

Reprinted 6/87

FILED JUN 4 1987

SENATE FILE 523
BY COMMITTEE ON WAYS AND MEANS

Passed Senate, Date 6/4/87 (p. 15) Passed House, Date 6/4/87 (p. 20)
Vote: Ayes 29 Nays 19 Vote: Ayes 58 Nays 37
Approved July 6, 1987

A BILL FOR

1 An Act relating to state taxes by revising the state cigarette
2 and little cigar tax by increasing the tax and imposing an
3 inventory tax on cigarettes and little cigars, unused tax
4 stamps and metered imprints; and by revising the state
5 individual income tax by altering the tax brackets and rates;
6 disallowing married persons filing separately on combined
7 returns; eliminating the deduction for federal income taxes
8 paid; providing a two-earner tax credit; and providing
9 effective dates.

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

11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

SF 523

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 1, 1981 and ending September 30, 1985~~
8 and at the rate of thirteen fifteen and one-half mills on each
9 cigarette beginning ~~October~~ July 1, 1985 1987.

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

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

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

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

1 in computing the rate of the inventory tax any discount
2 allowed or allowable under section 98.8 shall not be
3 considered.

4 Sec. 3. Section 422.4, subsection 17, Code 1987, is
5 amended to read as follows:

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

32 b. "Cumulative inflation factor" means the product of the
33 annual inflation factor for the ~~1978~~ 1987 calendar year and
34 all annual inflation factors for subsequent calendar years as
35 determined pursuant to this subsection. The cumulative

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

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

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

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

22 a. For taxpayers other than married taxpayers filing
23 separately, estates, and trusts, the tax rates are as follows:

24 (1) On all taxable income from zero through five thousand
25 dollars, one and one-half percent.

26 (2) On all taxable income exceeding five thousand dollars
27 but not exceeding ten thousand dollars, four percent.

28 (3) On all taxable income exceeding ten thousand dollars
29 but not exceeding seventy thousand dollars, six and one-half
30 percent.

31 (4) On all taxable income exceeding seventy thousand
32 dollars, six and nine-tenths percent.

33 b. For a married person filing separately, an estate, and
34 a trust, the tax rates are as follows:

35 (1) On all taxable income from zero through two thousand

1 five hundred dollars, one and one-half percent.

2 (2) On all taxable income exceeding two thousand five
3 hundred dollars but not exceeding five thousand dollars, four
4 percent.

5 (3) On all taxable income exceeding five thousand dollars
6 but not exceeding thirty-five thousand dollars, six and one-
7 half percent.

8 (4) On all taxable income exceeding thirty-five thousand
9 dollars, six and nine-tenths percent.

10 Sec. 5. Section 422.5, subsection 1, paragraph n, Code
11 1987, is amended to read as follows:

12 n c. The tax imposed upon the taxable income of a
13 nonresident shall be computed by reducing the amount
14 determined pursuant to paragraphs paragraph "a" through-"m" or
15 "b" by the amounts of nonrefundable credits under this
16 division and by multiplying this resulting amount by a
17 fraction of which the nonresident's net income allocated to
18 Iowa, as determined in section 422.8, subsection 2, is the
19 numerator and the nonresident's total net income computed
20 under section 422.7 is the denominator. This provision also
21 applies to individuals who are residents of Iowa for less than
22 the entire tax year.

23 Sec. 6. Section 422.5, subsection 1, paragraph o,
24 unnumbered paragraph 1, Code 1987, as amended by 1987 Iowa
25 Acts, House File 153, section 3, is amended to read as
26 follows:

27 There is imposed upon every resident and nonresident of
28 this state, including estates and trusts, the greater of the
29 tax determined in paragraphs "a" through "n" "c" or the state
30 alternative minimum tax equal to seventy-five percent of the
31 maximum state individual income tax rate, rounded to the
32 nearest one-tenth of one percent, of the state alternative
33 minimum taxable income of the taxpayer as computed under this
34 paragraph.

35 Sec. 7. Section 422.5, subsection 1, paragraph o,

1 unnumbered paragraph 5, Code 1987, as amended by 1987 Iowa
2 Acts, House File 153, section 3, is amended to read as
3 follows:

4 In the case of a resident, including a resident estate or
5 trust, the state's apportioned share of the state alternative
6 minimum tax is one hundred percent of the state alternative
7 minimum tax computed in this subsection. In the case of a
8 nonresident, including a nonresident estate or trust, or an
9 individual, estate or trust that is domiciled in the state for
10 less than the entire tax year, the state's apportioned share
11 of the state alternative minimum tax is the amount of tax
12 computed under this subsection, reduced by the applicable
13 credits in sections 422.10, 422.11, 422.11A and 422.12 and
14 this result multiplied by a fraction with a numerator of the
15 sum of state net income allocated to Iowa as determined in
16 section 422.8, subsection 2, plus tax preference items,
17 adjustments, and losses under subparagraph (1) attributable to
18 Iowa and with a denominator of the sum of total net income
19 computed under section 422.7 and all tax preference items,
20 adjustments, and losses under subparagraph (1). In computing
21 this fraction, those items excludable under subparagraph (1)
22 shall not be used in computing the tax preference items.
23 Married taxpayers electing to file separate returns or
24 ~~separately-on-a-combined-return~~ must allocate the minimum tax
25 computed in this subsection in the proportion that each
26 spouse's respective preference items, adjustments, and losses
27 under subparagraph (1) bear to the combined preference items,
28 adjustments, and losses under subparagraph (1) of both
29 spouses.

30 Sec. 8. Section 422.5, subsection 6, Code 1987, as amended
31 by 1987 Iowa Acts, House File 153, section 4, is amended to
32 read as follows:

33 6. A person who is disabled, is sixty-two years of age or
34 older or is the surviving spouse of an individual or survivor
35 having an insurable interest in an individual who would have

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

25 Sec. 9. Section 422.5, subsection 7, Code 1987, is amended
26 to read as follows:

27 7. Upon determination of the latest cumulative inflation
28 factor, the director shall multiply each dollar amount set
29 forth in subsection 1, paragraphs "a" ~~through-"m"~~ and "b" of
30 this section, and each dollar amount specified in this section
31 as the maximum amount of annuities received which may be
32 excluded in determining final taxable income, by this
33 cumulative inflation factor, shall round off the resulting
34 product to the nearest one dollar, and shall incorporate the
35 result into the income tax forms and instructions for each tax

1 year.

2 Sec. 10. Section 422.7, subsections 6, 8, and 19, Code
3 1987, as amended by 1987 Iowa Acts, House File 153, section 7,
4 are amended to read as follows:

5 6. Individual taxpayers and married taxpayers who file a
6 joint federal income tax return and who elect to file a joint
7 return, ~~or separate returns or separate-filing-on-a-combined~~
8 ~~return~~ for Iowa income tax purposes, may avail themselves of
9 the disability income exclusion and shall compute the amount
10 of the disability income exclusion subject to the limitations
11 for joint federal income tax return filers provided by section
12 105(d) of the Internal Revenue Code. The disability income
13 exclusion provided in section 105(d) of the Internal Revenue
14 Code, as amended up to and including December 31, 1982,
15 continues to apply for state income tax purposes for tax years
16 beginning on or after January 1, 1984.

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

27 19. Married taxpayers, who file a joint federal income tax
28 return and who elect to file separate returns ~~or who elect~~
29 ~~separate-filing-on-a-combined-return~~ for state income tax
30 purposes, shall include in net income any social security
31 benefits received to the same extent as those benefits are
32 taxable on the taxpayer's joint federal return for that year
33 under section 86 of the Internal Revenue Code. The benefits
34 included in net income must be allocated between the spouses
35 in the ratio of the social security benefits received by each

1 spouse to the total of these benefits received by both
2 spouses.

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

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

33 Sec. 12. Section 422.9, subsection 1, unnumbered paragraph
34 1, Code 1987, as amended by 1987 Iowa Acts, House File 153,
35 section 11, is amended to read as follows:

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

9 Sec. 13. Section 422.9, subsection 2, paragraph b, Code
10 1987, is amended by striking the paragraph and inserting in
11 lieu thereof the following:

12 b. For tax years beginning on or after January 1, 1987 but
13 before January 1, 1988, add the amount of federal income tax
14 paid during the tax year for the previous tax year, except for
15 federal income tax paid in estimated tax payments, to the
16 extent that the federal income tax paid was not the result of
17 an adjustment to the return for the previous tax year. For
18 tax years beginning on or after January 1, 1987, add the
19 amount of federal income tax paid during the tax year which is
20 the result of an adjustment to a federal return for a tax year
21 beginning prior to January 1, 1987. Subtract the amount of
22 federal income tax refund received during the tax year to the
23 extent that the federal income tax that was refunded had been
24 deducted on a return for a prior tax year. Married persons
25 who have filed a joint federal income tax return and who file
26 separately shall divide the federal income tax paid or the
27 federal income tax refund between them in the ratio of the
28 federal adjusted gross income of each spouse to the adjusted
29 gross income of both spouses for the tax year which resulted
30 in the income tax payment or the income tax refund.

31 Sec. 14. Section 422.12, subsection 2, unnumbered
32 paragraph 2, Code 1987, is amended to read as follows:

33 Married taxpayers electing to file separate returns or
34 ~~filing-separately-on-a-combined-return~~ must allocate the child
35 and dependent care credit to each spouse in the proportion

1 that each spouse's respective net income bears to the total
2 combined net income. Taxpayers affected by the allocation
3 provisions of section 422.8 shall be permitted a deduction for
4 the credit only in the amount fairly and equitably allocable
5 to Iowa under rules prescribed by the director.

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

8 NEW SUBSECTION. A two-earner credit for married taxpayers
9 filing jointly. The credit is equal to three percent of the
10 qualified earned income of the spouse with the lower qualified
11 earned income not to exceed one hundred fifty dollars. For
12 purposes of this credit the term "qualified earned income"
13 means the same as provided in section 221 of the Internal
14 Revenue Code in effect on December 31, 1986, except that only
15 qualified earned income from Iowa sources shall be considered
16 for the credit. Nonresidents may claim the credit only to the
17 extent that both spouses have qualified earned income from
18 Iowa sources. For married taxpayers filing jointly with
19 adjusted gross income in excess of seventy-five thousand
20 dollars, the allowable amount of the two-earner credit shall
21 be reduced, but not below zero, by fifteen dollars for each
22 one thousand dollars that the adjusted gross income of the
23 married taxpayers exceeds seventy-five thousand dollars.

24 Sec. 16. Section 422.21, unnumbered paragraph 4, Code
25 1987, is amended to read as follows:

26 The director shall determine for the ~~1979~~ 1988 and
27 subsequent calendar years the annual and cumulative inflation
28 factors for those calendar years to be applied to tax years
29 beginning on or after January 1 of that calendar year. The
30 director shall compute the new dollar amounts as specified
31 therein to be adjusted in section 422.5 by the latest
32 cumulative inflation factor and round off the result to the
33 nearest one dollar. The annual and cumulative inflation
34 factors determined by the director are not rules as defined in
35 section 17A.2, subsection 7.

SENATE FILE 523

S-4114

1 Amend Senate File 523, as follows:

2 1. Page 9, by inserting after line 8 the
3 following:

4 "Sec. 30. Section 422.9, subsection 1, Code 1987,
5 is amended by adding the following new unnumbered
6 paragraph:

7 NEW UNNUMBERED PARAGRAPH. However, for tax years
8 beginning on or after January 1, 1987 but before
9 January 1, 1988, deduct only the amount of federal
10 income tax paid during the tax year for the previous
11 tax year. Federal income tax paid in estimated tax
12 payments during the tax year for the previous tax year
13 shall not be deducted. For tax years beginning on or
14 after January 1, 1987 but before January 1, 1988, add
15 only the amount of federal income tax refund received
16 during the tax year to the extent that the federal
17 income tax that was refunded had been deducted on a
18 return for a tax year beginning prior to January 1,
19 1987. Married persons who have filed a joint federal
20 income tax return and who have filed separate state
21 returns shall divide the federal income tax paid or
22 the federal income tax refund between the spouses in
23 the ratio of the federal adjusted gross income of each
24 spouse to the adjusted gross income of both spouses
25 for the tax year which resulted in the income tax
26 payment or the income tax refund."

27 2. Page 9, by striking lines 12 through 30 and
28 inserting the following:

29 "b. For tax years beginning on or after January 1,
30 1987 but before January 1, 1988, add the amount of
31 federal income tax paid during the tax year for the
32 previous tax year except for federal income tax paid
33 in estimated tax payments. For tax years beginning on
34 or after January 1, 1987 but before January 1, 1988,
35 subtract the amount of federal income tax refund
36 received during the tax year to the extent that the
37 federal income tax that was refunded had been deducted
38 on a return for a tax year beginning prior to January
39 1, 1987. Married persons who have filed a joint
40 federal income tax return and who have filed separate
41 state returns shall divide the federal income tax paid
42 or the federal income tax refund between the spouses
43 in the ratio of the federal adjusted gross income of
44 each spouse to the adjusted gross income of both
45 spouses for the tax year which resulted in the income
46 tax payment or the income tax refund."

47 3. Page 10, line 21, by striking the words
48 "fifteen dollars" and inserting the following: "ten
49 percent of the credit".

50 4. Page 10, by inserting after line 23 the

SENATE 12
JUNE 5, 1987

S-4114 Pg. 2

1 following:

2 "Sec. 35. Section 422.13, subsection 1, paragraph
3 b, Code 1987, is amended to read as follows:

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

7 5. Page 10, by inserting after line 35 the
8 following:

9 "Sec. _____. The legislative council shall appoint
10 an interim study committee to study the effects of the
11 tax legislation enacted during the 1987 Extraordinary
12 Session. The interim study committee shall submit its
13 final report along with any recommendations to the
14 legislative council and the general assembly prior to
15 the convening of the 1988 session."

16 6. Page 11, line 1, by striking the word and
17 figures: "3 through 16" and inserting the following:
18 "3 through 11, 13 through 16, 30, and 35".

19 7. Page 11, by inserting after line 4 the
20 following:

21 "Sec. _____. Section 12 of this Act is effective
22 January 1, 1988 for tax years beginning on or after
23 that date."

S-4114

Filed June 4, 1987

Ruled out of order (p. 15)

BY COMMITTEE ON WAYS AND MEANS
CHARLES BRUNER, Chairperson

SENATE FILE 523

S-4117

1 Amend Senate File 523 as follows:

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

4 "Section 1. Section 422.4, subsection 17, Code
5 1987, is amended to read as follows:

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

36 b. "Cumulative inflation factor" means the product
37 of the annual inflation factor for the ~~1978~~ 1987
38 calendar year and all annual inflation factors for
39 subsequent calendar years as determined pursuant to
40 this subsection. The cumulative inflation factor
41 applies to all tax years beginning on or after January
42 1 of the calendar year for which the latest annual
43 inflation factor has been determined.

44 c. The annual inflation factor for the ~~1978~~ 1987
45 calendar year is one hundred percent.

46 d. Notwithstanding the computation of the annual
47 inflation factor under paragraph "a" ~~of this~~
48 ~~subsection~~, the annual inflation factor is one hundred
49 percent for any calendar year in which the unobligated
50 state general fund balance on June 30 ~~as certified by~~

S-4117 Pg. 2

1 the director of revenue and finance by September 10 of
2 the fiscal year beginning in that calendar year is
3 less than sixty million dollars. -- However, for the
4 1981 and subsequent calendar years, the annual
5 inflation factor is one hundred percent for any
6 calendar year if the unobligated state general fund
7 balance on June 30 of the calendar year preceding the
8 calendar year for which the factor is determined, as
9 certified by the director of revenue and finance by
10 October 10, is less than sixty million dollars.

11 Sec. 2. Section 422.5, subsection 1, paragraphs a
12 through m, Code 1987, are amended by striking the
13 paragraphs and inserting in lieu thereof the
14 following:

15 a. For taxpayers other than married taxpayers
16 filing separately, estates, and trusts, the tax rates
17 are as follows:

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

20 (2) On all taxable income exceeding five thousand
21 dollars but not exceeding ten thousand dollars, four
22 percent.

23 (3) On all taxable income exceeding ten thousand
24 dollars but not exceeding forty-five thousand dollars,
25 six and one-half percent.

26 (4) On all taxable income exceeding forty-five
27 thousand dollars, nine and one-half percent.

28 b. For a married person filing separately, an
29 estate, and a trust, the tax rates are as follows:

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

32 (2) On all taxable income exceeding two thousand
33 five hundred dollars but not exceeding five thousand
34 dollars, four percent.

35 (3) On all taxable income exceeding five thousand
36 dollars but not exceeding twenty-two thousand five
37 hundred dollars, six and one-half percent.

38 (4) On all taxable income exceeding twenty-two
39 thousand five hundred dollars, nine and one-half
40 percent.

41 For a taxpayer with taxable income in excess of
42 twenty-five thousand dollars, the benefit of income
43 taxed at the lowest two rates shall be added back at a
44 rate of two hundred fifty dollars for every one
45 thousand dollars in taxable income exceeding twenty-
46 five thousand dollars but not exceeding forty-five
47 thousand dollars until the total value of the rate
48 benefits are recovered.

49 Sec. 3. Section 422.5, subsection 1, paragraph n,
50 Code 1987, is amended to read as follows:

S-4117 Pg. 3

1 n c. The tax imposed upon the taxable income of a
2 nonresident shall be computed by reducing the amount
3 determined pursuant to ~~paragraphs~~ paragraph "a"
4 through "m" or "b" by the amounts of nonrefundable
5 credits under this division and by multiplying this
6 resulting amount by a fraction of which the
7 nonresident's net income allocated to Iowa, as
8 determined in section 422.8, subsection 2, is the
9 numerator and the nonresident's total net income
10 computed under section 422.7 is the denominator. This
11 provision also applies to individuals who are
12 residents of Iowa for less than the entire tax year.

13 Sec. 4. Section 422.5, subsection 1, paragraph o,
14 unnumbered paragraph 1, Code 1987, as amended by 1987
15 Iowa Acts, House File 153, section 3, is amended to
16 read as follows:

17 There is imposed upon every resident and
18 nonresident of this state, including estates and
19 trusts, the greater of the tax determined in
20 paragraphs "a" through "n" "c" or the state
21 alternative minimum tax equal to seventy-five percent
22 of the maximum state individual income tax rate,
23 rounded to the nearest one-tenth of one percent, of
24 the state alternative minimum taxable income of the
25 taxpayer as computed under this paragraph.

26 Sec. 5. Section 422.5, subsection 1, paragraph o,
27 unnumbered paragraph 5, Code 1987, as amended by 1987
28 Iowa Acts, House File 153, section 3, is amended to
29 read as follows:

30 In the case of a resident, including a resident
31 estate or trust, the state's apportioned share of the
32 state alternative minimum tax is one hundred percent
33 of the state alternative minimum tax computed in this
34 subsection. In the case of a nonresident, including a
35 nonresident estate or trust, or an individual, estate
36 or trust that is domiciled in the state for less than
37 the entire tax year, the state's apportioned share of
38 the state alternative minimum tax is the amount of tax
39 computed under this subsection, reduced by the
40 applicable credits in sections 422.10, 422.11, 422.11A
41 and 422.12 and this result multiplied by a fraction
42 with a numerator of the sum of state net income
43 allocated to Iowa as determined in section 422.8,
44 subsection 2, plus tax preference items, adjustments,
45 and losses under subparagraph (1) attributable to Iowa
46 and with a denominator of the sum of total net income
47 computed under section 422.7 and all tax preference
48 items, adjustments, and losses under subparagraph (1).
49 In computing this fraction, those items excludable
50 under subparagraph (1) shall not be used in computing

S-4117 Pg. 4

1 the tax preference items. Married taxpayers electing
2 to file separate returns ~~or separately on a combined~~
3 return must allocate the minimum tax computed in this
4 subsection in the proportion that each spouse's
5 respective preference items, adjustments, and losses
6 under subparagraph (1) bear to the combined preference
7 items, adjustments, and losses under subparagraph (1)
8 of both spouses.

9 Sec. 6. Section 422.5, subsection 2, Code 1987, as
10 amended by 1987 Iowa Acts, House File 675, section 2,
11 is amended to read as follows:

12 2. However, the tax shall not be imposed on a
13 resident or nonresident whose net income, as defined
14 in section 422.7, is five seven thousand dollars or
15 less; but in the event that the payment of tax under
16 this division would reduce the net income to less than
17 five seven thousand dollars, then the tax shall be
18 reduced to that amount which would result in allowing
19 the taxpayer to retain a net income of five seven
20 thousand dollars. The preceding sentence does not
21 apply to estates or trusts. For the purpose of this
22 subsection, the entire net income, including any part
23 of the net income not allocated to Iowa, shall be
24 taken into account. If the combined net income of a
25 husband and wife exceeds five seven thousand dollars,
26 neither of them shall receive the benefit of this
27 subsection, and it is immaterial whether they file a
28 joint return or separate returns. However, if a
29 husband and wife file separate returns and have a
30 combined net income of five seven thousand dollars or
31 less, neither spouse shall receive the benefit of this
32 paragraph, if one spouse has a net operating loss and
33 elects to carry back or carry forward the loss as
34 provided in section 422.9, subsection 3. A person who
35 is claimed as a dependent by another person as defined
36 in section 422.12 shall not receive the benefit of
37 this subsection if the person claiming the dependent
38 has net income exceeding five seven thousand dollars
39 or the person claiming the dependent and the person's
40 spouse have combined net income exceeding five seven
41 thousand dollars.

42 Sec. 7. Section 422.5, subsections 6 and 10, Code
43 1987, as amended by 1987 Iowa Acts, House File 153,
44 section 4, are amended to read as follows:

45 6. A person who is disabled, is sixty-two years of
46 age or older or is the surviving spouse of an
47 individual or survivor having an insurable interest in
48 an individual who would have qualified for the
49 exemption under this paragraph for this tax year and
50 receives one or more annuities from the United States

JUNE 5, 1987

S-4117 Pg. 5

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

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

41 Sec. 8. Section 422.5, subsection 7, Code 1987, is
42 amended to read as follows:

43 7. Upon determination of the latest cumulative
44 inflation factor, the director shall multiply each
45 dollar amount set forth in subsection 1, paragraphs
46 "a" through "m" and "b" of this section, and each
47 dollar amount specified in this section as the maximum
48 amount of annuities received which may be excluded in
49 determining final taxable income, by this cumulative
50 inflation factor, shall round off the resulting

S-4117 Pg. 6

1 product to the nearest one dollar, and shall
2 incorporate the result into the income tax forms and
3 instructions for each tax year.

4 Sec. 9. Section 422.7, subsections 6, 8, and 19,
5 Code 1987, as amended by 1987 Iowa Acts, House File
6 153, section 7, are amended to read as follows:

7 6. Individual taxpayers and married taxpayers who
8 file a joint federal income tax return and who elect
9 to file a joint return, or separate returns or
10 ~~separate-filing-on-a-combined-return~~ for Iowa income
11 tax purposes, may avail themselves of the disability
12 income exclusion and shall compute the amount of the
13 disability income exclusion subject to the limitations
14 for joint federal income tax return filers provided by
15 section 105(d) of the Internal Revenue Code. The
16 disability income exclusion provided in section 105(d)
17 of the Internal Revenue Code, as amended up to and
18 including December 31, 1982, continues to apply for
19 state income tax purposes for tax years beginning on
20 or after January 1, 1984.

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

32 19. Married taxpayers, who file a joint federal
33 income tax return and who elect to file separate
34 ~~returns or who elect separate-filing-on-a-combined~~
35 ~~return~~ for state income tax purposes, shall include in
36 net income any social security benefits received to
37 the same extent as those benefits are taxable on the
38 taxpayer's joint federal return for that year under
39 section 86 of the Internal Revenue Code. The benefits
40 included in net income must be allocated between the
41 spouses in the ratio of the social security benefits
42 received by each spouse to the total of these benefits
43 received by both spouses.

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

46 2. Nonresident's net income allocated to Iowa is
47 the net income, or portion thereof, which is derived
48 from a business, trade, profession, or occupation
49 carried on within this state or income from any
50 property, trust, estate, or other source within Iowa.

S-4117 Pg. 7

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

28 Sec. 11. Section 422.12, subsection 2, unnumbered
29 paragraph 2, Code 1987, is amended to read as follows:

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

40 Sec. 12. Section 422.12, Code 1987, is amended by
41 adding the following new subsection:

42 NEW SUBSECTION. A two-earner credit for married
43 taxpayers filing jointly. The credit is equal to
44 three and one-half percent of the qualified earned
45 income of the spouse with the lower qualified earned
46 income not to exceed one hundred seventy-five dollars.
47 For purposes of this credit the term "qualified earned
48 income" means the same as provided in section 221 of
49 the Internal Revenue Code in effect on December 31,
50 1986, except that only qualified earned income from

S-4117 Pg. 8

1 Iowa sources shall be considered for the credit.
2 Nonresidents may claim the credit only to the extent
3 that both spouses have qualified earned income from
4 Iowa sources.

5 Sec. 13. Section 422.13, subsection 1, paragraph
6 b, Code 1987, is amended to read as follows:

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

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

12 The director shall determine for the ~~1979~~ 1988 and
13 subsequent calendar years the annual and cumulative
14 inflation factors for those calendar years to be
15 applied to tax years beginning on or after January 1
16 of that calendar year. The director shall compute the
17 new dollar amounts as specified therein to be adjusted
18 in section 422.5 by the latest cumulative inflation
19 factor and round off the result to the nearest one
20 dollar. The annual and cumulative inflation factors
21 determined by the director are not rules as defined in
22 section 17A.2, subsection 7.

23 Sec. 15. Section 422.43, Code 1987, is amended by
24 adding the following new unnumbered paragraph:

25 NEW UNNUMBERED PARAGRAPH. In addition to the tax
26 at the rate of four percent imposed under this
27 section, there is imposed an additional tax at the
28 rate of one-half of one percent to be added to the
29 existing tax rate. This additional one-half of one
30 percent tax shall be imposed for the period beginning
31 August 1, 1987 and ending September 30, 1988.

32 Sec. 16. Section 423.2, Code 1987, is amended by
33 adding the following new unnumbered paragraph:

34 NEW UNNUMBERED PARAGRAPH. In addition to the tax
35 at the rate of four percent imposed under this
36 section, there is imposed an additional tax at the
37 rate of one-half of one percent to be added to the
38 existing tax rate. This additional one-half of one
39 percent tax shall be imposed for the period beginning
40 August 1, 1987 and ending September 30, 1988.

41 Sec. 17. This section applies in regard to the
42 increase in the state sales, services, and use tax
43 from four to four and one-half percent under sections
44 15 and 16 for the period beginning August 1, 1987 and
45 ending September 30, 1988. The use tax rate of four
46 and one-half percent applies to motor vehicles subject
47 to registration which are registered on or after
48 August 1, 1987 but before August 1, 1988. The four
49 and one-half percent use tax rate will apply to the
50 use of property when the first taxable use in this

state occurs on or after August 1, 1987 but before August 1, 1988. The four and one-half 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 August 1, 1987 but before August 1, 1988. In the case of a service contract entered into prior to August 1, 1987 which contract calls for periodic payments, the four and one-half percent rate will apply to those payments made or due on or after August 1, 1987 but before August 1, 1988. 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 payments under service contracts, installment 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. Sections 1 through 14 of this Act are retroactive to January 1, 1987 for tax years beginning on or after that date.

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

2. Title page, by striking lines 1 through 9 and inserting the following: "An Act relating to state taxes by revising the state individual income tax by altering the tax brackets and rates; disallowing married persons filing separately on combined returns; increasing the amount below which no tax is owed; providing a two-earner tax credit; and by temporarily increasing the state sales, services, and use tax; and providing effective dates."

S-4117

Filed June 4, 1987 Adopted (p. 14)

BY GEORGE R. KINLEY
DONALD E. GETTINGS
BERL E. PRIEBE
KENNETH D. SCOTT
JOHN E. SOORHOLTZ
JACK RIFE
HURLEY W. HALL

SENATE FILE 523

S-4118

1 Amend the amendment, S-4117, to Senate File 523 as
2 follows:

3 1. By striking page 1, line 4 through page 9,
4 line 36, and inserting the following:

5 "Section 1. Section 98.6, subsection 2, Code
6 1987, is amended to read as follows:

7 2. Notwithstanding subsection 1, there is imposed
8 and shall be collected and paid to the department a
9 tax on all cigarettes used or otherwise disposed of in
10 this state for any purpose ~~at the rate of nine mills~~
11 ~~on each cigarette for the period beginning July 1,~~
12 ~~1981 and ending September 30, 1985 and at the rate of~~
13 ~~thirteen fifteen and one-half mills on each cigarette~~
14 ~~beginning October July 1, 1985 1987.~~

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

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

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

37 3. The rate of the inventory tax on each item
38 subject to the tax as specified in subsection 1 is
39 equal to the difference between the amount paid on
40 each item under section 98.6, 98.8, 98.12, or 98.43
41 prior to the tax increase and the amount that is to be
42 paid on each similar item under section 98.6, 98.8,
43 98.12, or 98.43 after the tax increase except that in
44 computing the rate of the inventory tax any discount
45 allowed or allowable under section 98.8 shall not be
46 considered.

47 Sec. 3. Section 422.4, subsection 17, Code 1987,
48 is amended to read as follows:

49 17. a. "Annual inflation factor" ~~means an index,~~
50 ~~expressed as a percentage, determined by the~~

S-4118 Pg. 2

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

29 b. "Cumulative inflation factor" means the product
30 of the annual inflation factor for the 1978 1987
31 calendar year and all annual inflation factors for
32 subsequent calendar years as determined pursuant to
33 this subsection. The cumulative inflation factor
34 applies to all tax years beginning on or after January
35 1 of the calendar year for which the latest annual
36 inflation factor has been determined.

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

39 d. Notwithstanding the computation of the annual
40 inflation factor under paragraph "a" of-this
41 subsection, the annual inflation factor is one hundred
42 percent for any calendar year in which the unobligated
43 state general fund balance on June 30 as-certified-by
44 the-director-of-revenue-and-finance-by-September-10-of
45 the-fiscal-year-beginning-in-that-calendar-year-is
46 less-than-sixty-million-dollars.--However,-for-the
47 1981-and-subsequent-calendar-years,-the-annual
48 inflation-factor-is-one-hundred-percent-for-any
49 calendar-year-if-the-unobligated-state-general-fund
50 balance-on-June-30-of-the-calendar-year-preceding-the

S-4118 Pg. 3

1 ~~calendar-year-for-which-the-factor-is-determined~~, as
2 certified by the director of revenue and finance by
3 October 10, is less than sixty million dollars.

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

8 a. For taxpayers other than married taxpayers
9 filing separately, estates, and trusts, the tax rates
10 are as follows:

11 (1) On all taxable income from zero through five
12 thousand dollars, one and one-half percent.

13 (2) On all taxable income exceeding five thousand
14 dollars but not exceeding ten thousand dollars, four
15 percent.

16 (3) On all taxable income exceeding ten thousand
17 dollars but not exceeding seventy thousand dollars,
18 six and one-half percent.

19 (4) On all taxable income exceeding seventy
20 thousand dollars, six and nine-tenths percent.

21 b. For a married person filing separately, an
22 estate, and a trust, the tax rates are as follows:

23 (1) On all taxable income from zero through two
24 thousand five hundred dollars, one and one-half
25 percent.

26 (2) On all taxable income exceeding two thousand
27 five hundred dollars but not exceeding five thousand
28 dollars, four percent.

29 (3) On all taxable income exceeding five thousand
30 dollars but not exceeding thirty-five thousand
31 dollars, six and one-half percent.

32 (4) On all taxable income exceeding thirty-five
33 thousand dollars, six and nine-tenths percent.

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

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

48 Sec. 6. Section 422.5, subsection 1, paragraph o,
49 unnumbered paragraph 1, Code 1987, as amended by 1987
50 Iowa Acts, House File 153, section 3, is amended to

S-4118 Pg. 4

1 read as follows:

2 There is imposed upon every resident and
3 nonresident of this state, including estates and
4 trusts, the greater of the tax determined in
5 paragraphs "a" through "n" "c" or the state
6 alternative minimum tax equal to seventy-five percent
7 of the maximum state individual income tax rate,
8 rounded to the nearest one-tenth of one percent, of
9 the state alternative minimum taxable income of the
10 taxpayer as computed under this paragraph.

11 Sec. 7. Section 422.5, subsection 1, paragraph o,
12 unnumbered paragraph 5, Code 1987, as amended by 1987
13 Iowa Acts, House File 153, section 3, is amended to
14 read as follows:

15 In the case of a resident, including a resident
16 estate or trust, the state's apportioned share of the
17 state alternative minimum tax is one hundred percent
18 of the state alternative minimum tax computed in this
19 subsection. In the case of a nonresident, including a
20 nonresident estate or trust, or an individual, estate
21 or trust that is domiciled in the state for less than
22 the entire tax year, the state's apportioned share of
23 the state alternative minimum tax is the amount of tax
24 computed under this subsection, reduced by the
25 applicable credits in sections 422.10, 422.11, 422.11A
26 and 422.12 and this result multiplied by a fraction
27 with a numerator of the sum of state net income
28 allocated to Iowa as determined in section 422.8,
29 subsection 2, plus tax preference items, adjustments,
30 and losses under subparagraph (1) attributable to Iowa
31 and with a denominator of the sum of total net income
32 computed under section 422.7 and all tax preference
33 items, adjustments, and losses under subparagraph (1).
34 In computing this fraction, those items excludable
35 under subparagraph (1) shall not be used in computing
36 the tax preference items. Married taxpayers electing
37 to file separate returns or ~~separately-on-a-combined~~
38 return must allocate the minimum tax computed in this
39 subsection in the proportion that each spouse's
40 respective preference items, adjustments, and losses
41 under subparagraph (1) bear to the combined preference
42 items, adjustments, and losses under subparagraph (1)
43 of both spouses.

44 Sec. 8. Section 422.5, subsection 6, Code 1987, as
45 amended by 1987 Iowa Acts, House File 153, section 4,
46 is amended to read as follows:

47 6. A person who is disabled, is sixty-two years of
48 age or older or is the surviving spouse of an
49 individual or survivor having an insurable interest in
50 an individual who would have qualified for the

S-4118 Pg. 5

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

29 Sec. 9. Section 422.5, subsection 7, Code 1987, is
30 amended to read as follows:

31 7. Upon determination of the latest cumulative
32 inflation factor, the director shall multiply each
33 dollar amount set forth in subsection 1, paragraphs
34 "a" through "~~m~~" and "b" of this section, and each
35 dollar amount specified in this section as the maximum
36 amount of annuities received which may be excluded in
37 determining final taxable income, by this cumulative
38 inflation factor, shall round off the resulting
39 product to the nearest one dollar, and shall
40 incorporate the result into the income tax forms and
41 instructions for each tax year.

42 Sec. 10. Section 422.7, subsections 6, 8, and 19,
43 Code 1987, as amended by 1987 Iowa Acts, House File
44 153, section 7, are amended to read as follows:

45 6. Individual taxpayers and married taxpayers who
46 file a joint federal income tax return and who elect
47 to file a joint return, or separate returns or
48 ~~separate-filing-on-a-combined-return~~ for Iowa income
49 tax purposes, may avail themselves of the disability
50 income exclusion and shall compute the amount of the

S-4118 Pg. 6

1 disability income exclusion subject to the limitations
2 for joint federal income tax return filers provided by
3 section 105(d) of the Internal Revenue Code. The
4 disability income exclusion provided in section 105(d)
5 of the Internal Revenue Code, as amended up to and
6 including December 31, 1982, continues to apply for
7 state income tax purposes for tax years beginning on
8 or after January 1, 1984.

9 8. Married taxpayers who file a joint federal
10 income tax return and who elect to file separate
11 ~~returns or separate filing on a combined return~~ for
12 Iowa income tax purposes, may avail themselves of the
13 expensing of business assets and capital loss
14 provisions of sections 179(a) and 1211(b) respectively
15 of the Internal Revenue Code and shall compute the
16 amount of expensing of business assets and capital
17 loss subject to the limitations for joint federal
18 income tax return filers provided by sections 179(b)
19 and 1211(b) respectively of the Internal Revenue Code.

20 19. Married taxpayers, who file a joint federal
21 income tax return and who elect to file separate
22 ~~returns or who elect separate filing on a combined~~
23 return for state income tax purposes, shall include in
24 net income any social security benefits received to
25 the same extent as those benefits are taxable on the
26 taxpayer's joint federal return for that year under
27 section 86 of the Internal Revenue Code. The benefits
28 included in net income must be allocated between the
29 spouses in the ratio of the social security benefits
30 received by each spouse to the total of these benefits
31 received by both spouses.

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

34 2. Nonresident's net income allocated to Iowa is
35 the net income, or portion thereof, which is derived
36 from a business, trade, profession, or occupation
37 carried on within this state or income from any
38 property, trust, estate, or other source within Iowa.
39 If any business, trade, profession, or occupation is
40 carried on partly within and partly without the state,
41 only the portion of the net income which is fairly and
42 equitably attributable to that part of the business,
43 trade, profession, or occupation carried on within the
44 state is allocated to Iowa for purposes of section
45 422.5, subsection 1, paragraph "a" "c" and section
46 422.13 and income from any property, trust, estate, or
47 other source partly within and partly without the
48 state is allocated to Iowa in the same manner, except
49 that annuities, interest on bank deposits and
50 interest-bearing obligations, and dividends are

S-4118 Pg. 7

1 allocated to Iowa only to the extent to which they are
2 derived from a business, trade, profession, or
3 occupation carried on within the state. However,
4 income received by an individual who is a resident of
5 another state is not allocated to Iowa if the income
6 is subject to an income tax imposed by the state where
7 the individual resides, and if the state of residence
8 allows a similar exclusion for income received in that
9 state by residents of Iowa. In order to implement the
10 exclusions, the director shall designate by rule the
11 states which allow a similar exclusion for income
12 received by residents of Iowa, and may enter into
13 agreements with other states to provide that similar
14 exclusions will be allowed, and to provide suitable
15 withholding requirements in each state.

16 Sec. 12. Section 422.9, subsection 1, unnumbered
17 paragraph 1, Code 1987, as amended by 1987 Iowa Acts,
18 House File 153, section 11, is amended to read as
19 follows:

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

30 Sec. 13. Section 422.9, subsection 1, Code 1987,
31 is amended by adding the following new unnumbered
32 paragraph:

33 NEW UNNUMBERED PARAGRAPH. However, for tax years
34 beginning on or after January 1, 1987 but before
35 January 1, 1988, deduct only the amount of federal
36 income tax paid during the tax year for the previous
37 tax year. Federal income tax paid in estimated tax
38 payments during the tax year for the previous tax year
39 shall not be deducted. For tax years beginning on or
40 after January 1, 1987 but before January 1, 1988, add
41 only the amount of federal income tax refund received
42 during the tax year to the extent that the federal
43 income tax that was refunded had been deducted on a
44 return for a tax year beginning prior to January 1,
45 1987. Married persons who have filed a joint federal
46 income tax return and who have filed separate state
47 returns shall divide the federal income tax paid or
48 the federal income tax refund between the spouses in
49 the ratio of the federal adjusted gross income of each
50 spouse to the adjusted gross income of both spouses

S- 4118 Pg. 8

1 for the tax year which resulted in the income tax
2 payment or the income tax refund.

3 Sec. 14. Section 422.9, subsection 2, paragraph b,
4 Code 1987, is amended by striking the paragraph and
5 inserting in lieu thereof the following:

6 b. For tax years beginning on or after January 1,
7 1987 but before January 1, 1988, add the amount of
8 federal income tax paid during the tax year for the
9 previous tax year except for federal income tax paid
10 in estimated tax payments. For tax years beginning on
11 or after January 1, 1987 but before January 1, 1988,
12 subtract the amount of federal income tax refund
13 received during the tax year to the extent that the
14 federal income tax that was refunded had been deducted
15 on a return for a tax year beginning prior to January
16 1, 1987. Married persons who have filed a joint
17 federal income tax return and who have filed separate
18 state returns shall divide the federal income tax paid
19 or the federal income tax refund between the spouses
20 in the ratio of the federal adjusted gross income of
21 each spouse to the adjusted gross income of both
22 spouses for the tax year which resulted in the income
23 tax payment or the income tax refund.

24 Sec. 15. Section 422.12, subsection 2, unnumbered
25 paragraph 2, Code 1987, is amended to read as follows:

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

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

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

S-4118 Pg. 9

1 income in excess of seventy-five thousand dollars, the
2 allowable amount of the two-earner credit shall be
3 reduced, but not below zero, by ten percent of the
4 credit for each one thousand dollars that the adjusted
5 gross income of the married taxpayers exceeds seventy-
6 five thousand dollars.

7 Sec. 17. Section 422.13, subsection 1, paragraph
8 b, Code 1987, is amended to read as follows:

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

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

14 The director shall determine for the 1979 1988 and
15 subsequent calendar years the annual and cumulative
16 inflation factors for those calendar years to be
17 applied to tax years beginning on or after January 1
18 of that calendar year. The director shall compute the
19 new dollar amounts as specified therein to be adjusted
20 in section 422.5 by the latest cumulative inflation
21 factor and round off the result to the nearest one
22 dollar. The annual and cumulative inflation factors
23 determined by the director are not rules as defined in
24 section 17A.2, subsection 7.

25 Sec. 19. Sections 3 through 11 and 13 through 18
26 of this Act are retroactive to January 1, 1987 for tax
27 years beginning on or after that date.

28 Sec. 20. Section 1 of this Act is effective July
29 1, 1987.

30 Sec. 21. Section 12 of this Act is effective
31 January 1, 1988 for tax years beginning on or after
32 that date.

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

S-4118

Filed June 4, 1987

Lost (p. 13)

BY MICHAEL E. GRONSTAL

STATE OF IOWA

FISCAL NOTE

LSB No. 2997S 2
Staff ID. PDD

REQ. BY SENATOR HUTCHINS SENATE FILE 523, Amend. S-4119

In compliance with a written request received June 4, 1987, a fiscal note for SF 523 AS AMENDED BY S-4119 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.

FILED JUN 4 1987

Amendment S-4119 makes several changes to state tax revenues and expenditures. The amendment alters the personal exemptions, standard deductions, withholding, and tax rates of the individual income tax. Amendment S-4119 so increases the state sales, services and use tax by one cent, and exempts from the sales tax the sale of electrical and gas utilities.

Amendment S-4119 so provides for certain contractors to receive refunds as a result of the sales, services and use tax increase. The amendment updates references to the federal Internal Revenue Code, and 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 Amendment S-4119.

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

The amendment also provides 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.

STATE OF IOWA
FISCAL NOTE

LSB No. 2997S.2
Staff ID. PDD

-2-

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 the amendment is estimated to be \$838.5 million for tax year 1987, a decrease of \$8.4 million.

SALES TAX

S-4119 also provides for an increase in the state sales, services and use tax from four percent to five percent. The sale of electrical and gas utilities is exempted from the sales tax.

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 specific is unknown.

Assumption

1. Approximately 12% of total sales tax revenues is attributable to the sale of gas and electricity.

Fiscal Effect. Currently, it is estimated that \$638 million in sales tax revenues will go to the general fund for FY 1988. If a penny increase in the tax were imposed, the estimated base would increase to approximately \$798 million. The amendment exempts from the sales and use tax the sales of gas and electricity, reducing the increased base by an estimated 12% or \$96 million. The balance of the increase under the amendment would be \$702 million, which is a \$64 million increase over the current estimated sales tax revenues.

Use tax revenues were estimated to be \$100 million in FY 1988. A one cent use tax increase would generate approximately \$20 million in additional revenues for the general fund.

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.

Total Sales and Use Tax Impact

	<u>Increase (millions)</u>
Sales Tax	\$ 64
Use Tax	26
Total General Fund	\$ 90
Road Use Tax Fund	\$ 20

SOURCE: Department of Revenue and Finance

(LSB 2997S.2, PDD)

William A. Prouty
Fiscal Director

Legislative Fiscal Bureau

Date: 6/4/87

SENATE FILE 523

S-4119

1 Amend Senate File 523 as follows:

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

4 "Section 1. Section 422.4, subsection 17, Code
5 1987, is amended to read as follows:

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

36 b. "Cumulative inflation factor" means the product
37 of the annual inflation factor for the ~~1978~~ 1988
38 calendar year and all annual inflation factors for
39 subsequent calendar years as determined pursuant to
40 this subsection. The cumulative inflation factor
41 applies to all tax years beginning on or after January
42 1 of the calendar year for which the latest annual
43 inflation factor has been determined.

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

46 d. Notwithstanding the computation of the annual
47 inflation factor under paragraph "a" of ~~this~~
48 subsection, the annual inflation factor is one hundred
49 percent for any calendar year in which the unobligated
50 state general fund balance on June 30 ~~as certified by~~

1 the-director-of-revenue-and-finance-by-September-10-of
2 the-fiscal-year-beginning-in-that-calendar-year-is
3 less-than-sixty-million-dollars.--However,for-the
4 1981-and-subsequent-calendar-years, the-annual
5 inflation-factor-is-one-hundred-percent-for-any
6 calendar-year-if-the-unobligated-state-general-fund
7 balance-on-June-30-of-the-calendar-year-preceding-the
8 calendar-year-for-which-the-factor-is-determined, as
9 certified by the director of revenue and finance by
10 October 10, is less than sixty million dollars.

11 Sec. 2. Section 422.5, subsection 1, paragraphs a
12 through m, Code 1987, are amended by striking the
13 paragraphs and inserting in lieu thereof the
14 following:

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

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

19 (2) On all taxable income exceeding three thousand
20 dollars but not exceeding eleven thousand dollars, six
21 percent.

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

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

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

29 (2) On all taxable income exceeding four thousand
30 five hundred dollars but not exceeding sixteen
31 thousand five hundred dollars, six percent.

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

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

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

39 (2) On all taxable income exceeding two thousand
40 two hundred fifty dollars but not exceeding eight
41 thousand two hundred fifty dollars, six percent.

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

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

47 Sec. 3. Section 422.5, subsection 1, paragraphs a
48 through m, Code 1987, are amended by striking the
49 paragraphs and inserting in lieu thereof the
50 following:

S-4119 Pg. 3

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

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

5 (2) On all taxable income exceeding two thousand
6 dollars but not exceeding eleven thousand dollars, six
7 percent.

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

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

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

15 (2) On all taxable income exceeding three thousand
16 dollars but not exceeding sixteen thousand five
17 hundred dollars, six percent.

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

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

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

25 (2) On all taxable income exceeding one thousand
26 five hundred dollars but not exceeding eight thousand
27 two hundred fifty dollars, six percent.

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

30 The tax rates and bracket amounts in paragraphs "a"
31 through "c" are effective for tax years beginning on
32 or after January 1, 1988.

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

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

47 Sec. 5. Section 422.5, subsection 1, paragraph o,
48 unnumbered paragraph 1, Code 1987, as amended by 1987
49 Iowa Acts, House File 153, section 3, is amended to
50 read as follows:

S-4119 Pg. 4

1 There is imposed upon every resident and
2 nonresident of this state, including estates and
3 trusts, the greater of the tax determined in
4 paragraphs "a" through "n" "d" or the state
5 alternative minimum tax equal to seventy-five percent
6 of the maximum state individual income tax rate,
7 rounded to the nearest one-tenth of one percent, of
8 the state alternative minimum taxable income of the
9 taxpayer as computed under this paragraph.

10 Sec. 6. Section 422.5, subsection 6, Code 1987, as
11 amended by 1987 Iowa Acts, House File 153, section 4,
12 is amended to read as follows:

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

45 Sec. 7. Section 422.5, subsection 7, Code 1987, is
46 amended to read as follows:

47 7. Upon determination of the latest cumulative
48 inflation factor, the director shall multiply each
49 dollar amount set forth in subsection 1, paragraphs
50 "a" through "n" "c" of this section, and each dollar

S-4119 Pg. 5

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

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

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

42 Sec. 9. Section 422.9, subsection 1, unnumbered
43 paragraph 1, Code 1987, as amended by 1987 Iowa Acts,
44 House File 153, section 11, is amended by striking the
45 paragraph and inserting in lieu thereof the following:

46 For a single person who is not a head of household,
47 a married couple filing jointly, a surviving spouse, a
48 qualifying widow, a head of household, or a married
49 person filing separately an optional standard deduc-
50 tion equal to the amount of the standard deduction

S-4119 Pg. 6

1 determined under section 63(c) of the Internal Revenue
2 Code for that filing status. In addition to the
3 optional standard deduction, the individual may deduct
4 the amount of federal income tax.

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

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

13 Sec. 11. Section 422.12, subsection 1, Code 1987,
14 as amended by 1987 Iowa Acts, House File 153, section
15 16, is amended by striking the subsection.

16 Sec. 12. Section 422.16, subsection 1, unnumbered
17 paragraph 1, Code 1987, as amended by 1987 Iowa Acts,
18 House File 153, section 19, is amended to read as
19 follows:

20 Every withholding agent and every employer as
21 defined in this chapter and further defined in the
22 Internal Revenue Code, with respect to income tax
23 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 or is allowed
41 under rules prescribed by the director for payments of
42 alimony or separate maintenance. The claiming of
43 exemptions, alimony or separate maintenance payments,
44 or credits in excess of entitlement is a serious
45 misdemeanor.

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

48 The director shall determine for the ~~1979~~ 1989 and
49 subsequent calendar years the annual and cumulative
50 inflation factors for those calendar years to be

S-4119 Pg. 7

1 applied to tax years beginning on or after January 1
2 of that calendar year. The director shall compute the
3 new dollar amounts as specified therein to be adjusted
4 in section 422.5 by the latest cumulative inflation
5 factor and round off the result to the nearest one
6 dollar. The annual and cumulative inflation factors
7 determined by the director are not rules as defined in
8 section 17A.2, subsection 7.

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

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

32 2. There is imposed a tax-of-four-percent like
33 rate of tax upon the gross receipts derived from the
34 operation of all forms of amusement devices and games
35 of skill, games of chance, raffles, and bingo games as
36 defined in chapter 99B, operated or conducted within
37 the state of Iowa, the tax to be collected from the
38 operator in the same manner as is provided for the
39 collection of taxes upon the gross receipts of tickets
40 or admission fees as provided in this section. The
41 tax shall also be imposed upon the gross receipts
42 derived from the sale of lottery tickets or shares
43 pursuant to chapter 99E. The tax on the lottery
44 tickets or shares shall be included in the sales price
45 and distributed to the general fund as provided in
46 section 99E.10.

47 6. There is imposed a tax-of-four-percent like
48 rate of tax upon the gross receipts from the sales of
49 optional service or warranty contracts which provide
50 for the furnishing of labor and materials and require

S-4119 Pg. 8

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

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

15 Sec. 15. Section 422.45, Code 1987, is amended by
16 adding the following new subsection:

17 NEW SUBSECTION. The gross receipts from the sale,
18 furnishing, or service of gas or electricity.

19 Sec. 16. Section 422.47, Code 1987, is amended by
20 adding the following new subsection:

21 NEW SUBSECTION. Construction contractors may make
22 application to the department for a refund of the
23 additional one percent tax paid under this division or
24 the additional one percent tax paid under chapter 423
25 by reason of the increase in the tax from four to five
26 percent for taxes paid on goods, wares, or merchandise
27 under the following conditions:

28 a. The goods, wares, or merchandise are
29 incorporated into an improvement to real estate in
30 fulfillment of a written contract fully executed prior
31 to June 1, 1987. The refund shall not apply to
32 equipment transferred in fulfillment of a mixed
33 construction contract.

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

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

39 A contractor who makes an erroneous application for
40 refund is liable for payment of the excess refund paid
41 plus interest at the rate in effect under section
42 421.7. In addition, a contractor who willfully makes
43 a false application for refund is guilty of a simple
44 misdemeanor and is liable for a penalty equal to
45 seventy-five percent of the excess refund claimed.
46 Excess refunds, penalties, and interest due under this
47 subsection may be enforced and collected in the same
48 manner as the tax imposed by this division.

49 Sec. 17. Section 423.2, Code 1987, is amended to
50 read as follows:

S-4119 Pg. 9

1 423.2 IMPOSITION OF TAX.

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

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

47 Sec. 19. Section 2 of this Act is retroactive to
48 January 1, 1987 for tax years beginning on or after
49 that date but before January 1, 1988. Section 2 of
50 this Act is repealed January 1, 1988 for tax years

S-4119 Pg. 10

1 beginning on or after that date.

2 Sec. 20. Section 3 of this Act is effective
3 January 1, 1988 for tax years beginning on or after
4 that date.

5 Sec. 21. Sections 14 through 18 of this Act are
6 effective July 1, 1987.

7 Sec. 22. Sections 1 and 4 through 13 of this Act
8 are retroactive to January 1, 1987 for tax years
9 beginning on or after that date.

10 Sec. 23. This Act, being deemed of immediate
11 importance, is effective upon enactment."

12 2. Title page, by striking lines 1 through 9 and
13 inserting the following: "An Act relating to state
14 taxes by altering the individual income tax rates,
15 withholding, standard deductions, and personal
16 exemptions and credits; increasing the state sales,
17 services, and use tax, providing for refunds for
18 certain contractors as a result of that increase,
19 exempting from the tax the sale, furnishing or service
20 of certain utilities; and providing effective dates."

S-4119

Filed June 4, 1987

BY BILL HUTCHINS

Ruled out of order *6.15*

Has Rep. Thru 6/4/87
Amend (4388) B. Pass 6/4 (p. 6)

SENATE FILE 523
BY COMMITTEE ON WAYS AND MEANS

(AS AMENDED AND PASSED BY THE SENATE JUNE 4, 1987)

ALL New Language by the Senate

Passed Senate, Date 6/5/87 (p. 23) Passed House, Date 6/4/87 (p. 20)
Vote: Ayes 29 Nays 19 Vote: Ayes 58 Nays 27
Approved July 6, 1987

A BILL FOR

1 An Act relating to state taxes by revising the state individual
2 income tax by altering the tax brackets and rates; disallowing
3 married persons filing separately on combined returns;
4 increasing the amount below which no tax is owed; providing a
5 two-earner tax credit; and by temporarily increasing the state
6 sales, services, and use tax; and providing effective dates.

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

8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

Conference Committee Appointed 6/5/87

Senators Hutchins (Chair), Kerley, Bruner, Jensen, Rife (H.J. 24)
Representatives Loderer (Chair), Bremner, Osterberg, Carpenter, Schuelke (H.J. 36)

Passed per Conference Committee Report

Senate 6/6/87 (H.J. 31) House 6/6/87 (H.J. 49)
33-13 60-28

1 Section 1. Section 422.4, subsection 17, Code 1987, is
2 amended to read as follows:

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

29 b. "Cumulative inflation factor" means the product of the
30 annual inflation factor for the 1978 1987 calendar year and
31 all annual inflation factors for subsequent calendar years as
32 determined pursuant to this subsection. The cumulative
33 inflation factor applies to all tax years beginning on or
34 after January 1 of the calendar year for which the latest
35 annual inflation factor has been determined.

1 c. The annual inflation factor for the ~~1978~~ 1987 calendar
2 year is one hundred percent.

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

16 Sec. 2. Section 422.5, subsection 1, paragraphs a through
17 m, Code 1987, are amended by striking the paragraphs and
18 inserting in lieu thereof the following:

19 a. For taxpayers other than married taxpayers filing
20 separately, estates, and trusts, the tax rates are as follows:

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

23 (2) On all taxable income exceeding five thousand dollars
24 but not exceeding ten thousand dollars, four percent.

25 (3) On all taxable income exceeding ten thousand dollars
26 but not exceeding forty-five thousand dollars, six and one-
27 half percent.

28 (4) On all taxable income exceeding forty-five thousand
29 dollars, nine and one-half percent.

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

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

34 (2) On all taxable income exceeding two thousand five
35 hundred dollars but not exceeding five thousand dollars, four

1 percent.

2 (3) On all taxable income exceeding five thousand dollars
3 but not exceeding twenty-two thousand five hundred dollars,
4 six and one-half percent.

5 (4) On all taxable income exceeding twenty-two thousand
6 five hundred dollars, nine and one-half percent.

7 For a taxpayer with taxable income in excess of twenty-five
8 thousand dollars, the benefit of income taxed at the lowest
9 two rates shall be added back at a rate of two hundred fifty
10 dollars for every one thousand dollars in taxable income
11 exceeding twenty-five thousand dollars but not exceeding
12 forty-five thousand dollars until the total value of the rate
13 benefits are recovered.

14 Sec. 3. Section 422.5, subsection 1, paragraph n, Code
15 1987, is amended to read as follows:

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

27 Sec. 4. Section 422.5, subsection 1, paragraph o,
28 unnumbered paragraph 1, Code 1987, as amended by 1987 Iowa
29 Acts, House File 153, section 3, is amended to read as
30 follows:

31 There is imposed upon every resident and nonresident of
32 this state, including estates and trusts, the greater of the
33 tax determined in paragraphs "a" through "n" "c" or the state
34 alternative minimum tax equal to seventy-five percent of the
35 maximum state individual income tax rate, rounded to the

1 nearest one-tenth of one percent, of the state alternative
2 minimum taxable income of the taxpayer as computed under this
3 paragraph.

4 Sec. 5. Section 422.5, subsection 1, paragraph o,
5 unnumbered paragraph 5, Code 1987, as amended by 1987 Iowa
6 Acts, House File 153, section 3, is amended to read as
7 follows:

8 In the case of a resident, including a resident estate or
9 trust, the state's apportioned share of the state alternative
10 minimum tax is one hundred percent of the state alternative
11 minimum tax computed in this subsection. In the case of a
12 nonresident, including a nonresident estate or trust, or an
13 individual, estate or trust that is domiciled in the state for
14 less than the entire tax year, the state's apportioned share
15 of the state alternative minimum tax is the amount of tax
16 computed under this subsection, reduced by the applicable
17 credits in sections 422.10, 422.11, 422.11A and 422.12 and
18 this result multiplied by a fraction with a numerator of the
19 sum of state net income allocated to Iowa as determined in
20 section 422.8, subsection 2, plus tax preference items,
21 adjustments, and losses under subparagraph (1) attributable to
22 Iowa and with a denominator of the sum of total net income
23 computed under section 422.7 and all tax preference items,
24 adjustments, and losses under subparagraph (1). In computing
25 this fraction, those items excludable under subparagraph (1)
26 shall not be used in computing the tax preference items.
27 Married taxpayers electing to file separate returns or
28 ~~separately-on-a-combined-return~~ must allocate the minimum tax
29 computed in this subsection in the proportion that each
30 spouse's respective preference items, adjustments, and losses
31 under subparagraph (1) bear to the combined preference items,
32 adjustments, and losses under subparagraph (1) of both
33 spouses.

34 Sec. 6. Section 422.5, subsection 2, Code 1987, as amended
35 by 1987 Iowa Acts, House File 675, section 2, is amended to

1 read as follows:

2 2. However, the tax shall not be imposed on a resident or
3 nonresident whose net income, as defined in section 422.7, is
4 five seven thousand dollars or less; but in the event that the
5 payment of tax under this division would reduce the net income
6 to less than five seven thousand dollars, then the tax shall
7 be reduced to that amount which would result in allowing the
8 taxpayer to retain a net income of five seven thousand
9 dollars. The preceding sentence does not apply to estates or
10 trusts. For the purpose of this subsection, the entire net
11 income, including any part of the net income not allocated to
12 Iowa, shall be taken into account. If the combined net income
13 of a husband and wife exceeds five seven thousand dollars,
14 neither of them shall receive the benefit of this subsection,
15 and it is immaterial whether they file a joint return or
16 separate returns. However, if a husband and wife file
17 separate returns and have a combined net income of five seven
18 thousand dollars or less, neither spouse shall receive the
19 benefit of this paragraph, if one spouse has a net operating
20 loss and elects to carry back or carry forward the loss as
21 provided in section 422.9, subsection 3. A person who is
22 claimed as a dependent by another person as defined in section
23 422.12 shall not receive the benefit of this subsection if the
24 person claiming the dependent has net income exceeding five
25 seven thousand dollars or the person claiming the dependent
26 and the person's spouse have combined net income exceeding
27 five seven thousand dollars.

28 Sec. 7. Section 422.5, subsections 6 and 10, Code 1987, as
29 amended by 1987 Iowa Acts, House File 153, section 4, are
30 amended to read as follows:

31 6. A person who is disabled, is sixty-two years of age or
32 older or is the surviving spouse of an individual or survivor
33 having an insurable interest in an individual who would have
34 qualified for the exemption under this paragraph for this tax
35 year and receives one or more annuities from the United States

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

23 10. In addition to the other taxes imposed by this
24 section, a tax is imposed on the amount of a lump sum
25 distribution for which the taxpayer has elected under section
26 402(e) of the Internal Revenue Code to be separately taxed for
27 federal income tax purposes for the tax year. The rate of tax
28 is equal to twenty-five percent of the separate federal tax
29 imposed on the amount of the lump sum distribution. A
30 nonresident is liable for this tax only on that portion of the
31 lump sum distribution allocable to Iowa. The total amount of
32 the lump sum distribution subject to separate federal tax
33 shall be included in net income for purposes of determining
34 eligibility under the five seven thousand dollar or less
35 exclusion.

1 Sec. 8. Section 422.5, subsection 7, Code 1987, is amended
2 to read as follows:

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

13 Sec. 9. Section 422.7, subsections 6, 8, and 19, Code
14 1987, as amended by 1987 Iowa Acts, House File 153, section 7,
15 are amended to read as follows:

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

28 8. Married taxpayers who file a joint federal income tax
29 return and who elect to file separate returns ~~or separate~~
30 ~~filing on a combined return~~ for Iowa income tax purposes, may
31 avail themselves of the expensing of business assets and
32 capital loss provisions of sections 179(a) and 1211(b)
33 respectively of the Internal Revenue Code and shall compute
34 the amount of expensing of business assets and capital loss
35 subject to the limitations for joint federal income tax return

1 filers provided by sections 179(b) and 1211(b) respectively of
2 the Internal Revenue Code.

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

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

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

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

9 Sec. 11. Section 422.12, subsection 2, unnumbered
10 paragraph 2, Code 1987, is amended to read as follows:

11 Married taxpayers electing to file separate returns or
12 ~~filing separately on a combined return~~ must allocate the child
13 and dependent care credit to each spouse in the proportion
14 that each spouse's respective net income bears to the total
15 combined net income. Taxpayers affected by the allocation
16 provisions of section 422.8 shall be permitted a deduction for
17 the credit only in the amount fairly and equitably allocable
18 to Iowa under rules prescribed by the director.

19 Sec. 12. Section 422.12, Code 1987, is amended by adding
20 the following new subsection:

21 NEW SUBSECTION. A two-earner credit for married taxpayers
22 filing jointly. The credit is equal to three and one-half
23 percent of the qualified earned income of the spouse with the
24 lower qualified earned income not to exceed one hundred
25 seventy-five dollars. For purposes of this credit the term
26 "qualified earned income" means the same as provided in
27 section 221 of the Internal Revenue Code in effect on December
28 31, 1986, except that only qualified earned income from Iowa
29 sources shall be considered for the credit. Nonresidents may
30 claim the credit only to the extent that both spouses have
31 qualified earned income from Iowa sources.

32 Sec. 13. Section 422.13, subsection 1, paragraph b, Code
33 1987, is amended to read as follows:

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

1 this division.

2 Sec. 14. Section 422.21, unnumbered paragraph 4, Code
3 1987, is amended to read as follows:

4 The director shall determine for the ~~1979~~ 1988 and
5 subsequent calendar years the annual and cumulative inflation
6 factors for those calendar years to be applied to tax years
7 beginning on or after January 1 of that calendar year. The
8 director shall compute the new dollar amounts as specified
9 therein to be adjusted in section 422.5 by the latest
10 cumulative inflation factor and round off the result to the
11 nearest one dollar. The annual and cumulative inflation
12 factors determined by the director are not rules as defined in
13 section 17A.2, subsection 7.

14 Sec. 15. Section 422.43, Code 1987, is amended by adding
15 the following new unnumbered paragraph:

16 NEW UNNUMBERED PARAGRAPH. In addition to the tax at the
17 rate of four percent imposed under this section, there is
18 imposed an additional tax at the rate of one-half of one
19 percent to be added to the existing tax rate. This additional
20 one-half of one percent tax shall be imposed for the period
21 beginning August 1, 1987 and ending September 30, 1988.

22 Sec. 16. Section 423.2, Code 1987, is amended by adding
23 the following new unnumbered paragraph:

24 NEW UNNUMBERED PARAGRAPH. In addition to the tax at the
25 rate of four percent imposed under this section, there is
26 imposed an additional tax at the rate of one-half of one
27 percent to be added to the existing tax rate. This additional
28 one-half of one percent tax shall be imposed for the period
29 beginning August 1, 1987 and ending September 30, 1988.

30 Sec. 17. This section applies in regard to the increase in
31 the state sales, services, and use tax from four to four and
32 one-half percent under sections 15 and 16 for the period
33 beginning August 1, 1987 and ending September 30, 1988. The
34 use tax rate of four and one-half percent applies to motor
35 vehicles subject to registration which are registered on or

1 after August 1, 1987 but before August 1, 1988. The four and
2 one-half percent use tax rate will apply to the use of
3 property when the first taxable use in this state occurs on or
4 after August 1, 1987 but before August 1, 1988. The four and
5 one-half percent rate will apply to the gross receipts from
6 the sale, furnishing, or service of gas, electricity, water,
7 heat, and communication service if the date of billing the
8 customer is on or after August 1, 1987 but before August 1,
9 1988. In the case of a service contract entered into prior to
10 August 1, 1987 which contract calls for periodic payments, the
11 four and one-half percent rate will apply to those payments
12 made or due on or after August 1, 1987 but before August 1,
13 1988. This periodic payment would apply, but not be limited
14 to, tickets of admissions, private club membership fees,
15 sources of amusement, equipment rental, dry cleaning, reducing
16 salons, dance schools, and all other services subject to tax,
17 except the aforementioned utility services which are subject
18 to a special transitional rule. Unlike periodic payments
19 under service contracts, instalment sales of goods, wares,
20 and merchandise are subject to the full amount of sales or use
21 tax when the sales contract is entered into or the property is
22 used in Iowa.

23 Sec. 18. Sections 1 through 14 of this Act are retroactive
24 to January 1, 1987 for tax years beginning on or after that
25 date.

26 Sec. 19. This Act, being deemed of immediate importance,
27 is effective upon enactment.

28
29
30
31
32
33
34
35

SENATE FILE 523

H-4388

1 Amend Senate File 523 as amended, passed and
2 reprinted by the Senate, as follows:

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

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

7 2. Notwithstanding subsection 1, there is imposed
8 and shall be collected and paid to the department a
9 tax on all cigarettes used or otherwise disposed of in
10 this state for any purpose ~~at the rate of nine mills~~
11 ~~on each cigarette for the period beginning July 1,~~
12 ~~1981 and ending September 30, 1985 and at the rate of~~
13 ~~thirteen~~ fifteen and one-half mills on each cigarette
14 beginning ~~October~~ July 1, 1985 1987.

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

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

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

37 3. The rate of the inventory tax on each item
38 subject to the tax as specified in subsection 1 is
39 equal to the difference between the amount paid on
40 each item under section 98.6, 98.8, 98.12, or 98.43
41 prior to the tax increase and the amount that is to be
42 paid on each similar item under section 98.6, 98.8,
43 98.12, or 98.43 after the tax increase except that in
44 computing the rate of the inventory tax any discount
45 allowed or allowable under section 98.8 shall not be
46 considered.

47 Sec. 3. Section 422.4, subsection 17, Code 1987,
48 is amended to read as follows:

49 17. a. "Annual inflation factor" ~~means an index~~
50 ~~expressed as a percentage, determined by the~~

11-4388

Page Two

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

29 b. "Cumulative inflation factor" means the product
30 of the annual inflation factor for the 1978 1987
31 calendar year and all annual inflation factors for
32 subsequent calendar years as determined pursuant to
33 this subsection. The cumulative inflation factor
34 applies to all tax years beginning on or after January
35 1 of the calendar year for which the latest annual
36 inflation factor has been determined.

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

39 d. Notwithstanding the computation of the annual
40 inflation factor under paragraph "a" of-this
41 subsection, the annual inflation factor is one hundred
42 percent for any calendar year in which the unobligated
43 state general fund balance on June 30 as-certified-by
44 the-director-of-revenue-and-finance-by-September-10-of
45 the-fiscal-year-beginning-in-that-calendar-year-is
46 less-than-sixty-million-dollars.--However,-for-the
47 1981-and-subsequent-calendar-years,-the-annual
48 inflation-factor-is-one-hundred-percent-for-any
49 calendar-year-if-the-unobligated-state-general-fund
50 balance-on-June-30-of-the-calendar-year-preceding-the

H-4388

Page Three

1 calendar-year-for-which-the-factor-is-determined, as
 2 certified by the director of revenue and finance by
 3 October 10, is less than sixty million dollars.

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

8 a. For taxpayers other than married taxpayers
 9 filing separately, estates, and trusts, the tax rates
 10 are as follows:

11 (1) On all taxable income from zero through five
 12 thousand dollars, one and one-half percent.

13 (2) On all taxable income exceeding five thousand
 14 dollars but not exceeding ten thousand dollars, four
 15 percent.

16 (3) On all taxable income exceeding ten thousand
 17 dollars but not exceeding seventy thousand dollars,
 18 six and one-half percent.

19 (4) On all taxable income exceeding seventy
 20 thousand dollars, six and nine-tenths percent.

21 b. For a married person filing separately, an
 22 estate, and a trust, the tax rates are as follows:

23 (1) On all taxable income from zero through two
 24 thousand five hundred dollars, one and one-half
 25 percent.

26 (2) On all taxable income exceeding two thousand
 27 five hundred dollars but not exceeding five thousand
 28 dollars, four percent.

29 (3) On all taxable income exceeding five thousand
 30 dollars but not exceeding thirty-five thousand
 31 dollars, six and one-half percent.

32 (4) On all taxable income exceeding thirty-five
 33 thousand dollars, six and nine-tenths percent.

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

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

48 Sec. 6. Section 422.5, subsection 1, paragraph o,
 49 unnumbered paragraph 1, Code 1987, as amended by 1987
 50 Iowa Acts, House File 153, section 3, is amended to

H-4388

Page Four

1 read as follows:

2 There is imposed upon every resident and
3 nonresident of this state, including estates and
4 trusts, the greater of the tax determined in
5 paragraphs "a" through "c" or the state
6 alternative minimum tax equal to seventy-five percent
7 of the maximum state individual income tax rate,
8 rounded to the nearest one-tenth of one percent, of
9 the state alternative minimum taxable income of the
10 taxpayer as computed under this paragraph.

11 Sec. 7. Section 422.5, subsection 1, paragraph o,
12 unnumbered paragraph 5, Code 1987, as amended by 1987
13 Iowa Acts, House File 153, section 3, is amended to
14 read as follows:

15 In the case of a resident, including a resident
16 estate or trust, the state's apportioned share of the
17 state alternative minimum tax is one hundred percent
18 of the state alternative minimum tax computed in this
19 subsection. In the case of a nonresident, including a
20 nonresident estate or trust, or an individual, estate
21 or trust that is domiciled in the state for less than
22 the entire tax year, the state's apportioned share of
23 the state alternative minimum tax is the amount of tax
24 computed under this subsection, reduced by the
25 applicable credits in sections 422.10, 422.11, 422.11A
26 and 422.12 and this result multiplied by a fraction
27 with a numerator of the sum of state net income
28 allocated to Iowa as determined in section 422.8,
29 subsection 2, plus tax preference items, adjustments,
30 and losses under subparagraph (1) attributable to Iowa
31 and with a denominator of the sum of total net income
32 computed under section 422.7 and all tax preference
33 items, adjustments, and losses under subparagraph (1).
34 In computing this fraction, those items excludable
35 under subparagraph (1) shall not be used in computing
36 the tax preference items. Married taxpayers electing
37 to file separate returns ~~or-separately-on-a-combined~~
38 ~~return~~ must allocate the minimum tax computed in this
39 subsection in the proportion that each spouse's
40 respective preference items, adjustments, and losses
41 under subparagraph (1) bear to the combined preference
42 items, adjustments, and losses under subparagraph (1)
43 of both spouses.

44 Sec. 8. Section 422.5, subsection 6, Code 1987, as
45 amended by 1987 Iowa Acts, House File 153, section 4,
46 is amended to read as follows:

47 6. A person who is disabled, is sixty-two years of
48 age or older or is the surviving spouse of an
49 individual or survivor having an insurable interest in
50 an individual who would have qualified for the

H-4388

Page Five

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

29 Sec. 9. Section 422.5, subsection 7, Code 1987, is
30 amended to read as follows:

31 7. Upon determination of the latest cumulative
32 inflation factor, the director shall multiply each
33 dollar amount set forth in subsection 1, paragraphs
34 "a" through "m" and "b" of this section, and each
35 dollar amount specified in this section as the maximum
36 amount of annuities received which may be excluded in
37 determining final taxable income, by this cumulative
38 inflation factor, shall round off the resulting
39 product to the nearest one dollar, and shall
40 incorporate the result into the income tax forms and
41 instructions for each tax year.

42 Sec. 10. Section 422.7, subsections 6, 8, and 19,
43 Code 1987, as amended by 1987 Iowa Acts, House File
44 153, section 7, are amended to read as follows:

45 6. Individual taxpayers and married taxpayers who
46 file a joint federal income tax return and who elect
47 to file a joint return, or separate returns or
48 ~~separate-filing-on-a-combined-return~~ for Iowa income
49 tax purposes, may avail themselves of the disability
50 income exclusion and shall compute the amount of the

H-4388

Page Six

1 disability income exclusion subject to the limitations
2 for joint federal income tax return filers provided by
3 section 105(d) of the Internal Revenue Code. The
4 disability income exclusion provided in section 105(d)
5 of the Internal Revenue Code, as amended up to and
6 including December 31, 1982, continues to apply for
7 state income tax purposes for tax years beginning on
8 or after January 1, 1984.

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

20 19. Married taxpayers, who file a joint federal
21 income tax return and who elect to file separate
22 ~~returns or-who-elect-separate-filing-on-a-combined~~
23 ~~return~~ for state income tax purposes, shall include in
24 net income any social security benefits received to
25 the same extent as those benefits are taxable on the
26 taxpayer's joint federal return for that year under
27 section 86 of the Internal Revenue Code. The benefits
28 included in net income must be allocated between the
29 spouses in the ratio of the social security benefits
30 received by each spouse to the total of these benefits
31 received by both spouses.

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

34 2. Nonresident's net income allocated to Iowa is
35 the net income, or portion thereof, which is derived
36 from a business, trade, profession, or occupation
37 carried on within this state or income from any
38 property, trust, estate, or other source within Iowa.
39 If any business, trade, profession, or occupation is
40 carried on partly within and partly without the state,
41 only the portion of the net income which is fairly and
42 equitably attributable to that part of the business,
43 trade, profession, or occupation carried on within the
44 state is allocated to Iowa for purposes of section
45 422.5, subsection 1, paragraph "a" "c" and section
46 422.13 and income from any property, trust, estate, or
47 other source partly within and partly without the
48 state is allocated to Iowa in the same manner, except
49 that annuities, interest on bank deposits and
50 interest-bearing obligations, and dividends are

H-4388

Page Seven

1 allocated to Iowa only to the extent to which they are
2 derived from a business, trade, profession, or
3 occupation carried on within the state. However,
4 income received by an individual who is a resident of
5 another state is not allocated to Iowa if the income
6 is subject to an income tax imposed by the state where
7 the individual resides, and if the state of residence
8 allows a similar exclusion for income received in that
9 state by residents of Iowa. In order to implement the
10 exclusions, the director shall designate by rule the
11 states which allow a similar exclusion for income
12 received by residents of Iowa, and may enter into
13 agreements with other states to provide that similar
14 exclusions will be allowed, and to provide suitable
15 withholding requirements in each state.

16 Sec. 12. Section 422.9, subsection 1, unnumbered
17 paragraph 1, Code 1987, as amended by 1987 Iowa Acts,
18 House File 153, section 11, is amended to read as
19 follows:

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

30 Sec. 13. Section 422.9, subsection 1, Code 1987,
31 is amended by adding the following new unnumbered
32 paragraph:

33 NEW UNNUMBERED PARAGRAPH. However, for tax years
34 beginning on or after January 1, 1987 but before
35 January 1, 1988, deduct only the amount of federal
36 income tax paid during the tax year for the previous
37 tax year. Federal income tax paid in estimated tax
38 payments during the tax year for the previous tax year
39 shall not be deducted. For tax years beginning on or
40 after January 1, 1987 but before January 1, 1988, add
41 only the amount of federal income tax refund received
42 during the tax year to the extent that the federal
43 income tax that was refunded had been deducted on a
44 return for a tax year beginning prior to January 1,
45 1987. Married persons who have filed a joint federal
46 income tax return and who have filed separate state
47 returns shall divide the federal income tax paid or
48 the federal income tax refund between the spouses in
49 the ratio of the federal adjusted gross income of each
50 spouse to the adjusted gross income of both spouses

H-4388

Page Eight

1 for the tax year which resulted in the income tax
2 payment or the income tax refund.

3 Sec. 14. Section 422.9, subsection 2, paragraph b,
4 Code 1987, is amended by striking the paragraph and
5 inserting in lieu thereof the following:

6 b. For tax years beginning on or after January 1,
7 1987 but before January 1, 1988, add the amount of
8 federal income tax paid during the tax year for the
9 previous tax year except for federal income tax paid
10 in estimated tax payments. For tax years beginning on
11 or after January 1, 1987 but before January 1, 1988,
12 subtract the amount of federal income tax refund
13 received during the tax year to the extent that the
14 federal income tax that was refunded had been deducted
15 on a return for a tax year beginning prior to January
16 1, 1987. Married persons who have filed a joint
17 federal income tax return and who have filed separate
18 state returns shall divide the federal income tax paid
19 or the federal income tax refund between the spouses
20 in the ratio of the federal adjusted gross income of
21 each spouse to the adjusted gross income of both
22 spouses for the tax year which resulted in the income
23 tax payment or the income tax refund.

24 Sec. 15. Section 422.12, subsection 2, unnumbered
25 paragraph 2, Code 1987, is amended to read as follows:

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

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

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

H-4388

Page Nine

1 income in excess of seventy-five thousand dollars, the
2 allowable amount of the two-earner credit shall be
3 reduced, but not below zero, by ten percent of the
4 credit for each one thousand dollars that the adjusted
5 gross income of the married taxpayers exceeds seventy-
6 five thousand dollars.

7 Sec. 17. Section 422.13, subsection 1, paragraph
8 b, Code 1987, is amended to read as follows:

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

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

14 The director shall determine for the ~~1979~~ 1988 and
15 subsequent calendar years the annual and cumulative
16 inflation factors for those calendar years to be
17 applied to tax years beginning on or after January 1
18 of that calendar year. The director shall compute the
19 new dollar amounts as specified therein to be adjusted
20 in section 422.5 by the latest cumulative inflation
21 factor and round off the result to the nearest one
22 dollar. The annual and cumulative inflation factors
23 determined by the director are not rules as defined in
24 section 17A.2, subsection 7.

25 Sec. 19. 1987 Iowa Acts, House File 675, sections
26 4 and 13, are repealed.

27 Sec. 20. 1987 Iowa Acts, House File 377, section
28 10, is amended to read as follows:

29 SEC. 10. This Act takes effect January 1, 1988.
30 Sections ~~4~~ 7 through ~~6~~ 9 apply to tax returns filed
31 for tax years beginning on or after January 1, 1987.
32 However, in determining the allocation between the
33 political candidates fund and the Iowa election
34 campaign fund of funds from the returns for the three
35 tax years beginning on or after January 1, 1987, 1988,
36 and 1989, only the first two hundred sixty thousand
37 dollars received for the tax returns of each of those
38 years shall be deposited in the Iowa election campaign
39 fund and the remainder shall be deposited in the
40 political candidates fund. In order to register for a
41 restricted campaign in 1988, a candidate's committee
42 existing in 1987 must characterize its December 31,
43 1987, balance as provided in section 56.33, subsection
44 10, and provide that information to the commission
45 with the report filed in January, 1988.

46 Sec. 21. Sections 3 through 11 and 13 through 18
47 of this Act are retroactive to January 1, 1987 for tax
48 years beginning on or after that date.

49 Sec. 22. Section 1 of this Act is effective July
50 1, 1987.

H-4388

Page Ten

1 Sec. 23. Section 12 of this Act is effective
2 January 1, 1988 for tax years beginning on or after
3 that date.

4 Sec. 24. This Act, being deemed of immediate
5 importance, is effective upon enactment."

6 2. Title page, by striking lines 1 through 6 and
7 inserting the following: "An Act relating to state
8 taxes by revising the state cigarette and little cigar
9 tax by increasing the tax and imposing an inventory
10 tax on cigarettes and little cigars, unused tax stamps
11 and metered imprints; and by revising the state
12 individual income tax by altering the tax brackets and
13 rates; disallowing married persons filing separately
14 on combined returns; eliminating the deduction for
15 federal income taxes paid; providing a two-earner tax
16 credit; maintaining the due dates for estimated tax
17 payments; and providing effective dates."

H-4388 FILED JUNE 4, 1987

BY COMMITTEE ON WAYS AND MEANS

ADOPTED 56-38 (p 17)

SENATE FILE 523

H-4389

1 Amend the Committee amendment, H-4388, to Senate
2 File 523, as amended, passed, and reprinted by the
3 Senate, as follows:

4 1. Page 9, by inserting after line 24 the
5 following:

6 "Sec. _____. 1987 Iowa Acts, Senate File 511,
7 sections 493 and 494, are repealed.

8 Sec. _____. 1987 Iowa Acts, Senate File 511, section
9 498, is amended to read as follows:

10 SEC. 498. Sections 122, 207, 209, 210, 211, 220,
11 304, 305, 409, 411, 412, and 449 of this Act, being
12 deemed of immediate importance, take effect upon their
13 enactment. ~~Sections 493 and 494 of this Act are~~
14 ~~retroactive to January 1, 1987 and apply to tax years~~
15 ~~beginning on or after that date."~~

H-4389 FILED JUNE 4, 1987

BY CARPENTER of Polk

LOST (p 17)

SENATE FILE 523

H-4392

1 Amend amendment H-4388, to Senate File 523 as
2 amended, passed, and reprinted by the Senate as
3 follows:

4 1. Page 9, by inserting after line 24, the
5 following:

6 "Sec. 55. State departments or agencies handling
7 or in charge of the community economic betterment
8 account of the Iowa plan fund, the RISE fund, the jobs
9 training programs under chapters 7B, 280B, and 280C,
10 and other funds or programs for providing assistance
11 to business in furtherance of economic development
12 shall not provide assistance from those funds or under
13 those programs until the department or agency has
14 studied the effect of such assistance on the
15 competitiveness of the business compared with existing
16 businesses and the potential for the displacement of
17 jobs from other businesses in the state.

18 In determining which businesses are to receive the
19 assistance from these funds or programs, consideration
20 should be given to the quality of jobs to be provided.
21 Jobs that have a higher wage scale, have a lower
22 turnover rate, are full-time, or are career-type
23 positions are considered higher in quality. When the
24 assistance is in the form of grants, businesses that
25 have wage scales substantially below that of existing
26 Iowa businesses should be rated as providing the
27 lowest quality of jobs and should therefore be given
28 the lowest ranking for providing such assistance.

29 Sec. _____. 1987 Iowa Acts, House File 658, section
30 4, subsection 2, is amended by adding the following
31 new unnumbered paragraph:

32 Effective June 1, 1987, no taxable certificates and
33 no nontaxable certificates which are part of the state
34 ceiling shall be allocated in excess of the amount of
35 ninety thousand dollars issued in furtherance of a job
36 training agreement executed after June 1, 1987, under
37 chapter 280B for the benefit of any single plant or
38 facility of an industry, as defined under section
39 280B.2, subsection 14, engaged in pork or beef
40 slaughter, pork or beef packing, or pork or beef
41 processing, unless the industry is a small business as
42 defined in section 220.1, subsection 28 and no more
43 than one issue of such certificates may be issued
44 under the ceiling for any such plant or facility."

45 2. Page 9, by inserting after line 48, the
46 following:

47 "Sec. _____. Section 55 of this Act is retroactive
48 to May 1, 1987."

H-4392 FILED JUNE 4, 1987

BY LUNDBY of Linn

NOT GERMANE, MOTION TO SUSPEND RULES TO CONSIDER LOST (p. 13)

SENATE FILE 523

H-4390

1 Amend the Committee amendment, H-4388, to Senate
2 File 523 as amended, passed, and reprinted by the
3 Senate, as follows:

4 1. Page 6, by inserting after line 31, the
5 following:

6 "Sec. 60. Section 422.7, Code 1987, is amended by
7 adding the following new subsection:

8 NEW SUBSECTION. Except as otherwise provided in
9 section 97A.12, 97B.39, 411.13, or 602.9109 or this
10 section, deduct fifty percent of the first fifteen
11 thousand dollars received from a pension or retirement
12 system or plan."

13 2. Page 9, line 46, by inserting after the figure
14 "11" the following: ", 60".

BY HALVORSON of Clayton
HARBOR of Mills

H-4390 FILED JUNE 4, 1987
LOST (17)

HOUSE AMENDMENT TO
SENATE FILE 523

S-4122

1 Amend Senate File 523 as amended, passed and
2 reprinted by the Senate, as follows:

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

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

7 2. Notwithstanding subsection 1, there is imposed
8 and shall be collected and paid to the department a
9 tax on all cigarettes used or otherwise disposed of in
10 this state for any purpose ~~at the rate of nine mills~~
11 ~~on each cigarette for the period beginning July 1,~~
12 ~~1981 and ending September 30, 1985 and at the rate of~~
13 ~~thirteen fifteen and one-half mills on each cigarette~~
14 ~~beginning October July 1, 1985 1987.~~

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

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

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

37 3. The rate of the inventory tax on each item
38 subject to the tax as specified in subsection 1 is
39 equal to the difference between the amount paid on
40 each item under section 98.6, 98.8, 98.12, or 98.43
41 prior to the tax increase and the amount that is to be
42 paid on each similar item under section 98.6, 98.8,
43 98.12, or 98.43 after the tax increase except that in
44 computing the rate of the inventory tax any discount
45 allowed or allowable under section 98.8 shall not be
46 considered.

47 Sec. 3. Section 422.4, subsection 17, Code 1987,
48 is amended to read as follows:

49 17. a. "Annual inflation factor" means an index
50 expressed as a percentage determined by the

S-4122 Pg. 2

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

29 b. "Cumulative inflation factor" means the product
30 of the annual inflation factor for the 1978 1987
31 calendar year and all annual inflation factors for
32 subsequent calendar years as determined pursuant to
33 this subsection. The cumulative inflation factor
34 applies to all tax years beginning on or after January
35 1 of the calendar year for which the latest annual
36 inflation factor has been determined.

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

39 d. Notwithstanding the computation of the annual
40 inflation factor under paragraph "a" of this
41 subsection, the annual inflation factor is one hundred
42 percent for any calendar year in which the unobligated
43 state general fund balance on June 30 as certified by
44 the director of revenue and finance by September 10 of
45 the fiscal year beginning in that calendar year is
46 less than sixty million dollars. However, for the
47 1981 and subsequent calendar years, the annual
48 inflation factor is one hundred percent for any
49 calendar year if the unobligated state general fund
50 balance on June 30 of the calendar year preceding the

S-4122 Pg. 3

1 ~~calendar-year-for-which-the-factor-is-determined~~, as
2 certified by the director of revenue and finance by
3 October 10, is less than sixty million dollars.

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

8 a. For taxpayers other than married taxpayers
9 filing separately, estates, and trusts, the tax rates
10 are as follows:

11 (1) On all taxable income from zero through five
12 thousand dollars, one and one-half percent.

13 (2) On all taxable income exceeding five thousand
14 dollars but not exceeding ten thousand dollars, four
15 percent.

16 (3) On all taxable income exceeding ten thousand
17 dollars but not exceeding seventy thousand dollars,
18 six and one-half percent.

19 (4) On all taxable income exceeding seventy
20 thousand dollars, six and nine-tenths percent.

21 b. For a married person filing separately, an
22 estate, and a trust, the tax rates are as follows:

23 (1) On all taxable income from zero through two
24 thousand five hundred dollars, one and one-half
25 percent.

26 (2) On all taxable income exceeding two thousand
27 five hundred dollars but not exceeding five thousand
28 dollars, four percent.

29 (3) On all taxable income exceeding five thousand
30 dollars but not exceeding thirty-five thousand
31 dollars, six and one-half percent.

32 (4) On all taxable income exceeding thirty-five
33 thousand dollars, six and nine-tenths percent.

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

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

48 Sec. 6. Section 422.5, subsection 1, paragraph o,
49 unnumbered paragraph 1, Code 1987, as amended by 1987
50 Iowa Acts, House File 153, section 3, is amended to

S-4122 Pg. 4

1 read as follows:

2 There is imposed upon every resident and
3 nonresident of this state, including estates and
4 trusts, the greater of the tax determined in
5 paragraphs "a" through "n" "c" or the state
6 alternative minimum tax equal to seventy-five percent
7 of the maximum state individual income tax rate,
8 rounded to the nearest one-tenth of one percent, of
9 the state alternative minimum taxable income of the
10 taxpayer as computed under this paragraph.

11 Sec. 7. Section 422.5, subsection 1, paragraph c,
12 unnumbered paragraph 5, Code 1987, as amended by 1987
13 Iowa Acts, House File 153, section 3, is amended to
14 read as follows:

15 In the case of a resident, including a resident
16 estate or trust, the state's apportioned share of the
17 state alternative minimum tax is one hundred percent
18 of the state alternative minimum tax computed in this
19 subsection. In the case of a nonresident, including a
20 nonresident estate or trust, or an individual, estate
21 or trust that is domiciled in the state for less than
22 the entire tax year, the state's apportioned share of
23 the state alternative minimum tax is the amount of tax
24 computed under this subsection, reduced by the
25 applicable credits in sections 422.10, 422.11, 422.11A
26 and 422.12 and this result multiplied by a fraction
27 with a numerator of the sum of state net income
28 allocated to Iowa as determined in section 422.8,
29 subsection 2, plus tax preference items, adjustments,
30 and losses under subparagraph (1) attributable to Iowa
31 and with a denominator of the sum of total net income
32 computed under section 422.7 and all tax preference
33 items, adjustments, and losses under subparagraph (1).
34 In computing this fraction, those items excludable
35 under subparagraph (1) shall not be used in computing
36 the tax preference items. Married taxpayers electing
37 to file separate returns ~~or separately on a combined~~
38 ~~return~~ must allocate the minimum tax computed in this
39 subsection in the proportion that each spouse's
40 respective preference items, adjustments, and losses
41 under subparagraph (1) bear to the combined preference
42 items, adjustments, and losses under subparagraph (1)
43 of both spouses.

44 Sec. 8. Section 422.5, subsection 6, Code 1987, as
45 amended by 1987 Iowa Acts, House File 153, section 4,
46 is amended to read as follows:

47 6. A person who is disabled, is sixty-two years of
48 age or older or is the surviving spouse of an
49 individual or survivor having an insurable interest in
50 an individual who would have qualified for the

S-4122 Pg. 5

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

29 Sec. 9. Section 422.5, subsection 7, Code 1987, is
30 amended to read as follows:

31 7. Upon determination of the latest cumulative
32 inflation factor, the director shall multiply each
33 dollar amount set forth in subsection 1, paragraphs
34 "a" through "m" and "b" of this section, and each
35 dollar amount specified in this section as the maximum
36 amount of annuities received which may be excluded in
37 determining final taxable income, by this cumulative
38 inflation factor, shall round off the resulting
39 product to the nearest one dollar, and shall
40 incorporate the result into the income tax forms and
41 instructions for each tax year.

42 Sec. 10. Section 422.7, subsections 6, 8, and 19,
43 Code 1987, as amended by 1987 Iowa Acts, House File
44 153, section 7, are amended to read as follows:

45 6. Individual taxpayers and married taxpayers who
46 file a joint federal income tax return and who elect
47 to file a joint return, or separate returns or
48 separate-filing-on-a-combined-return for Iowa income
49 tax purposes, may avail themselves of the disability
50 income exclusion and shall compute the amount of the

S-4122 Pg. 6

1 disability income exclusion subject to the limitations
2 for joint federal income tax return filers provided by
3 section 105(d) of the Internal Revenue Code. The
4 disability income exclusion provided in section 105(d)
5 of the Internal Revenue Code, as amended up to and
6 including December 31, 1982, continues to apply for
7 state income tax purposes for tax years beginning on
8 or after January 1, 1984.

9 8. Married taxpayers who file a joint federal
10 income tax return and who elect to file separate
11 ~~returns or separate filing on a combined return~~ for
12 Iowa income tax purposes, may avail themselves of the
13 expensing of business assets and capital loss
14 provisions of sections 179(a) and 1211(b) respectively
15 of the Internal Revenue Code and shall compute the
16 amount of expensing of business assets and capital
17 loss subject to the limitations for joint federal
18 income tax return filers provided by sections 179(b)
19 and 1211(b) respectively of the Internal Revenue Code.

20 19. Married taxpayers, who file a joint federal
21 income tax return and who elect to file separate
22 ~~returns or who elect separate filing on a combined~~
23 ~~return~~ for state income tax purposes, shall include in
24 net income any social security benefits received to
25 the same extent as those benefits are taxable on the
26 taxpayer's joint federal return for that year under
27 section 86 of the Internal Revenue Code. The benefits
28 included in net income must be allocated between the
29 spouses in the ratio of the social security benefits
30 received by each spouse to the total of these benefits
31 received by both spouses.

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

34 2. Nonresident's net income allocated to Iowa is
35 the net income, or portion thereof, which is derived
36 from a business, trade, profession, or occupation
37 carried on within this state or income from any
38 property, trust, estate, or other source within Iowa.
39 If any business, trade, profession, or occupation is
40 carried on partly within and partly without the state,
41 only the portion of the net income which is fairly and
42 equitably attributable to that part of the business,
43 trade, profession, or occupation carried on within the
44 state is allocated to Iowa for purposes of section
45 422.5, subsection 1, paragraph "n" "c" and section
46 422.13 and income from any property, trust, estate, or
47 other source partly within and partly without the
48 state is allocated to Iowa in the same manner, except
49 that annuities, interest on bank deposits and
50 interest-bearing obligations, and dividends are

S-4122 Pg. 7

1 allocated to Iowa only to the extent to which they are
2 derived from a business, trade, profession, or
3 occupation carried on within the state. However,
4 income received by an individual who is a resident of
5 another state is not allocated to Iowa if the income
6 is subject to an income tax imposed by the state where
7 the individual resides, and if the state of residence
8 allows a similar exclusion for income received in that
9 state by residents of Iowa. In order to implement the
10 exclusions, the director shall designate by rule the
11 states which allow a similar exclusion for income
12 received by residents of Iowa, and may enter into
13 agreements with other states to provide that similar
14 exclusions will be allowed, and to provide suitable
15 withholding requirements in each state.

16 Sec. 12. Section 422.9, subsection 1, unnumbered
17 paragraph 1, Code 1987, as amended by 1987 Iowa Acts,
18 House File 153, section 11, is amended to read as
19 follows:

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

30 Sec. 13. Section 422.9, subsection 1, Code 1987,
31 is amended by adding the following new unnumbered
32 paragraph:

33 NEW UNNUMBERED PARAGRAPH. However, for tax years
34 beginning on or after January 1, 1987 but before
35 January 1, 1988, deduct only the amount of federal
36 income tax paid during the tax year for the previous
37 tax year. Federal income tax paid in estimated tax
38 payments during the tax year for the previous tax year
39 shall not be deducted. For tax years beginning on or
40 after January 1, 1987 but before January 1, 1988, add
41 only the amount of federal income tax refund received
42 during the tax year to the extent that the federal
43 income tax that was refunded had been deducted on a
44 return for a tax year beginning prior to January 1,
45 1987. Married persons who have filed a joint federal
46 income tax return and who have filed separate state
47 returns shall divide the federal income tax paid or
48 the federal income tax refund between the spouses in
49 the ratio of the federal adjusted gross income of each
50 spouse to the adjusted gross income of both spouses

S-4122 Pg. 8

1 for the tax year which resulted in the income tax
2 payment or the income tax refund.

3 Sec. 14. Section 422.9, subsection 2, paragraph b,
4 Code 1987, is amended by striking the paragraph and
5 inserting in lieu thereof the following:

6 b. For tax years beginning on or after January 1,
7 1987 but before January 1, 1988, add the amount of
8 federal income tax paid during the tax year for the
9 previous tax year except for federal income tax paid
10 in estimated tax payments. For tax years beginning on
11 or after January 1, 1987 but before January 1, 1988,
12 subtract the amount of federal income tax refund
13 received during the tax year to the extent that the
14 federal income tax that was refunded had been deducted
15 on a return for a tax year beginning prior to January
16 1, 1987. Married persons who have filed a joint
17 federal income tax return and who have filed separate
18 state returns shall divide the federal income tax paid
19 or the federal income tax refund between the spouses
20 in the ratio of the federal adjusted gross income of
21 each spouse to the adjusted gross income of both
22 spouses for the tax year which resulted in the income
23 tax payment or the income tax refund.

24 Sec. 15. Section 422.12, subsection 2, unnumbered
25 paragraph 2, Code 1987, is amended to read as follows:

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

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

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

S-4122 Pg. 9

1 income in excess of seventy-five thousand dollars, the
2 allowable amount of the two-earner credit shall be
3 reduced, but not below zero, by ten percent of the
4 credit for each one thousand dollars that the adjusted
5 gross income of the married taxpayers exceeds seventy-
6 five thousand dollars.

7 Sec. 17. Section 422.13, subsection 1, paragraph
8 b, Code 1987, is amended to read as follows:

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

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

14 The director shall determine for the ~~1979~~ 1988 and
15 subsequent calendar years the annual and cumulative
16 inflation factors for those calendar years to be
17 applied to tax years beginning on or after January 1
18 of that calendar year. The director shall compute the
19 new dollar amounts as specified therein to be adjusted
20 in section 422.5 by the latest cumulative inflation
21 factor and round off the result to the nearest one
22 dollar. The annual and cumulative inflation factors
23 determined by the director are not rules as defined in
24 section 17A.2, subsection 7.

25 Sec. 19. 1987 Iowa Acts, House File 675, sections
26 4 and 13, are repealed.

27 Sec. 20. 1987 Iowa Acts, House File 377, section
28 10, is amended to read as follows:

29 SEC. 10. This Act takes effect January 1, 1988.
30 Sections ~~4~~ 7 through ~~6~~ 9 apply to tax returns filed
31 for tax years beginning on or after January 1, 1987.
32 However, in determining the allocation between the
33 political candidates fund and the Iowa election
34 campaign fund of funds from the returns for the three
35 tax years beginning on or after January 1, 1987, 1988,
36 and 1989, only the first two hundred sixty thousand
37 dollars received for the tax returns of each of those
38 years shall be deposited in the Iowa election campaign
39 fund and the remainder shall be deposited in the
40 political candidates fund. In order to register for a
41 restricted campaign in 1988, a candidate's committee
42 existing in 1987 must characterize its December 31,
43 1987, balance as provided in section 56.33, subsection
44 10, and provide that information to the commission
45 with the report filed in January, 1988.

46 Sec. 21. Sections 3 through 11 and 13 through 18
47 of this Act are retroactive to January 1, 1987 for tax
48 years beginning on or after that date.

49 Sec. 22. Section 1 of this Act is effective July
50 1, 1987.

SENATE 14
JUNE 6, 1987

S-4122 Pg. 10

1 Sec. 23. Section 12 of this Act is effective
2 January 1, 1988 for tax years beginning on or after
3 that date.

4 Sec. 24. This Act, being deemed of immediate
5 importance, is effective upon enactment."

6 2. Title page, by striking lines 1 through 6 and
7 inserting the following: "An Act relating to state
8 taxes by revising the state cigarette and little cigar
9 tax by increasing the tax and imposing an inventory
10 tax on cigarettes and little cigars, unused tax stamps
11 and metered imprints; and by revising the state
12 individual income tax by altering the tax brackets and
13 rates; disallowing married persons filing separately
14 on combined returns; eliminating the deduction for
15 federal income taxes paid; providing a two-earner tax
16 credit; maintaining the due dates for estimated tax
17 payments; and providing effective dates."

S-4122

Filed June 5, 1987

RECEIVED FROM THE HOUSE

Concurred as amended *by 4124 (p. 22)*

JUNE 6, 1987

SENATE FILE 523

S-4129

1 Amend the House amendment, S-4122, to Senate File
2 523, as amended, passed, and reprinted by the Senate,
3 as follows:

4 1. By striking page 1, line 5 through page 10,
5 line 17, and inserting the following:

6 "Section 1. Section 422.4, subsection 17, Code
7 1987, is amended to read as follows:

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

38 b. "Cumulative inflation factor" means the product
39 of the annual inflation factor for the ~~1978~~ 1987
40 calendar year and all annual inflation factors for
41 subsequent calendar years as determined pursuant to
42 this subsection. The cumulative inflation factor
43 applies to all tax years beginning on or after January
44 1 of the calendar year for which the latest annual
45 inflation factor has been determined.

46 c. The annual inflation factor for the ~~1978~~ 1987
47 calendar year is one hundred percent.

48 d. Notwithstanding the computation of the annual
49 inflation factor under paragraph "a" ~~of this~~
50 subsection, the annual inflation factor is one hundred

S-4129 Pg. 2

1 percent for any calendar year in which the unobligated
2 state general fund balance on June 30 as-certified-by
3 the-director-of-revenue-and-finance-by-September-10-of
4 the-fiscal-year-beginning-in-that-calendar-year-is
5 less-than-sixty-million-dollars.--However,-for-the
6 1981-and-subsequent-calendar-years,-the-annual
7 inflation-factor-is-one-hundred-percent-for-any
8 calendar-year-if-the-unobligated-state-general-fund
9 balance-on-June-30-of-the-calendar-year-preceding-the
10 calendar-year-for-which-the-factor-is-determined, as
11 certified by the director of revenue and finance by
12 October 10, is less than sixty million dollars.

13 Sec. 2. Section 422.5, subsection 1, paragraphs a
14 through m, Code 1987, are amended by striking the
15 paragraphs and inserting in lieu thereof the
16 following:

17 a. For taxpayers other than married taxpayers
18 filing separately, estates, and trusts, the tax rates
19 are as follows:

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

22 (2) On all taxable income exceeding five thousand
23 dollars but not exceeding ten thousand dollars, four
24 percent.

25 (3) On all taxable income exceeding ten thousand
26 dollars but not exceeding forty-five thousand dollars,
27 six and one-half percent.

28 (4) On all taxable income exceeding forty-five
29 thousand dollars, nine and one-half percent.

30 b. 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 two
33 thousand five hundred dollars, three percent.

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

37 (3) On all taxable income exceeding five thousand
38 dollars but not exceeding twenty-two thousand five
39 hundred dollars, six and one-half percent.

40 (4) On all taxable income exceeding twenty-two
41 thousand five hundred dollars, nine and one-half
42 percent.

43 For a taxpayer with taxable income in excess of
44 twenty-five thousand dollars, the benefit of income
45 taxed at the lowest two rates shall be added back at a
46 rate of two hundred fifty dollars for every one
47 thousand dollars in taxable income exceeding twenty-
48 five thousand dollars but not exceeding forty-five
49 thousand dollars until the total value of the rate
50 benefits are recovered.

S-4129 Pg. 3

1 Sec. 3. Section 422.5, subsection 1, paragraph n,
2 Code 1987, is amended to read as follows:

3 n c. The tax imposed upon the taxable income of a
4 nonresident shall be computed by reducing the amount
5 determined pursuant to ~~paragraphs~~ paragraph "a"
6 through-"m" or "b" by the amounts of nonrefundable
7 credits under this division and by multiplying this
8 resulting amount by a fraction of which the
9 nonresident's net income allocated to Iowa, as
10 determined in section 422.8, subsection 2, is the
11 numerator and the nonresident's total net income
12 computed under section 422.7 is the denominator. This
13 provision also applies to individuals who are
14 residents of Iowa for less than the entire tax year.

15 Sec. 4. Section 422.5, subsection 1, paragraph o,
16 unnumbered paragraph 1, Code 1987, as amended by 1987
17 Iowa Acts, House File 153, section 3, is amended to
18 read as follows:

19 There is imposed upon every resident and
20 nonresident of this state, including estates and
21 trusts, the greater of the tax determined in
22 paragraphs "a" through "n" "c" or the state
23 alternative minimum tax equal to seventy-five percent
24 of the maximum state individual income tax rate,
25 rounded to the nearest one-tenth of one percent, of
26 the state alternative minimum taxable income of the
27 taxpayer as computed under this paragraph.

28 Sec. 5. Section 422.5, subsection 1, paragraph o,
29 unnumbered paragraph 5, Code 1987, as amended by 1987
30 Iowa Acts, House File 153, section 3, is amended to
31 read as follows:

32 In the case of a resident, including a resident
33 estate or trust, the state's apportioned share of the
34 state alternative minimum tax is one hundred percent
35 of the state alternative minimum tax computed in this
36 subsection. In the case of a nonresident, including a
37 nonresident estate or trust, or an individual, estate
38 or trust that is domiciled in the state for less than
39 the entire tax year, the state's apportioned share of
40 the state alternative minimum tax is the amount of tax
41 computed under this subsection, reduced by the
42 applicable credits in sections 422.10, 422.11, 422.11A
43 and 422.12 and this result multiplied by a fraction
44 with a numerator of the sum of state net income
45 allocated to Iowa as determined in section 422.8,
46 subsection 2, plus tax preference items, adjustments,
47 and losses under subparagraph (1) attributable to Iowa
48 and with a denominator of the sum of total net income
49 computed under section 422.7 and all tax preference
50 items, adjustments, and losses under subparagraph (1).

1 In computing this fraction, those items excludable
2 under subparagraph (1) shall not be used in computing
3 the tax preference items. Married taxpayers electing
4 to file separate returns ~~or-separately-on-a-combined~~
5 ~~return~~ must allocate the minimum tax computed in this
6 subsection in the proportion that each spouse's
7 respective preference items, adjustments, and losses
8 under subparagraph (1) bear to the combined preference
9 items, adjustments, and losses under subparagraph (1)
10 of both spouses.

11 Sec. 6. Section 422.5, subsection 2, Code 1987, as
12 amended by 1987 Iowa Acts, House File 675, section 2,
13 is amended to read as follows:

14 2. However, the tax shall not be imposed on a
15 resident or nonresident whose net income, as defined
16 in section 422.7, is five seven thousand dollars or
17 less; but in the event that the payment of tax under
18 this division would reduce the net income to less than
19 five seven thousand dollars, then the tax shall be
20 reduced to that amount which would result in allowing
21 the taxpayer to retain a net income of five seven
22 thousand dollars. The preceding sentence does not
23 apply to estates or trusts. For the purpose of this
24 subsection, the entire net income, including any part
25 of the net income not allocated to Iowa, shall be
26 taken into account. If the combined net income of a
27 husband and wife exceeds five seven thousand dollars,
28 neither of them shall receive the benefit of this
29 subsection, and it is immaterial whether they file a
30 joint return or separate returns. However, if a
31 husband and wife file separate returns and have a
32 combined net income of five seven thousand dollars or
33 less, neither spouse shall receive the benefit of this
34 paragraph, if one spouse has a net operating loss and
35 elects to carry back or carry forward the loss as
36 provided in section 422.9, subsection 3. A person who
37 is claimed as a dependent by another person as defined
38 in section 422.12 shall not receive the benefit of
39 this subsection if the person claiming the dependent
40 has net income exceeding five seven thousand dollars
41 or the person claiming the dependent and the person's
42 spouse have combined net income exceeding five seven
43 thousand dollars.

44 Sec. 7. Section 422.5, subsections 6 and 10, Code
45 1987, as amended by 1987 Iowa Acts, House File 153,
46 section 4, are amended to read as follows:

47 6. A person who is disabled, is sixty-two years of
48 age or older or is the surviving spouse of an
49 individual or survivor having an insurable interest in
50 an individual who would have qualified for the

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

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

43 Sec. 8. Section 422.5, subsection 7, Code 1987, is
44 amended to read as follows:

45 7. Upon determination of the latest cumulative
46 inflation factor, the director shall multiply each
47 dollar amount set forth in subsection 1, paragraphs
48 "a" through "m" and "b" of this section, and each
49 dollar amount specified in this section as the maximum
50 amount of annuities received which may be excluded in

S-4129 Pg. 6

1 determining final taxable income, by this cumulative
2 inflation factor, shall round off the resulting
3 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. 9. Section 422.7, subsections 6, 8, and 19,
7 Code 1987, as amended by 1987 Iowa Acts, House File
8 153, section 7, are amended to read as follows:

9 6. Individual taxpayers and married taxpayers who
10 file a joint federal income tax return and who elect
11 to file a joint return, or separate returns or
12 ~~separate-filing-on-a-combined-return~~ for Iowa income
13 tax purposes, may avail themselves of the disability
14 income exclusion and shall compute the amount of the
15 disability income exclusion subject to the limitations
16 for joint federal income tax return filers provided by
17 section 105(d) of the Internal Revenue Code. The
18 disability income exclusion provided in section 105(d)
19 of the Internal Revenue Code, as amended up to and
20 including December 31, 1982, continues to apply for
21 state income tax purposes for tax years beginning on
22 or after January 1, 1984.

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

34 19. Married taxpayers, who file a joint federal
35 income tax return and who elect to file separate
36 returns or ~~who elect separate-filing-on-a-combined~~
37 ~~return~~ for state income tax purposes, shall include in
38 net income any social security benefits received to
39 the same extent as those benefits are taxable on the
40 taxpayer's joint federal return for that year under
41 section 86 of the Internal Revenue Code. The benefits
42 included in net income must be allocated between the
43 spouses in the ratio of the social security benefits
44 received by each spouse to the total of these benefits
45 received by both spouses.

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

48 2. Nonresident's net income allocated to Iowa is
49 the net income, or portion thereof, which is derived
50 from a business, trade, profession, or occupation

S-4129 Pg. 7

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

30 Sec. 11. Section 422.12, subsection 2, unnumbered
31 paragraph 2, Code 1987, is amended to read as follows:

32 ~~Married taxpayers electing to file separate returns~~
33 ~~or-filing-separately-on-a-combined-return~~ must
34 allocate the child and dependent care credit to each
35 spouse in the proportion that each spouse's respective
36 net income bears to the total combined net income.
37 Taxpayers affected by the allocation provisions of
38 section 422.8 shall be permitted a deduction for the
39 credit only in the amount fairly and equitably
40 allocable to Iowa under rules prescribed by the
41 director.

42 Sec. 12. Section 422.12, Code 1987, is amended by
43 adding the following new subsection:

44 NEW SUBSECTION. A two-earner credit for married
45 taxpayers filing jointly. The credit is equal to
46 three and one-half percent of the qualified earned
47 income of the spouse with the lower qualified earned
48 income not to exceed one hundred seventy-five dollars.
49 For purposes of this credit the term "qualified earned
50 income" means the same as provided in section 221 of

1 the Internal Revenue Code in effect on December 31,
2 1986, except that only qualified earned income from
3 Iowa sources shall be considered for the credit.
4 Nonresidents may claim the credit only to the extent
5 that both spouses have qualified earned income from
6 Iowa sources.

7 Sec. 13. Section 422.13, subsection 1, paragraph
8 b, Code 1987, is amended to read as follows:

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

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

14 The director shall determine for the ~~1979~~ 1988 and
15 subsequent calendar years the annual and cumulative
16 inflation factors for those calendar years to be
17 applied to tax years beginning on or after January 1
18 of that calendar year. The director shall compute the
19 new dollar amounts as specified therein to be adjusted
20 in section 422.5 by the latest cumulative inflation
21 factor and round off the result to the nearest one
22 dollar. The annual and cumulative inflation factors
23 determined by the director are not rules as defined in
24 section 17A.2, subsection 7.

25 Sec. 15. Section 422.43, subsections 1, 2, 6, and
26 10, Code 1987, are amended to read as follows:

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

48 2. There is imposed a tax-of-four-percent like
49 rate of tax upon the gross receipts derived from the
50 operation of all forms of amusement devices and games

1 of skill, games of chance, raffles, and bingo games as
2 defined in chapter 99B, operated or conducted within
3 the state of Iowa, the tax to be collected from the
4 operator in the same manner as is provided for the
5 collection of taxes upon the gross receipts of tickets
6 or admission fees as provided in this section. The
7 tax shall also be imposed upon the gross receipts
8 derived from the sale of lottery tickets or shares
9 pursuant to chapter 99E. The tax on the lottery
10 tickets or shares shall be included in the sales price
11 and distributed to the general fund as provided in
12 section 99E.10.

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

27 10. There is imposed a tax of four five percent
28 upon the gross receipts from the rendering,
29 furnishing, or performing of services as defined in
30 section 422.42.

31 Sec. 16. Section 422.45, Code 1987, is amended by
32 adding the following new subsection:

33 NEW SUBSECTION. The gross receipts from the sale,
34 furnishing, or service of gas or electricity.

35 Sec. 17. Section 422.47, Code 1987, is amended by
36 adding the following new subsection:

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

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

50 b. The contractor has paid to the department or to

S-4129 Pg. 10

1 a retailer the full five percent tax.

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

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

15 Sec. 18. Section 423.2, Code 1987, is amended to
16 read as follows:

17 423.2 IMPOSITION OF TAX.

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

36 Sec. 19. This section applies in regard to the
37 increase in the state sales, services, and use tax
38 from four to five percent under sections 15 and 18 of
39 this Act. The use tax rate of five percent applies to
40 motor vehicles subject to registration which are
41 registered on or after July 1, 1987. The five percent
42 use tax rate will apply to the use of property when
43 the first taxable use in this state occurs on or after
44 July 1, 1987. The five percent rate will apply to the
45 gross receipts from the sale, furnishing, or service
46 of gas, electricity, water, heat, and communication
47 service if the date of billing the customer is on or
48 after July 1, 1987. In the case of a service contract
49 entered into prior to July 1, 1987 which contract
50 calls for periodic payments, the five percent rate

S-4129 Pg. 11

1 will apply to those payments made or due on or after
2 July 1, 1987. This periodic payment would apply, but
3 not be limited to, tickets of admissions, private club
4 membership fees, sources of amusement, equipment
5 rental, dry cleaning, reducing salons, dance schools,
6 and all other services subject to tax, except the
7 aforementioned utility services which are subject to a
8 special transitional rule. Unlike periodic payments
9 under service contracts, installment sales of goods,
10 wares, and merchandise are subject to the full amount
11 of sales or use tax when the sales contract is entered
12 into or the property is used in Iowa.

13 Sec. 20. Sections 1 through 14 of this Act are
14 retroactive to January 1, 1987 for tax years beginning
15 on or after that date.

16 Sec. 21. Sections 15 through 19 of this Act are
17 effective July 1, 1987.

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

20 2. Title page, line 5, by striking the word
21 "temporarily".

22 3. Title page, line 6 by inserting after the word
23 "tax" the following: ", providing for refunds for
24 certain contractors as a result of the increase, and
25 exempting from the tax the sale, furnishing, and
26 service of certain utilities".

S-4129

Filed June 5, 1987

ADOPTED

as amended (p. 22)

BY GEORGE KINLEY EUGENE FRAISE
BILL HUTCHINS ALVIN MILLER
EMIL J. HUSAK DAVID READINGER
BERL E. PRIEBE WALLY E. HORN
JOHN E. SOORHOLTZ JACK RIFE
KENNETH SCOTT C. JOSEPH COLEMAN

SENATE FILE 523

S-4125

1 Amend the House amendment, S-4122, to Senate File
2 523, as amended, passed, and reprinted by the Senate,
3 as follows:

4 1. Page 9, by inserting after line 24 the
5 following:

6 "Sec. ____ . 1987 Iowa Acts, Senate File 511,
7 sections 493 and 494, are repealed.

8 Sec. ____ . 1987 Iowa Acts, Senate File 511, section
9 498, is amended to read as follows:

10 SEC. 498. Sections 122, 207, 209, 210, 211, 220,
11 304, 305, 409, 411, 412, and 449 of this Act, being
12 deemed of immediate importance, take effect upon their
13 enactment. ~~Sections 493 and 494 of this Act are~~
14 ~~retroactive to January 1, 1987 and apply to tax years~~
15 ~~beginning on or after that date."~~

S-4125

Filed June 5, 1987

BY TOM MANN, JR.

Ruled out of order *(p. 22)*

SENATE FILE 523

S-4132

1 Amend amendment, S-4129, to the House amendment, S-
2 4122, to Senate File 523 as amended, passed and
3 reprinted by the Senate as follows:

4 1. Page 10, by inserting after line 14 the
5 following:

6 "Sec. ____ . Section 422.51, Code 1987, is amended
7 by adding the following new subsection:

8 NEW SUBSECTION. Beginning July 1, 1987 for
9 purposes of computing the amount of tax due from the
10 retailer under subsection 1, for each transaction in
11 which the purchaser does not pay the total gross
12 receipts at the time of the sale or performance of the
13 service and the retailer lists the transaction as an
14 account receivable, the tax due is computed on the
15 gross receipts at the time actually received by the
16 retailer."

17 2. Renumber as necessary.

S-4132

Filed June 5, 1987 ADOPTED (p. 21) BY EMIL J. HUSAK

SENATE FILE 523

S-4133

1 Amend the amendment, S-4129, to the House
2 amendment, S-4122, to Senate File 523, as amended,
3 passed, and reprinted by the Senate, as follows:

4 1. Page 11, by inserting after line 12 the
5 following:

6 "Sec. ____ . 1987 Iowa Acts, Senate File 511,
7 sections 493 and 494, are repealed.

8 Sec. ____ . 1987 Iowa Acts, Senate File 511, section
9 498, is amended to read as follows:

10 SEC. 498. Sections 122, 207, 209, 210, 211, 220,
11 304, 305, 409, 411, 412, and 449 of this Act, being
12 deemed of immediate importance, take effect upon their
13 enactment. ~~Sections-493-and-494-of-this-Act-are~~
14 ~~retroactive-to-January-17-1987-and-apply-to-tax-years~~
15 ~~beginning-on-or-after-that-date-~~"

S-4133

Filed June 5, 1987 Lost (p. 22) BY TOM MANN, JR.

SENATE FILE 523

S-4134

1 Amend the amendment, S-4129, to the House
2 amendment, S-4122, to Senate File 523, as amended,
3 passed and reprinted by the Senate as follows:

4 1. Page 9, line 34, by inserting after the word
5 "gas" the following: ", LP gas, home heating oil, and
6 any other fuels used by residential or commercial
7 customers,".

S-4134

Filed June 5, 1987 Adopted (p. 23) BY EMIL J. HUSAK
BILL HUTCHINS
BERL E. PRIEBE
KENNETH D. SCOTT

HOUSE CLIP SHEET

EXTRAORDINARY SESSION, SATURDAY, JUNE 6, 1987

SENATE AMENDMENT TO HOUSE AMENDMENT TO SENATE FILE 523
H-4393

1 Amend the House amendment, S-4122, to Senate File
2 523, as amended, passed, and reprinted by the Senate,
3 as follows:

4 1. By striking page 1, line 5 through page 10,
5 line 17, and inserting the following:

6 "Section 1. Section 422.4, subsection 17, Code
7 1987, is amended to read as follows:

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

38 b. "Cumulative inflation factor" means the product
39 of the annual inflation factor for the 1978 1987
40 calendar year and all annual inflation factors for
41 subsequent calendar years as determined pursuant to
42 this subsection. The cumulative inflation factor
43 applies to all tax years beginning on or after January
44 1 of the calendar year for which the latest annual
45 inflation factor has been determined.

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

48 d. Notwithstanding the computation of the annual
49 inflation factor under paragraph "a" of this
50 subsection, the annual inflation factor is one hundred

H-4393

Page Two

1 percent for any calendar year in which the unobligated
2 state general fund balance on June 30 as certified by
3 the director of revenue and finance by September 10 of
4 the fiscal year beginning in that calendar year is
5 less than sixty million dollars. However, for the
6 1981 and subsequent calendar years, the annual
7 inflation factor is one hundred percent for any
8 calendar year if the unobligated state general fund
9 balance on June 30 of the calendar year preceding the
10 calendar year for which the factor is determined, as
11 certified by the director of revenue and finance by
12 October 10, is less than sixty million dollars.

13 Sec. 2. Section 422.5, subsection 1, paragraphs a
14 through m, Code 1987, are amended by striking the
15 paragraphs and inserting in lieu thereof the
16 following:

17 a. For taxpayers other than married taxpayers
18 filing separately, estates, and trusts, the tax rates
19 are as follows:

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

22 (2) On all taxable income exceeding five thousand
23 dollars but not exceeding ten thousand dollars, four
24 percent.

25 (3) On all taxable income exceeding ten thousand
26 dollars but not exceeding forty-five thousand dollars,
27 six and one-half percent.

28 (4) On all taxable income exceeding forty-five
29 thousand dollars, nine and one-half percent.

30 b. 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 two
33 thousand five hundred dollars, three percent.

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

37 (3) On all taxable income exceeding five thousand
38 dollars but not exceeding twenty-two thousand five
39 hundred dollars, six and one-half percent.

40 (4) On all taxable income exceeding twenty-two
41 thousand five hundred dollars, nine and one-half
42 percent.

43 For a taxpayer with taxable income in excess of
44 twenty-five thousand dollars, the benefit of income
45 taxed at the lowest two rates shall be added back at a
46 rate of two hundred fifty dollars for every one
47 thousand dollars in taxable income exceeding twenty-
48 five thousand dollars but not exceeding forty-five
49 thousand dollars until the total value of the rate
50 benefits are recovered.

H-4393

Page Three

1 Sec. 3. Section 422.5, subsection 1, paragraph n,
2 Code 1987, is amended to read as follows:
3 n c. The tax imposed upon the taxable income of a
4 nonresident shall be computed by reducing the amount
5 determined pursuant to paragraphs paragraph "a"
6 through-"m" or "b" by the amounts of nonrefundable
7 credits under this division and by multiplying this
8 resulting amount by a fraction of which the
9 nonresident's net income allocated to Iowa, as
10 determined in section 422.8, subsection 2, is the
11 numerator and the nonresident's total net income
12 computed under section 422.7 is the denominator. This
13 provision also applies to individuals who are
14 residents of Iowa for less than the entire tax year.

15 Sec. 4. Section 422.5, subsection 1, paragraph o,
16 unnumbered paragraph 1, Code 1987, as amended by 1987
17 Iowa Acts, House File 153, section 3, is amended to
18 read as follows:

19 There is imposed upon every resident and
20 nonresident of this state, including estates and
21 trusts, the greater of the tax determined in
22 paragraphs "a" through "n" "c" or the state
23 alternative minimum tax equal to seventy-five percent
24 of the maximum state individual income tax rate,
25 rounded to the nearest one-tenth of one percent, of
26 the state alternative minimum taxable income of the
27 taxpayer as computed under this paragraph.

28 Sec. 5. Section 422.5, subsection 1, paragraph o,
29 unnumbered paragraph 5, Code 1987, as amended by 1987
30 Iowa Acts, House File 153, section 3, is amended to
31 read as follows:

32 In the case of a resident, including a resident
33 estate or trust, the state's apportioned share of the
34 state alternative minimum tax is one hundred percent
35 of the state alternative minimum tax computed in this
36 subsection. In the case of a nonresident, including a
37 nonresident estate or trust, or an individual, estate
38 or trust that is domiciled in the state for less than
39 the entire tax year, the state's apportioned share of
40 the state alternative minimum tax is the amount of tax
41 computed under this subsection, reduced by the
42 applicable credits in sections 422.10, 422.11, 422.11A
43 and 422.12 and this result multiplied by a fraction
44 with a numerator of the sum of state net income
45 allocated to Iowa as determined in section 422.8,
46 subsection 2, plus tax preference items, adjustments,
47 and losses under subparagraph (1) attributable to Iowa
48 and with a denominator of the sum of total net income
49 computed under section 422.7 and all tax preference
50 items, adjustments, and losses under subparagraph (1).

H-4393

Page Four

1 In computing this fraction, those items excludable
2 under subparagraph (1) shall not be used in computing
3 the tax preference items. Married taxpayers electing
4 to file separate returns ~~or separately on a combined~~
5 ~~return~~ must allocate the minimum tax computed in this
6 subsection in the proportion that each spouse's
7 respective preference items, adjustments, and losses
8 under subparagraph (1) bear to the combined preference
9 items, adjustments, and losses under subparagraph (1)
10 of both spouses.

11 Sec. 6. Section 422.5, subsection 2, Code 1987, as
12 amended by 1987 Iowa Acts, House File 675, section 2,
13 is amended to read as follows:

14 2. However, the tax shall not be imposed on a
15 resident or nonresident whose net income, as defined
16 in section 422.7, is five seven thousand dollars or
17 less; but in the event that the payment of tax under
18 this division would reduce the net income to less than
19 five seven thousand dollars, then the tax shall be
20 reduced to that amount which would result in allowing
21 the taxpayer to retain a net income of five seven
22 thousand dollars. The preceding sentence does not
23 apply to estates or trusts. For the purpose of this
24 subsection, the entire net income, including any part
25 of the net income not allocated to Iowa, shall be
26 taken into account. If the combined net income of a
27 husband and wife exceeds five seven thousand dollars,
28 neither of them shall receive the benefit of this
29 subsection, and it is immaterial whether they file a
30 joint return or separate returns. However, if a
31 husband and wife file separate returns and have a
32 combined net income of five seven thousand dollars or
33 less, neither spouse shall receive the benefit of this
34 paragraph, if one spouse has a net operating loss and
35 elects to carry back or carry forward the loss as
36 provided in section 422.9, subsection 3. A person who
37 is claimed as a dependent by another person as defined
38 in section 422.12 shall not receive the benefit of
39 this subsection if the person claiming the dependent
40 has net income exceeding five seven thousand dollars
41 or the person claiming the dependent and the person's
42 spouse have combined net income exceeding five seven
43 thousand dollars.

44 Sec. 7. Section 422.5, subsections 6 and 10, Code
45 1987, as amended by 1987 Iowa Acts, House File 153,
46 section 4, are amended to read as follows:

47 6. A person who is disabled, is sixty-two years of
48 age or older or is the surviving spouse of an
49 individual or survivor having an insurable interest in
50 an individual who would have qualified for the

H-4393

Page Five

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

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

43 Sec. 8. Section 422.5, subsection 7, Code 1987, is
44 amended to read as follows:

45 7. Upon determination of the latest cumulative
46 inflation factor, the director shall multiply each
47 dollar amount set forth in subsection 1, paragraphs
48 "a" through "m" and "b" of this section, and each
49 dollar amount specified in this section as the maximum
50 amount of annuities received which may be excluded in

H-4393

Page Six

1 determining final taxable income, by this cumulative
2 inflation factor, shall round off the resulting
3 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. 9. Section 422.7, subsections 6, 8, and 9,
7 Code 1987, as amended by 1987 Iowa Acts, House File
8 153, section 7, are amended to read as follows:

9 6. Individual taxpayers and married taxpayers who
10 file a joint federal income tax return and who elect
11 to file a joint return, or separate returns or
12 ~~separate-filing-on-a-combined-return~~ for Iowa income
13 tax purposes, may avail themselves of the disability
14 income exclusion and shall compute the amount of the
15 disability income exclusion subject to the limitations
16 for joint federal income tax return filers provided by
17 section 105(d) of the Internal Revenue Code. The
18 disability income exclusion provided in section 105(d)
19 of the Internal Revenue Code, as amended up to and
20 including December 31, 1982, continues to apply for
21 state income tax purposes for tax years beginning on
22 or after January 1, 1984.

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

34 19. Married taxpayers, who file a joint federal
35 income tax return and who elect to file separate
36 returns or ~~who elect separate-filing-on-a-combined~~
37 return for state income tax purposes, shall include in
38 net income any social security benefits received to
39 the same extent as those benefits are taxable on the
40 taxpayer's joint federal return for that year under
41 section 86 of the Internal Revenue Code. The benefits
42 included in net income must be allocated between the
43 spouses in the ratio of the social security benefits
44 received by each spouse to the total of these benefits
45 received by both spouses.

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

48 2. Nonresident's net income allocated to Iowa is
49 the net income, or portion thereof, which is derived
50 from a business, trade, profession, or occupation

H-4393

Page Seven

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

30 Sec. 11. Section 422.12, subsection 2, unnumbered
31 paragraph 2, Code 1987, is amended to read as follows:

32 ~~Married taxpayers electing to file separate returns~~
33 ~~or-filing-separately-on-a-combined-return must~~
34 allocate the child and dependent care credit to each
35 spouse in the proportion that each spouse's respective
36 net income bears to the total combined net income.
37 Taxpayers affected by the allocation provisions of
38 section 422.8 shall be permitted a deduction for the
39 credit only in the amount fairly and equitably
40 allocable to Iowa under rules prescribed by the
41 director.

42 Sec. 12. Section 422.12, Code 1987, is amended by
43 adding the following new subsection:

44 NEW SUBSECTION. A two-earner credit for married
45 taxpayers filing jointly. The credit is equal to
46 three and one-half percent of the qualified earned
47 income of the spouse with the lower qualified earned
48 income not to exceed one hundred seventy-five dollars.
49 For purposes of this credit the term "qualified earned
50 income" means the same as provided in section 221 of

H-4393

Page Eight.

1 the Internal Revenue Code in effect on December 31,
2 1986, except that only qualified earned income from
3 Iowa sources shall be considered for the credit.
4 Nonresidents may claim the credit only to the extent
5 that both spouses have qualified earned income from
6 Iowa sources.

7 Sec. 13. Section 422.13, subsection 1, paragraph
8 b, Code 1987, is amended to read as follows:

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

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

14 The director shall determine for the ~~1979~~ 1988 and
15 subsequent calendar years the annual and cumulative
16 inflation factors for those calendar years to be
17 applied to tax years beginning on or after January 1
18 of that calendar year. The director shall compute the
19 new dollar amounts as specified therein to be adjusted
20 in section 422.5 by the latest cumulative inflation
21 factor and round off the result to the nearest one
22 dollar. The annual and cumulative inflation factors
23 determined by the director are not rules as defined in
24 section 17A.2, subsection 7.

25 Sec. 15. Section 422.43, subsections 1, 2, 6, and
26 10, Code 1987, are amended to read as follows:

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

48 2. There is imposed a tax-of-four-percent like
49 rate of tax upon the gross receipts derived from the
50 operation of all forms of amusement devices and games

H-4393

Page Nine

1 of skill, games of chance, raffles, and bingo games as
2 defined in chapter 99B, operated or conducted within
3 the state of Iowa, the tax to be collected from the
4 operator in the same manner as is provided for the
5 collection of taxes upon the gross receipts of tickets
6 or admission fees as provided in this section. The
7 tax shall also be imposed upon the gross receipts
8 derived from the sale of lottery tickets or shares
9 pursuant to chapter 99E. The tax on the lottery
10 tickets or shares shall be included in the sales price
11 and distributed to the general fund as provided in
12 section 99E.10.

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

27 10. There is imposed a tax of four five percent
28 upon the gross receipts from the rendering,
29 furnishing, or performing of services as defined in
30 section 422.42.

31 Sec. 16. Section 422.45, Code 1987, is amended by
32 adding the following new subsection:

33 NEW SUBSECTION. The gross receipts from the sale,
34 furnishing, or service of gas, LP gas, home heating
35 oil, and any other fuels used by residential or
36 commercial customers, or electricity.

37 Sec. 17. Section 422.47, Code 1987, is amended by
38 adding the following new subsection:

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

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

H-4393

Page Ten

1 construction contract.

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

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

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

17 Sec. 18. Section 422.51, Code 1987, is amended by
18 adding the following new subsection:

19 NEW SUBSECTION. Beginning July 1, 1987 for
20 purposes of computing the amount of tax due from the
21 retailer under subsection 1, for each transaction in
22 which the purchaser does not pay the total gross
23 receipts at the time of the sale or performance of the
24 service and the retailer lists the transaction as an
25 account receivable, the tax due is computed on the
26 gross receipts at the time actually received by the
27 retailer.

28 Sec. 19. Section 423.2, Code 1987, is amended to
29 read as follows:

30 423.2 IMPOSITION OF TAX.

31 An excise tax is imposed on the use in this state
32 of tangible personal property purchased for use in
33 this state, at the rate of four five percent of the
34 purchase price of the property. The excise tax is
35 imposed upon every person using the property within
36 this state until the tax has been paid directly to the
37 county treasurer or the state department of
38 transportation, to a retailer, or to the department.
39 An excise tax is imposed on the use in this state of
40 services enumerated in section 422.43 at the rate of
41 four five percent. This tax is applicable where if
42 services are rendered, furnished, or performed in this
43 state or where if the product or result of the service
44 is used in this state. This tax is imposed on every
45 person using the services or the product of the
46 services in this state until the user has paid the tax
47 either to an Iowa use tax permit holder or to the
48 department.

49 Sec. 20. This section applies in regard to the
50 increase in the state sales, services, and use tax

H-4393

Page Eleven

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

25 Sec. 21. Sections 1 through 14 of this Act are
26 retroactive to January 1, 1987 for tax years beginning
27 on or after that date.

28 Sec. 22. Sections 15 through 20 of this Act are
29 effective July 1, 1987.

30 Sec. 23. This Act, being deemed of immediate
31 importance, is effective upon enactment."

32 2. Title page, line 5, by striking the word
33 "temporarily".

34 3. Title page, line 6 by inserting after the word
35 "tax" the following: ", providing for refunds for
36 certain contractors as a result of the increase, and
37 exempting from the tax the sale, furnishing, and
38 service of certain utilities".

H-4393 FILED JUNE 5, 1987

RECEIVED FROM THE SENATE

REFUSED TO CONCUR (p 55)

Senate insisted 6/5/87 (p 24)

STATE OF IOWA
FISCAL NOTE

LSB No. 2997S
Staff ID. PDO

REQ. BY SENATOR BRUNER SENATE FILE 523

In compliance with a written request received June 4, 1987, a fiscal note for **SENATE FILE 523** 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.

FILED JUN 4 1987

Senate File 523 makes several changes to state tax revenues. The bill (1) alters the tax rates of the individual income tax, (2) creates a two-income household tax credit, (3) raises taxes for cigarettes and little cigars, (4) establishes an inventory tax for cigarette distributors, (5) allows for a transition from federal deductibility, and (6) appoints an interim committee study on the effects of the tax legislation enacted by the 1987 Extraordinary Session.

Income Tax Rates For tax year 1987, the following tax rates and taxable brackets apply:

SINGLE TAXPAYERS		MARRIED TAXPAYERS	
Taxable income	Rate (%)	Taxable income	Rate (%)
\$ 0 - 5,000	1.5	\$ 0 - 2,500	1.5
5,000 - 10,000	4.0	2,500 - 5,000	4.0
10,000 - 70,000	6.5	5,000 - 35,000	6.5
above 70,000	6.9	above 35,000	6.9

Income Tax Credit for Married Taxpayers

The bill allows up to a \$150 tax credit for married taxpayers filing jointly, but imposes certain limits: for every \$1,000 of combined income over \$75,000 for the household, the tax credit is reduced by 10%. Thus, two income households with \$85,000 or more combined income would not be eligible for any portion of this tax credit.

The amount of the credit is determined by taking 3% of the salary earned by the spouse with the lower income. No more than \$5,000 of the earned income can be used in determining the amount of the credit: thus, 3% of \$5,000 yields a \$150 credit, 3% of \$4,000 yields a \$120 credit, etc.

Cigarette Tax Increase and Cigarette Inventory Tax

The bill raises the taxes on cigarettes and little cigars from 13 mills per cigarette or little cigar (26 cents per pack of cigarettes) to 15.5 mills per cigarette or little cigar (31 cents per pack of cigarettes). The bill also provides for an inventory tax on distributors of cigarettes or little cigars which takes effect June 1, 1987.

Transition

The bill provides for a one year transition related to the elimination of federal deductibility.

STATE OF IOWA
FISCAL NOTE

LSB No. 2997S
Staff ID. PDD

-2-

FISCAL EFFECT

Income Tax Provisions

Assumptions

1. Full "coupling" with the tax law changes made in the Tax Reform Act of 1986.
2. Federal deductibility is eliminated.
3. Married filing separately is eliminated.
4. The effect of the tax rate changes under the bill is expected to be the same in FY 1988 and FY 1989.

Under current law, 1987 individual income tax liability is estimated to be \$847 million. Under the bill, an additional \$91.4 million would be collected.

Cigarette and Inventory Tax Provisions

Cigarette and little cigar sales tax revenues are estimated to increase by \$12.5 million.

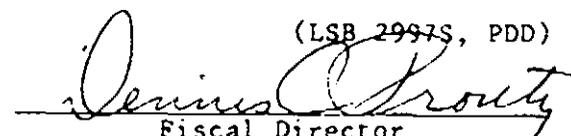
The precise impact of the inventory tax for cigarette and little cigar distributors is unknown, but not expected to be significant.

OVERALL FISCAL EFFECT

Coupling--Individual Income	\$65.0
Tax Credit Adjustment	17.4
Timing Adjustment	9.0
Subtotal	<u>91.4</u>
Cigarette Tax Increase	\$12.5
TOTAL	<u>\$103.9</u>
Transition from Federal Deductibility	(\$ 9.0)
TOTAL	\$ 94.9

SOURCE: Department of Revenue and Finance

(LSB 2997S, PDD)


Fiscal Director
Legislative Fiscal Bureau
Date: 6/4/87

REPORT OF THE CONFERENCE COMMITTEE
ON SENATE FILE 523

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 523, a bill for an Act relating to state taxes by revising the state individual income tax by altering the tax brackets and rates; disallowing married persons filing separately on combined returns; increasing the amount below which no tax is owed; providing a two-earner tax credit; and by temporarily increasing the state sales, services, and use tax; and providing effective dates, respectfully make the following report:

1. That the Senate recede from its amendment, H-4393, to the House amendment, S-4122, to Senate File 523, as amended, passed, and reprinted by the Senate.

2. That the House recede from its amendment, S-4122, to Senate File 523, as amended, passed, and reprinted by the Senate.

3. That Senate File 523, 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 422.4, subsection 17, paragraph c, Code 1987, is amended to read as follows:

c. The annual inflation factor for the 1978 calendar year is one hundred percent. Notwithstanding the computation of the annual inflation factor under paragraph "a", the annual inflation factor for the 1987 calendar year is one hundred percent.

Sec. 2. Section 422.5, subsection 1, paragraph o, subparagraph (4), Code 1987, is amended by striking the subparagraph.

Sec. 3. Section 422.7, Code 1987, is amended by adding the following new subsection:

NEW SUBSECTION. In determining the taxpayer's net income, the adjusted gross income computed for federal tax purposes shall be adjusted to reflect the following:

a. **BUSINESS MEALS, TRAVEL, AND ENTERTAINMENT.** Deductions for expenses incurred for meals, travel, and entertainment for business purposes shall be determined under sections 170 and 274 of the Internal Revenue Code in effect on January 1, 1987 and all other provisions of the Internal Revenue Code in effect on January 1, 1987 relating to such deductions.

b. **DEPRECIATION.** Deductions for depreciation for property used for business purposes shall be determined under sections 46, 167, 178, 179, 280, 291, 312, 465, 467, 514, 751, 1245, 4162, 6111, and 7701 of the Internal Revenue Code in effect on January 1, 1987 and all other provisions of the Internal Revenue Code in effect on January 1, 1987 relating to such deductions.

c. **CAPITALIZATION RULES.** Capitalization rules for inventory, construction, and development costs as they relate to business activities shall be determined under sections 46, 263A, 312, 471, 267, 447, and 464 of the Internal Revenue Code in effect on January 1, 1987 and all other provisions of the Internal Revenue Code in effect on January 1, 1987 relating to such capitalization rules.

d. **PASSIVE INVESTMENT ACTIVITIES.** Deductions for passive investment activities shall be determined under section 469 of the Internal Revenue Code in effect on January 1, 1987 and all other provisions of the Internal Revenue Code in effect on January 1, 1987 relating to passive investment activities.

e. **LONG-TERM CONTRACTS.** Rules for determining the amount of deductions for long-term contracts relating to business activities shall be determined under sections 460 and 804 of the Internal Revenue Code in effect on January 1, 1987 and all other provisions of the Internal Revenue Code in effect on January 1, 1987 relating to such long-term contracts.

f. DISCHARGE OF INDEBTEDNESS. Treatment of income of a farmer resulting from the discharge of the farmer's indebtedness shall be determined under section 108(g) of the Internal Revenue Code in effect on January 1, 1987.

Sec. 4. Section 422.13, subsection 1, paragraph b, Code 1987, is amended to read as follows:

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

Sec. 5. 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.

11. ~~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.~~ "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. 6. 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 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. In making the adjustment under section 56(c)(1) of the Internal Revenue Code, interest and dividends from federal securities net of amortization of any discount or premium shall be subtracted.

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

c. Subtract an exemption amount of forty thousand dollars. This exemption amount shall be reduced, but not below zero, by an amount equal to twenty-five percent of the amount by which the alternative minimum taxable income of the taxpayer, computed without regard to the exemption amount in this paragraph, exceeds one hundred fifty thousand dollars.

d. In the case of a net operating loss computed for a tax year 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 is 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 beginning after December 31, 1986 which is carried back or carried forward to the current taxable year shall not exceed ninety percent of the alternative minimum taxable income determined without regard for the net operating loss deduction.

Sec. 7. Section 422.33, subsection 5, Code 1987, is amended to read as follows:

5. The taxes imposed under this division shall be reduced by a state tax credit for increasing research activities in this state equal to six and one-half percent of the state's apportioned share of the qualifying expenditures for increasing research activities. The state's apportioned share

of the qualifying expenditures for increasing research activities is a percent equal to the ratio of qualified research expenditures in this state to the total qualified research expenditures. For purposes of this subsection, "qualifying expenditures for increasing research activities" means the qualifying expenditures as defined for the federal credit for increasing research activities which would be allowable under section 30 41 of the Internal Revenue Code of 1954--in-effect-on-January-17-1985.

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

Sec. 8. Section 422.35, Code 1987, is amended to read as follows:

422.35 NET INCOME OF CORPORATION -- HOW COMPUTED.

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

1. Subtract interest and dividends from federal securities.
2. Add interest and dividends from foreign securities and from securities of state and other political subdivisions exempt from federal income tax under the Internal Revenue Code of-1954.
3. Where the net income includes capital gains or losses, or gains or losses from property other than capital assets, and such gains or losses have been determined by using a basis established prior to January 1, 1934, an adjustment may be made, under rules and regulations prescribed by the director, to reflect the difference resulting from the use of a basis of cost or January 1, 1934, fair market value, less depreciation allowed or allowable, whichever is higher. Provided that the basis shall be fair market value as of January 1, 1955, less depreciation allowed or allowable, in the case of property

acquired prior to that date if use of a prior basis is declared to be invalid.

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

~~5. Add the amount by which the basis of qualified depreciable property is required to be increased for depreciation purposes under the Internal Revenue Code Amendments Act of 1964 to the extent that such amount equals the net amount of the special deduction allowed on the basis of the amount by which the depreciable basis of such qualified property was required to be reduced for depreciation purposes under the Internal Revenue Code Amendments Act of 1962. The "net amount of the special deduction" shall be computed by taking the sum of the amounts by which the basis of qualified property was required to be decreased for depreciation purposes for the years 1962 and 1963 and subtracting from it the sum of the amounts by which the basis of such property was required to be increased, prior to 1964, for depreciation or disposition purposes under the Internal Revenue Code Amendments Act of 1962.~~

6. Subtract the amount of the jobs tax credit allowable for the tax year under section 51 of the Internal Revenue Code of 1954 to the extent that the credit increased federal taxable income.

7. If the taxpayer is a small business corporation, subtract an amount equal to fifty percent of the wages paid to individuals named in paragraphs "a", "b", and "c" who were hired for the first time by the taxpayer during the tax year for work done in this state:

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 other state or the District of Columbia.
- (2) Is on parole pursuant to chapter 906.
- (3) Is on probation pursuant to chapter 907, for an offense other than a simple misdemeanor.
- (4) Is in a work release program pursuant to chapter 245, division IX.

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

This deduction is allowed for the wages paid to the individuals successfully completing a probationary period named in paragraphs "a", "b", and "c" during the twelve months following the date of first employment by the taxpayer and shall be deducted in the tax years when paid.

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

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

8. Subtract the amount of the alcohol fuel credit 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 net operating loss shall be deducted as follows:

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

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

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

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

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

Sec. 9. Section 422.35, subsection 2, Code 1987, is amended to read as follows:

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

Sec. 10. Section 422.35, subsection 11, Code 1987, is amended by striking the subsection.

Sec. 11. Section 422.35, Code 1987, is amended by adding the following new subsection:

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

Sec. 12. Section 422.36, subsection 5, Code 1987, is amended to read as follows:

5. Where a corporation is not subject to income tax and the stockholders of such corporation are taxed on the

corporation's income under the provisions of the Internal Revenue Code of 1954, the same tax treatment shall apply to such corporation and such stockholders for Iowa income tax purposes.

Sec. 13. Section 422.37, subsection 7, Code 1987, is amended to read as follows:

7. The computation of consolidated taxable income 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. 14. 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),

(c)(1), (d), (f), and (g), of the Internal Revenue Code, and add losses as required by section 58 of the Internal Revenue Code.

b. Make the adjustments provided in section 56(c)(1) of the Internal Revenue Code, except that in making the calculation under sections 56(f)(1) and 56(g)(1) of the Internal Revenue Code the state alternative minimum taxable income, computed without regard to the adjustments made by this paragraph, the exemption provided for in paragraph "d", and the state alternative tax net operating loss described in paragraph "e", shall be substituted for the items described in sections 56(f)(1)(B) and 56(g)(1)(B) of the Internal Revenue Code.

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

d. Subtract an exemption amount of forty thousand dollars. This exemption amount shall be reduced, but not below zero, by an amount equal to twenty-five percent of the amount by which the alternative minimum taxable income of the taxpayer, computed without regard to the exemption amount in this paragraph, exceeds one hundred fifty thousand dollars.

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

Sec. 15. Section 422.61, subsection 2, Code 1987, is amended to read as follows:

2. "Taxable year" means the calendar year or the fiscal year ending during a calendar year, for which the tax is

payable. "Fiscal year" includes a tax period of less than twelve months if, under the Internal Revenue Code of 1954, a corporation is required to file a tax return covering a tax period of less than twelve months.

Sec. 16. Section 422.61, subsection 4, Code 1987, is amended to read as follows:

4. "Net income" means the net income of the financial institution computed in accordance with section 422.35, with the exception that interest and dividends from federal securities shall not be subtracted, no federal income taxes paid or accrued shall not be subtracted, and notwithstanding the provisions of sections 262.41 and 262.51 or any other provisions of the law, income from obligations of the state and its political subdivisions and any amount of franchise taxes paid or accrued under this division during the taxable year shall be added. Any deduction disallowed under section 265(b) or 291(e)(1)(B) of the Internal Revenue Code shall be subtracted.

Sec. 17. Section 450A.1, Code 1987, is amended to read as follows:

450A.1 DEFINITIONS.

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

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

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

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

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

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

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

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

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

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

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

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

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

Sec. 18. Section 450A.2, Code 1987, is amended to read as follows:

450A.2 IMPOSITION OF TAX.

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

Where the deemed transferor is a resident of Iowa and all property included in a generation skipping transfer that is subject to tax under this section has a situs in Iowa, or is subject to the jurisdiction of the courts of Iowa, an amount equal to the total credit as allowed under the Internal Revenue Code of 1954 shall be paid to the state of Iowa. Where the deemed transferor is a nonresident or where the property included in a generation skipping transfer that is subject to tax under this section has a situs outside the state of Iowa and not subject to the jurisdiction of Iowa courts, the tax shall be prorated on the basis that the value

of Iowa property included in the generation skipping transfer bears to the total value of property included in the generation skipping transfer.

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

450A.3 VALUE OF PROPERTY.

The value of property, included in a generation skipping transfer, shall be the same as determined for federal generation skipping transfer tax purposes under the Internal Revenue Code of 1954.

Sec. 20. Section 450A.4, Code 1987, is amended to read as follows:

450A.4 PAYMENT OF THE TAX.

The tax imposed by this chapter shall be paid within twelve months on or before the last day of the ninth month after the death of the ~~deemed transferor if the transfer occurs at that time or if later, the day which is twelve months after the day on which such generation skipping transfer occurred~~ individual whose death is the event causing the generation skipping transfer which is eligible for the credit for state taxes paid under section 2604 of the Internal Revenue Code. ~~For purposes of this chapter, any property transferred during the three-year period ending on the date of the deemed transferor's death and which is included in a generation skipping transfer under the Internal Revenue Code of 1954 shall be considered as transferred on the deemed transferor's death.~~

Sec. 21. Section 450A.5, Code 1987, is amended to read as follows:

450A.5 LIABILITY FOR THE TAX.

The distributee transferee of the property included in the generation skipping transfer shall be personally liable for the tax to the extent of the fair market its value, determined under section 2624 of the Internal Revenue Code as of the time of the ~~distribution of the property received in the~~ distribution generation skipping transfer. If the tax is attributable to a taxable termination, as defined in section

2613 2612(a) of the Internal Revenue Code ~~of 1954~~, the trustee and the transferee shall be personally liable for the tax to the extent of the value of the property subject to tax under the trustee's control.

Sec. 22. Section 450A.6, Code 1987, is amended to read as follows:

450A.6 LIEN OF THE TAX.

The tax imposed by this chapter shall be a lien on the property subject to the tax for a period of ten years from the time the generation skipping transfer occurs. Full payment of the tax, penalty and interest ~~due and interest, if any,~~ shall release the lien and discharge the distributee transferee and trustee of personal liability. Unless the lien has been perfected by recording, a transfer by the distributee transferee or the trustee to a bona fide purchaser for value shall divest the property of the lien. If the lien is perfected by recording, the rights of the state under the lien have priority over all subsequent mortgages, purchases or judgment creditors. The department may release the lien prior to the payment of the tax due if adequate security for payment of the tax is given.

Sec. 23. Section 450A.10, Code 1987, is amended to read as follows:

450A.10 DIRECTOR TO ENFORCE COLLECTION.

It shall be the duty of the director to enforce collection of the tax imposed by this chapter and shall with all the rights of a party in interest, represent the state in any proceedings to collect the tax. The director shall have the power to bring suit against any person liable for the payment of the tax, penalty, interest and costs and may foreclose the lien of the tax in the same manner as is now prescribed for the foreclosure of real estate mortgages and upon judgment may cause execution to be issued to sell so much of the property necessary to satisfy the tax, penalty, interest and costs due.

Sec. 24. Section 450A.11, Code 1987, is amended to read as follows:

450A.11 DUTY TO CLAIM MAXIMUM CREDIT.

It shall be the duty of any person liable for the payment of the tax to claim the maximum federal credit allowable for that portion of the state estate, inheritance, legacy or succession generation skipping transfer tax paid in respect of any property included in a taxable generation skipping transfer. Claiming on a federal return a sum less than the maximum federal credit allowable shall not relieve any person liable for the tax of the duty to pay the tax imposed under this chapter.

If an amended or supplemental return is filed with the internal revenue service which results in a change in the amount of tax owing under this chapter, the persons liable for the payment of the tax shall submit an amended return, on forms prescribed by the director, indicating the amount of the tax then owing as a result of such change.

If any federal generation skipping transfer tax has been paid before the enactment of this chapter, the persons liable for the payment of the tax under this chapter shall file an amended federal return claiming the maximum federal credit allowable and file the Iowa returns specified in section 450A.8 within six months after the enactment of this chapter or within the time limit provided in section 450A.4 whichever is the later.

Sec. 25. Notwithstanding section 8.55, the moneys in the Iowa economic emergency fund on July 1, 1987 are transferred to the general fund of the state. Funds transferred to the general fund of the state shall be used to defray expenses incurred for the fiscal year beginning July 1, 1987 and ending June 30, 1988.

Sec. 26. 1987 Iowa Acts, House File 675, sections 4 and 13, are repealed.

Sec. 27. 1987 Iowa Acts, House File 377, section 10, is amended to read as follows:

SEC. 10. This Act takes effect January 1, 1988. Sections 4 7 through 6 9 apply to tax returns filed for tax years beginning on or after January 1, 1987. However, in determining the allocation between the political candidates

fund and the Iowa election campaign fund of funds from the returns for the three tax years beginning on or after January 1, 1987, 1988, and 1989, only the first two hundred sixty thousand dollars received for the tax returns of each of those years shall be deposited in the Iowa election campaign fund and the remainder shall be deposited in the political candidates fund. In order to register for a restricted campaign in 1988, a candidate's committee existing in 1987 must characterize its December 31, 1987, balance as provided in section 56.33, subsection 10, and provide that information to the commission with the report filed in January, 1988.

Sec. 28. 1987 Iowa Acts, House File 153, sections 1 through 23, are repealed.

Sec. 29. 1987 Iowa Acts, House File 153, sections 57 and 58, are amended to read as follows:

SEC. 57. Sections ~~17-27-47-57-67-77-117-15~~ through 24, 26, 27, 31, 32, 34, and 36 of this Act are retroactive to January 1, 1986 for tax years beginning on or after that date.

SEC. 58. Sections ~~37-87-97-107-127-137-147~~ 25, 28, 29, 30, 33, and 35 of this Act are retroactive to January 1, 1987 for tax years beginning on or after that date.

Sec. 30. Sections 5, 7, 8, 12, 13, and 15 of this Act are retroactive to January 1, 1986 for tax years beginning on or after that date.

Sec. 31. Sections 2, 3, 4, 6, 9, 10, 11, 14, and 16 of this Act are retroactive to January 1, 1987 for tax years beginning on or after that date.

Sec. 32. Sections 17 through 24 of this Act are retroactive to October 22, 1986 for generation skipping transfers which are eligible for the credit for state taxes under section 2604 of the Internal Revenue Code and are made after October 22, 1986, subject to the special rules of section 1433(b) of Public Law 99-514.

Sec. 33. This Act, being deemed of immediate importance, is effective upon enactment."

2. Title page, by striking lines 1 through 6 and inserting the following: "An Act relating to state finances

SENATE 19
JUNE 8, 1987

by conforming its corporate income tax, franchise tax, and generation skipping transfer tax to the new federal tax provisions; only conforming its individual income tax to the new federal tax provisions in those areas dealing with trade, business, and investment activities; setting the latest cumulative inflation factor for purposes of individual income tax rates at the previous rate; changing the criteria for who must file an individual income tax return; forestalling the transfer of funds from the general fund to the Iowa economic emergency fund; and providing effective dates."

ON THE PART OF THE SENATE:

BILL HUTCHINS, Chairperson
GEORGE R. KINLEY
CHARLES BRUNER

ON THE PART OF THE HOUSE:

MINNETTE DODERER, Chairperson
PHIL BRAMMER
DAVID OSTERBERG
HUGO SCHNEKLOTH

Filed June 6, 1987 CCR -18-

Senate adopted 6/6/87 (p. 30)
House adopted 6/6 (p. 49)

SENATE FILE 523

AN ACT

RELATING TO STATE FINANCES BY CONFORMING ITS CORPORATE INCOME TAX, FRANCHISE TAX, AND GENERATION SKIPPING TRANSFER TAX TO THE NEW FEDERAL TAX PROVISIONS; ONLY CONFORMING ITS INDIVIDUAL INCOME TAX TO THE NEW FEDERAL TAX PROVISIONS IN THOSE AREAS DEALING WITH TRADE, BUSINESS, AND INVESTMENT ACTIVITIES; SETTING THE LATEST CUMULATIVE INFLATION FACTOR FOR PURPOSES OF INDIVIDUAL INCOME TAX RATES AT THE PREVIOUS RATE; CHANGING THE CRITERIA FOR WHO MUST FILE AN INDIVIDUAL INCOME TAX RETURN; FORESTALLING THE TRANSFER OF FUNDS FROM THE GENERAL FUND TO THE IOWA ECONOMIC EMERGENCY FUND; AND PROVIDING EFFECTIVE DATES.

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

Section 1. Section 422.4, subsection 17, paragraph c, Code 1987, is amended to read as follows:

c. The annual inflation factor for the 1978 calendar year is one hundred percent. Notwithstanding the computation of the annual inflation factor under paragraph "a", the annual inflation factor for the 1987 calendar year is one hundred percent.

Sec. 2. Section 422.5, subsection 1, paragraph o, subparagraph (4), Code 1987, is amended by striking the subparagraph.

Sec. 3. Section 422.7, Code 1987, is amended by adding the following new subsection:

NEW SUBSECTION. In determining the taxpayer's net income, the adjusted gross income computed for federal tax purposes shall be adjusted to reflect the following:

a. BUSINESS MEALS, TRAVEL, AND ENTERTAINMENT. Deductions for expenses incurred for meals, travel, and entertainment for business purposes shall be determined under sections 170 and

274 of the Internal Revenue Code in effect on January 1, 1987 and all other provisions of the Internal Revenue Code in effect on January 1, 1987 relating to such deductions.

b. DEPRECIATION. Deductions for depreciation for property used for business purposes shall be determined under sections 46, 167, 178, 179, 280, 291, 312, 465, 467, 514, 751, 1245, 4162, 6111, and 7701 of the Internal Revenue Code in effect on January 1, 1987 and all other provisions of the Internal Revenue Code in effect on January 1, 1987 relating to such deductions.

c. CAPITALIZATION RULES. Capitalization rules for inventory, construction, and development costs as they relate to business activities shall be determined under sections 48, 263A, 312, 471, 267, 447, and 464 of the Internal Revenue Code in effect on January 1, 1987 and all other provisions of the Internal Revenue Code in effect on January 1, 1987 relating to such capitalization rules.

d. PASSIVE INVESTMENT ACTIVITIES. Deductions for passive investment activities shall be determined under section 469 of the Internal Revenue Code in effect on January 1, 1987 and all other provisions of the Internal Revenue Code in effect on January 1, 1987 relating to passive investment activities.

e. LONG-TERM CONTRACTS. Rules for determining the amount of deductions for long-term contracts relating to business activities shall be determined under sections 460 and 804 of the Internal Revenue Code in effect on January 1, 1987 and all other provisions of the Internal Revenue Code in effect on January 1, 1987 relating to such long-term contracts.

f. DISCHARGE OF INDEBTEDNESS. Treatment of income of a farmer resulting from the discharge of the farmer's indebtedness shall be determined under section 108(g) of the Internal Revenue Code in effect on January 1, 1987.

Sec. 4. Section 422.13, subsection 1, paragraph b, Code 1987, is amended to read as follows:

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

Sec. 5. 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.

11. ~~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, "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. 6. 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 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. In making the adjustment under section 56(c)(1) of the Internal Revenue

Code, interest and dividends from federal securities net of amortization of any discount or premium shall be subtracted.

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

c. Subtract an exemption amount of forty thousand dollars. This exemption amount shall be reduced, but not below zero, by an amount equal to twenty-five percent of the amount by which the alternative minimum taxable income of the taxpayer, computed without regard to the exemption amount in this paragraph, exceeds one hundred fifty thousand dollars.

d. In the case of a net operating loss computed for a tax year 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 is 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 beginning after December 31, 1986 which is carried back or carried forward to the current taxable year shall not exceed ninety percent of the alternative minimum taxable income determined without regard for the net operating loss deduction.

Sec. 7. Section 422.33, subsection 5, Code 1987, is amended to read as follows:

5. The taxes imposed under this division shall be reduced by a state tax credit for increasing research activities in this state equal to six and one-half percent of the state's apportioned share of the qualifying expenditures for increasing research activities. The state's apportioned share of the qualifying expenditures for increasing research activities is a percent equal to the ratio of qualified research expenditures in this state to the total qualified research expenditures. For purposes of this subsection, "qualifying expenditures for increasing research activities" means the qualifying expenditures as defined for the federal credit for increasing research activities which would be

allowable under section 38 41 of the Internal Revenue Code of 1954; in effect on January 17, 1985.

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

Sec. 8. Section 422.35, Code 1987, is amended to read as follows:

422.35 NET INCOME OF CORPORATION -- HOW COMPUTED.

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

1. Subtract interest and dividends from federal securities.
2. Add interest and dividends from foreign securities and from securities of state and other political subdivisions exempt from federal income tax under the Internal Revenue Code of 1954.
3. Where the net income includes capital gains or losses, or gains or losses from property other than capital assets, and such gains or losses have been determined by using a basis established prior to January 1, 1934, an adjustment may be made, under rules and regulations prescribed by the director, to reflect the difference resulting from the use of a basis of cost or January 1, 1934, fair market value, less depreciation allowed or allowable, whichever is higher. Provided that the basis shall be fair market value as of January 1, 1955, less depreciation allowed or allowable, in the case of property acquired prior to that date if use of a prior basis is declared to be invalid.
4. Subtract fifty percent of the federal income taxes paid or accrued, as the case may be, during the tax year, adjusted by any federal income tax refunds; and add the Iowa income tax deducted in computing said taxable income.

5. Add the amount by which the basis of qualified depreciable property is required to be increased for depreciation purposes under the Internal Revenue Code Amendments Act of 1964 to the extent that such amount equals the net amount of the special deduction allowed on the basis of the amount by which the depreciable basis of such qualified property was required to be reduced for depreciation purposes under the Internal Revenue Code Amendments Act of 1962. The "net amount of the special deduction" shall be computed by taking the sum of the amounts by which the basis of qualified property was required to be decreased for depreciation purposes for the years 1962 and 1963 and subtracting from it the sum of the amounts by which the basis of such property was required to be increased, prior to 1964, for depreciation or disposition purposes under the Internal Revenue Code Amendments Act of 1962.

6. Subtract the amount of the jobs tax credit allowable for the tax year under section 51 of the Internal Revenue Code of 1954 to the extent that the credit increased federal taxable income.

7. If the taxpayer is a small business corporation, subtract an amount equal to fifty percent of the wages paid to individuals named in paragraphs "a", "b", and "c" who were hired for the first time by the taxpayer during the tax year for work done in this state:

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 other state or the District of Columbia.
- (2) Is on parole pursuant to chapter 906.

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

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

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

This deduction is allowed for the wages paid to the individuals successfully completing a probationary period named in paragraphs "a", "b", and "c" during the twelve months following the date of first employment by the taxpayer and shall be deducted in the tax years when paid.

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

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

8. Subtract the amount of the alcohol fuel credit 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 net operating loss shall be deducted as follows:

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

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

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

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

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

Sec. 9. Section 422.35, subsection 2, Code 1987, is amended to read as follows:

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

Sec. 10. Section 422.35, subsection 11, Code 1987, is amended by striking the subsection.

Sec. 11. Section 422.35, Code 1987, is amended by adding the following new subsection:

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

Sec. 12. Section 422.36, subsection 5, Code 1987, is amended to read as follows:

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

Sec. 13. Section 422.37, subsection 7, Code 1987, is amended to read as follows:

7. The computation of consolidated taxable income 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. 14. 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), (c)(1), (d), (f), and (g), of the Internal Revenue Code, and add losses as required by section 58 of the Internal Revenue Code.

b. Make the adjustments provided in section 56(c)(1) of the Internal Revenue Code, except that in making the calculation under sections 56(f)(1) and 56(g)(1) of the Internal Revenue Code the state alternative minimum taxable income, computed without regard to the adjustments made by this paragraph, the exemption provided for in paragraph "d", and the state alternative tax net operating loss described in paragraph "e", shall be substituted for the items described in sections 56(f)(1)(B) and 56(g)(1)(B) of the Internal Revenue Code.

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

d. Subtract an exemption amount of forty thousand dollars. This exemption amount shall be reduced, but not below zero, by an amount equal to twenty-five percent of the amount by which the alternative minimum taxable income of the taxpayer, computed without regard to the exemption amount in this paragraph, exceeds one hundred fifty thousand dollars.

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

Sec. 15. Section 422.61, subsection 2, Code 1987, is amended to read as follows:

2. "Taxable year" means the calendar year or the fiscal year ending during a calendar year, for which the tax is payable. "Fiscal year" includes a tax period of less than twelve months if, under the Internal Revenue Code of 1954,

corporation is required to file a tax return covering a tax period of less than twelve months.

Sec. 16. Section 422.61, subsection 4, Code 1987, is amended to read as follows:

4. "Net income" means the net income of the financial institution computed in accordance with section 422.35, with the exception that interest and dividends from federal securities shall not be subtracted, no federal income taxes paid or accrued shall not be subtracted, and notwithstanding the provisions of sections 262.41 and 262.51 or any other provisions of the law, income from obligations of the state and its political subdivisions and any amount of franchise taxes paid or accrued under this division during the taxable year shall be added. Any deduction disallowed under section 265(b) or 291(e)(1)(B) of the Internal Revenue Code shall be subtracted.

Sec. 17. Section 450A.1, Code 1987, is amended to read as follows:

450A.1 DEFINITIONS.

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

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

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

3. "~~Bequest-transferor" means the deceded-transferor as defined in section 2612 of the Internal Revenue Code of 1954.~~"

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

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

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

7 4. "Distributee transferee" means a person receiving property in a generation skipping transfer.

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

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

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

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

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

Sec. 18. Section 450A.2, Code 1987, is amended to read as follows:

450A.2 IMPOSITION OF TAX.

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

Where the deemed transferor is a resident of Iowa and all property included in a generation skipping transfer that is subject to tax under this section has a situs in Iowa, or is subject to the jurisdiction of the courts of Iowa, an amount equal to the total credit as allowed under the Internal Revenue Code of 1954 shall be paid to the state of Iowa. Where the deemed transferor is a nonresident or where the property included in a generation skipping transfer that is subject to tax under this section has a situs outside the state of Iowa and not subject to the jurisdiction of Iowa

courts, the tax shall be prorated on the basis that the value of Iowa property included in the generation skipping transfer bears to the total value of property included in the generation skipping transfer.

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

450A.3 VALUE OF PROPERTY.

The value of property, included in a generation skipping transfer, shall be the same as determined for federal generation skipping transfer tax purposes under the Internal Revenue Code of 1954.

Sec. 20. Section 450A.4, Code 1987, is amended to read as follows:

450A.4 PAYMENT OF THE TAX.

The tax imposed by this chapter shall be paid within twelve months on or before the last day of the ninth month after the death of the deemed transferor if the transfer occurs at that time or if later, the day which is twelve months after the day on which such generation skipping transfer occurred individual whose death is the event causing the generation skipping transfer which is eligible for the credit for state taxes paid under section 2604 of the Internal Revenue Code. Per purposes of this chapter, any property transferred during the three-year period ending on the date of the deemed transferor's death and which is included in a generation skipping transfer under the Internal Revenue Code of 1954 shall be considered as transferred on the deemed transferor's death.

Sec. 21. Section 450A.5, Code 1987, is amended to read as follows:

450A.5 LIABILITY FOR THE TAX.

The distributee transferee of the property included in the generation skipping transfer shall be personally liable for the tax to the extent of the fair market its value, determined under section 2624 of the Internal Revenue Code as of the time of the distribution of the property received in the

distribution generation skipping transfer. If the tax is attributable to a taxable termination, as defined in section ~~2613~~ 2612(a) of the Internal Revenue Code of 1954, the trustee and the transferee shall be personally liable for the tax to the extent of the value of the property subject to tax under the trustee's control.

Sec. 22. Section 450A.6, Code 1987, is amended to read as follows:

450A.6 LIEN OF THE TAX.

The tax imposed by this chapter shall be a lien on the property subject to the tax for a period of ten years from the time the generation skipping transfer occurs. Full payment of the tax, penalty and interest ~~due and interest, if any,~~ shall release the lien and discharge the distributee transferee and trustee of personal liability. Unless the lien has been perfected by recording, a transfer by the distributee transferee or the trustee to a bona fide purchaser for value shall divest the property of the lien. If the lien is perfected by recording, the rights of the state under the lien have priority over all subsequent mortgages, purchases or judgment creditors. The department may release the lien prior to the payment of the tax due if adequate security for payment of the tax is given.

Sec. 23. Section 450A.10, Code 1987, is amended to read as follows:

450A.10 DIRECTOR TO ENFORCE COLLECTION.

It shall be the duty of the director to enforce collection of the tax imposed by this chapter and shall with all the rights of a party in interest, represent the state in any proceedings to collect the tax. The director shall have the power to bring suit against any person liable for the payment of the tax, penalty, interest and costs and may foreclose the lien of the tax in the same manner as is now prescribed for the foreclosure of real estate mortgages and upon judgment may cause execution to be issued to sell so much of the property necessary to satisfy the tax, penalty, interest and costs due.

Sec. 24. Section 450A.11, Code 1987, is amended to read as follows:

450A.11 DUTY TO CLAIM MAXIMUM CREDIT.

It shall be the duty of any person liable for the payment of the tax to claim the maximum federal credit allowable for that portion of the ~~state estate, inheritance, legacy or succession~~ generation skipping transfer tax paid in respect of any property included in a taxable generation skipping transfer. Claiming on a federal return a sum less than the maximum federal credit allowable shall not relieve any person liable for the tax of the duty to pay the tax imposed under this chapter.

If an amended or supplemental return is filed with the internal revenue service which results in a change in the amount of tax owing under this chapter, the persons liable for the payment of the tax shall submit an amended return, on forms prescribed by the director, indicating the amount of the tax then owing as a result of such change.

If any federal generation skipping transfer tax has been paid before the enactment of this chapter, the persons liable for the payment of the tax under this chapter shall file an amended federal return claiming the maximum federal credit allowable and file the Iowa returns specified in section 450A.8 within six months after the enactment of this chapter or within the time limit provided in section 450A.4 whichever is the later.

Sec. 25. Notwithstanding section 8.55, the moneys in the Iowa economic emergency fund on July 1, 1987 are transferred to the general fund of the state. Funds transferred to the general fund of the state shall be used to defray expenses incurred for the fiscal year beginning July 1, 1987 and ending June 30, 1988.

Sec. 26. 1987 Iowa Acts, House File 675, sections 4 and 13, are repealed.

Sec. 27. 1987 Iowa Acts, House File 377, section 10, is amended to read as follows:

SEC. 10. This Act takes effect January 1, 1988. Sections 4 ~~7~~ through 6 ~~9~~ apply to tax returns filed for tax years beginning on or after January 1, 1987. However, in determining the allocation between the political candidates fund and the Iowa election campaign fund of funds from the returns for the three tax years beginning on or after January 1, 1987, 1988, and 1989, only the first two hundred sixty thousand dollars received for the tax returns of each of those years shall be deposited in the Iowa election campaign fund and the remainder shall be deposited in the political candidates fund. In order to register for a restricted campaign in 1988, a candidate's committee existing in 1987 must characterize its December 31, 1987, balance as provided in section 56.33, subsection 10, and provide that information to the commission with the report filed in January, 1988.

Sec. 28. 1987 Iowa Acts, House File 153, sections 1 through 23, are repealed.

Sec. 29. 1987 Iowa Acts, House File 153, sections 57 and 58, are amended to read as follows:

SEC. 57. Sections ~~17-27-47-57-67-77-117-15~~ through 24, 26, 27, 31, 32, 34, and 36 of this Act are retroactive to January 1, 1986 for tax years beginning on or after that date.

SEC. 58. Sections ~~37-87-97-107-127-137-147~~ 25, 28, 29, 30, 33, and 35 of this Act are retroactive to January 1, 1987 for tax years beginning on or after that date.

Sec. 30. Sections 5, 7, 8, 12, 13, and 15 of this Act are retroactive to January 1, 1986 for tax years beginning on or after that date.

Sec. 31. Sections 2, 3, 4, 6, 9, 10, 11, 14, and 16 of this Act are retroactive to January 1, 1987 for tax years beginning on or after that date.

Sec. 32. Sections 17 through 24 of this Act are retroactive to October 22, 1986 for generation skipping transfers which are eligible for the credit for state taxes under section 2604 of the Internal Revenue Code and are made after October 22, 1986, subject to the special rules of section 1433(b) of Public Law 99-514.

Sec. 33. This Act, being deemed of immediate importance, is effective upon enactment.

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 523, Seventy-second General Assembly.

JOHN F. DWYER
Secretary of the Senate

Approved July 6, 1987

TERRY E. BRANSTAD
Governor