26, 1987

STATE OF IOWA

FISCAL NOTE TO

LSB No. 2743S.2
Staff ID. RJH

BY SENATOR HULTMAN AMENDMENT S-3277 TO SENATE FILE 481

In compliance with a written request received March 27, 1987, a fiscal note for AMENDMENT S-3277 TO SENATE FILE 481 is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note are available from the Legislative Fiscal Bureau to members of the Legislature upon request.

Senate Amendment S-3277 to Senate File 481 makes several changes to the bill. Beginning in tax year 1987, taxable income brackets and tax rates are as follows for all taxpayers:

<u>Taxable income</u>	<u>Rate (%)</u>
\$ 0 - 5,000	3.00
5,000 - 10,000	4.00
10,000 - 25,000	6.50
25,000 - 35,000	8.25
35,000 - 45,000	7.75
above \$45,000	6.50

The amendment also adds a two-earner credit for married taxpayers who file a joint return equal to one percent of the qualified earned income of the spouse with the lower qualified earned income not to exceed \$50. Senate Amendment S-3277 also increases the minimum adjusted gross income exemption from \$5,000 to \$7,000, and retains the standard deduction and personal exemption credits allowed under current law on the Iowa return.

Federal income taxes would continue to be deductible on the Iowa return under Senate Amendment S-3277. The amendment also removes the homestead tax credit phase out and the homeowner-renter income tax credit from the bill.

Senate Amendment S-3277 strikes the increase in the sales, services, and use tax from Senate File 481. The amendment removes the school foundation property tax levy reduction from the bill, and the state foundation base would continue to increase by one-half of one percent to a maximum of 85 percent of the state cost per pupil.

GENERAL FUND ESTIMATE OF FISCAL EFFECT

Assumptions

1. Full "coupling" with the tax law changes made in the Tax Reform Act of 1986 is assumed.
2. Federal deductibility is disallowed under Senate File 481.
3. Married filing separately on a combined return is disallowed.
4. The minimum adjusted gross income exemption is disallowed under Senate File 481.
5. The effect of the tax rate changes under Senate Amendment S-3277 is assumed to be the same in FY 1988 and FY 1989.

STATE OF IOWA
FISCAL NOTE

LSB No. 2743S.2
Staff ID. RJH

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General Fund Impact, millions

	FY 1988		FY 1989	
	SF 481	S-3277	SF 481	S-3277
Tax rate changes	\$ 13.0	(1.4)	18.3	(1.4)
Federal deductibility transition	(30.0)	0.0	0.0	0.0
Homeowner-renter credit	(18.0)	0.0	(22.0)	0.0
Coupling revenue:				
Prior year effect	9.0	9.0	0.0	0.0
Corporate impact	15.0	15.0	15.0	15.0
Property tax impacts:				
Elderly tax credit	0.0	0.0	(5.0)	0.0
Foundation levy reduction	0.0	0.0	(25.0)	0.0
State foundation base	0.0	0.0	8.0	(8.0)
Homestead credit phase out	0.0	0.0	2.0	0.0
Sales and use tax	195.0	0.0	185.4	0.0
	=====	===	=====	===
Total	184.0	22.6	176.7	5.6
Less coupling impact	170.3	170.3	161.3	161.3
	=====	=====	=====	=====
NET EFFECT	13.7	(147.7)	15.4	(155.7)
	=====	=====	=====	=====

SOURCE: Department of Revenue and Finance

(LSB 2743S.2, RJH)

Dennis A. Prouty
Fiscal Director
Legislative Fiscal Bureau
Date: 4/6/87

Filed by the Sec. of the Senate April 7, 1987

SENATE FILE 481
AS AMENDED BY SENATE
FISCAL NOTE

REQUESTED BY REPRESENTATIVE DODERER

In compliance with a written request received April 8, 1987, a fiscal note for **SENATE FILE 481 AS AMENDED AND PASSED BY THE SENATE** is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note are available from the Legislative Fiscal Bureau to members of the Legislature upon request.

SENATE FILE 481 as amended, passed, and reprinted by the Senate makes several changes to state tax revenues and expenditures. The bill alters the personal exemptions, standard deductions, withholding, and tax rates of the individual income tax. Senate File 481 also increases the state sales, services and use tax by one cent.

Senate File 481 also provides for certain contractors to receive refunds as a result of the sales, services and use tax increase. The bill also updates references to the federal Internal Revenue Code. The bill allows taxpayers to deduct federal taxes paid from the Iowa return.

INDIVIDUAL INCOME TAX

Assumptions

1. Federal deductibility is allowed.
2. Married filing separately on a combined return is disallowed.
3. The minimum adjusted gross income exemption is disallowed.

Tax rates--For tax year 1987, the following tax rates and taxable income brackets apply under Senate File 481:

SINGLE TAXPAYERS		MARRIED JOINT		MARRIED SEPARATE	
Taxable Income	Rate	Taxable Income	Rate	Taxable Income	Rate
\$ 0 - 3,000	4%	\$ 0 - 4,500	4%	\$ 0 - 2,250	4%
3 - 11,000	6	4,500 - 16,500	6	2,250 - 8,250	6
above 11,000	10.5	above 16,500	10.5	above 8,250	10.5

For tax year 1988 and subsequent tax years, the following tax rates and taxable income brackets apply:

SINGLE TAXPAYERS		MARRIED JOINT		MARRIED SEPARATE	
Taxable Income	Rate	Taxable Income	Rate	Taxable Income	Rate
\$ 0 - 2,000	4%	\$ 0 - 3,000	4%	\$ 0 - 1,500	4%
2 - 11,000	6	3 - 16,500	6	1,500 - 8,250	6
above 11,000	10.5	above 16,500	10.5	above 8,250	10.5

Sections 9 and 10 of the bill provide that the standard deduction and the personal exemption for Iowa purposes will be the same as the federal standard deduction and personal exemption. For the 1987 tax year, the standard deduction will be \$3,800 on a joint return and \$2,570 for an unmarried individual; for tax year 1988 and beyond, the amounts are \$5,000 and \$3,000, respectively.

Page Two, Fiscal Note, Senate File 481 as amended by the Senate

Fiscal Effect. Under current law, individual income tax liability is estimated to be \$846.9 million for tax year 1987. Total individual income tax liability under Senate File 481 is estimated to be \$838.5 million for tax year 1987, a decrease of \$8.4 million.

SALES TAX

Sections 14 through 16 of Senate File 481 increase the state sales, services and use tax from four percent to five percent. Construction contractors may apply to the Department of Revenue and Finance for a refund of the additional tax paid under certain conditions; the fiscal effect of this provision is unknown.

Fiscal Effect. The increase in the sales and services tax is expected to increase General Fund revenues by approximately \$195 million for FY 1988. Of this amount, it is estimated that \$15 million is attributable to the June 1, 1987 effective date of the tax increase.

Road use tax fund: By increasing the use tax by one cent, an estimated \$20 million in additional revenue will be deposited into the road use tax fund in FY 1988, and an additional \$21 million will be deposited in FY 1989.

SOURCE: Department of Revenue and Finance

(LSB 2743S.3, RJH)

FILED APRIL 14, 1987

BY DENNIS PROUTY, FISCAL DIRECTOR

SENATE FILE 481
BY COMMITTEE ON WAYS AND MEANS

(AS AMENDED AND PASSED BY THE SENATE APRIL 7, 1987)

ALL New Language by the Senate

Passed Senate, Date See below Passed House, Date 4-15-87 (p. 1444)
Vote: Ayes _____ Nays _____ Vote: Ayes 62 Nays 37
Approved June 4, 1987

A BILL FOR

1 An Act relating to state tax revenues and expenditures by
2 altering the individual income tax rates, withholding,
3 standard deductions, and personal exemptions and credits;
4 increasing the state sales, services, and use tax and
5 providing for refunds for certain contractors as a result of
6 that increase; adjusting the allowable growth under the school
7 foundation formula; and providing effective dates.

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

9 Conference Committee appointed 4/21/87
10 Representatives Loderer (Chair), Brammer, Carpenter, Esterberg, Schuelke (p. 1540)
11 Senators Bruner (Chair), Hultman, Drake, Smeal, Kinley (p. 1434)

12
13 Second Conference Committee
14 Senators Bruner (Chair), Murphy, Kinley, Redinger, Heeter 5/2/87 (p. 1802)
15 Representatives Loderer (Chair), Brammer, Esterberg, Bennett, Metcalf (p. 222)

16 Passed per Conference Committee Report
17 Senate 5/9/87 (p. 1838) House 5/9/87 (p. 2284)
18 42-0 79-16

19
20
21
22
23

1 Section 1. Section 422.3, subsection 5, Code 1987, is
2 amended by striking the subsection and inserting in lieu
3 thereof the following:

4 5. "Internal Revenue Code" means the Internal Revenue Code
5 of 1954, prior to the date of its redesignation as the
6 Internal Revenue Code of 1986 by the Tax Reform Act of 1986,
7 or means the Internal Revenue Code of 1986 as amended to and
8 including January 1, 1987, whichever is applicable.

9 Sec. 2. Section 422.4, subsection 17, Code 1987, is
10 amended to read as follows:

11 17. a. ~~"Annual inflation factor" means an index,~~
12 ~~expressed as a percentage, determined by the department each~~
13 ~~year to reflect the purchasing power of the dollar as a result~~
14 ~~of inflation during the preceding calendar year. For the 1981~~
15 ~~and subsequent calendar years, "annual inflation factor" means~~
16 an index, expressed as a percentage, determined by the
17 department by October 15 of the calendar year preceding the
18 calendar year for which the factor is determined to reflect
19 the purchasing power of the dollar as a result of inflation
20 during the fiscal year ending in the calendar year preceding
21 the calendar year for which the factor is determined. In
22 determining the annual inflation factor, the department shall
23 use the annual percent change, but not less than zero percent,
24 in the implicit price deflator for the gross national product
25 computed ~~for the whole calendar year or for the second quarter~~
26 ~~of the calendar year, in the case of the annual inflation~~
27 ~~factor for the 1981 and subsequent calendar years,~~ by the
28 bureau of economic analysis of the United States department of
29 commerce and shall add two-fourths ~~for the 1980 and subsequent~~
30 ~~calendar years~~ of that percent change to one hundred percent.
31 ~~The annual inflation factor for the 1979 calendar year is one~~
32 ~~hundred two point three percent.~~ The annual inflation factor
33 and the cumulative inflation factor shall each be expressed as
34 a percentage rounded to the nearest one-tenth of one percent.
35 The annual inflation factor shall not be less than one hundred

1 percent.

2 b. "Cumulative inflation factor" means the product of the
3 annual inflation factor for the ~~1978~~ 1988 calendar year and
4 all annual inflation factors for subsequent calendar years as
5 determined pursuant to this subsection. The cumulative
6 inflation factor applies to all tax years beginning on or
7 after January 1 of the calendar year for which the latest
8 annual inflation factor has been determined.

9 c. The annual inflation factor for the ~~1978~~ 1988 calendar
10 year is one hundred percent.

11 d. Notwithstanding the computation of the annual inflation
12 factor under paragraph "a" ~~of this subsection~~, the annual
13 inflation factor is one hundred percent for any calendar year
14 in which the unobligated state general fund balance on June 30
15 ~~as certified by the director of revenue and finance by~~
16 ~~September 10 of the fiscal year beginning in that calendar~~
17 ~~year is less than sixty million dollars. -- However, for the~~
18 ~~1981 and subsequent calendar years, the annual inflation~~
19 ~~factor is one hundred percent for any calendar year if the~~
20 ~~unobligated state general fund balance on June 30 of the~~
21 ~~calendar year preceding the calendar year for which the factor~~
22 ~~is determined~~, as certified by the director of revenue and
23 finance by October 10, is less than sixty million dollars.

24 Sec. 3. Section 422.5, subsection 1, paragraphs a through
25 m, Code 1987, are amended by striking the paragraphs and
26 inserting in lieu thereof the following:

27 a. For a single person other than a head of household, the
28 tax rates are as follows:

29 (1) On all taxable income from zero through three thousand
30 dollars, four percent.

31 (2) On all taxable income exceeding three thousand dollars
32 but not exceeding eleven thousand dollars, six percent.

33 (3) On all taxable income exceeding eleven thousand
34 dollars, ten and one-half percent.

35 b. For a married couple filing jointly, a surviving

1 spouse, a qualifying widow, and a head of household, the tax
2 rates are as follows:

3 (1) On all taxable income from zero through four thousand
4 five hundred dollars, four percent.

5 (2) On all taxable income exceeding four thousand five
6 hundred dollars but not exceeding sixteen thousand five
7 hundred dollars, six percent.

8 (3) On all taxable income exceeding sixteen thousand five
9 hundred dollars, ten and one-half percent.

10 c. For a married person filing separately, an estate, and
11 a trust, the tax rates are as follows:

12 (1) On all taxable income from zero through two thousand
13 two hundred fifty dollars, four percent.

14 (2) On all taxable income exceeding two thousand two
15 hundred fifty dollars but not exceeding eight thousand two
16 hundred fifty dollars, six percent.

17 (3) On all taxable income exceeding eight thousand two
18 hundred fifty dollars, ten and one-half percent.

19 The tax rates and bracket amounts in paragraphs "a" through
20 "c" are effective for tax years beginning on or after January
21 1, 1987 but before January 1, 1988.

22 Sec. 4. Section 422.5, subsection 1, paragraphs a through
23 m, Code 1987, are amended by striking the paragraphs and
24 inserting in lieu thereof the following:

25 a. For a single person other than a head of household, the
26 tax rates are as follows:

27 (1) On all taxable income from zero through two thousand
28 dollars, four percent.

29 (2) On all taxable income exceeding two thousand dollars
30 but not exceeding eleven thousand dollars, six percent.

31 (3) On all taxable income exceeding eleven thousand
32 dollars, ten and one-half percent.

33 b. For a married couple filing jointly, a surviving
34 spouse, a qualifying widow, and a head of household, the tax
35 rates are as follows:

1 (1) On all taxable income from zero through three thousand
2 dollars, four percent.

3 (2) On all taxable income exceeding three thousand dollars
4 but not exceeding sixteen thousand five hundred dollars, six
5 percent.

6 (3) On all taxable income exceeding sixteen thousand five
7 hundred dollars, ten and one-half percent.

8 c. For a married person filing separately, an estate, and
9 a trust, the tax rates are as follows:

10 (1) On all taxable income from zero through one thousand
11 five hundred dollars, four percent.

12 (2) On all taxable income exceeding one thousand five
13 hundred dollars but not exceeding eight thousand two hundred
14 fifty dollars, six percent.

15 (3) On all taxable income exceeding eight thousand two
16 hundred fifty dollars, ten and one-half percent.

17 The tax rates and bracket amounts in paragraph "a" through
18 "c" are effective for tax years beginning on or after January
19 1, 1988.

20 Sec. 5. Section 422.5, subsection 1, paragraph n, Code
21 1987, is amended to read as follows:

22 n d. The tax imposed upon the taxable income of a
23 nonresident shall be computed by reducing the amount
24 determined pursuant to paragraphs "a" through "m" "c" by the
25 amounts of nonrefundable credits under this division and by
26 multiplying this resulting amount by a fraction of which the
27 nonresident's net income allocated to Iowa, as determined in
28 section 422.8, subsection 2, is the numerator and the
29 nonresident's total net income computed under section 422.7 is
30 the denominator. This provision also applies to individuals
31 who are residents of Iowa for less than the entire tax year.

32 Sec. 6. Section 422.5, subsection 1, paragraph o,
33 unnumbered paragraph 1, Code 1987, is amended to read as
34 follows:

35 There is imposed upon every resident and nonresident of

1 this state, including estates and trusts, the greater of the
2 tax determined in paragraphs "a" through "n" "d" or the state
3 alternative minimum tax equal to nine percent of the state
4 alternative minimum taxable income of the taxpayer as computed
5 under this paragraph.

6 Sec. 7. Section 422.5, subsections 6 and 7, Code 1987, are
7 amended to read as follows:

8 6. A person who is disabled, is sixty-two years of age or
9 older or is the surviving spouse of an individual or survivor
10 having an insurable interest in an individual who would have
11 qualified for the exemption under this paragraph for this tax
12 year and receives one or more annuities from the United States
13 civil service retirement and disability trust fund, and whose
14 net income, as defined in section 422.7, is sufficient to
15 require that the tax be imposed upon it under this section,
16 may determine final taxable income for purposes of imposition
17 of the tax by excluding the amount of annuities received from
18 the United States civil service retirement and disability
19 trust fund, which are not already excluded in determining net
20 income, as defined in section 422.7, up to a maximum each tax
21 year of five thousand five-hundred six hundred twenty-seven
22 dollars for a person who files a separate state income tax
23 return and eight thousand one hundred eighty-four dollars
24 total for a husband and wife who file a joint state income tax
25 return. However, a surviving spouse who is not disabled or
26 sixty-two years of age or older can only exclude the amount of
27 annuities received as a result of the death of the other
28 spouse. The amount of the exemption shall be reduced by the
29 amount of any social security benefits received. For the
30 purpose of this section, the amount of annuities received from
31 the United States civil service retirement and disability
32 trust fund taxable under the Internal Revenue Code of 1954
33 shall be included in net income for purposes of determining
34 eligibility under the five thousand dollar or less exclusion.

35 7. Upon determination of the latest cumulative inflation

1 factor, the director shall multiply each dollar amount set
2 forth in subsection 1, paragraphs "a" through "c" of this
3 section, and each dollar amount specified in this section as
4 the maximum amount of annuities received which may be excluded
5 in determining final taxable income, by this cumulative
6 inflation factor, shall round off the resulting product to the
7 nearest one dollar, and shall incorporate the result into the
8 income tax forms and instructions for each tax year.

9 Sec. 8. Section 422.8, subsection 2, Code 1987, is amended
10 to read as follows:

11 2. Nonresident's net income allocated to Iowa is the net
12 income, or portion thereof, which is derived from a business,
13 trade, profession, or occupation carried on within this state
14 or income from any property, trust, estate, or other source
15 within Iowa. If any business, trade, profession, or
16 occupation is carried on partly within and partly without the
17 state, only the portion of the net income which is fairly and
18 equitably attributable to that part of the business, trade,
19 profession, or occupation carried on within the state is
20 allocated to Iowa for purposes of section 422.5, subsection 1,
21 paragraph "d" and section 422.13 and income from any
22 property, trust, estate, or other source partly within and
23 partly without the state is allocated to Iowa in the same
24 manner, except that annuities, interest on bank deposits and
25 interest-bearing obligations, and dividends are allocated to
26 Iowa only to the extent to which they are derived from a
27 business, trade, profession, or occupation carried on within
28 the state. However, income received by an individual who is a
29 resident of another state is not allocated to Iowa if the
30 income is subject to an income tax imposed by the state where
31 the individual resides, and if the state of residence allows a
32 similar exclusion for income received in that state by
33 residents of Iowa. In order to implement the exclusions, the
34 director shall designate by rule the states which allow a
35 similar exclusion for income received by residents of Iowa,

1 and may enter into agreements with other states to provide
2 that similar exclusions will be allowed, and to provide
3 suitable withholding requirements in each state.

4 Sec. 9. Section 422.9, subsection 1, unnumbered paragraph
5 1, Code 1987, is amended by striking the paragraph and
6 inserting in lieu thereof the following:

7 For a single person who is not a head of household, a
8 married couple filing jointly, a surviving spouse, a
9 qualifying widow, a head of household, or a married person
10 filing separately an optional standard deduction equal to the
11 amount of the standard deduction determined under section
12 63(c) of the Internal Revenue Code for that filing status. In
13 addition to the optional standard deduction, the individual
14 may deduct the amount of federal income tax.

15 Sec. 10. Section 422.9, Code 1987, is amended by adding
16 after subsection 2 the following new subsection and
17 renumbering the other subsections:

18 NEW SUBSECTION. 3. In addition to the amount deducted
19 under subsection 1 or 2, the taxpayer may deduct the amount of
20 the applicable personal exemptions allowed under section 151
21 or 642(b) of the Internal Revenue Code.

22 Sec. 11. Section 422.12, subsection 1, Code 1987, is
23 amended by striking the subsection.

24 Sec. 12. Section 422.16, subsection 1, unnumbered
25 paragraph 1, Code 1987, is amended to read as follows:

26 Every withholding agent and every employer as defined in
27 this chapter and further defined in the Internal Revenue Code
28 of 1954, with respect to income tax collected at source,
29 making payment of wages to a nonresident employee working in
30 Iowa, or to a resident employee, shall deduct and withhold
31 from the wages an amount which will approximate the employee's
32 annual tax liability on a calendar year basis, calculated on
33 the basis of tables to be prepared by the department and
34 schedules or percentage rates, based on the wages, to be
35 prescribed by the department. Every employee or other person

1 shall declare to the employer or withholding agent the number
2 of the employee's or other person's personal exemptions and
3 dependency exemptions or credits to be used in applying the
4 tables and schedules or percentage rates. However, no greater
5 number of personal or dependency exemptions or credits may be
6 declared by the employee or other person than the number to
7 which the employee or other person is entitled except as
8 allowed under section 3402(m)(1) of the Internal Revenue Code
9 of 1954 or is allowed under rules prescribed by the director
10 for payments of alimony or separate maintenance. The claiming
11 of exemptions, alimony or separate maintenance payments, or
12 credits in excess of entitlement is a serious misdemeanor.

13 Sec. 13. Section 422.21, unnumbered paragraph 4, Code
14 1987, is amended to read as follows:

15 The director shall determine for the ~~1979~~ 1989 and
16 subsequent calendar years the annual and cumulative inflation
17 factors for those calendar years to be applied to tax years
18 beginning on or after January 1 of that calendar year. The
19 director shall compute the new dollar amounts as specified
20 therein to be adjusted in section 422.5 by the latest
21 cumulative inflation factor and round off the result to the
22 nearest one dollar. The annual and cumulative inflation
23 factors determined by the director are not rules as defined in
24 section 17A.2, subsection 7.

25 Sec. 14. Section 422.43, subsections 1, 2, 6, and 10, Code
26 1987, are amended to read as follows:

27 1. There is imposed a tax of ~~four~~ five percent upon the
28 gross receipts from all sales of tangible personal property,
29 consisting of goods, wares, or merchandise, except as
30 otherwise provided in this division, sold at retail in the
31 state to consumers or users; a like rate of tax upon the gross
32 receipts from the sales, furnishing or service of gas,
33 electricity, water, heat, and communication service, including
34 the gross receipts from such sales by any municipal
35 corporation furnishing gas, electricity, water, heat, and

1 communication service to the public in its proprietary
2 capacity, except as otherwise provided in this division, when
3 sold at retail in the state to consumers or users; a like rate
4 of tax upon the gross receipts from all sales of tickets or
5 admissions to places of amusement, fairs, and athletic events
6 except those of elementary and secondary educational
7 institutions; and a like rate of tax upon that part of private
8 club membership fees or charges paid for the privilege of
9 participating in any athletic sports provided club members.

10 2. There is imposed a tax-of-four-percent like rate of tax
11 upon the gross receipts derived from the operation of all
12 forms of amusement devices and games of skill, games of
13 chance, raffles, and bingo games as defined in chapter 99B,
14 operated or conducted within the state of Iowa, the tax to be
15 collected from the operator in the same manner as is provided
16 for the collection of taxes upon the gross receipts of tickets
17 or admission fees as provided in this section. The tax shall
18 also be imposed upon the gross receipts derived from the sale
19 of lottery tickets or shares pursuant to chapter 99E. The tax
20 on the lottery tickets or shares shall be included in the
21 sales price and distributed to the general fund as provided in
22 section 99E.10.

23 6. There is imposed a tax-of-four-percent like rate of tax
24 upon the gross receipts from the sales of optional service or
25 warranty contracts which provide for the furnishing of labor
26 and materials and require the furnishing of any taxable
27 service enumerated under this section. The gross receipts are
28 subject to tax even if some of the services furnished are not
29 enumerated under this section. For the purpose of this
30 division, the sale of an optional service or warranty contract
31 is a sale of tangible personal property. Additional sales,
32 services, or use tax shall not be levied on services, parts,
33 or labor provided under optional service or warranty contracts
34 which are subject to tax under this section.

35 10. There is imposed a tax of four five percent upon the

1 gross receipts from the rendering, furnishing, or performing
2 of services as defined in section 422.42.

3 Sec. 15. Section 422.47, Code 1987, is amended by adding
4 the following new subsection:

5 NEW SUBSECTION. Construction contractors may make
6 application to the department for a refund of the additional
7 one percent tax paid under this division or the additional one
8 percent tax paid under chapter 423 by reason of the increase
9 in the tax from four to five percent for taxes paid on goods,
10 wares, or merchandise under the following conditions:

11 a. The goods, wares, or merchandise are incorporated into
12 an improvement to real estate in fulfillment of a written
13 contract fully executed prior to June 1, 1987. The refund
14 shall not apply to equipment transferred in fulfillment of a
15 mixed construction contract.

16 b. The contractor has paid to the department or to a
17 retailer the full five percent tax.

18 c. The claim is filed on forms provided by the department
19 and is filed within one year of the date the tax is paid.

20 A contractor who makes an erroneous application for refund
21 is liable for payment of the excess refund paid plus interest
22 at the rate in effect under section 421.7. In addition, a
23 contractor who willfully makes a false application for refund
24 is guilty of a simple misdemeanor and is liable for a penalty
25 equal to seventy-five percent of the excess refund claimed.
26 Excess refunds, penalties, and interest due under this
27 subsection may be enforced and collected in the same manner as
28 the tax imposed by this division.

29 Sec. 16. Section 423.2, Code 1987, is amended to read as
30 follows:

31 423.2 IMPOSITION OF TAX.

32 An excise tax is imposed on the use in this state of
33 tangible personal property purchased for use in this state, at
34 the rate of ~~four~~ five percent of the purchase price of the
35 property. The excise tax is imposed upon every person using

1 the property within this state until the tax has been paid
2 directly to the county treasurer or the state department of
3 transportation, to a retailer, or to the department. An
4 excise tax is imposed on the use in this state of services
5 enumerated in section 422.43 at the rate of four five percent.
6 This tax is applicable where if services are rendered,
7 furnished, or performed in this state or where if the product
8 or result of the service is used in this state. This tax is
9 imposed on every person using the services or the product of
10 the services in this state until the user has paid the tax
11 either to an Iowa use tax permit holder or to the department.

12 Sec. 17. Section 442.7, subsection 1, paragraph a, Code
13 1987, is amended by adding the following new unnumbered
14 paragraph:

15 NEW UNNUMBERED PARAGRAPH. However, the computation in
16 determining the state percent of growth shall not include
17 revenues generated as a result of state tax increases or
18 increased revenues resulting from reduced federal taxes.

19 Sec. 18. This section applies in regard to the increase in
20 the state sales, services, and use tax from four to five
21 percent under sections 14 and 16. The use tax rate of five
22 percent applies to motor vehicles subject to registration
23 which are registered on or after June 1, 1987. The five
24 percent use tax rate will apply to the use of property when
25 the first taxable use in this state occurs on or after June 1,
26 1987. The five percent rate will apply to the gross receipts
27 from the sale, furnishing, or service of gas, electricity,
28 water, heat, and communication service if the date of billing
29 the customer is on or after June 1, 1987. In the case of a
30 service contract entered into prior to June 1, 1987 which
31 contract calls for periodic payments, the five percent rate
32 will apply to those payments made or due on or after June 1,
33 1987. This periodic payment would apply, but not be limited
34 to, tickets of admissions, private club membership fees,
35 sources of amusement, equipment rental, dry cleaning, reducing

1 salons, dance schools, and all other services subject to tax,
2 except the aforementioned utility services which are subject
3 to a special transitional rule. Unlike periodic payment under
4 service contracts, installments sales of goods, wares, and
5 merchandise are subject to the full amount of sales or use tax
6 when the sales contract is entered into or the property is
7 used in Iowa.

8 Sec. 19. Section 3 of this Act is retroactive to January
9 1, 1987 for tax years beginning on or after that date but
10 before January 1, 1988. Section 3 of this Act is repealed
11 January 1, 1988 for tax years beginning on or after that date.

12 Sec. 20. Section 4 of this Act is effective January 1,
13 1988 for tax years beginning on or after that date.

14 Sec. 21. Sections 14 through 16 and section 18 of this Act
15 are effective June 1, 1987.

16 Sec. 22. Sections 1, 2, and 5 through 13 of this Act are
17 retroactive to January 1, 1987 for tax years beginning on or
18 after that date.

19 Sec. 23. This Act, being deemed of immediate importance is
20 effective upon enactment.

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SENATE FILE 481

H-3736

1 Amend Senate File 481, as amended, passed, and re-
2 printed by the Senate, as follows:

3 1. By striking everything after the enacting
4 clause and inserting the following:

5 "Section 1. Section 422.3, subsection 5, Code
6 1987, is amended by striking the subsection and
7 inserting in lieu thereof the following:

8 5. "Internal Revenue Code" means the Internal
9 Revenue Code of 1954, prior to the date of its
10 redesignation as the Internal Revenue Code of 1986 by
11 the Tax Reform Act of 1986, or means the Internal
12 Revenue Code of 1986 as amended to and including
13 January 1, 1987, whichever is applicable.

14 Sec. 2. Section 422.4, subsection 17, Code 1987,
15 is amended to read as follows:

16 17. a. "Annual inflation factor" means ~~an index,~~
17 ~~expressed as a percentage, determined by the~~
18 ~~department each year to reflect the purchasing power~~
19 ~~of the dollar as a result of inflation during the~~
20 ~~preceding calendar year. For the 1981 and subsequent~~
21 ~~calendar years, "annual inflation factor" means an~~
22 index, expressed as a percentage, determined by the
23 department by October 15 of the calendar year
24 preceding the calendar year for which the factor is
25 determined to reflect the purchasing power of the
26 dollar as a result of inflation during the fiscal year
27 ending in the calendar year preceding the calendar
28 year for which the factor is determined. In
29 determining the annual inflation factor, the
30 department shall use the annual percent change, but
31 not less than zero percent, in the implicit price
32 deflator for the gross national product computed for
33 ~~the whole calendar year or for the second quarter of~~
34 ~~the calendar year, in the case of the annual inflation~~
35 ~~factor for the 1981 and subsequent calendar years, by~~
36 the bureau of economic analysis of the United States
37 department of commerce and shall add two-fourths for
38 ~~the 1980 and subsequent calendar years of that percent~~
39 change to one hundred percent. ~~The annual inflation~~
40 ~~factor for the 1979 calendar year is one hundred two~~
41 ~~point three percent. The annual inflation factor and~~
42 the cumulative inflation factor shall each be
43 expressed as a percentage rounded to the nearest one
44 tenth of one percent. The annual inflation factor
45 shall not be less than one hundred percent.

46 b. "Cumulative inflation factor" means the product
47 of the annual inflation factor for the ~~1978~~ 1987
48 calendar year and all annual inflation factors for
49 subsequent calendar years as determined pursuant to
50 this subsection. The cumulative inflation factor

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1 applies to all tax years beginning on or after January
2 1 of the calendar year for which the latest annual
3 inflation factor has been determined.

4 c. The annual inflation factor for the 1978 1987
5 calendar year is one hundred percent.

6 d. Notwithstanding the computation of the annual
7 inflation factor under paragraph "a" ~~of this~~
8 subsection, the annual inflation factor is one hundred
9 percent for any calendar year in which the unobligated
10 state general fund balance on June 30 ~~as certified by~~
11 ~~the director of revenue and finance by September 10 of~~
12 ~~the fiscal year beginning in that calendar year is~~
13 ~~less than sixty million dollars. -- However, for the~~
14 ~~1981 and subsequent calendar years, the annual~~
15 ~~inflation factor is one hundred percent for any~~
16 ~~calendar year if the unobligated state general fund~~
17 ~~balance on June 30 of the calendar year preceding the~~
18 ~~calendar year for which the factor is determined, as~~
19 certified by the director of revenue and finance by
20 October 10, is less than sixty million dollars.

21 Sec. 3. Section 422.5, subsection 1, paragraphs a
22 through m, Code 1987, are amended by striking the
23 paragraphs and inserting in lieu thereof the
24 following:

25 a. On all taxable income from zero through four
26 thousand dollars, four percent.

27 b. On all taxable income exceeding four thousand
28 dollars but not exceeding fifteen thousand dollars,
29 six percent.

30 c. On all taxable income exceeding fifteen
31 thousand dollars, nine percent.

32 Sec. 4. Section 422.5, subsection 1, paragraph n,
33 Code 1987, is amended to read as follows:

34 n d. The tax imposed upon the taxable income of a
35 nonresident shall be computed by reducing the amount
36 determined pursuant to paragraphs "a" through ~~"m"~~ "c"
37 by the amounts of nonrefundable credits under this
38 division and by multiplying this resulting amount by a
39 fraction of which the nonresident's net income
40 allocated to Iowa, as determined in section 422.8,
41 subsection 2, is the numerator and the nonresident's
42 total net income computed under section 422.7 is the
43 denominator. This provision also applies to
44 individuals who are residents of Iowa for less than
45 the entire tax year.

46 Sec. 5. Section 422.5, subsection 1, paragraph o,
47 unnumbered paragraph 1, Code 1987, is amended to read
48 as follows:

49 There is imposed upon every resident and
50 nonresident of this state, including estates and

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1 trusts, the greater of the tax determined in
2 paragraphs "a" through "c" or the state
3 alternative minimum tax equal to nine percent of the
4 state alternative minimum taxable income of the
5 taxpayer as computed under this paragraph.

6 Sec. 6. Section 422.5, subsections 6 and 7, Code
7 1987, are amended to read as follows:

8 6. A person who is disabled, is sixty-two years of
9 age or older or is the surviving spouse of an
10 individual or survivor having an insurable interest in
11 an individual who would have qualified for the
12 exemption under this paragraph for this tax year and
13 receives one or more annuities from the United States
14 civil service retirement and disability trust fund,
15 and whose net income, as defined in section 422.7, is
16 sufficient to require that the tax be imposed upon it
17 under this section, may determine final taxable income
18 for purposes of imposition of the tax by excluding the
19 amount of annuities received from the United States
20 civil service retirement and disability trust fund,
21 which are not already excluded in determining net
22 income, as defined in section 422.7, up to a maximum
23 each tax year of five thousand five-hundred six
24 hundred twenty-seven dollars for a person who files a
25 separate state income tax return and eight thousand
26 one hundred eighty-four dollars total for a husband
27 and wife who file a joint state income tax return.
28 However, a surviving spouse who is not disabled or
29 sixty-two years of age or older can only exclude the
30 amount of annuities received as a result of the death
31 of the other spouse. The amount of the exemption
32 shall be reduced by the amount of any social security
33 benefits received. For the purpose of this section,
34 the amount of annuities received from the United
35 States civil service retirement and disability trust
36 fund taxable under the Internal Revenue Code of 1954
37 shall be included in net income for purposes of
38 determining eligibility under the five thousand dollar
39 or less exclusion.

40 7. Upon determination of the latest cumulative
41 inflation factor, the director shall multiply each
42 dollar amount set forth in subsection 1, paragraphs
43 "a" through "c" of this section, and each dollar
44 amount specified in this section as the maximum amount
45 of annuities received which may be excluded in
46 determining final taxable income, by this cumulative
47 inflation factor, shall round off the resulting
48 product to the nearest one dollar, and shall
49 incorporate the result into the income tax forms and
50 instructions for each tax year.

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1 Sec. 7. Section 422.8, subsection 2, Code 1987, is
2 amended to read as follows:

3 2. Nonresident's net income allocated to Iowa is
4 the net income, or portion thereof, which is derived
5 from a business, trade, profession, or occupation
6 carried on within this state or income from any
7 property, trust, estate, or other source within Iowa.
8 If any business, trade, profession, or occupation is
9 carried on partly within and partly without the state,
10 only the portion of the net income which is fairly and
11 equitably attributable to that part of the business,
12 trade, profession, or occupation carried on within the
13 state is allocated to Iowa for purposes of section
14 422.5, subsection 1, paragraph "n" "d" and section
15 422.13 and income from any property, trust, estate, or
16 other source partly within and partly without the
17 state is allocated to Iowa in the same manner, except
18 that annuities, interest on bank deposits and
19 interest-bearing obligations, and dividends are
20 allocated to Iowa only to the extent to which they are
21 derived from a business, trade, profession, or
22 occupation carried on within the state. However,
23 income received by an individual who is a resident of
24 another state is not allocated to Iowa if the income
25 is subject to an income tax imposed by the state where
26 the individual resides, and if the state of residence
27 allows a similar exclusion for income received in that
28 state by residents of Iowa. In order to implement the
29 exclusions, the director shall designate by rule the
30 states which allow a similar exclusion for income
31 received by residents of Iowa, and may enter into
32 agreements with other states to provide that similar
33 exclusions will be allowed, and to provide suitable
34 withholding requirements in each state.

35 Sec. 8. Section 422.9, subsection 1, unnumbered
36 paragraph 1, Code 1987, is amended by striking the
37 paragraph and inserting in lieu thereof the following:

38 For a single person who is not a head of household,
39 a married couple filing jointly, a surviving spouse, a
40 qualifying widow, a head of household, or a married
41 person filing separately an optional standard
42 deduction equal to the amount of the standard
43 deduction determined under section 63(c) of the
44 Internal Revenue Code for that filing status.

45 Sec. 9. Section 422.9, subsection 2, paragraph b,
46 Code 1987, is amended by striking the paragraph and
47 inserting in lieu thereof the following:

48 b. For tax years beginning on or after January 1,
49 1987 but before January 1, 1988, add the amount of
50 federal income tax paid during the tax year for the

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1 previous tax year, except for federal income tax paid
2 in estimated tax payments, to the extent that the
3 federal income tax paid was not the result of an
4 adjustment to the return for the previous tax year.
5 For tax years beginning on or after January 1, 1987,
6 add the amount of federal income tax paid during the
7 tax year which is the result of an adjustment to a
8 federal return for a tax year beginning prior to
9 January 1, 1987. Subtract the amount of federal
10 income tax refund received during the tax year to the
11 extent that the federal income tax that was refunded
12 had been deducted on a return for a prior tax year.
13 Married persons who have filed a joint federal income
14 tax return and who file separately shall divide the
15 federal income tax paid or the federal income tax
16 refund between them in the ratio of the federal
17 adjusted gross income of each spouse to the adjusted
18 gross income of both spouses for the tax year which
19 resulted in the income tax payment or the income tax
20 refund.

21 Sec. 10. Section 422.9, Code 1987, is amended by
22 adding after subsection 2 the following new subsection
23 and renumbering the other subsections:

24 NEW SUBSECTION. 3. In addition to the amount
25 deducted under subsection 1 or 2, the taxpayer may
26 deduct the amount of the applicable personal
27 exemptions allowed under section 151 or 642(b) of the
28 Internal Revenue Code. In the case of married
29 taxpayers electing separate filing on a combined
30 return for state income tax purposes, the married
31 taxpayers shall equally divide amongst them the amount
32 of the exemption for dependents allowed under section
33 151 of the Internal Revenue Code.

34 Sec. 11. Section 422.12, subsection 1, Code 1987,
35 is amended by striking the subsection.

36 Sec. 12. Section 422.21, unnumbered paragraph 4,
37 Code 1987, is amended to read as follows:

38 The director shall determine for the ~~1979~~ 1988 and
39 subsequent calendar years the annual and cumulative
40 inflation factors for those calendar years to be
41 applied to tax years beginning on or after January 1
42 of that calendar year. The director shall compute the
43 new dollar amounts as specified therein to be adjusted
44 in section 422.5 by the latest cumulative inflation
45 factor and round off the result to the nearest one
46 dollar. The annual and cumulative inflation factors
47 determined by the director are not rules as defined in
48 section 17A.2, subsection 7.

49 Sec. 13. Section 442.7, subsection 1, paragraph a,
Code 1987, is amended by adding the following new

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1 unnumbered paragraph:

2 NEW UNNUMBERED PARAGRAPH. However, the computation
3 in determining the state percent of growth shall not
4 include revenues generated as a result of state tax
5 increases or increased revenues resulting from reduced
6 federal taxes.

7 Sec. 14. Sections 1 through 12 of this Act are
8 retroactive to January 1, 1987 for tax years beginning
9 on or after that date.

10 Sec. 15. This Act, being deemed of immediate
11 importance is effective upon enactment."

12 2. Title page, line 2, by striking the word
13 "withholding,".

14 3. Title page, by striking lines 4 through 6 and
15 inserting the following: "adjusting the allowable
16 growth under the school".

H-3736 FILED APRIL 13, 1987 BY COMMITTEE ON WAYS AND MEANS
(Adopted 4/15/87 (p 1444))

SENATE FILE 481

H-3671

1 Amend Senate File 481 as amended, passed, and
2 reprinted by the Senate as follows:

3 1. By striking page 8, line 25 through page 11,
4 line 11.

5 2. By striking page 11, line 19 through page 12,
6 line 7.

7 3. Page 12, by striking lines 14 and 15.

8 4. Title page, by striking lines 4 through 6 and
9 inserting the following: "adjusting the allowable
10 growth under the school".

H-3671 FILED APRIL 8, 1987 BY PETERS of Woodbury
Placed o/c 4/15 (p 1444)

SENATE FILE 481

H-3762

1 Amend the Committee on Ways and Means amendment, H-
2 3736, to Senate File 481 as amended, passed and
3 reprinted by the Senate, as follows:

4 1. Page 2, by striking lines 25 through 31 and
5 inserting the following:

6 "a. On all taxable income from zero through five
7 thousand dollars, two percent.

8 b. On all taxable income exceeding five thousand
9 dollars but not exceeding seven thousand dollars, four
10 percent.

11 c. On all taxable income exceeding seven thousand
12 dollars, six percent."

13 2. Page 4, by striking lines 35 through 44 and
14 inserting the following:

15 "Sec. 8. Section 422.9, subsection 1, unnumbered
16 paragraph 1, Code 1987, is amended to read as follows:

17 An optional standard deduction of fifteen percent
18 of the net income ~~after-deduction-of-federal-income~~
19 tax, not to exceed one thousand two hundred dollars
20 for a married person who files separately, one
21 thousand two hundred dollars for a single person or
22 three thousand dollars for a husband and wife who file
23 a joint return, a surviving spouse as defined in
24 section 2 of the Internal Revenue Code of 1954, or an
25 unmarried head of household as defined in the Internal
26 Revenue Code of 1954."

27 3. Page 5, by striking lines 21 through 35.

H-3762 FILED APRIL 14, 1987 BY BENNETT of Ida

7/10 4/15 (p. 1434)

SENATE FILE 481

H-3756

1 Amend the Committee on Ways and Means amendment, H-
2 3736, to Senate File 481 as amended, passed and
3 reprinted by the Senate, as follows:

4 1. Page 2, by striking lines 21 through 31 and
5 inserting the following:

6 "Sec. 3. Section 422.5, subsection 1, paragraphs j
7 through m, Code 1987, are amended by striking the
8 paragraphs and inserting in lieu thereof the
9 following:

10 j. On all taxable income exceeding twenty-five
11 thousand dollars, nine and three-fourths percent."

12 2. Page 3, by inserting after line 5 the
13 following:

14 "Sec. ____ . Section 422.5, subsection 2, Code 1987,
15 is amended to read as follows:

16 2. However, no tax shall be imposed on any
17 resident or nonresident whose net income, as defined
18 in section 422.7, is five seven thousand dollars or
19 less; but in the event that the payment of tax under
20 this division would reduce the net income to less than
21 five seven thousand dollars, then the tax shall be
22 reduced to that amount which would result in allowing
23 the taxpayer to retain a net income of five seven
24 thousand dollars. The preceding sentence does not
25 apply to estates or trusts. For the purpose of this
26 subsection, the entire net income, including any part
27 thereof not allocated to Iowa, shall be taken into
28 account. If the combined net income of a husband and
29 wife exceeds five seven thousand dollars, neither of
30 them shall receive the benefit of this subsection, and
31 it is immaterial whether they file a joint return or
32 separate returns. A person who is claimed as a
33 dependent by another person as defined in section
34 422.12 shall not receive the benefit of this
35 subsection if the person claiming the dependent has
36 net income exceeding five seven thousand dollars or
37 the person claiming the dependent and the person's
38 spouse have combined net income exceeding five seven
39 thousand dollars."

40 3. By striking page 4, line 35 through page 5,
41 line 35.

42 4. Page 6, line 14, by striking the figure "4"
43 and inserting the following: "3".

BY CARPENTER of Polk
GARMAN of Story

H-3756 FILED APRIL 14, 1987

Lost 4/15 (p 1398)

SENATE FILE 481

H-3749

1 Amend the Ways and Means Committee amendment, H-
2 3736, to Senate File 481, as amended, passed, and
3 reprinted by the Senate, as follows:

4 1. By striking page 1, line 3 through page 6,
5 line 16 and inserting the following:

6 "_____. By striking everything after the enacting
7 clause and inserting the following:

8 "Section 1. Section 8.55, subsection 1, Code 1987,
9 is amended to read as follows:

10 1. The Iowa economic emergency fund is created.
11 The fund shall be separate from the general fund of
12 the state and the balance in the fund shall not be
13 considered part of the balance of the general fund of
14 the state, ~~except for purposes of determining the~~
15 ~~annual inflation factor under section 422.4,~~
16 ~~subsection 17, the balance in the fund shall be~~
17 ~~considered part of the general fund of the state.~~ The
18 moneys in the fund shall not revert to the general
19 fund, notwithstanding section 8.33, unless and to the
20 extent the fund exceeds the maximum balance.

21 Sec. 2. Section 422.3, subsection 5, Code 1987, is
22 amended by striking the subsection and inserting in
23 lieu thereof the following:

24 5. "Internal Revenue Code" means the Internal
25 Revenue Code of 1954, prior to the date of its
26 redesignation as the Internal Revenue Code of 1986 by
27 the Tax Reform Act of 1986, or means the Internal
28 Revenue Code of 1986 as amended to and including
29 January 1, 1987, whichever is applicable.

30 Sec. 3. Section 422.4, subsections 1, 4, 10, 11,
31 14, and 18, Code 1987, are amended to read as follows:

32 1. The words "taxable income" mean the net income
33 as defined in section 422.7 minus the deductions
34 allowed by section 422.9, in the case of individuals;
35 in the case of estates or trusts, the words "taxable
36 income" mean the taxable income (without a deduction
37 for personal exemption) as computed for federal income
38 tax purposes under the Internal Revenue Code ~~of 1954,~~
39 but with the adjustments specified in section 422.7
40 plus the Iowa income tax deducted in computing said
41 taxable income and minus federal income taxes as
42 provided in section 422.9.

43 4. The words "tax year" mean the calendar year, or
44 the fiscal year ending during such calendar year, upon
45 the basis of which the net income is computed under
46 this division.

47 a. If a taxpayer has made the election provided by
48 section 441, subsection "f", of the Internal Revenue
49 Code ~~of 1954,~~ "tax year" means the annual period so
50 elected, varying from fifty-two to fifty-three weeks.

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1 b. If the effective date or the applicability of a
2 provision of this division is expressed in terms of a
3 tax year beginning, including or ending with reference
4 to a specified date which is the first or last day of
5 a month, a tax year described in paragraph "a" of this
6 subsection shall be treated as beginning with the
7 first day of the calendar month beginning nearest to
8 the first day of the tax year or as ending with the
9 last day of the calendar month ending nearest to the
10 last day of the tax year.

11 c. This subsection is effective for tax years
12 ending on or after December 14, 1975.

13 10. The word "individual" means a natural person;
14 and where an individual is permitted to file as a
15 corporation, under ~~the provisions of~~ the Internal
16 Revenue Code ~~of 1954~~, such fictional status shall not
17 be recognized for purposes of this chapter, and ~~such~~
18 ~~the individual's taxable income shall be computed as~~
19 ~~required under the provisions of~~ the Internal Revenue
20 Code ~~of 1954~~ relating to individuals not filing as a
21 corporation, with the adjustments allowed by this
22 chapter.

23 11. The term "head of household" shall have the
24 same meaning as provided by the Internal Revenue Code
25 ~~of 1954~~.

26 14. The term "wages" shall have the same meaning
27 as provided by the Internal Revenue Code ~~of 1954~~.

28 ~~10. For purposes of section 422.3, subsection 5,~~
29 ~~the Internal Revenue Code of 1954 shall be interpreted~~
30 ~~to include the provisions of Pub. L. No. 98-4.~~

31 Sec. 4. Section 422.4, subsection 1, Code 1987, is
32 amended to read as follows:

33 1. The words "taxable income" mean the net income
34 as defined in section 422.7 minus the deductions
35 allowed by section 422.9, in the case of individuals;
36 ~~in.~~ In the case of estates or trusts, ~~the words~~
37 "taxable income" ~~mean~~ means the taxable income
38 ~~(without a deduction for personal exemption), as~~
39 computed for federal income tax purposes under the
40 Internal Revenue Code of 1954, but with the
41 adjustments specified in section 422.7 ~~plus the Iowa~~
42 ~~income tax deducted in computing said taxable income~~
43 ~~and minus federal income taxes as provided in section~~
44 ~~422.9.~~

45 Sec. 5. Section 422.4, subsection 17, Code 1987,
46 is amended by striking the subsection.

47 Sec. 6. Section 422.5, subsection 1, Code 1987, is
48 amended by striking the subsection and inserting in
49 lieu thereof the following:

50 1. A tax is imposed upon every resident and

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nonresident individual or estate and trust which tax is levied, collected, and paid annually upon and with respect to the taxable income at the rate of three and one-half percent.

Sec. 7. Section 422.5, subsections 6 and 10, Code 1987, are amended to read as follows:

6. A person who is disabled, is sixty-two years of age or older or is the surviving spouse of an individual or survivor having an insurable interest in an individual who would have qualified for the exemption under this paragraph for this tax year and receives one or more annuities from the United States civil service retirement and disability trust fund, and whose net income, as defined in section 422.7, is sufficient to require that the tax be imposed upon it under this section, may determine final taxable income for purposes of imposition of the tax by excluding the amount of annuities received from the United States civil service retirement and disability trust fund, which are not already excluded in determining net income, as defined in section 422.7, up to a maximum each tax year of five thousand five hundred dollars for a person who files a separate state income tax return and eight thousand dollars total for a husband and wife who file a joint state income tax return.

However, a surviving spouse who is not disabled or sixty-two years of age or older can only exclude the amount of annuities received as a result of the death of the other spouse. The amount of the exemption shall be reduced by the amount of any social security benefits received. For the purpose of this section, the amount of annuities received from the United States civil service retirement and disability trust fund taxable under the Internal Revenue Code of 1954 shall be included in net income for purposes of determining eligibility under the five thousand dollar or less exclusion.

10. In addition to the other taxes imposed by this section, a tax is imposed on the amount of a lump sum distribution for which the taxpayer has elected under section 402(e) of the Internal Revenue Code of 1954 to be separately taxed for federal income tax purposes for the tax year. The rate of tax is equal to twenty-five percent of the separate federal tax imposed on the amount of the lump sum distribution. A nonresident is liable for this tax only on that portion of the lump sum distribution allocable to Iowa. The total amount of the lump sum distribution subject to separate federal tax shall be included in net income for purposes of determining eligibility

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1 under the five thousand dollar or less exclusion.

2 Sec. 8. Section 422.5, subsection 7, Code 1987, is
3 amended by striking the subsection.

4 Sec. 9. Section 422.5, subsection 8, Code 1987, is
5 amended by striking the subsection.

6 Sec. 10. Section 422.6, unnumbered paragraph 2,
7 Code 1987, is amended to read as follows:

8 The beneficiary of a trust who receives an
9 accumulation distribution shall be allowed credit
10 without interest for the Iowa income taxes paid by the
11 trust attributable to such accumulation distribution
12 in a manner corresponding to the provisions for credit
13 under the federal income tax relating to accumulation
14 distributions as contained in the Internal Revenue
15 Code of-1954. The trust shall not be entitled to a
16 refund of taxes paid on the distributions. The trust
17 shall maintain detailed records to verify the
18 computation of the tax.

19 Sec. 11. Section 422.7, Code 1987, is amended to
20 read as follows:

21 422.7 "NET INCOME" -- HOW COMPUTED.

22 The term "net income" means the adjusted gross
23 income as properly computed for federal income tax
24 purposes under the Internal Revenue Code of-1954, with
25 the following adjustments:

26 1. Subtract interest and dividends from federal
27 securities.

28 2. Add interest and dividends from foreign
29 securities and from securities of state and other
30 political subdivisions exempt from federal income tax
31 under the Internal Revenue Code of-1954.

32 3. Where the adjusted gross income includes
33 capital gains or losses, or gains or losses from
34 property other than capital assets, and such gains or
35 losses have been determined by using a basis
36 established prior to January 1, 1934, an adjustment
37 may be made, under rules prescribed by the director,
38 to reflect the difference resulting from the use of a
39 basis of cost or January 1, 1934, fair market value,
40 less depreciation allowed or allowable, whichever is
41 higher. Provided that the basis shall be fair market
42 value as of January 1, 1955, less depreciation allowed
43 or allowable, in the case of property acquired prior
44 to that date if use of a prior basis is declared to be
45 invalid.

46 4. Subtract installment payments received by a
47 beneficiary under an annuity which was purchased under
48 an employee's pension or retirement plan when the
49 commuted value of said installments has been included
50 as a part of the decedent employee's estate for Iowa

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inheritance tax purposes.

5--Add-the-amount-by-which-the-basis-of-qualified
 3 depreciable-property-is-required-to-be-increased-for
 4 depreciation-purposes-under-the-Internal-Revenue-Code
 5 Amendments-Act-of-1964-to-the-extent-that-such-amount
 6 equals-the-net-amount-of-the-special-deduction-allowed
 7 on-the-basis-of-the-amount-by-which-the-depreciable
 8 basis-of-such-qualified-property-was-required-to-be
 9 reduced-for-depreciation-purposes-under-the-Internal
 10 Revenue-Code-Amendments-Act-of-1962.--The-"net-amount
 11 of-the-special-deduction"-shall-be-computed-by-taking
 12 the-sum-of-the-amounts-by-which-the-basis-of-qualified
 13 property-was-required-to-be-decreased-for-depreciation
 14 purposes-for-the-years-1962-and-1963-and-subtracting
 15 from-it-the-sum-of-the-amounts-by-which-the-basis-of
 16 such-property-was-required-to-be-increased,-prior-to
 17 1964,-for-depreciation-or-disposition-purposes-under
 18 the-Internal-Revenue-Code-Amendments-Act-of-1962-

19 6. Individual taxpayers and married taxpayers who
 20 file a joint federal income tax return and who elect
 21 to file a joint return, separate returns or separate
 22 filing on a combined return for Iowa income tax
 23 purposes, may avail themselves of the disability
 24 income exclusion and shall compute the amount of the
 25 disability income exclusion subject to the limitations
 26 for joint federal income tax return filers provided by
 27 section 105(d) of the Internal Revenue Code of-1954.
 28 The disability income exclusion provided in section
 29 105(d) of the Internal Revenue Code of-1954, as
 30 amended up to and including December 31, 1982,
 31 continues to apply for state income tax purposes for
 32 tax years beginning on or after January 1, 1984.

33 7. Add to the taxable income of trusts, that
 34 portion of trust income excluded from federal taxable
 35 income under section 641(c) of the Internal Revenue
 36 Code of-1954.

37 8. Married taxpayers who file a joint federal
 38 income tax return and who elect to file separate
 39 returns or separate filing on a combined return for
 40 Iowa income tax purposes, may avail themselves of the
 41 expensing of business assets and capital loss
 42 provisions of sections 179(a) and 1211(b) respectively
 43 of the Internal Revenue Code of-1954 and shall compute
 44 the amount of expensing of business assets and capital
 45 loss subject to the limitations for joint federal
 46 income tax return filers provided by sections 179(b)
 47 and 1211(b) respectively of the Internal Revenue Code
 48 of-1954.

49 9. Subtract the amount of the jobs tax credit
 50 allowable for the tax year under section 51 of the

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1 Internal Revenue Code of-1954 to the extent that the
 2 credit increased federal adjusted gross income.
 3 10. Married taxpayers, who file a joint federal
 4 income tax return and who elect to file separate
 5 returns or separate filing on a combined return for
 6 state income tax purposes, shall include in net income
 7 any unemployment compensation benefits received
 8 subject to the limitations for joint federal income
 9 tax return filers provided in section 85 of the
 10 Internal Revenue Code of-1954.

11 11. Subtract the amount of the alcohol fuel credit
 12 allowable for the tax year under section 40 of the
 13 Internal Revenue Code of-1954 to the extent that the
 14 credit increased federal adjusted gross income.

15 12. Married taxpayers, who file a joint federal
 16 income tax return and who elect to file separate
 17 returns or separate filing on a combined return for
 18 state income tax purposes, may avail themselves of the
 19 dividend exclusion provisions of section 116(a) of the
 20 Internal Revenue Code of-1954 and shall compute the
 21 dividend exclusion subject to the limitations for
 22 joint federal income tax return filers provided by
 23 section 116(a) of the Internal Revenue Code of-1954.

24 13. The exclusion of interest income provided by
 25 section 128 of the Internal Revenue Code of-1954 is
 26 not applicable in computing Iowa net income for tax
 27 years beginning on or after January 1, 1981 and before
 28 January 1, 1984.

29 14. The deduction for a married couple where both
 30 persons are wage earners which is provided by section
 31 221 of the Internal Revenue Code of-1954 is not
 32 applicable in computing Iowa net income for tax years
 33 beginning on or after January 1, 1982.

34 ~~15.--The deduction allowed under section 162(h) of~~
 35 ~~the Internal Revenue Code of-1954 is not applicable in~~
 36 ~~computing Iowa net income for any tax year beginning~~
 37 ~~on or before December 31, 1980.--The deduction allowed~~
 38 ~~under section 604 of the Tax Reform Act of 1976 as~~
 39 ~~amended up to and including December 31, 1980, is~~
 40 ~~allowable in computing Iowa net income for tax years~~
 41 ~~beginning on or before December 31, 1980, under~~
 42 ~~provisions effective for the year for which the return~~
 43 ~~is made.--The deduction allowed under section 162(h)~~
 44 ~~of the Internal Revenue Code of-1954 is not applicable~~
 45 ~~in computing Iowa net income for any tax year~~
 46 ~~beginning on or after January 1, 1981.--The deduction~~
 47 ~~allowed under section 604 of the Tax Reform Act of~~
 48 ~~1976, as amended up to and including December 31,~~
 49 ~~1980, is allowable in computing Iowa net income for~~
 50 ~~tax years beginning on or after January 1, 1981.--The~~

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Maximum allowable deduction, other than for travel expense, shall not exceed fifty dollars per day, where the taxpayer elects on the Iowa return to be governed by section 604 of the Tax Reform Act of 1976, as amended up to and including December 31, 1980, unless the taxpayer itemized expenses.

16. Add the amounts deducted and subtract the amounts included as income as a result of the treatment provided sale-leaseback agreements under section 168(f)(8) of the Internal Revenue Code of 1954 for property placed in service by the transferee prior to January 1, 1986 to the extent that the amounts deducted and the amounts included in income are not otherwise deductible or included in income under the Internal Revenue Code of 1954 as amended to and including December 31, 1985. Entitlement to depreciation on any property included in a sale-leaseback agreement which is placed in service by the transferee prior to January 1, 1986 shall be determined under the Internal Revenue Code of 1954 as amended to and including December 31, 1985, excluding section 168(f)(8) in making the determination.

17. Subtract the amount of unemployment compensation to be included in Iowa net income for any tax year. Add back the amount of unemployment compensation computed under section 85 of the Internal Revenue Code of 1954, as amended up to and including December 31, 1981. This subsection is effective only for the tax year beginning on or after January 1, 1982 and before December 31, 1982.

18. If the adjusted gross income includes income or loss from a small business operated by the taxpayer, an additional deduction shall be allowed in computing the income or loss from the small business if the small business hired for employment in the state during its annual accounting period ending with or during the taxpayer's tax year any of the following:

a. A handicapped individual domiciled in this state at the time of the hiring who meets any of the following conditions:

(1) Has a physical or mental impairment which substantially limits one or more major life activities.

(2) Has a record of that impairment.

(3) Is regarded as having that impairment.

b. An individual domiciled in this state at the time of the hiring who meets any of the following conditions:

(1) Has been convicted of a felony in this or any

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1 other state or the District of Columbia.

2 (2) Is on parole pursuant to chapter 906.

3 (3) Is on probation pursuant to chapter 907, for
4 an offense other than a simple misdemeanor.

5 (4) Is in a work release program pursuant to
6 chapter 246, division IX.

7 c. An individual, whether or not domiciled in this
8 state at the time of the hiring, who is on parole or
9 probation and to whom the interstate probation and
10 parole compact under section 907A.1 applies.

11 The amount of the additional deduction is equal to
12 fifty percent of the wages paid to individuals named
13 in paragraphs "a", "b", and "c" who were hired for the
14 first time by that business during the annual
15 accounting period for work done in the state. This
16 additional deduction is allowed for the wages paid to
17 those individuals successfully completing a
18 probationary period during the twelve months following
19 the date of first employment by the business and shall
20 be deducted at the close of the annual accounting
21 period.

22 The additional deduction shall not be allowed for
23 wages paid to an individual who was hired to replace
24 an individual whose employment was terminated within
25 the twelve-month period preceding the date of first
26 employment. However, if the individual being replaced
27 left employment voluntarily without good cause
28 attributable to the employer or if the individual was
29 discharged for misconduct in connection with the
30 individual's employment as determined by the division
31 of job service of the department of employment
32 services, the additional deduction shall be allowed.

33 A taxpayer who is a partner of a partnership or a
34 shareholder of a subchapter S corporation, may deduct
35 that portion of wages qualified under this subsection
36 paid by the partnership or subchapter S corporation
37 based on the taxpayer's pro rata share of the profits
38 or losses from the partnership or subchapter S
39 corporation.

40 For purposes of this subsection, "physical or
41 mental impairment" means any physiological disorder or
42 condition, cosmetic disfigurement, or anatomical loss
43 affecting one or more of the body systems or any
44 mental or psychological disorder, including mental
45 retardation, organic brain syndrome, emotional or
46 mental illness and specific learning disabilities.

47 For purposes of this subsection, "small business"
48 means small business as defined in section 220.1,
49 subsection 28, except that it shall also include the
50 operation of a farm.

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19. Married taxpayers, who file a joint federal income tax return and who elect to file separate returns or who elect separate filing on a combined return for state income tax purposes, shall include in net income any social security benefits or tier-1 railroad-retirement-benefits received to the same extent as those benefits are taxable on the taxpayer's joint federal return for that year under section 86 of the Internal Revenue Code of-1954. The benefits included in net income must be allocated between the spouses in the ratio of the social security benefits or-tier-1-railroad-retirement-benefits received by each spouse to the total of these benefits received by both spouses.

20. --Subtract-the-unemployment-compensation benefits-for-tax-years-beginning-on-January-17-1979-to the-extent-those-benefits-had-been-included-in-net income-on-a-return-filed-before-January-1-1981-and were-excluded-from-income-under-Act-section-1075-of the-Tax-Reform-Act-of-1984.--Notwithstanding-the statute-of-limitations-specified-in-section-422-73, subsection-27-taxpayers-who-would-be-barred-from claiming-a-refund-or-credit-from-an-overpayment resulting-from-the-change-made-by-Act-section-1075-of the-Tax-Reform-Act-of-1984-are-entitled-to-receive-a refund-or-credit-if-they-file-a-claim-with-the department-on-or-before-June-30-1986-

21. Add the four percent of the basic salary of a judge, who is a member of the judicial retirement system established in chapter 602, article 9, which is exempt from federal income tax under the Internal Revenue Code of-1954.

22. Add the combined net losses from passive farming activity in excess of twenty-five thousand dollars that offset income from other sources. Net losses under section 165 of the Internal Revenue Code of-1954, exclusive of net gains incurred passively from the operation of a farming business, as defined in section 464(e) of the Internal Revenue Code of 1954, are to be combined from businesses, rents, partnerships, subchapter S corporations, estates or trusts except losses under sections 1211 and 1231 of the Internal Revenue Code of-1954. For purposes of this subsection the following apply:

a. "Passive activity" means an activity where the taxpayer or a member of the taxpayer's family as defined in section 2032A(e)(2) of the Internal Revenue Code of-1954 does not materially participate in the activity or provide substantial personal services to the farming business. A taxpayer who is retired or

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1 disabled as described in section 2032A(b)(4) of the
2 Internal Revenue Code of 1954 or is a surviving spouse
3 as described in section 2032A(b)(5) shall be treated
4 as materially participating in the farming business.

5 b. A loss from an activity that is disallowed
6 under this subsection shall be treated as a deduction
7 allowable to that activity in the first succeeding tax
8 year.

9 23. Add the amount of intangible drilling and
10 development costs optionally deducted in the year paid
11 or incurred as allowed under section 263(c) of the
12 Internal Revenue Code of 1954. This amount may be
13 recovered through cost depletion or depreciation, as
14 appropriate under rules prescribed by the director.

15 24. Add the percentage depletion amount determined
16 with respect to an oil, gas, or geothermal well using
17 methods in section 613 of the Internal Revenue Code of
18 1954 that is in excess of the cost depletion amount
19 determined under section 611 of the Internal Revenue
20 Code of 1954.

21 25. Subtract the income or loss resulting from the
22 forfeiture of an installment real estate contract, the
23 transfer of real or personal property securing a debt
24 to a creditor in cancellation of that debt, or from
25 the sale or exchange of property as a result of actual
26 notice of foreclosure if all of the following
27 conditions are met:

28 a. The forfeiture, transfer, or sale or exchange
29 was done for the purpose of establishing a positive
30 cash flow.

31 b. Immediately before the forfeiture, transfer, or
32 sale or exchange, the taxpayer's debt to asset ratio
33 exceeded ninety percent as computed under generally
34 accepted accounting practices.

35 c. The taxpayer's net worth at the end of the tax
36 year is less than seventy-five thousand dollars. In
37 determining a taxpayer's net worth at the end of the
38 tax year a taxpayer shall include any asset
39 transferred within one hundred twenty days prior to
40 the end of the tax year without adequate and full
41 consideration in money or money's worth. In
42 determining the taxpayer's debt to asset ratio, the
43 taxpayer shall include any asset transferred within
44 one hundred twenty days prior to such forfeiture,
45 transfer, or sale or exchange without adequate and
46 full consideration in money or money's worth. For
47 purposes of this subsection, actual notice of
48 foreclosure includes, but is not limited to,
49 bankruptcy or written notice from a creditor of the
50 creditor's intent to foreclose where there is a

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reasonable belief that the creditor can force a sale of the asset. For purposes of this subsection, in the case of married taxpayers, except in the case of a husband and wife who live apart at all times during the tax year, the assets and liabilities of both spouses shall be considered for purposes of determining the taxpayer's net worth or the taxpayer's debt to asset ratio.

Sec. 12. Section 422.7, Code 1987, is amended by striking the section and inserting in lieu thereof the following:

422.7 "NET INCOME" -- HOW COMPUTED.

1. For individuals, "net income" means the adjusted gross income as properly computed for federal income tax purposes under the Internal Revenue Code with the adjustments made in paragraphs "a" and "b".

a. The adjusted gross income is adjusted by adding the sum of the following:

(1) The amounts paid or accrued to the taxpayer as interest or dividends during the tax year to the extent excluded, except the amount of stock dividends of qualified public utilities described in section 305(e) of the Internal Revenue Code.

(2) The amount of tax imposed under this division to the extent deducted for the tax year.

b. The adjusted gross income is adjusted by subtracting the sum of the following:

(1) The amounts included in respect of compensation, including but not limited to, compensation paid or accrued to a serviceperson while a prisoner of war or missing in action, paid to a resident by reason of being on active duty in the armed forces of the United States, paid or accrued to a resident who as a governmental employee was a prisoner of war or missing in action, and paid to a resident in 1971 or thereafter for annual training performed pursuant to sections 502 and 503, Title 32, United States Code as a member of the Iowa national guard.

(2) The amounts included pursuant to sections 402(a), 402(c), 403(a), 403(b), 406(a), 407(a), 408, and 409 of the Internal Revenue Code, or included as distributions under any retirement or disability plan for employees of a governmental agency or unit, or retirement payments to retired partners which payments are excluded in computing net earnings from self employment by section 1402 of the Internal Revenue Code and regulations adopted pursuant thereto.

(3) The amount of tax imposed under this division which was refunded to the extent included for the tax

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1 year.

2 (4) The amount included pursuant to section 111 of
3 the Internal Revenue Code as a recovery of items
4 previously deducted from adjusted gross income in
5 computing taxable income.

6 (5) The amount of social security benefits and
7 railroad retirement benefits, included pursuant to
8 sections 72(r) and 86 of the Internal Revenue Code.

9 (6) The sum of the amounts disallowed as
10 deductions by sections 171(a)(2) and 265(a)(2) of the
11 Internal Revenue Code and the amounts of expenses
12 allocable to interest and disallowed as deductions by
13 section 265(a)(1) of the Internal Revenue Code.

14 (7) The amount of state and local general sales
15 taxes paid which were deductible under section
16 164(a)(4) of the Internal Revenue Code in effect for
17 tax years beginning in the 1986 calendar year.

18 (8) The amount of contributions to an individual
19 retirement account, to the extent not already
20 excluded, which were deductible under section 219 of
21 the Internal Revenue Code in effect for tax years
22 beginning in the 1986 calendar year.

23 (9) The valuation limitation amount as computed
24 under subsection 3.

25 2. For estates and trusts, "net income" means the
26 taxable income as properly computed for federal income
27 tax purposes under the Internal Revenue Code with the
28 adjustments made in paragraphs "a" and "b", subject to
29 paragraph "c".

30 a. The taxable income is adjusted by adding the
31 sum of the following:

32 (1) The amounts paid or accrued to the taxpayer as
33 interest or dividends during the tax year to the
34 extent excluded.

35 (2) Six hundred dollars for an estate, three
36 hundred dollars for a trust which under its governing
37 instrument is required to distribute all of its income
38 currently, or one hundred dollars for all other
39 trusts. However, the amount added is only to the
40 extent deducted.

41 (3) The amount of tax imposed under this division
42 to the extent deducted for the tax year.

43 b. The taxable income is adjusted by subtracting
44 the sum of the following:

45 (1) The amounts included pursuant to sections
46 402(a), 402(c), 403(a), 403(b), 406(a), 407(a), 408,
47 and 409 of the Internal Revenue Code or included as
48 distributions under any retirement or disability plan
49 for employees of a governmental agency or unit, or
50 retirement payments to retired partners which payments

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are excluded in computing net earnings from self employment by section 1402 of the Internal Revenue Code and regulations adopted pursuant thereto.

(2) The amount of tax imposed under this division which was refunded to the taxpayer to the extent included for the tax year.

(3) The amounts included in taxable income as adjusted by paragraph "a" which are exempt from taxation by this state either by reason of its constitution or by reason of the constitution, treaties, or statutes of the United States.

(4) The amounts disallowed as deductions by sections 171(a)(2) and 265(a)(2) of the Internal Revenue Code and the amounts of expenses allocable to interest and disallowed as deductions by section 265(a)(1) of the Internal Revenue Code.

(5) The valuation limitation amount as computed under subsection 3.

c. The amount of any adjustment otherwise required under this subsection shall be adjusted, under regulations prescribed by the department, by any amounts included which were properly paid, credited, or required to be distributed for the tax year.

3. a. The valuation limitation amount referred to in subsections 1 and 2 is equal to the sum of the following:

(1) The preeffective date appreciation amounts, to the extent consisting of gain reportable under section 1245 or 1250 of the Internal Revenue Code, for all property in respect of which the gain was reported for the tax year.

(2) The lesser of the preeffective date appreciation amounts, to the extent consisting of capital gain, for all property in respect of which the gain was reported for federal income tax purposes for the tax year, or the net capital gain for the tax year, reduced in either case by any amount of the gain included in the amount determined under subsection 1, paragraph "b", subparagraph (2) or subsection 2, paragraph "b", subparagraph (1).

b. (1) If the fair market value of property referred to in paragraph "a" was readily ascertainable on the effective date, the preeffective date appreciation amount for the property is the lesser of the excess of fair market value over the taxpayer's basis for determining gain for the property on that date, determined under the Internal Revenue Code as in effect on that date, or the total gain realized and reportable for federal income tax purposes in respect of the sale, exchange, or other disposition of the

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1 property.

2 (2) If the fair market value of property referred
3 to in paragraph "a" was not readily ascertainable on
4 the effective date, the preeffective date appreciation
5 amount for the property is that amount which bears the
6 same ratio to the total gain reported in respect of
7 the property for federal income tax purposes for the
8 tax year, as the number of full calendar months in
9 that part of the taxpayer's holding period for the
10 property ending immediately before the effective date
11 bears to the number of full calendar months in the
12 taxpayer's entire holding period for the property.

13 (3) The department shall adopt rules as necessary
14 to carry out the purposes of this lettered paragraph.

15 Sec. 13. Section 422.8, subsection 2, Code 1987,
16 is amended to read as follows:

17 2. Nonresident's net income allocated to Iowa is
18 the net income, or portion thereof of net income,
19 which is derived from a business, trade, profession,
20 or occupation carried on within this state or income
21 from any property, trust, estate, or other source
22 within Iowa. If any business, trade, profession, or
23 occupation is carried on partly within and partly
24 without the state, only the portion of the net income
25 which is fairly and equitably attributable to that
26 part of the business, trade, profession, or occupation
27 carried on within the state is allocated to Iowa for
28 purposes of section 422.5, subsection 1, paragraph "n"
29 and section 422.13 and income from any property,
30 trust, estate, or other source partly within and
31 partly without the state is allocated to Iowa in the
32 same manner, except that annuities, interest on bank
33 deposits and interest-bearing obligations, and
34 dividends are allocated to Iowa only to the extent to
35 which they are derived from a business, trade,
36 profession, or occupation carried on within the state.
37 However, income received by an individual who is a
38 resident of another state is not allocated to Iowa if
39 the income is subject to an income tax imposed by the
40 state where the individual resides, and if the state
41 of residence allows a similar exclusion for income
42 received in that state by residents of Iowa. In order
43 to implement the exclusions, the director shall
44 designate by rule the states which allow a similar
45 exclusion for income received by residents of Iowa,
46 and may enter into agreements with other states to
47 provide that similar exclusions will be allowed, and
48 to provide suitable withholding requirements in each
49 state.

50 Sec. 14. Section 422.8, subsection 4, Code 1987,

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is amended by striking the subsection.

Sec. 15. Section 422.9, subsections 1, 2, and 3, Code 1987, are amended to read as follows:

1. An optional standard deduction of fifteen percent of the net income after deduction of federal income tax, not to exceed one thousand two hundred dollars for a married person who files separately, one thousand two hundred dollars for a single person or three thousand dollars for a husband and wife who file a joint return, a surviving spouse as defined in section 2 of the Internal Revenue Code of-1954, or an unmarried head of household as defined in the Internal Revenue Code of-1954.

A taxpayer who claims the optional standard deduction under this subsection may, after claiming the optional standard deduction, claim the direct charitable contribution as allowed and subject to the same limitations provided under section 170(i) of the Internal Revenue Code of-1954 for tax years ending on or before December 31, 1986. However, the deduction shall be computed as provided under section 170(i) of the Internal Revenue Code of-1954 as applied to tax year 1984. Married taxpayers who have filed a joint federal return and who elect to file separate returns or separately on a combined state return must allocate their allowable charitable deduction to each spouse in the proportion that each spouse's respective net income bears to the total combined net income. Taxpayers affected by the allocation provisions of section 422.8 shall be permitted a deduction in the amount as is fairly and equitably allocable to Iowa under rules prescribed by the director.

2. The total of contributions, interest, taxes, medical expense, nonbusiness losses and miscellaneous expenses deductible for federal income tax purposes under the Internal Revenue Code of-1954, with the following adjustments:

a. Subtract the deduction for Iowa income taxes.

b. Add the amount of federal income taxes paid or accrued as the case may be, during the tax year, adjusted by any federal income tax refunds. Provided, however, that where married persons, who have filed a joint federal income tax return, file separately, such total shall be divided between them according to the portion thereof paid or accrued, as the case may be, by each.

c. Add the amount by which expenses paid or incurred in connection with the adoption of a child by the taxpayer exceed three percent of the net income of the taxpayer, or of the taxpayer and spouse in the

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1 case of a joint return. The expenses may include
2 medical and hospital expenses of the natural mother
3 which are incident to the child's birth and are paid
4 by the taxpayer, welfare agency fees, legal fees, and
5 all other fees and costs relating to the adoption of a
6 child if the child is placed by a child-placing agency
7 licensed under chapter 238 or by a person making an
8 independent placement according to the provisions of
9 chapter 600.

10 d. Add an additional deduction for mileage
11 incurred by the taxpayer in voluntary work for a
12 charitable organization consisting of the excess of
13 the state employee mileage reimbursement over the
14 amount deductible for federal income tax purposes.
15 The deduction shall be proven by the keeping of a
16 contemporaneous diary by the person throughout the
17 period of the voluntary work in the tax year.

18 e. Subtract the adoption deduction permitted under
19 section 222 of the Internal Revenue Code of 1954.

20 f. Add the amount, not to exceed five thousand
21 dollars, of expenses not otherwise deductible under
22 this section actually incurred in the home of the
23 taxpayer for the care of a person who is the
24 grandchild, child, parent, or grandparent of the
25 taxpayer or the taxpayer's spouse and who is unable,
26 by reason of physical or mental disability, to live
27 independently and is receiving, or would be eligible
28 to receive if living in a health care facility
29 licensed under chapter 135C, medical assistance
30 benefits under chapter 249A. In the event that the
31 person being cared for is receiving assistance
32 benefits under chapter 239, the expenses not otherwise
33 deductible shall be the net difference between the
34 expenses actually incurred in caring for the person
35 and the assistance benefits received under chapter
36 239.

37 3. If after applying all of the adjustments
38 provided for in section 422.7, the allocation
39 provisions of section 422.8 and the deductions
40 allowable in this section subject to the modifications
41 provided in section 172(d) of the Internal Revenue
42 Code of 1954, the taxable income results in a net
43 operating loss, the net operating loss shall be
44 deducted as follows:

45 a. The Iowa net operating loss shall be carried
46 back three taxable years or to the taxable year in
47 which the individual first earned income in Iowa
48 whichever year is the later.

49 b. The Iowa net operating loss remaining after
50 being carried back as required in paragraph "a" of

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This subsection or if not required to be carried back shall be carried forward fifteen taxable years.

3 c. If the election under section 172(b)(3)(C) of
4 the Internal Revenue Code of 1954 is made, the Iowa
5 net operating loss shall be carried forward fifteen
6 taxable years.

7 Sec. 16. Section 422.9, Code 1987, is amended by
8 striking the section and inserting in lieu thereof the
9 following:

10 422.9 TAXABLE INCOME -- STANDARD DEDUCTION.

11 1. In computing taxable income of an individual,
12 there is deducted from net income the standard
13 deduction as determined under subsection 2, or in the
14 case of a nonresident, there is deducted from net
15 income the product of the standard deduction as
16 determined under subsection 2 times a fraction of
17 which the nonresident's net income allocated to Iowa,
18 as determined in section 422.8, subsection 2, is the
19 numerator and the nonresident's total net income
20 computed under section 422.7 is the denominator.

21 2. The standard deduction is equal to the product
22 of one thousand dollars times the number of exemptions
23 allowable to the taxpayer for the tax year under
24 section 151 of the Internal Revenue Code.

25 Sec. 17. Section 422.10, unnumbered paragraph 1,
26 Code 1987, is amended to read as follows:

27 The taxes imposed under this division shall be
28 reduced by a state tax credit for increasing research
29 activities in this state. For individuals, the credit
30 shall equal equals six and one-half percent of the
31 state's apportioned share of the qualifying
32 expenditures for increasing research activities. The
33 state's apportioned share of the qualifying
34 expenditures for increasing research activities is a
35 percent equal to the ratio of qualified research
36 expenditures in this state to total qualified research
37 expenditures. For purposes of this section, an
38 individual may claim a research credit for qualifying
39 research expenditures incurred by a partnership,
40 subchapter S corporation, and estate or trust electing
41 to have the income taxed directly to the individual.
42 The amount claimed by the individual shall be based
43 upon the pro rata share of the individual's earnings
44 of a partnership, subchapter S corporation, or estate
45 or trust. For purposes of this section, "qualifying
46 expenditures for increasing research activities" means
47 the qualifying expenditures as defined for the federal
48 credit for increasing research activities which would
49 be allowable under section 30 41 of the Internal
50 Revenue Code of 1954 in effect on January 17, 1985.

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1 Sec. 18. Section 422.12, subsection 1, paragraph
2 c, Code 1987, is amended to read as follows:

3 c. For each dependent, an additional ten dollars.
4 As used in this section, the term "dependent" shall
5 have the same meaning as provided by the Internal
6 Revenue Code of 1954.

7 Sec. 19. Section 422.12, subsection 2, unnumbered
8 paragraph 1, Code 1987, is amended to read as follows:

9 A child and dependent care credit equal to forty-
10 five percent of the federal child and dependent care
11 credit provided in section 21 of the Internal Revenue
12 Code of 1954.

13 Sec. 20. Section 422.13, subsection 1, paragraph
14 a, Code 1987, is amended to read as follows:

15 a. The individual is required to file a federal
16 income tax return under the Internal Revenue Code of
17 1954.

18 Sec. 21. Section 422.16, subsection 1, unnumbered
19 paragraph 1, Code 1987, is amended to read as follows:

20 Every withholding agent and every employer as
21 defined in this chapter and further defined in the
22 Internal Revenue Code of 1954, with respect to income
23 tax collected at source, making payment of wages to a
24 nonresident employee working in Iowa, or to a resident
25 employee, shall deduct and withhold from the wages an
26 amount which will approximate the employee's annual
27 tax liability on a calendar year basis, calculated on
28 the basis of tables to be prepared by the department
29 and schedules or percentage rates, based on the wages,
30 to be prescribed by the department. Every employee or
31 other person shall declare to the employer or
32 withholding agent the number of the employee's or
33 other person's personal exemptions and dependency
34 exemptions or credits to be used in applying the
35 tables and schedules or percentage rates. However, no
36 greater number of personal or dependency exemptions or
37 credits may be declared by the employee or other
38 person than the number to which the employee or other
39 person is entitled except as allowed under section
40 3402(m)(1) of the Internal Revenue Code of 1954. The
41 claiming of exemptions or credits in excess of
42 entitlement is a serious misdemeanor.

43 Sec. 22. Section 422.16, subsection 11, paragraphs
44 a and d, Code 1987, are amended to read as follows:

45 a. Every person or married couple filing a return
46 shall make estimated tax payments if the person's or
47 couple's Iowa income tax attributable to income other
48 than wages subject to withholding can reasonably be
49 expected to amount to fifty dollars or more for the
50 taxable year, except that, in the cases of farmers and

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fishers, the exceptions provided in the Internal Revenue Code of 1954 with respect to making estimated payments shall apply. The estimated tax shall be paid in quarterly installments. The first installment shall be paid on or before the last day of the fourth month of the taxpayer's tax year for which the estimated payments apply. The other installments shall be paid on or before June 30, September 30, and January 31. However, at the election of the person or married couple, any installment of the estimated tax may be paid prior to the date prescribed for its payment. If a person or married couple filing a return has reason to believe that the person's or couple's Iowa income tax may increase or decrease, either for purposes of meeting the requirement to make estimated tax payments or for the purpose of increasing or decreasing estimated tax payments, shall increase or decrease any subsequent estimated tax payments accordingly.

d. Any amount of estimated tax paid is a credit against the amount of tax found payable on a final, completed return, as provided in subsection 9, relating to the credit for the tax withheld against the tax found payable on a return properly and correctly prepared under sections 422.5 through 422.25, and any overpayment of one dollar or more shall be refunded to the taxpayer and the return constitutes a claim for refund for this purpose. Amounts less than one dollar shall not be refunded. The method provided by the Internal Revenue Code of 1954 for determining what is applicable to the addition to tax for underpayment of the tax payable applies to persons required to make payments of estimated tax under this section except the amount to be added to the tax for underpayment of estimated tax is an amount determined at the rate in effect under section 421.7. This addition to tax specified for underpayment of the tax payable is not subject to waiver provisions relating to reasonable cause, except as provided in the Internal Revenue Code of 1954. Underpayment of estimated tax shall be determined in the same manner as provided under the Internal Revenue Code of 1954 and the exceptions in the Internal Revenue Code of 1954 also apply.

Sec. 23. Section 422.20, subsection 2, Code 1987, is amended to read as follows:

2. It shall be unlawful for any officer, employee, or agent, or former officer, employee, or agent of the state to disclose to any person, except as authorized subsection 1 of this section, any federal tax

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1 return or return information as defined in section
2 6103(b) of the Internal Revenue Code of 1954. It
3 shall further be unlawful for any person to whom any
4 federal tax return or return information, as defined
5 in section 6103(b) of the Internal Revenue Code of
6 1954, is disclosed in a manner unauthorized by
7 subsection 1 of this section to thereafter print or
8 publish in any manner not provided by law any such
9 return or return information. Any person committing
10 an offense against the foregoing provision shall be
11 guilty of a serious misdemeanor.

12 Sec. 24. Section 422.21, unnumbered paragraph 1,
13 Code 1987, is amended to read as follows:

14 Returns shall be in the form the director may, from
15 time to time, prescribe, and shall be filed with the
16 department on or before the last day of the fourth
17 month after the expiration of the tax year except that
18 co-operative associations as defined in section
19 6072(d) of the Internal Revenue Code of 1954 shall
20 file their returns on or before the fifteenth day of
21 the ninth month following the close of the taxable
22 year. If, under the Internal Revenue Code of 1954, a
23 corporation is required to file a return covering a
24 tax period of less than twelve months, the state
25 return shall be for the same period and shall be due
26 forty-five days after the due date of the federal tax
27 return, excluding any extension of time to file. In
28 case of sickness, absence, or other disability, or if
29 good cause exists, the director may allow further time
30 for filing returns. The director shall cause to be
31 prepared blank forms for the returns and shall cause
32 them to be distributed throughout the state and to be
33 furnished upon application, but failure to receive or
34 secure the form does not relieve the taxpayer from the
35 obligation of making a return that is required. The
36 department may as far as consistent with the Code
37 draft income tax forms to conform to the income tax
38 forms of the internal revenue department of the United
39 States government. Each return by a taxpayer upon
40 whom a tax is imposed by section 422.57-subsection-17,
41 paragraph-9 shall show the county of the residence
42 of the taxpayer.

43 Sec. 25. Section 422.21, unnumbered paragraph 4,
44 Code 1987, is amended by striking the unnumbered
45 paragraph.

46 Sec. 26. Section 422.25, subsection 1, unnumbered
47 paragraph 1, Code 1987, is amended to read as follows:

48 Within three years after the return is filed or
49 within three years after the return became due,
50 including any extensions of time for filing, whichever

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time is the later, the department shall examine it and determine the correct amount of tax, and the amount determined by the department is the tax. However, if the taxpayer omits from income an amount which will, under the Internal Revenue Code of 1954, extend the statute of limitations for assessment of federal tax to six years under the federal law, the period for examination and determination is six years. In addition to the applicable period of limitation for examination and determination, the department may make an examination and determination at any time within six months from the date of receipt by the department of written notice from the taxpayer of the final disposition of any matter between the taxpayer and the internal revenue service with respect to the particular tax year. In order to begin the running of the six-months' period, the notice shall be in writing in any form sufficient to inform the department of the final disposition with respect to that year, and a copy of the federal document showing the final disposition or final federal adjustments shall be attached to the notice.

Sec. 27. Section 422.32, subsections 4 and 11, Code 1987, are amended to read as follows:

4. The term "affiliated group" means a group of corporations as defined in section 1504(a) of the Internal Revenue Code of 1954.

~~It--For purposes of section 422.37, subsection 5, the Internal Revenue Code of 1954 shall be interpreted to include the provisions of Pub. L. No. 98-4.~~

Sec. 28. Section 422.33, subsection 4, Code 1987, is amended by striking the subsection and inserting in lieu thereof the following:

4. In addition to all taxes imposed under this division, there is imposed upon each corporation doing business within the state the greater of the tax determined in subsection 1, paragraphs "a" through "d" or the state alternative minimum tax equal to sixty percent of the maximum state corporate income tax rate, rounded to the nearest one-tenth of one percent, of the state alternative minimum taxable income of the taxpayer computed under this subsection.

The state alternative minimum taxable income of a taxpayer is equal to the taxpayer's state taxable income as computed with the adjustments in section 422.35 and with the following adjustments:

a. Add items of tax preference included in federal alternative minimum taxable income under section 57, except subsections (a)(1) and (a)(5), of the Internal Revenue Code, make the adjustments included in federal

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1 alternative minimum taxable income under section 56,
2 except subsections (a)(4) and (d), of the Internal
3 Revenue Code, and add losses as required by section 58
4 of the Internal Revenue Code. In making the
5 adjustment under section 56(c)(1) of the Internal
6 Revenue Code, interest and dividends from federal
7 securities net of amortization of any discount or
8 premium shall be subtracted.

9 b. Apply the allocation and apportionment
10 provisions of subsection 2.

11 c. Subtract an exemption amount of forty thousand
12 dollars.

13 d. In the case of a net operating loss computed
14 for a tax year beginning after December 31, 1986 which
15 is carried back or carried forward to the current
16 taxable year, the net operating loss shall be reduced
17 by the amount of items of tax preference and
18 adjustments arising in the tax year which is taken
19 into account in computing the net operating loss in
20 section 422.35, subsection 13. The deduction for a
21 net operating loss for a tax year beginning after
22 December 31, 1986 which is carried back or carried
23 forward to the current taxable year shall not exceed
24 ninety percent of the alternative minimum taxable
25 income determined without regard for the net operating
26 loss deduction.

27 Sec. 29. Section 422.33, subsection 5, Code 1987,
28 is amended to read as follows:

29 5. The taxes imposed under this division shall be
30 reduced by a state tax credit for increasing research
31 activities in this state equal to six and one-half
32 percent of the state's apportioned share of the
33 qualifying expenditures for increasing research
34 activities. The state's apportioned share of the
35 qualifying expenditures for increasing research
36 activities is a percent equal to the ratio of
37 qualified research expenditures in this state to the
38 total qualified research expenditures. For purposes
39 of this subsection, "qualifying expenditures for
40 increasing research activities" means the qualifying
41 expenditures as defined for the federal credit for
42 increasing research activities which would be
43 allowable under section ~~38~~ 41 of the Internal Revenue
44 Code ~~of 1954, in effect on January 17, 1985.~~

45 Any credit in excess of the tax liability for the
46 taxable year shall be refunded with interest computed
47 under section 422.25. In lieu of claiming a refund, a
48 taxpayer may elect to have the overpayment shown on
49 its final, completed return credited to the tax
50 liability for the following taxable year.

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Sec. 30. Section 422.35, Code 1987, is amended to
2 read as follows:

3 422.35 NET INCOME OF CORPORATION -- HOW COMPUTED.

4 The term "net income" means the taxable income
5 before the net operating loss deduction, as properly
6 computed for federal income tax purposes under the
7 Internal Revenue Code of-1954, with the following
8 adjustments:

9 1. Subtract interest and dividends from federal
10 securities.

11 2. Add interest and dividends from foreign
12 securities and from securities of state and other
13 political subdivisions exempt from federal income tax
14 under the Internal Revenue Code of-1954.

15 3. Where the net income includes capital gains or
16 losses, or gains or losses from property other than
17 capital assets, and such gains or losses have been
18 determined by using a basis established prior to
19 January 1, 1934, an adjustment may be made, under
20 rules and regulations prescribed by the director, to
21 reflect the difference resulting from the use of a
22 basis of cost or January 1, 1934, fair market value,
23 less depreciation allowed or allowable, whichever is
24 higher. Provided that the basis shall be fair market
25 value as of January 1, 1955, less depreciation allowed
26 or allowable, in the case of property acquired prior
27 to that date if use of a prior basis is declared to be
28 invalid.

29 4. Subtract fifty percent of the federal income
30 taxes paid or accrued, as the case may be, during the
31 tax year, adjusted by any federal income tax refunds;
32 and add the Iowa income tax deducted in computing said
33 taxable income.

34 ~~5. Add the amount by which the basis of qualified~~
35 ~~depreciable property is required to be increased for~~
36 ~~depreciation purposes under the Internal Revenue Code~~
37 ~~Amendments Act of 1964 to the extent that such amount~~
38 ~~equals the net amount of the special deduction allowed~~
39 ~~on the basis of the amount by which the depreciable~~
40 ~~basis of such qualified property was required to be~~
41 ~~reduced for depreciation purposes under the Internal~~
42 ~~Revenue Code Amendments Act of 1962. The "net amount~~
43 ~~of the special deduction" shall be computed by taking~~
44 ~~the sum of the amounts by which the basis of qualified~~
45 ~~property was required to be decreased for depreciation~~
46 ~~purposes for the years 1962 and 1963 and subtracting~~
47 ~~from it the sum of the amounts by which the basis of~~
48 ~~such property was required to be increased, prior to~~
49 ~~1964, for depreciation or disposition purposes under~~
50 ~~the Internal Revenue Code Amendments Act of 1962.~~

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- 1 6. Subtract the amount of the jobs tax credit
2 allowable for the tax year under section 51 of the
3 Internal Revenue Code of ~~1954~~ to the extent that the
4 credit increased federal taxable income.
- 5 7. If the taxpayer is a small business
6 corporation, subtract an amount equal to fifty percent
7 of the wages paid to individuals named in paragraphs
8 "a", "b", and "c" who were hired for the first time by
9 the taxpayer during the tax year for work done in this
10 state:
- 11 a. A handicapped individual domiciled in this
12 state at the time of the hiring who meets any of the
13 following conditions:
- 14 (1) Has a physical or mental impairment which
15 substantially limits one or more major life
16 activities.
- 17 (2) Has a record of that impairment.
- 18 (3) Is regarded as having that impairment.
- 19 b. An individual domiciled in this state at the
20 time of the hiring who meets any of the following
21 conditions:
- 22 (1) Has been convicted of a felony in this or any
23 other state or the District of Columbia.
- 24 (2) Is on parole pursuant to chapter 906.
- 25 (3) Is on probation pursuant to chapter 907, for
26 an offense other than a simple misdemeanor.
- 27 (4) Is in a work release program pursuant to
28 chapter 246, division IX.
- 29 c. An individual, whether or not domiciled in this
30 state at the time of the hiring, who is on parole or
31 probation and to whom the interstate probation and
32 parole compact under section 907A.1 applies.
- 33 This deduction is allowed for the wages paid to the
34 individuals successfully completing a probationary
35 period named in paragraphs "a", "b", and "c" during
36 the twelve months following the date of first
37 employment by the taxpayer and shall be deducted in
38 the tax years when paid.
- 39 For purposes of this subsection, "physical or
40 mental impairment" means any physiological disorder or
41 condition, cosmetic disfigurement, or anatomical loss
42 affecting one or more of the body systems or any
43 mental or psychological disorder, including mental
44 retardation, organic brain syndrome, emotional or
45 mental illness and specific learning disabilities.
- 46 For purposes of this subsection, "small business"
47 means small business as defined in section 220.1,
48 subsection 28, except that it shall also include the
49 operation of a farm.
- 50 8. Subtract the amount of the alcohol fuel credit

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- allowable for the tax year under section 40 of the Internal Revenue Code of-1954 to the extent that the credit increased federal taxable income.
9. Add the amounts deducted and subtract the amounts included in income as a result of the treatment provided sale-leaseback agreements under section 168(f)(8) of the Internal Revenue Code of-1954 for property placed in service by the transferee prior to January 1, 1986 to the extent that the amounts deducted and the amounts included in income are not otherwise deductible or included in income under the other provisions of the Internal Revenue Code of-1954 as amended to and including December 31, 1985. Entitlement to depreciation on any property involved in a sale-leaseback agreement which is placed in service by the transferee prior to January 1, 1986 shall be determined under the Internal Revenue Code of 1954 as amended to and including December 31, 1985, excluding section 168(f)(8) in making the determination.
10. Add the amount of windfall profits tax deducted under section 164(a) of the Internal Revenue Code of-1954.
11. Add the combined net losses from passive farming activity in excess of twenty-five thousand dollars that offset income from other sources. Net losses under section 165 of the Internal Revenue Code of-1954, exclusive of net gains incurred passively from the operation of a farming business, as defined in section 464(e) of the Internal Revenue Code of 1954, are to be combined from businesses, rents, partnerships, corporations, estates or trusts except losses under sections 1211 and 1231 of the Internal Revenue Code of-1954. Farming activity is passive if the taxpayer does not materially participate in the activity nor provide substantial services to the farming business. A loss from an activity that is disallowed under this subsection shall be treated as a deduction allowable to that activity in the first succeeding tax year.
12. Add the percentage depletion amount determined with respect to an oil, gas, or geothermal well using methods in section 613 of the Internal Revenue Code of 1954 that is in excess of the cost depletion amount determined under section 611 of the Internal Revenue Code of-1954.
13. If after applying all of the adjustments provided for in this section and the allocation and apportionment provisions of section 422.33, the Iowa taxable income results in a net operating loss, such

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1 net operating loss shall be deducted as follows:

2 a. The Iowa net operating loss shall be carried
3 back three taxable years or to the taxable year in
4 which the corporation first commenced doing business
5 in this state, whichever is later.

6 b. The Iowa net operating loss remaining after
7 being carried back as required in paragraph "a" of
8 this subsection or if not required to be carried back
9 shall be carried forward fifteen taxable years.

10 c. If the election under section 172(b)(3)(C) of
11 the Internal Revenue Code of 1954 is made, the Iowa
12 net operating loss shall be carried forward fifteen
13 taxable years.

14 d. No portion of a net operating loss which was
15 sustained from that portion of the trade or business
16 carried on outside the state of Iowa shall be
17 deducted.

18 Provided, however, that a corporation affected by
19 the allocation provisions of section 422.33 shall be
20 permitted to deduct only such portion of the
21 deductions for net operating loss and federal income
22 taxes as is fairly and equitably allocable to Iowa,
23 under rules prescribed by the director.

24 Sec. 31. Section 422.35, subsection 2, Code 1987,
25 is amended to read as follows:

26 2. Add interest and dividends from foreign
27 securities, and from securities of state and other
28 political subdivisions, and from regulated investment
29 companies exempt from federal income tax under the
30 Internal Revenue Code of 1954.

31 Sec. 32. Section 422.35, subsection 11, Code 1987,
32 is amended by striking the subsection.

33 Sec. 33. Section 422.35, Code 1987, is amended by
34 adding the following new subsection:

35 NEW SUBSECTION. Subtract the loss on the sale or
36 exchange of a share of a regulated investment company
37 held for six months or less to the extent the loss was
38 disallowed under section 852(b)(4)(B) of the Internal
39 Revenue Code.

40 Sec. 34. Section 422.36, subsection 5, Code 1987,
41 is amended to read as follows:

42 5. Where a corporation is not subject to income
43 tax and the stockholders of such corporation are taxed
44 on the corporation's income under the provisions of
45 the Internal Revenue Code of 1954, the same tax
46 treatment shall apply to such corporation and such
47 stockholders for Iowa income tax purposes.

48 Sec. 35. Section 422.37, subsection 7, Code 1987,
49 is amended to read as follows:

50 7. The computation of consolidated taxable income

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for the members of an affiliated group of corporations subject to tax shall be made in the same manner and under the same procedures, including all intercompany adjustments and eliminations, as are required for consolidating the incomes of affiliated corporations for the taxable year for federal income tax purposes in accordance with section 1502 of the Internal Revenue Code of 1954.

Sec. 36. Section 422.60, Code 1987, is amended by striking the section and inserting in lieu thereof the following:

422.60 IMPOSITION OF TAX.

1. A franchise tax according to and measured by net income is imposed on financial institutions for the privilege of doing business in this state as financial institutions.

2. In addition to all taxes imposed under this division, there is imposed upon each financial institution doing business within the state the greater of the tax determined in section 422.63 or the state alternative minimum tax equal to sixty percent of the maximum state franchise tax rate, rounded to the nearest one-tenth of one percent, of the state alternative minimum taxable income of the taxpayer computed under this subsection.

The state alternative minimum taxable income of a taxpayer is equal to the taxpayer's state taxable income as computed with the adjustments in section 422.61, subsection 4, and with the following adjustments:

a. Add items of tax preference included in federal alternative minimum taxable income under section 57, except subsections (a)(1) and (a)(5), of the Internal Revenue Code, make the adjustments included in federal alternative minimum taxable income under section 56, except subsections (a)(4) and (d), of the Internal Revenue Code, and add losses as required by section 58 of the Internal Revenue Code.

b. Apply the allocation and apportionment provisions of section 422.60.

c. Subtract an exemption amount of forty thousand dollars.

d. In the case of a net operating loss beginning after December 31, 1986 which is carried back or carried forward to the current taxable year, the net operating loss shall be reduced by the amount of items of tax preference and adjustments arising in the tax year which was taken into account in computing the net operating loss in section 422.35, subsection 13. The deduction for a net operating loss for a tax year

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1 beginning after December 31, 1986 which is carried
2 back or carried forward to the current taxable year
3 shall not exceed ninety percent of the alternative
4 minimum taxable income determined without regard for
5 the net operating loss deduction.

6 Sec. 37. Section 422.61, subsection 2, Code 1987,
7 is amended to read as follows:

8 2. "Taxable year" means the calendar year or the
9 fiscal year ending during a calendar year, for which
10 the tax is payable. "Fiscal year" includes a tax
11 period of less than twelve months if, under the
12 Internal Revenue Code ~~of-1954~~, a corporation is
13 required to file a tax return covering a tax period of
14 less than twelve months.

15 Sec. 38. Section 422.72, subsection 2, Code 1987,
16 is amended to read as follows:

17 2. Federal tax returns, copies of returns, and
18 return information as defined in section 6103(b) of
19 the Internal Revenue Code ~~of-1954~~, which are required
20 to be filed with the department for the enforcement of
21 the income tax laws of this state, shall be deemed and
22 held as confidential by the department and subject to
23 the disclosure limitations in subsection 1 ~~of-this~~
24 section.

25 Sec. 39. Section 422.73, subsection 4, Code 1987,
26 is amended by striking the subsection.

27 Sec. 40. Section 422.73, Code 1987, is amended by
28 adding the following new subsections:

29 NEW SUBSECTION. Notwithstanding subsection 2, a
30 claim for credit or refund of the income tax paid for
31 a tax year beginning in the 1983 calendar year is
32 considered timely if the claim is filed with the
33 department on or before October 22, 1987, if the
34 taxpayer's federal income tax was forgiven under
35 section 692 of the Internal Revenue Code because the
36 taxpayer died, or was missing in action and determined
37 dead, while serving in a combat zone. To the extent
38 the federal income tax was forgiven under section 692
39 of the Internal Revenue Code for the tax year, the
40 Iowa income tax is also forgiven.

41 NEW SUBSECTION. Notwithstanding subsection 2, a
42 claim for credit or refund of the state alternative
43 minimum tax paid for any tax year beginning on or
44 after January 1, 1982 and before January 1, 1984 is
45 considered timely if the claim is filed with the
46 department on or before October 22, 1987, if the
47 taxpayer's capital gains preference items for purposes
48 of the federal individual alternative minimum tax was
49 reduced as a result of section 13208 of the
50 Consolidated Omnibus Budget Reconciliation Act of 1985

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as amended by section 1896 of the Tax Reform Act of 1986.

3 Sec. 41. Section 450.3, subsections 2 and 7, Code
4 1987, are amended to read as follows:

5 2. By deed, grant, sale, gift or transfer made
6 within three years of the death of the grantor or
7 donor, which is not a bona fide sale for an adequate
8 and full consideration in money or money's worth and
9 which is in excess of the annual gift tax exclusion
10 allowable for each donee under section 2503,
11 subsections b and e of the Internal Revenue Code of
12 1954 as defined in section 422.3. If both spouses
13 consent, a gift made by one spouse to a person who is
14 not the other spouse is considered, for the purposes
15 of this subsection, as made one half by each spouse
16 under the same terms and conditions provided for in
17 section 2513 of the Internal Revenue Code of 1954 as
18 defined in section 422.3.

19 7. Which qualifies as a qualified terminable
20 interest property as defined in section 2056(b)(7)(B)
21 of the Internal Revenue Code of 1954 as defined in
22 section 422.3, shall, if an election is made, be
23 treated and considered as passing in fee, or its
24 equivalent, to the surviving spouse in the estate of
25 the donor-grantor. Property on which the election is
26 made shall be included in the gross estate of the
27 surviving spouse and shall be deemed to have passed in
28 fee from the surviving spouse to the persons
29 succeeding to the remainder interest, unless the
30 property was sold, distributed, or otherwise disposed
31 of prior to the death of the surviving spouse. A
32 sale, disposition, or disposal of the property prior
33 to the death of the surviving spouse shall void the
34 election, and shall subject the property disposed of,
35 less amounts received or retained by the surviving
36 spouse, to tax in the donor-grantor's estate in the
37 same manner as if the tax had been deferred under
38 sections 450.44 through 450.49.

39 Sec. 42. Section 450.37, subsection 1, paragraph
40 b, Code 1987, is amended to read as follows:

41 b. The alternate value of the property, if the
42 personal representative so elects, that has been
43 established for federal estate tax purposes under
44 section 2032 of the Internal Revenue Code of 1954 as
45 defined in section 422.3. The election shall be
46 exercised on the return by the personal representative
47 or other person signing the return, within the time
48 prescribed by law for filing the return or before the
49 expiration of any extension of time granted for filing
50 the return.

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1 Sec. 43. Section 450A.1, Code 1987, is amended to
2 read as follows:

3 450A.1 DEFINITIONS.

4 As used in this chapter, unless the context
5 otherwise requires:

6 1. "Generation skipping transfer" means the
7 generation skipping transfer as defined in section
8 2611 of the Internal Revenue Code of 1954.

9 2. "Internal Revenue Code of 1954" means the same
10 as the term is defined in section 422.3.

11 3. ~~"Deemed transferor" means the deemed transferor~~
12 ~~as defined in section 2612 of the Internal Revenue~~
13 ~~Code of 1954.~~

14 4. "Director" means the director of the department
15 of revenue and finance.

16 5. ~~"Generation skipping trust" means a generation~~
17 ~~skipping trust as defined in section 2611 of the~~
18 ~~Internal Revenue Code of 1954.~~

19 6. ~~"Generation skipping trust equivalent" means a~~
20 ~~generation skipping trust equivalent as defined in~~
21 ~~section 2611 of the Internal Revenue Code of 1954.~~

22 7 4. "Distributee Transferee" means a person
23 receiving property in a generation skipping transfer.

24 8 5. "Department" means the department of revenue
25 and finance.

26 6. "Direct skip" means the same as the term is
27 defined in section 2612(c) of the Internal Revenue
28 Code.

29 7. "Taxable termination" means the same as the
30 term is defined in section 2612(a) of the Internal
31 Revenue Code.

32 8. "Taxable distribution" means the same as the
33 term is defined in section 2612(b) of the Internal
34 Revenue Code.

35 9. "Transferor", "trust", "trustee" and "interest"
36 means the same as those respective terms are defined
37 in section 2652 of the Internal Revenue Code.

38 Sec. 44. Section 450A.2, Code 1987, is amended to
39 read as follows:

40 450A.2 IMPOSITION OF TAX.

41 A tax is imposed on the transfer of any property,
42 included in a generation skipping transfer, other than
43 a direct skip, occurring at the same time ~~as~~ or
44 after, and as a result of the death of the deemed
45 transferor an individual, ~~equal to the~~ in an amount of
46 equal to the maximum federal credit allowable under
47 section 2602(c)(5)(B) 2604 of the Internal Revenue
48 Code of 1954, for that ~~portion of state estate~~
49 ~~inheritance, legacy, or succession tax~~ the generation
50 skipping transfer tax actually paid to the state in

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respect of any property included in the generation skipping transfer.

3 Where the deemed transferor is a resident of Iowa
4 and all property included in a generation skipping
5 transfer that is subject to tax under this section has
6 a situs in Iowa, or is subject to the jurisdiction of
7 the courts of Iowa, an amount equal to the total
8 credit as allowed under the Internal Revenue Code of
9 1954 shall be paid to the state of Iowa. Where the
10 deemed transferor is a nonresident or where the
11 property included in a generation skipping transfer
12 that is subject to tax under this section has a situs
13 outside the state of Iowa and not subject to the
14 jurisdiction of Iowa courts, the tax shall be prorated
15 on the basis that the value of Iowa property included
16 in the generation skipping transfer bears to the total
17 value of property included in the generation skipping
18 transfer.

19 Sec. 45. Section 450A.3, Code 1987, is amended to
20 read as follows:

21 450A.3 VALUE OF PROPERTY.

22 The value of property, included in a generation
23 skipping transfer, shall be the same as determined for
24 federal generation skipping transfer tax purposes
25 under the Internal Revenue Code of 1954.

26 Sec. 46. Section 450A.4, Code 1987, is amended to
27 read as follows:

28 450A.4 PAYMENT OF THE TAX.

29 The tax imposed by this chapter shall be paid
30 within twelve months on or before the last day of the
31 ninth month after the death of the deemed transferor
32 if the transfer occurs at that time, or if later, the
33 day which is twelve months after the day on which such
34 generation skipping transfer occurred individual whose
35 death is the event causing the generation skipping
36 transfer which is eligible for the credit for state
37 taxes paid under section 2604 of the Internal Revenue
38 Code. ~~For purposes of this chapter, any property~~
39 ~~transferred during the three-year period ending on the~~
40 ~~date of the deemed transferor's death and which is~~
41 ~~included in a generation skipping transfer under the~~
42 ~~Internal Revenue Code of 1954 shall be considered as~~
43 ~~transferred on the deemed transferor's death.~~

44 Sec. 47. Section 450A.5, Code 1987, is amended to
45 read as follows:

46 450A.5 LIABILITY FOR THE TAX.

47 The distributee transferee of the property included
48 in the generation skipping transfer shall be
49 personally liable for the tax to the extent of the
50 fair-market its value, determined under section 2624

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1 of the Internal Revenue Code as of the time of the
2 ~~distribution, of the property received in the~~
3 ~~distribution~~ generation skipping transfer. If the tax
4 is attributable to a taxable termination, as defined
5 in section ~~2613~~ 2612(a) of the Internal Revenue Code
6 of 1954, the trustee and the transferee shall be
7 personally liable for the tax to the extent of the
8 value of the property subject to tax under the
9 trustee's control.

10 Sec. 48. Section 450A.6, Code 1987, is amended to
11 read as follows:

12 450A.6 LIEN OF THE TAX.

13 The tax imposed by this chapter shall be a lien on
14 the property subject to the tax for a period of ten
15 years from the time the generation skipping transfer
16 occurs. Full payment of the tax, penalty and interest
17 ~~due and interest, if any,~~ shall release the lien and
18 discharge the distributee transferee and trustee of
19 personal liability. Unless the lien has been
20 perfected by recording, a transfer by the distributee
21 transferee or the trustee to a bona fide purchaser for
22 value shall divest the property of the lien. If the
23 lien is perfected by recording, the rights of the
24 state under the lien have priority over all subsequent
25 mortgages, purchases or judgment creditors. The
26 department may release the lien prior to the payment
27 of the tax due if adequate security for payment of the
28 tax is given.

29 Sec. 49. Section 450A.10, Code 1987, is amended to
30 read as follows:

31 450A.10 DIRECTOR TO ENFORCE COLLECTION.

32 It shall be the duty of the director to enforce
33 collection of the tax imposed by this chapter and
34 shall with all the rights of a party in interest,
35 represent the state in any proceedings to collect the
36 tax. The director shall have the power to bring suit
37 against any person liable for the payment of the tax,
38 penalty, interest and costs and may foreclose the lien
39 of the tax in the same manner as is now prescribed for
40 the foreclosure of real estate mortgages and upon
41 judgment may cause execution to be issued to sell so
42 much of the property necessary to satisfy the tax,
43 penalty, interest and costs due.

44 Sec. 50. Section 450A.11, Code 1987, is amended to
45 read as follows:

46 450A.11 DUTY TO CLAIM MAXIMUM CREDIT.

47 It shall be the duty of any person liable for the
48 payment of the tax to claim the maximum federal credit
49 allowable for that portion of the state estate,
50 ~~inheritance, legacy or succession~~ generation skipping

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transfer tax paid in respect of any property included
2 in a taxable generation skipping transfer. Claiming
3 on a federal return a sum less than the maximum
4 federal credit allowable shall not relieve any person
5 liable for the tax of the duty to pay the tax imposed
6 under this chapter.

7 If an amended or supplemental return is filed with
8 the internal revenue service which results in a change
9 in the amount of tax owing under this chapter, the
10 persons liable for the payment of the tax shall submit
11 an amended return, on forms prescribed by the
12 director, indicating the amount of the tax then owing
13 as a result of such change.

14 If any federal generation skipping transfer tax has
15 been paid before the enactment of this chapter, the
16 persons liable for the payment of the tax under this
17 chapter shall file an amended federal return claiming
18 the maximum federal credit allowable and file the Iowa
19 returns specified in section 450A.8 within six months
20 after the enactment of this chapter or within the time
21 limit provided in section 450A.4 whichever is the
22 later.

23 Sec. 51. Section 450B.1, Code 1987, is amended to
24 read as follows:

25 450B.1 DEFINITIONS.

26 As used in this chapter, unless the context
27 otherwise requires:

28 1. "Internal Revenue Code of-1954" means the same
29 as defined in section 422.3.

30 2. "Taxpayer" means a qualified heir liable for
31 the inheritance tax imposed under chapter 450 on
32 qualified real property.

33 3. "Qualified real property", "qualified use",
34 "cessation of qualified use", and "qualified heir"
35 mean the same as defined in section 2032A of the
36 Internal Revenue Code of-1954.

37 4. For purposes of subsection 1, the Internal
38 Revenue Code of-1954 shall be interpreted to include
39 the provisions of Pub. L. No. 98-4.

40 Sec. 52. Section 450B.2, Code 1987, is amended to
41 read as follows:

42 450B.2 ALTERNATE ELECTION OF VALUE FOR QUALIFIED
43 USE.

44 Notwithstanding section 450.37, the value of
45 qualified real property for the purpose of the tax
46 imposed under chapter 450 may, at the election of the
47 taxpayer, be its value for the use under which it
48 qualifies as prescribed by section 2032A of the
49 Internal Revenue Code of-1954. A taxpayer may make an
election under this section only if all of the

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1 following conditions are met:

2 1. An election for federal estate tax purposes was
3 made with regard to the qualified real property under
4 section 2032A of the Internal Revenue Code of-1954.

5 2. All persons who signed the agreement referred
6 to in section 2032A(d)(2) of the Internal Revenue Code
7 of-1954 make the election under this section and sign
8 an agreement with the department of revenue and
9 finance consenting to the application of section
10 450B.3 with respect to the qualified real property.

11 3. The total decrease in the value of the
12 qualified real property as a result of the election
13 under this section does not exceed the dollar
14 limitation specified in section 2032A(a)(2) of the
15 Internal Revenue Code of-1954.

16 The election under this section shall be made by
17 the taxpayer in the manner as the director of revenue
18 and finance may prescribe by rule. The value for the
19 qualified use under this section shall be the value as
20 determined and accepted for federal estate tax
21 purposes.

22 The definitions and special rules specified in
23 section 2032A(e) of the Internal Revenue Code of-1954
24 shall apply with respect to qualified real property
25 for which an election was made under this section
26 except that rules shall be prescribed by the director
27 of revenue and finance in lieu of the regulations
28 promulgated by the secretary of treasury.

29 The director shall prescribe regulations setting
30 forth the application of this chapter in the case of
31 an interest in a partnership, corporation, or trust
32 which, with respect to the decedent, is an interest in
33 a closely held business within the meaning of section
34 6166(b)(1) of the Internal Revenue Code of-1954. Such
35 regulations shall conform as nearly as possible with
36 the regulations promulgated by the United States
37 secretary of treasury in respect to such interests.

38 Sec. 53. Section 450B.3, Code 1987, is amended to
39 read as follows:

40 450B.3 ADDITIONAL INHERITANCE TAX APPLICABLE.

41 There is imposed upon the qualified heir an
42 additional inheritance tax if, within ten years after
43 the decedent's death and before the death of the
44 qualified heir, the qualified heir disposes of, other
45 than to a member of the family, any interest in
46 qualified real property for which an election under
47 section 450B.2 was made or ceases to use for the
48 qualified use the qualified real property for which an
49 election under section 450B.2 was made as prescribed
50 in section 2032A(c) of the Internal Revenue Code of

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1954. The additional inheritance tax shall be the amount computed under section 450B.5 and shall be due six months after the date of the disposition or cessation of qualified use referred to in this section. The amount of the additional inheritance tax shall accrue interest at the rate of ten percent per year from nine months after the decedent's death to the due date of the tax. The tax shall be paid to the department of revenue and finance and shall be deposited into the general fund of the state. Taxes not paid within the time prescribed in this section shall draw interest at the rate of ten percent per annum until paid. There shall not be an additional inheritance tax if the disposition or cessation occurs ten years or more after the decedent's death.

Sec. 54. Section 451.1, subsection 8, Code 1987, is amended to read as follows:

8. "Internal Revenue Code of-1954" means the same as defined in section 422.3.

Sec. 55. Section 451.2, unnumbered paragraph 1, Code 1987, is amended to read as follows:

An amount equal to the federal estate tax credit for state death taxes as allowed in the Internal Revenue Code of-1954 is hereby imposed upon every transfer of the net estate of every decedent, being a resident of, or owning property in this state, as herein-provided.

Sec. 56. Section 451.3, Code 1987, is amended to read as follows:

451.3 GROSS AND NET ESTATE.

The gross estate shall be the same as finally determined for federal estate tax and the net estate shall be the gross estate less deductions as permitted by federal law, in arriving at the net taxable federal estate, all determined as provided in the Internal Revenue Code of-1954.

Sec. 57. Section 450A.13, Code 1987, is repealed.

Sec. 58. No addition to the tax shall be made under section 422.16, subsection 11, paragraph "d" or section 422.88, relating to the underpayment of estimated tax, for any tax year beginning before January 1, 1987 with respect to any underpayment, to the extent such underpayment was created or increased by any provision of the federal Tax Reform Act of 1986 or this Act.

Sec. 59. Sections 2, 3, 7, 9, 10, 11, 15, 17 through 24, 26, 27, 29, 30, 34, 35, 37, and 38 of this Act are retroactive to January 1, 1986 for tax years beginning on or after that date.

Sec. 60. Sections 1, 4, 5, 6, 8, 12, 13, 14, 16,

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1 25, 28, 31, 32, 33, and 36 of this Act are retroactive
2 to January 1, 1987 for tax years beginning on or after
3 that date.

4 Sec. 61. Sections 41, 42, 51, 52, 53, 54, 55, and
5 56 of this Act are retroactive to January 1, 1987 for
6 estates of persons dying on or after that date.

7 Sec. 62. Sections 43 through 50 of this Act are
8 retroactive to October 22, 1986 for generation
9 skipping transfers which are eligible for the credit
10 for state taxes under section 2604 of the Internal
11 Revenue Code and are made after October 22, 1986,
12 subject to the special rules of section 1433(b) of
13 Public Law 99-514.

14 Sec. 63. Section 57 of this Act is retroactive to
15 June 11, 1976.

16 Sec. 64. This Act, being deemed of immediate
17 importance, takes effect upon enactment."

18 2. Title page, by striking lines 1 through 7 and
19 inserting the following: "An Act relating to the
20 state's income, franchise, and death taxes by updating
21 references to the Internal Revenue Code, rewriting the
22 state minimum taxes to conform with the federal
23 alternative minimum taxes, rewriting the state
24 generation skipping transfer tax to conform with the
25 federal provisions, rewriting the state individual
26 income tax to impose a flat rate, striking obsolete
27 and repealed items, clarifying the taxation of
28 regulated investment company dividends and shares,
29 extending the statute of limitations for certain
30 refund claims, providing for waiver of penalty for
31 underpayment of estimated tax, and providing effective
32 dates."

H-3749 FILED APRIL 14, 1987 BY SCHNEKLOTH of Scott

Law 4/15 (p 1434)

SENATE FILE 481

H-3778

1 Amend the Committee on Ways and Means amendment, H-
2 3736, to Senate File 481, as amended, passed, and
3 reprinted by the Senate, as follows:

4 1. Page 2, by striking lines 25 through 31 and
5 inserting the following:

6 "a. For taxpayers other than married taxpayers
7 filing separately:

8 (1) On all taxable income from zero through five
9 thousand dollars, two percent.

10 (2) On all taxable income exceeding five thousand
11 dollars, six percent.

12 b. For married taxpayers filing separately:

13 (1) On all taxable income from zero through two
14 thousand five hundred dollars, two percent.

15 (2) On all taxable income exceeding two thousand
16 five hundred dollars, six percent."

17 2. Page 3, line 6, by striking the word and
18 figures "6 and 7" and inserting the following: "2, 6,
19 7, and 10".

20 3. Page 3, by inserting after line 7 the
21 following:

22 "2. However, no tax shall be imposed on any
23 resident or nonresident whose net income, as defined
24 in section 422.7, is five seven thousand dollars or
25 less; but in the event that the payment of tax under
26 this division would reduce the net income to less than
27 five seven thousand dollars, then the tax shall be
28 reduced to that amount which would result in allowing
29 the taxpayer to retain a net income of five seven
30 thousand dollars. The preceding sentence does not
31 apply to estates or trusts. For the purpose of this
32 subsection, the entire net income, including any part
33 thereof not allocated to Iowa, shall be taken into
34 account. If the combined net income of a husband and
35 wife exceeds five seven thousand dollars, neither of
36 them shall receive the benefit of this subsection, and
37 it is immaterial whether they file a joint return or
38 separate returns. A person who is claimed as a
39 dependent by another person as defined in section
40 422.12 shall not receive the benefit of this
41 subsection if the person claiming the dependent has
42 net income exceeding five seven thousand dollars or
43 the person claiming the dependent and the person's
44 spouse have combined net income exceeding five seven
45 thousand dollars."

46 4. Page 3, line 38, by striking the word "five"
47 and inserting the following: "five seven".

48 5. Page 3, by inserting after line 50 the
49 following:

50 "10. In addition to the other taxes imposed by

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1 this section, a tax is imposed on the amount of a lump
 2 sum distribution for which the taxpayer has elected
 3 under section 402(e) of the Internal Revenue Code of
 4 1954 to be separately taxed for federal income tax
 5 purposes for the tax year. The rate of tax is equal
 6 to twenty-five percent of the separate federal tax
 7 imposed on the amount of the lump sum distribution. A
 8 nonresident is liable for this tax only on that
 9 portion of the lump sum distribution allocable to
 10 Iowa. The total amount of the lump sum distribution
 11 subject to separate federal tax shall be included in
 12 net income for purposes of determining eligibility
 13 under the five seven thousand dollar or less
 14 exclusion.

15 Sec. 80. Section 422.7, subsections 6, 8, and 19,
 16 Code 1987, are amended to read as follows:

17 6. Individual taxpayers and married taxpayers who
 18 file a joint federal income tax return and who elect
 19 to file a joint return, ~~or separate returns or~~
 20 ~~separate-filing-on-a-combined-return~~ for Iowa income
 21 tax purposes, may avail themselves of the disability
 22 income exclusion and shall compute the amount of the
 23 disability income exclusion subject to the limitations
 24 for joint federal income tax return filers provided by
 25 section 105(d) of the Internal Revenue Code of 1954.
 26 The disability income exclusion provided in section
 27 105(d) of the Internal Revenue Code of 1954, as
 28 amended up to and including December 31, 1982,
 29 continues to apply for state income tax purposes for
 30 tax years beginning on or after January 1, 1984.

31 8. Married taxpayers who file a joint federal
 32 income tax return and who elect to file separate
 33 ~~returns or separate-filing-on-a-combined-return~~ for
 34 Iowa income tax purposes, may avail themselves of the
 35 expensing of business assets and capital loss
 36 provisions of sections 179(a) and 1211(b) respectively
 37 of the Internal Revenue Code of 1954 and shall compute
 38 the amount of expensing of business assets and capital
 39 loss subject to the limitations for joint federal
 40 income tax return filers provided by sections 179(b)
 41 and 1211(b) respectively of the Internal Revenue Code
 42 of 1954.

43 19. Married taxpayers, who file a joint federal
 44 income tax return and who elect to file separate
 45 ~~returns or who elect separate-filing-on-a-combined~~
 46 ~~return~~ for state income tax purposes, shall include in
 47 net income any social security benefits or tier 1
 48 railroad retirement benefits received to the same
 49 extent as those benefits are taxable on the taxpayer's
 50 joint federal return for that year under section 86 of

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the Internal Revenue Code of 1954. The benefits included in net income must be allocated between the spouses in the ratio of the social security benefits or tier 1 railroad retirement benefits received by each spouse to the total of these benefits received by both spouses."

6. Page 4, by striking lines 36 through 44 and inserting the following: "paragraph 1, Code 1987, is amended to read as follows:

An optional standard deduction of fifteen percent of the net income ~~after deduction of federal income tax~~, not to exceed one thousand two hundred dollars for a married person who files separately, one thousand two hundred dollars for a single person or three thousand dollars for a husband and wife who file a joint return, a surviving spouse as defined in section 2 of the Internal Revenue Code of 1954, or an unmarried head of household as defined in the Internal Revenue Code of 1954."

7. Page 5, by striking lines 21 through 35.

8. Page 5, by inserting after line 35 the following:

"Sec. 81. Section 422.12, subsection 2, unnumbered paragraph 2, Code 1987, is amended to read as follows:

~~Married taxpayers electing to file separate returns or filing separately on a combined return~~ must allocate the child and dependent care credit to each spouse in the proportion that each spouse's respective net income bears to the total combined net income. Taxpayers affected by the allocation provisions of section 422.8 shall be permitted a deduction for the credit only in the amount fairly and equitably allocable to Iowa under rules prescribed by the director.

Sec. 82. Section 422.12, Code 1987, is amended by adding the following new subsection:

NEW SUBSECTION. 4. A two-earner credit for married taxpayers filing jointly. For tax years beginning in 1987, the credit is equal to one percent of the qualified earned income of the spouse with the lower qualified earned income not to exceed fifty dollars. For tax years beginning on or after January 1, 1988, the credit is equal to one and one-half percent of the qualified earned income of the spouse with the lower qualified earned income not to exceed seventy-five dollars. For purposes of this credit the term "qualified earned income" means the same as provided in section 221 of the Internal Revenue Code in effect on December 31, 1986, except that only qualified earned income from Iowa sources shall be

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1 considered for the credit. Nonresidents may claim the
2 credit only to the extent that both spouses have
3 qualified earned income from Iowa sources.

4 Sec. 83. Section 422.13, subsection 1, paragraph
5 b, Code 1987, is amended to read as follows:

6 b. The individual, except a married person filing
7 separately, has net income of ~~four~~ seven thousand
8 dollars or more for the tax year from sources taxable
9 under this division. In the case of a married person
10 filing separately, the individual has net income of
11 three thousand five hundred dollars or more for the
12 tax year from sources taxable under this division."

13 9. Page 6, line 7, by inserting after the figure
14 "12" the following: "and sections 80 through 83".

H-3778 FILED APRIL 15, 1987 BY TABOR of Jackson

LOST (p. 1443)

SENATE FILE 481

H-3781

1 Amend the Committee on Ways and Means amendment, H-
2 3736, to Senate File 481, as amended, passed, and
3 reprinted by the Senate, as follows:

4 1. Page 2, by striking lines 25 through 31 and
5 inserting the following:

6 "a. On all taxable income from zero through five
7 thousand dollars, two percent.

8 b. On all taxable income exceeding five thousand
9 dollars but not exceeding seven thousand dollars, four
10 percent.

11 c. On all taxable income exceeding seven thousand
12 dollars, six percent."

13 2. Page 3, line 6, by striking the word and
14 figures "6 and 7" and inserting the following: "2, 6,
15 7, and 10".

16 3. Page 3, by inserting after line 7 the
17 following:

18 "2. However, no tax shall be imposed on any
19 resident or nonresident whose net income, as defined
20 in section 422.7, is five seven thousand dollars or
21 less; but in the event that the payment of tax under
22 this division would reduce the net income to less than
23 five seven thousand dollars, then the tax shall be
24 reduced to that amount which would result in allowing
25 the taxpayer to retain a net income of five seven
26 thousand dollars. The preceding sentence does not
27 apply to estates or trusts. For the purpose of this
28 subsection, the entire net income, including any part
29 thereof not allocated to Iowa, shall be taken into
30 account. If the combined net income of a husband and
31 wife exceeds five seven thousand dollars, neither of
32 them shall receive the benefit of this subsection, and
33 it is immaterial whether they file a joint return or
34 separate returns. A person who is claimed as a
35 dependent by another person as defined in section
36 422.12 shall not receive the benefit of this
37 subsection if the person claiming the dependent has
38 net income exceeding five seven thousand dollars or
39 the person claiming the dependent and the person's
40 spouse have combined net income exceeding five seven
41 thousand dollars."

42 4. Page 3, line 38, by striking the word "five"
43 and inserting the following: "five seven".

44 5. Page 3, by inserting after line 50 the
45 following:

46 "10. In addition to the other taxes imposed by
47 this section, a tax is imposed on the amount of a lump
48 sum distribution for which the taxpayer has elected
49 under section 402(e) of the Internal Revenue Code of
50 1954 to be separately taxed for federal income tax

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Page Two

1 purposes for the tax year. The rate of tax is equal
2 to twenty-five percent of the separate federal tax
3 imposed on the amount of the lump sum distribution. A
4 nonresident is liable for this tax only on that
5 portion of the lump sum distribution allocable to
6 Iowa. The total amount of the lump sum distribution
7 subject to separate federal tax shall be included in
8 net income for purposes of determining eligibility
9 under the five seven thousand dollar or less
10 exclusion."

11 6. Page 4, by striking lines 36 through 44 and
12 inserting the following: "paragraph 1, Code 1987, is
13 amended to read as follows:

14 An optional standard deduction of fifteen percent
15 of the net income ~~after deduction of federal income~~
16 tax, not to exceed one thousand two hundred dollars
17 for a married person who files separately, one
18 thousand two hundred dollars for a single person or
19 three thousand dollars for a husband and wife who file
20 a joint return, a surviving spouse as defined in
21 section 2 of the Internal Revenue Code of 1954, or an
22 unmarried head of household as defined in the Internal
23 Revenue Code of 1954."

24 7. Page 5, by striking lines 21 through 35.

25 8. Page 5, by inserting after line 35 the
26 following:

27 "Sec. 82. Section 422.12, Code 1987, is amended by
28 adding the following new subsection:

29 NEW SUBSECTION. 4. A two-earner credit for
30 married taxpayers filing jointly. For tax years
31 beginning in 1987, the credit is equal to one percent
32 of the qualified earned income of the spouse with the
33 lower qualified earned income not to exceed fifty
34 dollars. For tax years beginning on or after January
35 1, 1988, the credit is equal to one and one-half
36 percent of the qualified earned income of the spouse
37 with the lower qualified earned income not to exceed
38 seventy-five dollars. For purposes of this credit the
39 term "qualified earned income" means the same as
40 provided in section 221 of the Internal Revenue Code
41 in effect on December 31, 1986, except that only
42 qualified earned income from Iowa sources shall be
43 considered for the credit. Nonresidents may claim the
44 credit only to the extent that both spouses have
45 qualified earned income from Iowa sources.

46 Sec. 83. Section 422.13, subsection 1, paragraph
47 b, Code 1987, is amended to read as follows:

48 b. The individual has net income of four seven
49 thousand dollars or more for the tax year from sources
50 taxable under this division."

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1 9. Page 6, line 7, by inserting after the figure
2 "12" the following: "and sections 82 and 83".

H-3781 FILED APRIL 15, 1987

BY BENNETT of Ida

LOST (p. 1439)

SENATE FILE 481
AMENDMENT H-3736
FISCAL NOTE

REQUESTED BY REPRESENTATIVE OSTERBERG

In compliance with a written request received April 13, 1987, a fiscal note for **AMENDMENT H-3736 TO SENATE FILE 481** is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note are available from the Legislative Fiscal Bureau to members of the Legislature upon request.

Amendment H-3736 to Senate File 481 as amended, passed, and reprinted by the Senate makes several changes to the bill. Beginning in tax year 1987, taxable income brackets and tax rates are as follows for all taxpayers:

<u>Taxable income</u>	<u>Rate (%)</u>
\$ 0 - 4,000	4.00
4,000 - 15,000	6.00
above \$15,000	9.00

The amendment also increases the level of annuity income (U.S. Civil Service Retirement and Disability Trust Fund) which may be excluded each tax year to determine net income from \$5,500 to \$5,627 on a separate return and from \$8,000 to \$8,184 on a joint return.

Federal income taxes would not be deductible for Iowa taxpayers under Amendment H-3736. The amendment also strikes the increase in the sales, services, and use tax from Senate File 481.

Assumptions

1. Federal deductibility is disallowed under the amendment.
2. Married filing separately on a combined return is disallowed under the bill, but is allowed under the amendment.
3. The minimum adjusted gross income exemption is disallowed under Senate File 481 and the amendment.
4. The effect of the tax rate changes under the amendment is assumed to be the same in FY 1988 and FY 1989.

INDIVIDUAL INCOME TAX LIABILITY FISCAL EFFECT

Under current law, 1987 individual income tax liability is estimated to be approximately \$847 million. Individual income tax liability under Senate File 481 for tax year 1987 is estimated to be \$838.5 million, a decrease of \$8.5 million compared to current law. Tax liability under H-3736 is estimated to be approximately \$974 million for tax year 1987, an increase of \$127 million compared to current law.

SOURCE: Department of Revenue and Finance

(LSB 2743S.6, RJH)

ED APRIL 14, 1987

BY DENNIS PROUTY, FISCAL DIRECTOR

HOUSE AMENDMENT TO
SENATE FILE 481

3681

1 Amend Senate File 481, as amended, passed, and re-
2 printed by the Senate, as follows:

3 1. By striking everything after the enacting
4 clause and inserting the following:

5 "Section 1. Section 422.3, subsection 5, Code
6 1987, is amended by striking the subsection and
7 inserting in lieu thereof the following:

8 5. "Internal Revenue Code" means the Internal
9 Revenue Code of 1954, prior to the date of its
10 redesignation as the Internal Revenue Code of 1986 by
11 the Tax Reform Act of 1986, or means the Internal
12 Revenue Code of 1986 as amended to and including
13 January 1, 1987, whichever is applicable.

14 Sec. 2. Section 422.4, subsection 17, Code 1987,
15 is amended to read as follows:

16 17. a. ~~"Annual inflation factor" means an index;~~
17 ~~expressed as a percentage, determined by the~~
18 ~~department each year to reflect the purchasing power~~
19 ~~of the dollar as a result of inflation during the~~
20 ~~preceding calendar year. For the 1981 and subsequent~~
21 ~~calendar years, "annual inflation factor" means an~~
22 index, expressed as a percentage, determined by the
23 department by October 15 of the calendar year
24 preceding the calendar year for which the factor is
25 determined to reflect the purchasing power of the
26 dollar as a result of inflation during the fiscal year
27 ending in the calendar year preceding the calendar
28 year for which the factor is determined. In
29 determining the annual inflation factor, the
30 department shall use the annual percent change, but
31 not less than zero percent, in the implicit price
32 deflator for the gross national product computed for
33 ~~the whole calendar year or for the second quarter of~~
34 ~~the calendar year, in the case of the annual inflation~~
35 ~~factor for the 1981 and subsequent calendar years, by~~
36 the bureau of economic analysis of the United States
37 department of commerce and shall add two-fourths for
38 ~~the 1980 and subsequent calendar years~~ of that percent
39 change to one hundred percent. ~~The annual inflation~~
40 ~~factor for the 1979 calendar year is one hundred two~~
41 ~~point three percent.~~ The annual inflation factor and
42 the cumulative inflation factor shall each be
43 expressed as a percentage rounded to the nearest one-
44 tenth of one percent. The annual inflation factor
45 shall not be less than one hundred percent.

46 b. "Cumulative inflation factor" means the product
47 of the annual inflation factor for the ~~1978~~ 1987
48 calendar year and all annual inflation factors for
49 subsequent calendar years as determined pursuant to
50 this subsection. The cumulative inflation factor

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1 applies to all tax years beginning on or after January
2 1 of the calendar year for which the latest annual
3 inflation factor has been determined.

4 c. The annual inflation factor for the ~~1978~~ 1987
5 calendar year is one hundred percent.

6 d. Notwithstanding the computation of the annual
7 inflation factor under paragraph "a" ~~of this~~
8 subsection, the annual inflation factor is one hundred
9 percent for any calendar year in which the unobligated
10 state general fund balance on June 30 ~~as certified by~~
11 ~~the director of revenue and finance by September 16 of~~
12 ~~the fiscal year beginning in that calendar year is~~
13 ~~less than sixty million dollars. However, for the~~
14 ~~1981 and subsequent calendar years, the annual~~
15 ~~inflation factor is one hundred percent for any~~
16 ~~calendar year if the unobligated state general fund~~
17 ~~balance on June 30 of the calendar year preceding the~~
18 ~~calendar year for which the factor is determined, as~~
19 certified by the director of revenue and finance by
20 October 10, is less than sixty million dollars.

21 Sec. 3. Section 422.5, subsection 1, paragraphs a
22 through m, Code 1987, are amended by striking the
23 paragraphs and inserting in lieu thereof the
24 following:

25 a. On all taxable income from zero through four
26 thousand dollars, four percent.

27 b. On all taxable income exceeding four thousand
28 dollars but not exceeding fifteen thousand dollars,
29 six percent.

30 c. On all taxable income exceeding fifteen
31 thousand dollars, nine percent.

32 Sec. 4. Section 422.5, subsection 1, paragraph n,
33 Code 1987, is amended to read as follows:

34 n d. The tax imposed upon the taxable income of a
35 nonresident shall be computed by reducing the amount
36 determined pursuant to paragraphs "a" through "c"
37 by the amounts of nonrefundable credits under this
38 division and by multiplying this resulting amount by a
39 fraction of which the nonresident's net income
40 allocated to Iowa, as determined in section 422.8,
41 subsection 2, is the numerator and the nonresident's
42 total net income computed under section 422.7 is the
43 denominator. This provision also applies to
44 individuals who are residents of Iowa for less than
45 the entire tax year.

46 Sec. 5. Section 422.5, subsection 1, paragraph o,
47 unnumbered paragraph 1, Code 1987, is amended to read
48 as follows:

49 There is imposed upon every resident and
50 nonresident of this state, including estates and

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1 trusts, the greater of the tax determined in
2 paragraphs "a" through "m" "d" or the state
3 alternative minimum tax equal to nine percent of the
4 state alternative minimum taxable income of the
5 taxpayer as computed under this paragraph.

6 Sec. 6. Section 422.5, subsections 6 and 7, Code
7 1987, are amended to read as follows:

8 6. A person who is disabled, is sixty-two years of
9 age or older or is the surviving spouse of an
10 individual or survivor having an insurable interest in
11 an individual who would have qualified for the
12 exemption under this paragraph for this tax year and
13 receives one or more annuities from the United States
14 civil service retirement and disability trust fund,
15 and whose net income, as defined in section 422.7, is
16 sufficient to require that the tax be imposed upon it
17 under this section, may determine final taxable income
18 for purposes of imposition of the tax by excluding the
19 amount of annuities received from the United States
20 civil service retirement and disability trust fund,
21 which are not already excluded in determining net
22 income, as defined in section 422.7, up to a maximum
23 each tax year of five thousand ~~five-hundred six~~
24 hundred twenty-seven dollars for a person who files a
25 separate state income tax return and eight thousand
26 one hundred eighty-four dollars total for a husband
27 and wife who file a joint state income tax return.
28 However, a surviving spouse who is not disabled or
29 sixty-two years of age or older can only exclude the
30 amount of annuities received as a result of the death
31 of the other spouse. The amount of the exemption
32 shall be reduced by the amount of any social security
33 benefits received. For the purpose of this section,
34 the amount of annuities received from the United
35 States civil service retirement and disability trust
36 fund taxable under the Internal Revenue Code of 1954
37 shall be included in net income for purposes of
38 determining eligibility under the five thousand dollar
39 or less exclusion.

40 7. Upon determination of the latest cumulative
41 inflation factor, the director shall multiply each
42 dollar amount set forth in subsection 1, paragraphs
43 "a" through "m" "c" of this section, and each dollar
44 amount specified in this section as the maximum amount
45 of annuities received which may be excluded in
46 determining final taxable income, by this cumulative
47 inflation factor, shall round off the resulting
48 product to the nearest one dollar, and shall
49 incorporate the result into the income tax forms and
50 instructions for each tax year.

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1 Sec. 7. Section 422.8, subsection 2, Code 1987, is
2 amended to read as follows:

3 2. Nonresident's net income allocated to Iowa is
4 the net income, or portion thereof, which is derived
5 from a business, trade, profession, or occupation
6 carried on within this state or income from any
7 property, trust, estate, or other source within Iowa.
8 If any business, trade, profession, or occupation is
9 carried on partly within and partly without the state,
10 only the portion of the net income which is fairly and
11 equitably attributable to that part of the business,
12 trade, profession, or occupation carried on within the
13 state is allocated to Iowa for purposes of section
14 422.5, subsection 1, paragraph "a" "d" and section
15 422.13 and income from any property, trust, estate, or
16 other source partly within and partly without the
17 state is allocated to Iowa in the same manner, except
18 that annuities, interest on bank deposits and
19 interest-bearing obligations, and dividends are
20 allocated to Iowa only to the extent to which they are
21 derived from a business, trade, profession, or
22 occupation carried on within the state. However,
23 income received by an individual who is a resident of
24 another state is not allocated to Iowa if the income
25 is subject to an income tax imposed by the state where
26 the individual resides, and if the state of residence
27 allows a similar exclusion for income received in that
28 state by residents of Iowa. In order to implement the
29 exclusions, the director shall designate by rule the
30 states which allow a similar exclusion for income
31 received by residents of Iowa, and may enter into
32 agreements with other states to provide that similar
33 exclusions will be allowed, and to provide suitable
34 withholding requirements in each state.

35 Sec. 8. Section 422.9, subsection 1, unnumbered
36 paragraph 1, Code 1987, is amended by striking the
37 paragraph and inserting in lieu thereof the following:

38 For a single person who is not a head of household,
39 a married couple filing jointly, a surviving spouse, a
40 qualifying widow, a head of household, or a married
41 person filing separately an optional standard
42 deduction equal to the amount of the standard
43 deduction determined under section 63(c) of the
44 Internal Revenue Code for that filing status.

45 Sec. 9. Section 422.9, subsection 2, paragraph b,
46 Code 1987, is amended by striking the paragraph and
47 inserting in lieu thereof the following:

48 b. For tax years beginning on or after January 1,
49 1987 but before January 1, 1988, add the amount of
50 federal income tax paid during the tax year for the

April 20, 1987

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1 previous tax year, except for federal income tax paid
2 in estimated tax payments, to the extent that the
3 federal income tax paid was not the result of an
4 adjustment to the return for the previous tax year.
5 For tax years beginning on or after January 1, 1987,
6 add the amount of federal income tax paid during the
7 tax year which is the result of an adjustment to a
8 federal return for a tax year beginning prior to
9 January 1, 1987. Subtract the amount of federal
10 income tax refund received during the tax year to the
11 extent that the federal income tax that was refunded
12 had been deducted on a return for a prior tax year.
13 Married persons who have filed a joint federal income
14 tax return and who file separately shall divide the
15 federal income tax paid or the federal income tax
16 refund between them in the ratio of the federal
17 adjusted gross income of each spouse to the adjusted
18 gross income of both spouses for the tax year which
19 resulted in the income tax payment or the income tax
20 refund.

21 Sec. 10. Section 422.9, Code 1987, is amended by
22 adding after subsection 2 the following new subsection
23 and renumbering the other subsections:

24 NEW SUBSECTION. 3. In addition to the amount
25 deducted under subsection 1 or 2, the taxpayer may
26 deduct the amount of the applicable personal
27 exemptions allowed under section 151 or 642(b) of the
28 Internal Revenue Code. In the case of married
29 taxpayers electing separate filing on a combined
30 return for state income tax purposes, the married
31 taxpayers shall equally divide amongst them the amount
32 of the exemption for dependents allowed under section
33 151 of the Internal Revenue Code.

34 Sec. 11. Section 422.12, subsection 1, Code 1987,
35 is amended by striking the subsection.

36 Sec. 12. Section 422.21, unnumbered paragraph 4,
37 Code 1987, is amended to read as follows:

38 The director shall determine for the ~~1979~~ 1988 and
39 subsequent calendar years the annual and cumulative
40 inflation factors for those calendar years to be
41 applied to tax years beginning on or after January 1
42 of that calendar year. The director shall compute the
43 new dollar amounts as specified therein to be adjusted
44 in section 422.5 by the latest cumulative inflation
45 factor and round off the result to the nearest one
46 dollar. The annual and cumulative inflation factors
47 determined by the director are not rules as defined in
48 section 17A.2, subsection 7.

49 Sec. 13. Section 442.7, subsection 1, paragraph a,
50 Code 1987, is amended by adding the following new

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1 unnumbered paragraph:

2 NEW UNNUMBERED PARAGRAPH. However, the computation
3 in determining the state percent of growth shall not
4 include revenues generated as a result of state tax
5 increases or increased revenues resulting from reduced
6 federal taxes.

7 Sec. 14. Sections 1 through 12 of this Act are
8 retroactive to January 1, 1987 for tax years beginning
9 on or after that date.

10 Sec. 15. This Act, being deemed of immediate
11 importance is effective upon enactment."

12 2. Title page, line 2, by striking the word
13 "withholding,".

14 3. Title page, by striking lines 4 through 6 and
15 inserting the following: "adjusting the allowable
16 growth under the school".

S-3681

Filed April 16, 1987

RECEIVED FROM THE HOUSE

Senate refused to concur 4/16/87 (p. 1376)
House assented 4/21/87 (p. 1546)

REPORT OF THE CONFERENCE COMMITTEE
ON SENATE FILE 481

To the President of the Senate and the Speaker of the House of Representatives:

We, the undersigned members of the conference committee appointed to resolve the differences between the Senate and the House of Representatives on Senate File 481, a bill for An Act relating to state tax revenues and expenditures by altering the individual income tax rates, withholding, standard deductions, and personal exemptions and credits; increasing the state sales, services, and use tax and providing refunds for certain contractors as a result of that increase; adjusting the allowable growth under the school foundation formula; and providing effective dates, respectfully make the following report:

1. That the House recede from its amendment, S-3681, to Senate File 481, as amended, passed, and reprinted by the Senate.
2. That Senate File 481, as amended, passed, and reprinted by the Senate, be amended as follows:

1. By striking everything after the enacting clause and inserting the following:

"Section 1. Section 98.6, subsection 2, Code 1987, is amended to read as follows:

2. Notwithstanding subsection 1, there is imposed and shall be collected and paid to the department a tax on all cigarettes used or otherwise disposed of in this state for any purpose ~~at the rate of nine mills on each cigarette for the period beginning July 1, 1981 and ending September 30, 1985~~ and at the rate of ~~thirteen~~ eighteen mills on each cigarette beginning ~~October~~ July 1, ~~1985~~ 1987.

Sec. 2. NEW SECTION. 98.40 INVENTORY TAX.

1. All persons required to be licensed under section 98.13 as distributors having in their possession and held for resale on the effective date of an increase in the tax rate cigarettes or little cigars upon which the tax under section 98.6 or 98.43 has been paid, unused cigarette tax stamps which have been paid for under section 98.8, or unused metered imprints which have been paid for under section 98.12 shall be subject to an inventory tax on the items as provided in this section.

2. Persons subject to the inventory tax imposed under this section shall take an inventory as of the close of the business day next preceding the effective date of the increased tax rate of those items subject to the inventory tax for the purpose of determining the tax due. These persons shall report the tax on forms provided by the department of revenue and finance and remit the tax due within thirty days of the prescribed inventory date. The department of revenue and finance shall adopt rules as are necessary to carry out this section.

3. The rate of the inventory tax on each item subject to the tax as specified in subsection 1 is equal to the difference between the amount paid on each item under section 98.6, 98.8, 98.12, or 98.43 prior to the tax increase and the amount that is to be paid on each similar item under section

98.6, 98.8, 98.12, or 98.43 after the tax increase except that in computing the rate of the inventory tax any discount allowed or allowable under section 98.8 shall not be considered.

Sec. 3. Section 422.3, subsection 5, Code 1987, is amended by striking the subsection and inserting in lieu thereof the following:

5. "Internal Revenue Code" means the Internal Revenue Code of 1954, prior to the date of its redesignation as the Internal Revenue Code of 1986 by the Tax Reform Act of 1986, or means the Internal Revenue Code of 1986 as amended to and including January 1, 1987, whichever is applicable.

Sec. 4. Section 422.4, subsection 17, Code 1987, is amended to read as follows:

17. a. ~~"Annual inflation factor" means an index, expressed as a percentage, determined by the department each year to reflect the purchasing power of the dollar as a result of inflation during the preceding calendar year. For the 1981 and subsequent calendar years, "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 to reflect 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 computed for the whole calendar year or for the second quarter of the calendar year, in the case of the annual inflation factor for the 1981 and subsequent calendar years, by the bureau of economic analysis of the United States department of commerce and shall add two-fourths for the 1980 and subsequent calendar years of that percent change to one hundred percent. The annual inflation factor for the 1979 calendar year is one hundred two point three 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.

b. "Cumulative inflation factor" means the product of the annual inflation factor for the ~~1978~~ 1987 calendar year and all annual inflation factors for subsequent calendar years as determined pursuant to this subsection. The cumulative inflation factor applies to all tax years beginning on or after January 1 of the calendar year for which the latest annual inflation factor has been determined.

c. The annual inflation factor for the ~~1978~~ 1987 calendar year is one hundred percent.

d. Notwithstanding the computation of the annual inflation factor under paragraph "a" ~~of this subsection~~, the annual inflation factor is one hundred percent for any calendar year in which the unobligated state general fund balance on June 30 ~~as certified by the director of revenue and finance by September 10 of the fiscal year beginning in that calendar year is less than sixty million dollars.~~ However, for the ~~1981 and subsequent calendar years~~, the annual inflation factor is one hundred percent for any calendar year if the unobligated state general fund balance on June 30 of the ~~calendar year preceding the calendar year for which the factor is determined~~, as certified by the director of revenue and finance by October 10, is less than sixty million dollars.

Sec. 5. Section 422.5, subsection 1, paragraphs a through m, Code 1987, are amended by striking the paragraphs and inserting in lieu thereof the following:

a. For taxpayers other than married taxpayers filing separately:

(1) On all taxable income from zero through five thousand dollars, two percent.

(2) On all taxable income exceeding five thousand dollars, six percent.

b. For married taxpayers filing separately:

(1) On all taxable income from zero through two thousand five hundred dollars, two percent.

(2) On all taxable income exceeding two thousand five hundred dollars, six percent.

Sec. 6. Section 422.5, subsection 1, paragraph n, Code 1987, is amended to read as follows:

n c. The tax imposed upon the taxable income of a nonresident shall be computed by reducing the amount determined pursuant to paragraphs "a" through "m" paragraph "a" or "b" 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, 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.

Sec. 7. Section 422.5, subsection 1, paragraph o, unnumbered paragraphs 1 and 5, Code 1987, are amended to read as follows:

There is imposed upon every resident and nonresident of this state, including estates and trusts, the greater of the tax determined in paragraphs "a" through "n" "c" or the state alternative minimum tax equal to nine percent of the state alternative minimum taxable income of the taxpayer as computed under this paragraph.

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 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, 422.11, 422.11A and 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, and tax preference items attributable to Iowa and with a denominator of the sum of total net income computed under section 422.7 and all tax preference items. 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 under section 57 of the Internal Revenue Code of 1954 bear to the combined preference items of both spouses.

Sec. 8. Section 422.5, subsections 2, 6, 7, and 10, Code 1987, are amended to read as follows:

2. However, no tax shall be imposed on any resident or nonresident whose net income, as defined in section 422.7, is five seven thousand dollars or less; but in the event that the payment of tax under this division would reduce the net income to less than five seven thousand dollars, then the tax shall be reduced to that amount which would result in allowing the taxpayer to retain a net income of five seven thousand dollars. The preceding sentence does not apply to estates or trusts. For the purpose of this subsection, the entire net income, including any part thereof not allocated to Iowa, shall be taken into account. If the combined net income of a husband and wife exceeds five seven thousand dollars, neither of them shall receive the benefit of this subsection, and it is immaterial whether they file a joint return or separate returns. A person who is claimed as a dependent by another person as defined in section 422.12 shall not receive the benefit of this subsection if the person claiming the dependent has net income exceeding five seven thousand dollars or the person claiming the dependent and the person's spouse have combined net income exceeding five seven thousand dollars.

6. A person who is disabled, is sixty-two years of age or older or is the surviving spouse of an individual or survivor having an insurable interest in an individual who would have qualified for the exemption under this paragraph for this tax year and receives one or more annuities from the United States civil service retirement and disability trust fund, and whose net income, as defined in section 422.7, is sufficient to require that the tax be imposed upon it under this section, may determine final taxable income for purposes of imposition of the tax by excluding the amount of annuities received from the United States civil service retirement and disability trust fund, which are not already excluded in determining net income, as defined in section 422.7, up to a maximum each tax year of five thousand five-hundred six hundred twenty-seven dollars for a person who files a separate state income tax return and eight thousand one hundred eighty-four dollars total for a husband and wife who file a joint state income tax return. However, a surviving spouse who is not disabled or sixty-two years of age or older can only exclude the amount of annuities received as a result of the death of the other spouse. The amount of the exemption shall be reduced by the amount of any social security benefits received. For the purpose of this section, the amount of annuities received from the United States civil service retirement and disability trust fund taxable under the Internal Revenue Code of 1954 shall be included in net income for purposes of determining eligibility under the five seven thousand dollar or less exclusion.

7. Upon determination of the latest cumulative inflation factor, the director shall multiply each dollar amount set forth in subsection 1, paragraphs "a" through "m" and "b" of this section, and each dollar amount specified in this section as the maximum amount of annuities received which may be excluded in determining final taxable income, by this cumulative inflation factor, shall round off the resulting product to the nearest one dollar, and shall incorporate the

result into the income tax forms and instructions for each tax year.

10. In addition to the other taxes imposed by this section, a tax is imposed on the amount of a lump sum distribution for which the taxpayer has elected under section 402(e) of the Internal Revenue Code of 1954 to be separately taxed for federal income tax purposes for the tax year. The rate of tax is equal to twenty-five percent of the separate federal tax imposed on the amount of the lump sum distribution. A nonresident is liable for this tax only on that portion of the lump sum distribution allocable to Iowa. The total amount of the lump sum distribution subject to separate federal tax shall be included in net income for purposes of determining eligibility under the five seven thousand dollar or less exclusion.

Sec. 9. Section 422.7, subsections 6, 8, and 19, Code 1987, are amended to read as follows:

6. Individual taxpayers and married taxpayers who file a joint federal income tax return and who elect to file a joint return, or separate returns ~~or-separate-filing-on-a-combined return~~ for Iowa income tax purposes, may avail themselves of the disability income exclusion and shall compute the amount of the disability income exclusion subject to the limitations for joint federal income tax return filers provided by section 105(d) of the Internal Revenue Code of 1954. The disability income exclusion provided in section 105(d) of the Internal Revenue Code of 1954, as amended up to and including December 31, 1982, continues to apply for state income tax purposes for tax years beginning on or after January 1, 1984.

8. Married taxpayers who file a joint federal income tax return and who elect to file separate returns ~~or-separate filing-on-a-combined-return~~ for Iowa income tax purposes, may avail themselves of the expensing of business assets and capital loss provisions of sections 179(a) and 1211(b) respectively of the Internal Revenue Code of 1954 and shall compute the amount of expensing of business assets and capital

loss subject to the limitations for joint federal income tax return filers provided by sections 179(b) and 1211(b) respectively of the Internal Revenue Code of 1954.

19. Married taxpayers, who file a joint federal income tax return and who elect to file separate returns ~~or who elect separate-filing-on-a-combined-return~~ for state income tax purposes, shall include in net income any social security benefits or tier 1 railroad retirement benefits received to the same extent as those benefits are taxable on the taxpayer's joint federal return for that year under section 86 of the Internal Revenue Code of 1954. The benefits included in net income must be allocated between the spouses in the ratio of the social security benefits or tier 1 railroad retirement benefits received by each spouse to the total of these benefits received by both spouses.

Sec. 10. Section 422.8, subsection 2, Code 1987, is amended to read as follows:

2. Nonresident's net income allocated to Iowa is the net income, or portion thereof, 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. If any 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 "n" "c" 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. However, income received by an individual who is a resident of another state is not allocated to Iowa if the

income is subject to an income tax imposed by the state where the individual resides, and if the state of residence allows a similar exclusion for income received in that state by residents of Iowa. In order to implement the exclusions, the director shall designate by rule the states which allow a similar exclusion for income received by residents of Iowa, and may enter into agreements with other states to provide that similar exclusions will be allowed, and to provide suitable withholding requirements in each state.

Sec. 11. Section 422.9, subsection 1, unnumbered paragraph 1, Code 1987, is amended to read as follows:

An optional standard deduction of fifteen percent of the net income ~~after-deduction-of-federal-income-tax~~, not to exceed one thousand two hundred dollars for a married person who files separately, one thousand two hundred dollars for a single person or three thousand dollars for a husband and wife who file a joint return, a surviving spouse as defined in section 2 of the Internal Revenue Code of 1954, or an unmarried head of household as defined in the Internal Revenue Code of 1954.

Sec. 12. Section 422.9, subsection 2, paragraph b, Code 1987, is amended by striking the paragraph and inserting in lieu thereof the following:

b. For tax years beginning on or after January 1, 1987 but before January 1, 1988, add the amount of federal income tax paid during the tax year for the previous tax year, except for federal income tax paid in estimated tax payments, to the extent that the federal income tax paid was not the result of an adjustment to the return for the previous tax year. For tax years beginning on or after January 1, 1987, add the amount of federal income tax paid during the tax year which is the result of an adjustment to a federal return for a tax year beginning prior to January 1, 1987. Subtract the amount of federal income tax refund received during the tax year to the extent that the federal income tax that was refunded had been deducted on a return for a prior tax year. Married persons

who have filed a joint federal income tax return and who file separately shall divide the federal income tax paid or the federal income tax refund between them in the ratio of the federal adjusted gross income of each spouse to the adjusted gross income of both spouses for the tax year which resulted in the income tax payment or the income tax refund.

Sec. 13. Section 422.12, subsection 2, unnumbered paragraph 2, Code 1987, is amended to read as follows:

Married taxpayers electing to file separate returns or ~~filing-separately-on-a-combined-return~~ must allocate the child and dependent care credit to each spouse in the proportion that each spouse's respective net income bears to the total combined net income. Taxpayers affected by the allocation provisions of section 422.8 shall be permitted a deduction for the credit only in the amount fairly and equitably allocable to Iowa under rules prescribed by the director.

Sec. 14. Section 422.12, Code 1987, is amended by adding the following new subsection:

NEW SUBSECTION. 4. A two-earner credit for married taxpayers filing jointly. For tax years beginning in 1987, the credit is equal to one percent of the qualified earned income of the spouse with the lower qualified earned income not to exceed fifty dollars. For tax years beginning on or after January 1, 1988, the credit is equal to one and one-half percent of the qualified earned income of the spouse with the lower qualified earned income not to exceed seventy-five dollars. For purposes of this credit the term "qualified earned income" means the same as provided in section 221 of the Internal Revenue Code in effect on December 31, 1986, except that only qualified earned income from Iowa sources shall be considered for the credit. Nonresidents may claim the credit only to the extent that both spouses have qualified earned income from Iowa sources.

Sec. 15. Section 422.13, subsection 1, paragraph b, Code 1987, is amended to read as follows:

b. The individual, except a married person filing separately, has net income of four seven thousand dollars or more for the tax year from sources taxable under this division. In the case of a married person filing separately, the individual has net income of three thousand five hundred dollars or more for the tax year from sources taxable under this division.

Sec. 16. Section 422.21, unnumbered paragraph 4, Code 1987, is amended to read as follows:

The director shall determine for the ~~1979~~ 1988 and subsequent calendar years the annual and cumulative inflation factors for those calendar years to be applied to tax years beginning on or after January 1 of that calendar year. The director shall compute the new dollar amounts as specified therein to be adjusted in section 422.5 by the latest cumulative inflation factor and round off the result to the nearest one dollar. The annual and cumulative inflation factors determined by the director are not rules as defined in section 17A.2, subsection 7.

Sec. 17. Section 442.7, subsection 1, paragraph a, Code 1987, is amended by adding the following new unnumbered paragraph:

NEW UNNUMBERED PARAGRAPH. However, the computation in determining the state percent of growth shall not include revenues generated as a result of state tax increases or increased revenues resulting from reduced federal taxes.

Sec. 18. Sections 3 through 15 of this Act are retroactive to January 1, 1987 for tax years beginning on or after that date.

Sec. 19. Section 2 of this Act takes effect June 1, 1987.

Sec. 20. Section 1 of this Act takes effect July 1, 1987.

Sec. 21. This Act, being deemed of immediate importance is effective upon enactment."

2. Title page, lines 4 through 6, by striking the words "the state sales, services, and use tax and providing refunds for certain contractors as a result of that increase" and

SENATE 23
May 9, 1987 .

inserting the following: "the tax on cigarettes and little
cigars".

ON THE PART OF THE SENATE:

CHARLES BRUNER, Chairperson
GEORGE R. KINLEY
EMIL J. HUSAK

Filed May 8, 1987

ON THE PART OF THE HOUSE:

MINNETTE DODERER, Chairperson
PHIL BRAMMER
HUGO SCHNELOTH
DOROTHY CARPENTER
DAVID OSTERBERG

CCR -13-

Done in Senate 5/8/87 (g. 1801)

REPORT OF THE CONFERENCE COMMITTEE
ON SENATE FILE 481

To the President of the Senate and the Speaker of the House of Representatives:

We, the undersigned members of the second conference committee appointed to resolve the differences between the Senate and the House of Representatives on Senate File 481, a bill for An Act relating to state tax revenues and expenditures by altering the individual income tax rates, withholding, standard deductions, and personal exemptions and credits; increasing the state sales, services, and use tax and providing refunds for certain contractors as a result of that increase; adjusting the allowable growth under the school foundation formula; and providing effective dates, respectfully make the following report:

1. That the House recede from its amendment, S-3681, to Senate File 481, as amended, passed, and reprinted by the Senate.

2. That Senate File 481, as amended, passed, and reprinted by the Senate, be amended as follows:

1. By striking everything after the enacting clause and inserting the following:

"Section 1. Section 442.7, subsection 1, paragraph a, unnumbered paragraph 1, Code 1987, is amended to read as follows:

The difference in the receipts of state general fund revenues, adjusted for changes in rates or basis, computed or estimated as follows:"

SENATE 11
May 10, 1987

2. Title page, by striking lines 1 through 7 and inserting the following: "An Act adjusting the allowable growth under the school foundation formula."

ON THE PART OF THE SENATE:

CHARLES BRUNER, Chairperson
GEORGE R. KINLEY
LARRY MURPHY
JACK W. HESTER
DAVID M. READINGER

ON THE PART OF THE HOUSE:

MINNETTE DODERER, Chairperson
PHIL BRAMMER
DAVID OSTERBERG
WAYNE BENNETT
JANET METCALF

Filed May 9, 1987

Sen. CONCURRED 5/9/87 (p. 1238)
House Adopted 5/9/87 (p. 2257)

CCR -2-

SS B #237
Ways and means

SENATE FILE Handwritten
BY (PROPOSED COMMITTEE ON
WAYS AND MEANS BILL)

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

A BILL FOR

1 An Act relating to state tax revenues and expenditures by
2 altering the individual income tax rates, standard deductions,
3 and personal exemptions and credits; increasing the state
4 sales, services, and use tax and providing for refunds for
5 certain contractors as a result of that increase; specifying
6 the rate of the cigarette and little cigar and tobacco
7 products taxes, when they may be altered and specifying when a
8 cigarette and little cigar inventory tax is imposed; adjusting
9 the homestead property tax credit and the elderly and disabled
10 credit and reimbursement schedule; decreasing the school
11 foundation property tax levy; adjusting the allowable growth
12 and state aid under the school foundation formula; and
13 providing effective dates.

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

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SUB COMMITTEE ASSIGNMENTS

CHAIR: Handwritten
COMMITTEE: Ways and means
3/9/87

1 Section 1. Section 98.6, subsection 2, Code 1987, is
2 amended to read as follows:

3 2. Notwithstanding subsection 1, there is imposed and
4 shall be collected and paid to the department a tax on all
5 cigarettes used or otherwise disposed of in this state for any
6 ~~purpose at the rate of nine mills on each cigarette for the~~
7 ~~period beginning July 17, 1981 and ending September 30, 1985~~
8 and at the rate of thirteen mills on each cigarette beginning
9 October 1, 1985. The rate of tax imposed on all cigarettes as
10 of October 1, 1985 applies until such time as the general
11 assembly specifically alters the rate.

12 Sec. 2. NEW SECTION. 98.40 INVENTORY TAX.

13 1. All persons required to be licensed under section 98.13
14 as distributors having in their possession and held for resale
15 on the effective date of an increase in the tax rate
16 cigarettes or little cigars upon which the tax under section
17 98.6 or 98.43 has been paid, unused cigarette tax stamps which
18 have been paid for under section 98.8, or unused metered
19 imprints which have been paid for under section 98.12 shall be
20 subject to an inventory tax on the items as provided in this
21 section.

22 2. Persons subject to the inventory tax imposed under this
23 section shall take an inventory as of the close of the busi-
24 ness day next preceding the effective date of the increased
25 tax rate of those items subject to the inventory tax for the
26 purpose of determining the tax due. These persons shall
27 report the tax on forms provided by the department of revenue
28 and finance and remit the tax due within thirty days of the
29 prescribed inventory date. The department of revenue and
30 finance shall adopt rules as are necessary to carry out this
31 section.

32 3. The rate of the inventory tax on each item subject to
33 the tax as specified in subsection 1 is equal to the
34 difference between the amount paid on each item under section
35 98.6, 98.8, 98.12, or 98.43 prior to the tax increase and the

1 amount that is to be paid on each similar item under section
2 98.6, 98.8, 98.12, or 98.43 after the tax increase except that
3 in computing the rate of the inventory tax any discount
4 allowed or allowable under section 98.8 shall not be
5 considered.

6 Sec. 3. Section 98.43, subsections 1 and 2, Code 1987, are
7 amended to read as follows:

8 1. A tax is imposed upon all tobacco products in this
9 state and upon any person engaged in business as a distributor
10 thereof, at the rate of fifteen percent of the wholesale sales
11 price of the tobacco products, except little cigars as defined
12 in section 98.42. Little cigars shall be subject to the same
13 rate of tax imposed upon cigarettes in section 98.6, payable
14 at the time and in the manner provided in section 98.6; and
15 stamps shall be affixed as provided in division I of this
16 chapter. The rate of tax imposed under this subsection as of
17 October 1, 1985 applies until such time as the general
18 assembly specifically alters the rate. The tax on tobacco
19 products, excluding little cigars, shall be imposed at the
20 time the distributor does any of the following:

21 a. Brings, or causes to be brought, into this state from
22 without the state tobacco products for sale.

23 b. Makes, manufactures, or fabricates tobacco products in
24 this state for sale in this state.

25 c. Ships or transports tobacco products to retailers in
26 this state, to be sold by those retailers.

27 2. A tax is imposed upon the use or storage by consumers
28 of tobacco products in this state, and upon the consumers, at
29 the rate of fifteen percent of the cost of the tobacco
30 products.

31 The tax imposed by this subsection shall not apply if the
32 tax imposed by subsection 1 on the tobacco products has been
33 paid. The rate of tax imposed under this subsection as of
34 October 1, 1985 applies until such time as the general
35 assembly specifically alters the rate.

1 This tax shall not apply to the use or storage of tobacco
2 products in quantities of:

3 a. Less than 25 cigars.

4 b. Less than 10 oz. snuff or snuff powder.

5 c. Less than 1 lb. smoking or chewing tobacco or other
6 tobacco products not specifically mentioned herein, in the
7 possession of any one consumer.

8 Sec. 4. Section 422.3, subsection 5, Code 1987, is amended
9 by striking the subsection and inserting in lieu thereof the
10 following:

11 5. "Internal Revenue Code" means the Internal Revenue Code
12 of 1954, prior to the date of its redesignation as the
13 Internal Revenue Code of 1986 by the Tax Reform Act of 1986,
14 or means the Internal Revenue Code of 1986 as amended to and
15 including January 1, 1987, whichever is applicable.

16 Sec. 5. Section 422.4, subsection 17, paragraph a, Code
17 1987, is amended to read as follows:

18 a. ~~"Annual inflation factor" means an index, expressed as~~
19 ~~a percentage, determined by the department each year to~~
20 ~~reflect the purchasing power of the dollar as a result of~~
21 ~~inflation during the preceding calendar year. -- Per the 1981~~
22 ~~and subsequent calendar years, "annual inflation factor" means~~
23 an index, expressed as a percentage, determined by the
24 department by October 15 of the calendar year preceding the
25 calendar year for which the factor is determined to reflect
26 the purchasing power of the dollar as a result of inflation
27 during the fiscal year ending in the calendar year preceding
28 the calendar year for which the factor is determined. In
29 determining the annual inflation factor, the department shall
30 use the annual percent change, but not less than zero percent,
31 in the implicit price deflator for the gross national product
32 ~~computed for the whole calendar year or for the second quarter~~
33 ~~of the calendar year, in the case of the annual inflation~~
34 ~~factor for the 1981 and subsequent calendar years,~~ by the
35 bureau of economic analysis of the United States department of

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1 commerce and shall add two-fourths ~~for the 1980 and subsequent~~
2 ~~calendar years~~ of that percent change to one hundred percent.
3 ~~The annual inflation factor for the 1979 calendar year is one~~
4 ~~hundred two point three percent.~~ The annual inflation factor
5 and the cumulative inflation factor shall each be expressed as
6 a percentage rounded to the nearest one-tenth of one percent.
7 The annual inflation factor shall not be less than one hundred
8 percent.

9 Sec. 6. Section 422.5, subsection 1, paragraphs a through
10 m, Code 1987, are amended by striking the paragraphs and
11 inserting in lieu thereof the following:

12 a. For a single person other than a head of household, the
13 tax rates are as follows:

14 (1) On all taxable income from zero through three thousand
15 dollars, three percent.

16 (2) On all taxable income exceeding three thousand dollars
17 but not exceeding twelve thousand dollars, five percent.

18 (3) On all taxable income exceeding twelve thousand dol-
19 lars, seven and nine-tenths percent.

20 b. For a married couple filing jointly and a head of
21 household, the tax rates are as follows:

22 (1) On all taxable income from zero through four thousand
23 five hundred dollars, three percent.

24 (2) On all taxable income exceeding four thousand five
25 hundred dollars but not exceeding eighteen thousand dollars,
26 five percent.

27 (3) On all taxable income exceeding eighteen thousand
28 dollars, seven and nine-tenths percent.

29 c. For a married person filing separately, an estate, and
30 a trust, the tax rates are as follows:

31 (1) On all taxable income from zero through two thousand
32 two hundred fifty dollars, three percent.

33 (2) On all taxable income exceeding two thousand two
34 hundred fifty dollars but not exceeding nine thousand dollars,
35 five percent.

1 (3) On all taxable income exceeding nine thousand dollars,
2 seven and nine-tenths percent.

3 The tax rates and bracket amounts in paragraphs "a" through
4 "c" are effective for tax years beginning on or after January
5 1, 1987 but before January 1, 1988.

6 Sec. 7. Section 422.5, subsection 1, paragraphs a through
7 m, Code 1987, are amended by striking the paragraphs and
8 inserting in lieu thereof the following:

9 a. For a single person other than a head of household, the
10 tax rates are as follows:

11 (1) On all taxable income from zero through two thousand
12 dollars, three percent.

13 (2) On all taxable income exceeding two thousand dollars
14 but not exceeding ten thousand dollars, five percent.

15 (3) On all taxable income exceeding ten thousand dollars,
16 seven and nine-tenths percent.

17 b. For a married couple filing jointly and a head of
18 household, the tax rates are as follows:

19 (1) On all taxable income from zero through three thousand
20 dollars, three percent.

21 (2) On all taxable income exceeding three thousand dollars
22 but not exceeding fifteen thousand dollars, five percent.

23 (3) On all taxable income exceeding fifteen thousand
24 dollars, seven and nine-tenths percent.

25 c. For a married person filing separately, an estate, and
26 a trust, the tax rates are as follows:

27 (1) On all taxable income from zero through one thousand
28 five hundred dollars, three percent.

29 (2) On all taxable income exceeding one thousand five
30 hundred dollars but not exceeding seven thousand five hundred
31 dollars, five percent.

32 (3) On all taxable income exceeding seven thousand five
33 hundred dollars, seven and nine-tenths percent.

34 The tax rates and bracket amounts in paragraph "a" through
35 "c" are effective for tax years beginning on or after January

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1 1, 1988.

2 Sec. 8. Section 422.5, subsection 1, paragraph n, Code
3 1987, is amended to read as follows:

4 n d. The tax imposed upon the taxable income of a
5 nonresident shall be computed by reducing the amount
6 determined pursuant to paragraphs "a" through "m" "c" by the
7 amounts of nonrefundable credits under this division and by
8 multiplying this resulting amount by a fraction of which the
9 nonresident's net income allocated to Iowa, as determined in
10 section 422.8, subsection 2, is the numerator and the
11 nonresident's total net income computed under section 422.7 is
12 the denominator. This provision also applies to individuals
13 who are residents of Iowa for less than the entire tax year.

14 Sec. 9. Section 422.5, subsection 1, paragraph o,
15 unnumbered paragraph 1, Code 1987, is amended to read as
16 follows:

17 There is imposed upon every resident and nonresident of
18 this state, including estates and trusts, the greater of the
19 tax determined in paragraphs "a" through "m" "d" or the state
20 alternative minimum tax equal to nine percent of the state
21 alternative minimum taxable income of the taxpayer as computed
22 under this paragraph.

23 Sec. 10. Section 422.5, subsection 7, Code 1987, is
24 amended to read as follows:

25 7. Upon determination of the latest cumulative inflation
26 factor, the director shall multiply each dollar amount set
27 forth in subsection 1, paragraphs "a" through "m" "c" of this
28 section, and each dollar amount specified in this section as
29 the maximum amount of annuities received which may be excluded
30 in determining final taxable income, by this cumulative
31 inflation factor, shall round off the resulting product to the
32 nearest one dollar, and shall incorporate the result into the
33 income tax forms and instructions for each tax year.

34 Sec. 11. Section 422.8, subsection 2, Code 1987, is
35 amended to read as follows:

1 2. Nonresident's net income allocated to Iowa is the net
2 income, or portion thereof, which is derived from a business,
3 trade, profession, or occupation carried on within this state
4 or income from any property, trust, estate, or other source
5 within Iowa. If any business, trade, profession, or
6 occupation is carried on partly within and partly without the
7 state, only the portion of the net income which is fairly and
8 equitably attributable to that part of the business, trade,
9 profession, or occupation carried on within the state is
10 allocated to Iowa for purposes of section 422.5, subsection 1,
11 paragraph "d" and section 422.13 and income from any
12 property, trust, estate, or other source partly within and
13 partly without the state is allocated to Iowa in the same
14 manner, except that annuities, interest on bank deposits and
15 interest-bearing obligations, and dividends are allocated to
16 Iowa only to the extent to which they are derived from a
17 business, trade, profession, or occupation carried on within
18 the state. However, income received by an individual who is a
19 resident of another state is not allocated to Iowa if the
20 income is subject to an income tax imposed by the state where
21 the individual resides, and if the state of residence allows a
22 similar exclusion for income received in that state by
23 residents of Iowa. In order to implement the exclusions, the
24 director shall designate by rule the states which allow a
25 similar exclusion for income received by residents of Iowa,
26 and may enter into agreements with other states to provide
27 that similar exclusions will be allowed, and to provide
28 suitable withholding requirements in each state.

29 Sec. 12. Section 422.9, subsection 1, unnumbered paragraph
30 1, Code 1987, is amended by striking the paragraph and
31 inserting in lieu thereof the following:

32 For a single person who is not a head of household, a
33 married couple filing jointly, a head of household, or a
34 married person filing separately, an optional standard deduc-
35 tion equal to the amount of the standard deduction determined

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1 under section 63(c) of the Internal Revenue Code for that
2 filing status.

3 Sec. 13. Section 422.9, subsection 2, paragraph b, Code
4 1987, is amended by striking the paragraph and inserting in
5 lieu thereof the following:

6 b. For tax years beginning on or after January 1, 1987 but
7 before January 1, 1988, add the amount of federal income tax
8 paid during the tax year for the previous tax year to the
9 extent that the federal income tax paid was not the result of
10 an adjustment to the return for the previous tax year. For
11 tax years beginning on or after January 1, 1987, add the
12 amount of federal income tax paid during the tax year which is
13 the result of an adjustment to a federal return for a tax year
14 beginning prior to January 1, 1987. Subtract the amount of
15 federal income tax refund received during the tax year to the
16 extent that the federal income tax that was refunded had been
17 deducted on a return for a prior tax year. Married persons
18 who have filed a joint federal income tax return and who file
19 separately shall divide the federal income tax paid or the
20 federal income tax refund between them in the ratio of the
21 federal adjusted gross income of each spouse to the adjusted
22 gross income of both spouses for the tax year which resulted
23 in the income tax payment or the income tax refund.

24 Sec. 14. Section 422.9, Code 1987, is amended by adding
25 after subsection 2 the following new subsection and
26 renumbering the other subsections:

27 NEW SUBSECTION. 3. In addition to the amount deducted
28 under subsection 1 or 2, the taxpayer may deduct the amount of
29 the applicable personal exemptions allowed under section 151
30 of the Internal Revenue Code.

31 Sec. 15. Section 422.12, subsection 1, Code 1987, is
32 amended by striking the subsection.

33 Sec. 16. Section 422.12, Code 1987, is amended by adding
34 the following new subsection:

35 NEW SUBSECTION. 4. a. A homestead credit equal to the

1 amount determined under paragraph "b". However, the credit
 2 under this subsection is not allowed to the taxpayer if any of
 3 the following circumstances apply:

4 (1) The taxpayer received the additional property tax
 5 credit under sections 425.16 through 425.39 for taxes due
 6 during a fiscal year beginning in the tax year or received a
 7 reimbursement for rent constituting property tax paid under
 8 sections 425.16 through 425.39 for rent paid during the year
 9 preceding the tax year.

10 (2) The taxpayer is claimed as a dependent on the state or
 11 federal income tax return of another individual for the tax
 12 year.

13 (3) The taxpayer did not actually pay property taxes or
 14 rent during the tax year on the homestead.

15 b. (1) If the taxpayer owns the homestead at the
 16 beginning of the tax year, the homestead credit is determined
 17 in accordance with the following schedule:

18		Property taxes actually paid by the tax-		
19	Taxpayer's net	payer on the homestead:		
20	income:	\$100 - 399.99	\$400 - 799.99	\$800 or more
21	\$ 0 - 9,999.99	\$15	\$25	\$35
22	10,000 - 24,999.99	10	20	30
23	25,000 - 49,999.99	5	15	25

24 (2) If the taxpayer rents the homestead at the beginning
 25 of the tax year, the homestead credit is determined in
 26 accordance with the following schedule:

27		Rent actually paid by the taxpayer for the		
28	Taxpayer's net	homestead:		
29	income:	\$400-1,599.99	\$1,600-3,199.99	\$3,200 or more
30	\$ 0 - 9,999.99	\$15	\$25	\$35
31	10,000 - 24,999.99	10	20	30
32	25,000 - 49,999.99	5	15	25

33 (3) Each homestead credit amount in the schedules in this
 34 paragraph is increased by five dollars for tax years beginning
 35 in the 1988 calendar year and increased by an additional five

1 dollars for tax years beginning on or after January 1, 1989.

2 c. For purposes of the homestead credit under this
3 subsection, "homestead" means the same as defined in section
4 425.17, except that the term "base year" as used in that
5 definition shall mean "tax year".

6 Sec. 17. Section 422.43, subsections 1, 2, 6, and 10, Code
7 1987, are amended to read as follows:

8 1. There is imposed a tax of ~~four~~ five percent upon the
9 gross receipts from all sales of tangible personal property,
10 consisting of goods, wares, or merchandise, except as
11 otherwise provided in this division, sold at retail in the
12 state to consumers or users; a like rate of tax upon the gross
13 receipts from the sales, furnishing or service of gas,
14 electricity, water, heat, and communication service, including
15 the gross receipts from such sales by any municipal
16 corporation furnishing gas, electricity, water, heat, and
17 communication service to the public in its proprietary
18 capacity, except as otherwise provided in this division, when
19 sold at retail in the state to consumers or users; a like rate
20 of tax upon the gross receipts from all sales of tickets or
21 admissions to places of amusement, fairs, and athletic events
22 except those of elementary and secondary educational
23 institutions; and a like rate of tax upon that part of private
24 club membership fees or charges paid for the privilege of
25 participating in any athletic sports provided club members.

26 2. There is imposed a ~~tax-of-four-percent~~ like rate of tax
27 upon the gross receipts derived from the operation of all
28 forms of amusement devices and games of skill, games of
29 chance, raffles, and bingo games as defined in chapter 99B,
30 operated or conducted within the state of Iowa, the tax to be
31 collected from the operator in the same manner as is provided
32 for the collection of taxes upon the gross receipts of tickets
33 or admission fees as provided in this section. The tax shall
34 also be imposed upon the gross receipts derived from the sale
35 of lottery tickets or shares pursuant to chapter 99E. The tax

1 on the lottery tickets or shares shall be included in the
2 sales price and distributed to the general fund as provided in
3 section 99E.10.

4 6. There is imposed a ~~tax-of-four-percent~~ like rate of tax
5 upon the gross receipts from the sales of optional service or
6 warranty contracts which provide for the furnishing of labor
7 and materials and require the furnishing of any taxable
8 service enumerated under this section. The gross receipts are
9 subject to tax even if some of the services furnished are not
10 enumerated under this section. For the purpose of this
11 division, the sale of an optional service or warranty contract
12 is a sale of tangible personal property. Additional sales,
13 services, or use tax shall not be levied on services, parts,
14 or labor provided under optional service or warranty contracts
15 which are subject to tax under this section.

16 10. There is imposed a tax of ~~four~~ five percent upon the
17 gross receipts from the rendering, furnishing, or performing
18 of services as defined in section 422.42.

19 Sec. 18. Section 422.47, Code 1987, is amended by adding
20 the following new subsection:

21 NEW SUBSECTION. Construction contractors may make
22 application to the department for a refund of the additional
23 one percent tax paid under this division or the additional one
24 percent tax paid under chapter 423 by reason of the increase
25 in the tax from four to five percent for taxes paid on goods,
26 wares, or merchandise under the following conditions:

27 a. The goods, wares, or merchandise are incorporated into
28 an improvement to real estate in fulfillment of a written
29 contract fully executed prior to June 1, 1987. The refund
30 shall not apply to equipment transferred in fulfillment of a
31 mixed construction contract.

32 b. The contractor has paid to the department or to a
33 retailer the full five percent tax.

34 c. The claim is filed on forms provided by the department
35 and is filed within one year of the date the tax is paid.

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1 A contractor who makes an erroneous application for refund
2 is liable for payment of the excess refund paid plus interest
3 at the rate in effect under section 421.7. In addition, a
4 contractor who willfully makes a false application for refund
5 is guilty of a simple misdemeanor and is liable for a penalty
6 equal to seventy-five percent of the excess refund claimed.
7 Excess refunds, penalties, and interest due under this
8 subsection may be enforced and collected in the same manner as
9 the tax imposed by this division.

10 Sec. 19. Section 423.2, Code 1987, is amended to read as
11 follows:

12 423.2 IMPOSITION OF TAX.

13 An excise tax is imposed on the use in this state of
14 tangible personal property purchased for use in this state, at
15 the rate of ~~four~~ five percent of the purchase price of the
16 property. The excise tax is imposed upon every person using
17 the property within this state until the tax has been paid
18 directly to the county treasurer or the state department of
19 transportation, to a retailer, or to the department. An
20 excise tax is imposed on the use in this state of services
21 enumerated in section 422.43 at the rate of ~~four~~ five percent.
22 This tax is applicable ~~where~~ if services are rendered,
23 furnished, or performed in this state or ~~where~~ if the product
24 or result of the service is used in this state. This tax is
25 imposed on every person using the services or the product of
26 the services in this state until the user has paid the tax
27 either to an Iowa use tax permit holder or to the department.

28 Sec. 20. Section 425.1, Code 1987, is amended by adding
29 the following new subsection:

30 NEW SUBSECTION. 7. The amount of the homestead credit
31 allowed under this section on a homestead with a market value
32 equal to or greater than seventy-five thousand dollars is as
33 follows:

34 Market value of home-	Percentage of the amount
35 stead:	of homestead credit:

1	\$ 75,000 - 99,999.99	75%
2	100,000 - 124,999.99	50
3	125,000 - 149,999.99	25
4	150,000 and over	0

5 Sec. 21. Section 425.23, subsection 1, Code 1987, is
6 amended to read as follows:

7 1. The tentative credit or reimbursement shall be
8 determined in accordance with the following schedule:

9		Percent of property taxes
10		due or rent constituting
11	If the household	property taxes paid allowed
12	income is:	as a credit or reimbursement:

13	\$ 0 - 4,999.99	100%
14	5,000 - 5,999.99	70 <u>90</u>
15	6,000 - 6,999.99	50 <u>80</u>
16	7,000 - 7,999.99	40 <u>70</u>
17	8,000 - 8,999.99	30 <u>60</u>
18	9,000 - 11,999.99 <u>9,999.99</u>	25 <u>50</u>
19	<u>10,000 - 10,999.99</u>	<u>40</u>
20	<u>11,000 - 11,999.99</u>	<u>30</u>
21	<u>12,000 - 12,999.99</u>	<u>20</u>
22	<u>13,000 - 13,999.99</u>	<u>10</u>

23 Sec. 22. Section 442.2, Code 1987, is amended by adding
24 the following new subsection:

25 NEW SUBSECTION. 5. Notwithstanding subsection 1, the
26 foundation property tax levied on residential, agricultural,
27 and commercial property for the fiscal years beginning July 1,
28 1988 and July 1, 1989 are five dollars per thousand dollars
29 and four dollars and ninety cents per thousand dollars,
30 respectively, of assessed valuation on all taxable
31 residential, agricultural, and commercial property in the
32 district.

33 Sec. 23. Section 442.3, Code 1987, is amended to read as
34 follows:

35 442.3 STATE FOUNDATION BASE.

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1 The state foundation base for the school year beginning
2 July 1, 1986 is eighty percent of the state cost per pupil.
3 The state foundation base for the school year beginning July
4 1, 1987 and for each succeeding school year is eighty-one and
5 one-half percent of the state cost per pupil. For each
6 ~~succeeding-school-year, the state foundation base shall be~~
7 ~~increased by the amount of one-half percent of the state cost~~
8 ~~per pupil, up to a maximum of eighty-five percent of the state~~
9 ~~cost per pupil.~~ The district foundation base is the larger of
10 the state foundation base or the amount per pupil which the
11 district will receive from foundation property tax and state
12 school foundation aid.

13 Sec. 24. Section 442.7, subsection 1, paragraph a, Code
14 1987, is amended by adding the following new unnumbered
15 paragraph:

16 NEW UNNUMBERED PARAGRAPH. However, for computing the state
17 percent of growth to be used for the school years beginning
18 July 1, 1988 and July 1, 1989, the revenues received as a
19 result of the increase in taxes in this Act or as a result of
20 the coupling with the federal income tax changes under House
21 File 153 shall not be considered revenues received for the
22 state general fund for purposes of determining the percentages
23 under subparagraph (1) or (2).

24 Sec. 25. Section 6 of this Act is retroactive to January
25 1, 1987 for tax years beginning on or after that date but
26 before January 1, 1988. Section 6 of this Act is repealed
27 January 1, 1988 for tax years beginning on or after that date.

28 Sec. 26. Section 7 of this Act is effective January 1,
29 1988 for tax years beginning on or after that date.

30 Sec. 27. Sections 17, 18, and 19 of this Act are effective
31 June 1, 1987.

32 Sec. 28. Sections 4, 5, and 8 through 16 of this Act are
33 retroactive to January 1, 1987 for tax years beginning on or
34 after that date.

35 Sec. 29. Section 20 of this Act is retroactive to January

1 1, 1987 for homestead credit claims filed or on file on or
2 after that date for taxes payable in the fiscal years
3 beginning on or after July 1, 1988.

4 Sec. 30. Section 21 of this Act is retroactive to January
5 1, 1987 for property tax credit claims filed on or after
6 January 1, 1987 for taxes payable in the fiscal year beginning
7 July 1, 1987 and ending June 30, 1988 and for any subsequent
8 years. Section 21 of this Act is applicable to rent
9 reimbursement claims filed on or after January 1, 1988 for
10 rents paid in calendar year 1987 and subsequent calendar
11 years.

12 Sec. 31. This Act, being deemed of immediate importance is
13 effective upon enactment.

14 EXPLANATION

15 Sections 2 through 3 provide that the rate of the cigarette
16 and tobacco products taxes on October 1, 1985 will remain the
17 same until specifically changed by the general assembly and
18 places in the Code an inventory tax which will be imposed when
19 the rates are changed.

20 Sections 4, 5, and 8 through 11 are coordinating sections.

21 Section 6 alters the individual tax rates to 3%, 5%, and
22 7.9% for the 1987 tax years and section 7 alters the 1987 tax
23 year brackets but keeps the same three tax rates for tax years
24 beginning after 1987.

25 Sections 12 through 16 provide that the standard deduction
26 and the personal deductions will be the same as that for
27 federal tax purposes, eliminates the deduction for federal
28 income taxes paid, repeals the personal exemption credits, and
29 allows a homestead credit for both owners and renters with net
30 incomes under a set amount.

31 Sections 17 through 19 increase the state sales and use tax
32 from four to five percent beginning June 1, 1987. Also a
33 refund of the one percent increase is provided for a construc-
34 tion contractor if the property purchased was used in making
35 an improvement to real estate in fulfillment of a written con-

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1 tract fully executed prior to June 1, 1987.

2 Sections 20 and 21 alter the homestead property tax credit
3 by phasing out the amount of credit allowed for owners whose
4 market value of their homesteads exceed certain amounts and by
5 changing the additional homestead tax credit and reimbursement
6 schedule to increase the income level and the percentage
7 amounts.

8 Sections 22 through 24 amend the school foundation formula
9 by decreasing the levy, freezing the state foundation base,
10 and excluding certain state revenues in determining the
11 allowable growth percentages.

12 Sections 25 through 31 provide effective dates.

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AN ACT

ADJUSTING THE ALLOWABLE GROWTH UNDER THE SCHOOL FOUNDATION FORMULA.

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

Section 1. Section 442.7, subsection 1, paragraph a, unnumbered paragraph 1, Code 1987, is amended to read as follows:

The difference in the receipts of state general fund revenues, adjusted for changes in rates or basis, computed or estimated as follows:

JO ANN ZIMMERMAN
President of the Senate

DONALD D. AVENSON
Speaker of the House

I hereby certify that this bill originated in the Senate and is known as Senate File 481, Seventy-second General Assembly.

JOHN F. DWYER
Secretary of the Senate

Approved _____, 1987

TERRY E. BRANSTAD
Governor

SF 481