

FILED JAN 21 1988

SENATE FILE 2074  
BY COMMITTEE ON WAYS AND MEANS  
(formerly 558#2035)

Passed Senate, Date 1-19-88 Passed House, Date 2/5/88 (p.286)  
Vote: Ayes 40 Nays 0 Vote: Ayes 82 Nays 8  
Approved April 4, 1988

A BILL FOR

1 An Act relating to the extension of the applicability of House  
2 File 689, enacted during the Second Extraordinary Session of  
3 the Seventy-second General Assembly during 1987, updating  
4 references to the Internal Revenue Code, providing for  
5 retroactive applicability, and providing an effective date.

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

S.F. 2074

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1 Section 1. Section 422.4, subsections 19 and 20, Code  
2 Supplement 1987, are amended to read as follows:

3 19. The definition of the Internal Revenue Code of 1954 in  
4 section 422.3, subsection 5, shall be interpreted to include  
5 provisions of the Tax Reform Act of 1986, Pub. L. No. 99-514  
6 which amended the Internal Revenue Code of 1954, and the  
7 Revenue Act of 1987, Pub. L. No. 100-203, unless the context  
8 otherwise requires.

9 20. "Internal Revenue Code of 1986" means the Internal  
10 Revenue Code of 1954 as amended by the Tax Reform Act of 1986,  
11 Pub. L. No. 99-514 and the Revenue Act of 1987, Pub. L. No.  
12 100-203.

13 Sec. 2. 1987 Iowa Acts, Second Extraordinary Session,  
14 chapter 1, section 16, is amended to read as follows:

15 SEC. 16. Sections 1 through 10, 13, and 14 of this Act are  
16 retroactive to January 1, 1987 for tax years beginning ~~in the~~  
17 1987-calendar-year-only on or after that date.

18 Sec. 3. For purposes of tax years beginning in the 1988  
19 calendar year, references in section 422.9, subsection 6,  
20 unnumbered paragraph 4 and section 422.21, unnumbered  
21 paragraph 6, to the year 1987, 1988, or 1989, shall mean the  
22 year 1988, 1989, or 1990, respectively.

23 Sec. 4. Sections 1 and 2 of this Act are retroactive to  
24 January 1, 1988, for tax years beginning on or after that  
25 date.

26 Sec. 5. This Act, being deemed of immediate importance,  
27 takes effect upon enactment.

28 EXPLANATION

29 The bill makes permanent and updates to later federal  
30 changes those provisions of H.F. 689 enacted during the Second  
31 Extraordinary Session that conform state individual income tax  
32 to the new federal tax provisions; reduce the tax schedule  
33 from thirteen brackets to nine brackets, the lowest rate from  
34 .5 percent to .4 percent, and the highest rate from 13 percent  
35 to 9.98 percent; increase the standard deduction for all

1 filers by \$30 and eliminate the 15 percent, of net income  
2 after federal tax deduction, limit on the standard deduction;  
3 increase from \$5,000 to \$7,500 the amount of net income below  
4 which no tax is owing for all filers except single persons and  
5 provide a phase-in of the regular tax for those who have net  
6 income over \$7,500; clarify the taxation of interest and  
7 dividends from regulated investment companies exempt from  
8 federal tax and the loss from the sale or exchange of shares  
9 of such companies; provide for taxpayers to receive the  
10 benefit of the repealed 60 percent capital gains deduction by  
11 allowing for the filing of refund claims by taxpayers based  
12 upon the difference in the amount of tax paid determined  
13 without the capital gains deduction and the amount that would  
14 have been paid if the deduction, not to exceed \$10,500, was  
15 allowed; and limit the total amount of refund claims paid for  
16 the capital gains deduction to \$8,000,000 with each claim  
17 receiving a pro rata amount if the total claims exceed that  
18 amount. The bill is effective upon enactment and applies to  
19 the tax years beginning on or after January 1, 1988.

20           SUCCESSOR TO SENATE STUDY BILL 2035 (LSB 7611SC)

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FILED JAN 25 1988

STATE OF IOWA

FISCAL NOTE

LSB No. 7611S

Staff ID. PDD

REQ. BY SENATOR BRUNER

SENATE FILE 2074

In compliance with a written request received January 25, 1988, a fiscal note for SENATE FILE 2074 is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note are available from the Legislative Fiscal Bureau to members of the Legislature upon request.

SENATE FILE 2074 repeals the sunset provision on House File 689 enacted during the Second Extraordinary Session of the Seventy-second General Assembly during 1987.

Review of House File 689

House File 689 conformed state tax provisions with the new tax provisions stemming from the Tax Reform Act of 1986 and reduced the tax schedule from 13 to 9 brackets with the lowest rate changed from .5% to .4%, and the highest rate changed from 13% to 9.98%.

HF 689 increased the standard deduction for all filers by \$30 and eliminated the 15% of net income after federal tax deduction limit on the standard deduction. For all filers except single persons, HF 689 increased from \$5,000 to \$7,500 the amount of net income below which no tax is owed. A phase-in of the regular tax was provided for those with net income over \$7,500. The bill clarified the taxation of interest and dividends from regulated investment companies exempt from federal tax and the loss from the sale or exchange of shares of such companies.

HF 689 provided for taxpayers to receive the benefit of the repealed 60% capital gains deduction by allowing for the filing of refund claims by taxpayers based upon the difference in the amount of tax paid determined without the capital gains deduction and the amount that would have been paid if the deduction was still allowed. The maximum refund a taxpayer can claim is \$10,500. The total refund paid out by the state is not to exceed \$1 million with each claim receiving a pro rata amount if the total claims exceed \$8 million.

Assumptions

1. Iowa tax laws will continue to conform with the federal tax legislation for tax years 1988 in a manner similar to that existing for tax year 1987. However, to permit comparison to prior estimates, the effects of capital gains changes assume full coupling with the 1986 federal changes rather than the partial coupling that occurred for tax year 1987.
2. The reliability of the projections continue to rely heavily on the accuracy of the estimates of the provisions completed at the federal level. The absence of specific projections at the federal level for several provisions required the Department of Revenue and Finance to independently complete these estimates. Estimates provided here reflect mid-points of ranges provided by the Department of Revenue & Finance.

FILED JAN 25 1988

STATE OF IOWA

FISCAL NOTE

LSB No. 7611S

Staff ID PDD

REQ. BY SENATOR BRUNER

SENATE FILE 2074

-2-

**FISCAL EFFECT**

Individual Income

	FY88 (millions)	FY89 (millions)
Long Term Capital Gains	\$ 18.5	\$ 22.5
Deduction for Sales Tax	15.0	14.5
Deduction for Medical Expenses	4.0	4.0
Miscellaneous & Employee Business Expense Deduction	14.0	13.5
Unemployment Compensation	3.0	2.5
Minimum Tax	(4.0)	(4.0)
Individual Retirement Accounts	19.0	17.0
CODA	2.5	2.0
Interest Deduction	15.5	19.5
Repeal Dividend Exclusion	3.0	2.5
Business Meals	1.5	2.5
Depreciation	(1.5)	1.0
Passive Investment	5.5	10.0
Capitalization	2.5	1.5
Long term contracts	---	---
 CONFORMITY SUBTOTAL	 \$ 98.5	 \$109.0
 FEDERAL DEDUCTIBILITY	 37.5	 33.5
 TOTAL INDIVIDUAL	 \$136.0	 \$142.5

**OVERALL FISCAL EFFECT**

It is estimated this bill will increase FY89 general fund revenues by \$6.5 million over FY88 general fund revenues.

**HF 689 Sunset Repeal:**

	FY89 (millions)
Individual Income Tax	\$ 109.0
Federal Deductibility	33.5
TOTAL	\$ 142.5

Source: Department of Revenue and Finance

(LSB 7611S, PDD)

*Deanna Christy*  
Fiscal Director

Legislative Fiscal Bureau

Date: 1/25/88

SENATE FILE 2074

S-5015

1 Amend Senate File 2074 as follows:

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

4 "Section 1. Section 422.3, subsection 5, Code  
5 1987, is amended to read as follows:

6 5. "Internal Revenue Code ~~of-1954~~" means the  
7 Internal Revenue Code of ~~1954~~ 1986, as amended to and  
8 including January 1, ~~1986~~ 1988.

9 Sec. 2. Section 422.4, subsections 1, 4, 10, 11,  
10 14, 17, 18, 19, and 20, Code Supplement 1987, are  
11 amended to read as follows:

12 1. The words "taxable income" mean the net income  
13 as defined in section 422.7 minus the deductions  
14 allowed by section 422.9, in the case of individuals;  
15 in the case of estates or trusts, the words "taxable  
16 income" mean the taxable income (without a deduction  
17 for personal exemption) as computed for federal income  
18 tax purposes under the Internal Revenue Code ~~of-1954~~,  
19 but with the adjustments specified in section 422.7  
20 plus the Iowa income tax deducted in computing said  
21 the federal taxable income and minus federal income  
22 taxes as provided in section 422.9.

23 4. The words "tax year" mean the calendar year, or  
24 the fiscal year ending during such calendar year, upon  
25 the basis of which the net income is computed under  
26 this division.

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

31 b. If the effective date or the applicability of a  
32 provision of this division is expressed in terms of a  
33 tax year beginning, including, or ending with  
34 reference to a specified date which is the first or  
35 last day of a month, a tax year described in paragraph  
36 "a" of this subsection shall be treated as beginning  
37 with the first day of the calendar month beginning  
38 nearest to the first day of the tax year or as ending  
39 with the last day of the calendar month ending nearest  
40 to the last day of the tax year.

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

43 10. The word "individual" means a natural person;  
44 and where if an individual is permitted to file as a  
45 corporation, under ~~the-provisions-of~~ the Internal  
46 Revenue Code ~~of-1954~~, such that fictional status shall  
47 is not be recognized for purposes of this chapter, and  
48 such the individual's taxable income shall be computed  
49 as required under ~~the-provisions-of~~ the Internal  
50 Revenue Code ~~of-1954~~ relating to individuals not

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1 filing as a corporation, with the adjustments allowed  
2 by this chapter.

3 11. The term word "head of household" shall have  
4 has the same meaning as provided by the Internal  
5 Revenue Code of 1954.

6 14. The term word "wages" shall have has the same  
7 meaning as provided by the Internal Revenue Code of  
8 1954.

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

40 b. "Cumulative inflation factor" means the product  
41 of the annual inflation factor for the 1978 1988  
42 calendar year and all annual inflation factors for  
43 subsequent calendar years as determined pursuant to  
44 this subsection. The cumulative inflation factor  
45 applies to all tax years beginning on or after January  
46 1 of the calendar year for which the latest annual  
47 inflation factor has been determined.

48 c. The annual inflation factor for the 1978 1988  
49 calendar year is one hundred percent. Notwithstanding  
50 the computation of the annual inflation factor under

1 paragraph "a" the annual inflation factor for the  
2 1987 calendar year is one hundred percent.

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

18 18. For purposes of section 422.3, subsection 5,  
19 the Internal Revenue Code of 1954 shall be interpreted  
20 to include the provisions of Pub. L. No. 98-4.

21 19. The definition of the Internal Revenue Code of  
22 1954 in section 422.3, subsection 5, shall be  
23 interpreted to include provisions of the Tax Reform  
24 Act of 1986, Pub. L. No. 99-514 which amended the  
25 Internal Revenue Code of 1954, unless the context  
26 otherwise requires.

27 20. "Internal Revenue Code of 1986" means the  
28 Internal Revenue Code of 1954 as amended by the Tax  
29 Reform Act of 1986, Pub. L. No. 99-514.

30 Sec. 3. Section 422.5, subsection 1, paragraphs a  
31 through m, Code Supplement 1987, are amended by  
32 striking the paragraphs and inserting in lieu thereof  
33 the following:

34 a. On all taxable income from zero through ten  
35 thousand dollars, one and one-half percent.

36 b. On all taxable income exceeding ten thousand  
37 dollars, five and three-fourths percent.

38 Sec. 4. Section 422.5, subsection 1, paragraphs n  
39 and o, Code Supplement 1987, are amended to read as  
40 follows:

41 n c. The tax imposed upon the taxable income of a  
42 nonresident shall be computed by reducing the amount  
43 determined pursuant to paragraphs "a" through "m" and  
44 "b" by the amounts of nonrefundable credits under this  
45 division and by multiplying this resulting amount by a  
46 fraction of which the nonresident's net income  
47 allocated to Iowa, as determined in section 422.8,  
48 subsection 2, is the numerator and the nonresident's  
49 total net income computed under section 422.7 is the  
50 denominator. This provision also applies to

1 individuals who are residents of Iowa for less than  
2 the entire tax year.

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

12 The state alternative minimum taxable income of a  
13 taxpayer is equal to the taxpayer's state taxable  
14 income, as computed with the deductions in section  
15 422.9, with the following adjustments:

16 (1) Add items of tax preference included in  
17 federal alternative minimum taxable income under  
18 section 57, except subsections (a)(8) and (a)(11)  
19 (a)(1), (a)(2), and (a)(5), of the Internal Revenue  
20 Code of 1954, make the adjustments included in federal  
21 alternative minimum taxable income under section 56,  
22 except subsections (a)(4), (b)(1)(C)(iii), and (d), of  
23 the Internal Revenue Code, and add losses as required  
24 by section 58 of the Internal Revenue Code. In the

25 case of an estate or trust, the items of tax  
26 preference, adjustments, and losses shall be  
27 apportioned between the estate or trust and the  
28 beneficiaries in accordance with rules prescribed by  
29 the director. For purposes of computing the items of  
30 tax preference, the gain or loss from the forfeiture  
31 of an installment real estate contract, the transfer  
32 of real or personal property securing a debt to a  
33 creditor in cancellation of that debt or from the sale  
34 or exchange of property as a result of actual notice  
35 of foreclosure shall not be taken into account in  
36 computing net capital gain if all of the following  
37 conditions are met:

38 (a) The forfeiture, transfer, or sale or exchange  
39 was done for the purpose of establishing a positive  
40 cash flow.

41 (b) Immediately before the forfeiture, transfer,  
42 or sale or exchange, the taxpayer's debt-to-asset  
43 ratio exceeded seventy-five percent as computed under  
44 generally accepted accounting practices.

45 (c) The taxpayer's net worth at the end of the tax  
46 year is less than seventy-five thousand dollars.

47 In determining a taxpayer's net worth at the end of  
48 the tax year a taxpayer shall include any asset  
49 transferred within one hundred twenty days prior to  
50 the end of the tax year without adequate and full

1 consideration-in-money-or-money's-worth--in  
2 determining-the-taxpayer's-debt-to-asset-ratio,-the  
3 taxpayer-shall-include-any-asset-transferred,-within  
4 one-hundred-twenty-days-prior-to-such-forfeiture,  
5 transfer,-or-sale-or-exchange,-without-adequate-and  
6 full-consideration-in-money-or-money's-worth.--For  
7 purposes-of-this-subsection,-actual-notice-of  
8 foreclosure-includes,-but-is-not-limited-to,  
9 bankruptcy-or-written-notice-from-a-creditor-of-the  
10 creditor's-intent-to-foreclose-where-there-is  
11 reasonable-belief-that-the-creditor-can-force-a-sale  
12 of-the-property:

13 (2) Subtract the applicable exemption amount as  
14 follows:

15 (a) Seventeen thousand five hundred dollars for a  
16 married person who files separately or for an estate  
17 or trust.

18 (b) Twenty-six thousand dollars for a single  
19 person or an unmarried head of household.

20 (c) Thirty-five thousand dollars for a married  
21 couple which files a joint return.

22 (d) The exemption amount shall be reduced, but not  
23 below zero, by an amount equal to twenty-five percent  
24 of the amount by which the alternative minimum taxable  
25 income of the taxpayer, computed without regard to the  
26 exemption amount in this subparagraph (2), exceeds the  
27 following:

28 (i) Seventy-five thousand dollars in the case of a  
29 taxpayer described in subparagraph subdivision (a).

30 (ii) One hundred twelve thousand five hundred  
31 dollars in the case of a taxpayer described in  
32 subparagraph subdivision (b).

33 (iii) One hundred fifty thousand dollars in the  
34 case of a taxpayer described in subparagraph  
35 subdivision (c).

36 (3) In the case of a net operating loss computed  
37 for a tax year beginning after December 31, 1982,  
38 which is carried back or carried forward to the  
39 current taxable year, the net operating loss shall be  
40 reduced by the amount of the items of tax preference  
41 arising in such year which was taken into account in  
42 computing the net operating loss in section 422.9,  
43 subsection 3. The deduction for a net operating loss  
44 for a tax year beginning after December 31, 1986,  
45 which is carried back or carried forward to the  
46 current taxable year shall not exceed ninety percent  
47 of the alternative minimum taxable income determined  
48 without regard for the net operating loss deduction.

49 The state alternative minimum tax of a taxpayer  
50 whose items of tax preference include the gain or loss

1 from the forfeiture of an installment real estate  
2 contract, the transfer of real or personal property  
3 securing a debt to a creditor in cancellation of that  
4 debt or from the sale or exchange of property as a  
5 result of actual notice of foreclosure where the fair  
6 market value of the taxpayer's assets exceeds the  
7 taxpayer's liabilities immediately before such  
8 forfeiture, transfer, or sale or exchange shall not be  
9 greater than such excess, including any asset  
10 transferred within one hundred twenty days prior to  
11 such forfeiture, transfer, or sale or exchange.

12 In the case of a resident, including a resident  
13 estate or trust, the state's apportioned share of the  
14 state alternative minimum tax is one hundred percent  
15 of the state alternative minimum tax computed in this  
16 subsection. In the case of a nonresident, including a  
17 nonresident estate or trust, or an individual, estate,  
18 or trust that is domiciled in the state for less than  
19 the entire tax year, the state's apportioned share of  
20 the state alternative minimum tax is the amount of tax  
21 computed under this subsection, reduced by the  
22 applicable credits in sections 422.10, 422.11,  
23 422.11A, and 422.12 and this result multiplied by a  
24 fraction with a numerator of the sum of state net  
25 income allocated to Iowa as determined in section  
26 422.8, subsection 2, and plus tax preference items,  
27 adjustments, and losses under subparagraph (1)  
28 attributable to Iowa and with a denominator of the sum  
29 of total net income computed under section 422.7 and  
30 all tax preference items, adjustments, and losses  
31 under subparagraph (1). In computing this fraction,  
32 those items excludable under subparagraph (1) shall  
33 not be used in computing the tax preference items.  
34 Married taxpayers electing to file separate returns or  
35 separately on a combined return must allocate the  
36 minimum tax computed in this subsection in the  
37 proportion that each spouse's respective preference  
38 items, under section 57 of the Internal Revenue Code  
39 of 1954 adjustments, and losses under subparagraph (1)  
40 bear to the combined preference items, adjustments,  
41 and losses under subparagraph (1) of both spouses.

42 Sec. 5. Section 422.5, subsection 1A, Code  
43 Supplement 1987, is amended by striking the  
44 subsection.

45 Sec. 6. Section 422.5 subsection 2, unnumbered  
46 paragraph 2, Code Supplement 1987, is amended by  
47 striking the unnumbered paragraph.

48 Sec. 7. Section 422.5, subsections 6, 7, 8, and  
49 10, Code Supplement 1987, are amended to read as  
50 follows:

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

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

44 ~~8. Income of an individual which is excluded from~~  
45 ~~gross income under the Internal Revenue Code of 1954~~  
46 ~~as a result of the provisions of the Hostage Relief~~  
47 ~~Act of 1980, 94 Stat. 1967, shall not be included as~~  
48 ~~income in computing the tax imposed by this section.~~

49 10. In addition to the other taxes imposed by this  
50 section, a tax is imposed on the amount of a lump sum

1 distribution for which the taxpayer has elected under  
2 section 402(e) of the Internal Revenue Code of-1954 to  
3 be separately taxed for federal income tax purposes  
4 for the tax year. The rate of tax is equal to twenty-  
5 five percent of the separate federal tax imposed on  
6 the amount of the lump sum distribution. A  
7 nonresident is liable for this tax only on that  
8 portion of the lump sum distribution allocable to  
9 Iowa. The total amount of the lump sum distribution  
10 subject to separate federal tax shall be included in  
11 net income for purposes of determining eligibility  
12 under the five thousand dollar or less exclusion.

13 Sec. 8. Section 422.6, unnumbered paragraph 2,  
14 Code 1987, is amended to read as follows:

15 The beneficiary of a trust who receives an  
16 accumulation distribution shall be allowed credit  
17 without interest for the Iowa income taxes paid by the  
18 trust attributable to such the accumulation  
19 distribution in a manner corresponding to the  
20 provisions for credit under the federal income tax  
21 relating to accumulation distributions as contained in  
22 the Internal Revenue Code of-1954. The trust shall ~~shall~~ is  
23 not be entitled to a refund of taxes paid on the  
24 distributions. The trust shall maintain detailed  
25 records to verify the computation of the tax.

26 Sec. 9. Section 422.7, unnumbered paragraph 1 and  
27 subsections 2, 6, 7, 8, 9, 11, 15, 16, 19, and 21,  
28 Code Supplement 1987, are amended to read as follows:

29 The term "net income" means the adjusted gross  
30 income as properly computed for federal income tax  
31 purposes under the Internal Revenue Code of-1954, with  
32 the following adjustments:

33 2. Add interest and dividends from foreign  
34 securities and from securities of state and other  
35 political subdivisions exempt from federal income tax  
36 under the Internal Revenue Code of-1954.

37 6. Individual taxpayers and married taxpayers who  
38 file a joint federal income tax return and who elect  
39 to file a joint return, separate returns, or separate  
40 filing on a combined return for Iowa income tax  
41 purposes, may avail themselves of the disability  
42 income exclusion and shall compute the amount of the  
43 disability income exclusion subject to the limitations  
44 for joint federal income tax return filers provided by  
45 section 105(d) of the Internal Revenue Code of-1954.  
46 The disability income exclusion provided in section  
47 105(d) of the Internal Revenue Code of-1954, as  
48 amended up to and including December 31, 1982,  
49 continues to apply for state income tax purposes for  
50 tax years beginning on or after January 1, 1984.

1 7. Add to the taxable income of trusts, that  
2 portion of trust income excluded from federal taxable  
3 income under section 641(c) of the Internal Revenue  
4 Code of-1954.

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

17 9. Subtract the amount of the jobs tax credit  
18 allowable for the tax year under section 51 of the  
19 Internal Revenue Code of-1954 to the extent that the  
20 credit increased federal adjusted gross income.

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

25 ~~15. The deduction allowed under section 162(h) of~~  
26 ~~the Internal Revenue Code of-1954 is not applicable in~~  
27 ~~computing Iowa net income for any tax year beginning~~  
28 ~~on or before December 31, 1980. The deduction allowed~~  
29 ~~under section 604 of the Tax Reform Act of 1976, as~~  
30 ~~amended up to and including December 31, 1980, is~~  
31 ~~allowable in computing Iowa net income, for tax years~~  
32 ~~beginning on or before December 31, 1980, under~~  
33 ~~provisions effective for the year for which the return~~  
34 ~~is made. The deduction allowed under section 162(h)~~  
35 ~~of the Internal Revenue Code of-1954 is not applicable~~  
36 ~~in computing Iowa net income for any tax year~~  
37 ~~beginning on or after January 1, 1981. The deduction~~  
38 ~~allowed under section 604 of the Tax Reform Act of~~  
39 ~~1976, as amended up to and including December 31,~~  
40 ~~1980, is allowable in computing Iowa net income for~~  
41 ~~tax years beginning on or after January 1, 1981. The~~  
42 ~~maximum allowable deduction, other than for travel~~  
43 ~~expense, shall not exceed fifty dollars per day, where~~  
44 ~~if the taxpayer elects on the Iowa return to be~~  
45 ~~governed by section 604 of the Tax Reform Act of 1976,~~  
46 ~~as amended up to and including December 31, 1980,~~  
47 ~~unless the taxpayer itemized expenses.~~

48 16. Add the amounts deducted and subtract the  
49 amounts included as income as a result of the  
50 treatment provided sale-leaseback agreements under

1 section 168(f)(8) of the Internal Revenue Code of-1954  
2 for property placed in service by the transferee prior  
3 to January 1, 1986, to the extent that the amounts  
4 deducted and the amounts included in income are not  
5 otherwise deductible or included in income under the  
6 Internal Revenue Code of-1954 as amended to and  
7 including December 31, 1985. Entitlement to  
8 depreciation on any property included in a sale-  
9 leaseback agreement which is placed in service by the  
10 transferee prior to January 1, 1986, shall be  
11 determined under the Internal Revenue Code of-1954 as  
12 amended to and including December 31, 1985, excluding  
13 section 168(f)(8) in making the determination.

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

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

33 Sec. 10. Section 422.7, subsections 23, 24, and  
34 27, Code Supplement 1987, are amended by striking the  
35 subsections and inserting in lieu thereof the  
36 following:

37 23. Add the amount of intangible drilling and  
38 development costs optionally deducted in the year paid  
39 or incurred as described in section 57(a)(2) of the  
40 Internal Revenue Code. This amount may be recovered  
41 through cost depletion or depreciation, as appropriate  
42 under rules prescribed by the director.

43 24. Add the percentage depletion amount determined  
44 with respect to an oil, gas, or geothermal well as  
45 described in section 57(a)(1) of the Internal Revenue  
46 Code.

47 27. Add interest and dividends from regulated  
48 investment companies exempt from federal income tax  
49 under the Internal Revenue Code and subtract the loss  
50 on the sale or exchange of a share of a regulated

1 investment company held for six months or less to the  
2 extent the loss was disallowed under section  
3 852(b)(4)(B) of the Internal Revenue Code.

4 Sec. 11. Section 422.7, subsections 5, 10, 12, 13,  
5 14, 16A, 17, 20, 22, and 26, Code Supplement 1987, are  
6 amended by striking the subsections.

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

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

41 Sec. 13. Section 422.9, subsection 1, Code  
42 Supplement 1987, is amended to read as follows:

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

1 unmarried head of household as defined in the Internal  
2 Revenue Code of 1954 or an optional standard deduction  
3 after deduction of federal income tax equal to one  
4 thousand two hundred thirty dollars for a married  
5 person who files separately or a single person or  
6 equal to three thousand thirty dollars for a husband  
7 and wife who file a joint return, a surviving spouse,  
8 or an unmarried head of household. The optional  
9 standard deduction shall not exceed the amount  
10 remaining after deduction of the federal income tax.

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

30 Sec. 14. Section 422.9, subsection 2, unnumbered  
31 paragraph 1, Code Supplement 1987, is amended by  
32 striking the paragraph and inserting in lieu thereof  
33 the following:

34 The total of contributions, interest, taxes,  
35 medical expense, nonbusiness losses, miscellaneous  
36 expenses, and moving expenses deductible for federal  
37 income tax purposes under the Internal Revenue Code,  
38 with the following adjustments:

39 Sec. 15. Section 422.9, subsection 2, paragraph e,  
40 Code Supplement 1987, is amended by striking the  
41 paragraph.

42 Sec. 16. Section 422.9, subsection 3, unnumbered  
43 paragraph 1 and paragraph c, Code Supplement 1987, are  
44 amended to read as follows:

45 If, after applying all of the adjustments provided  
46 for in section 422.7, the allocation provisions of  
47 section 422.8, and the deductions allowable in this  
48 section subject to the modifications provided in  
49 section 172(d) of the Internal Revenue Code of 1954,  
50 the taxable income results in a net operating loss,

1 the net operating loss shall be deducted as follows:  
2 c. If the election under section 172(b)(3)(C) of  
3 the Internal Revenue Code ~~of-1954~~ is made, the Iowa  
4 net operating loss shall be carried forward fifteen  
5 taxable years.

6 Sec. 17. Section 422.9, subsection 6, Code  
7 Supplement 1987, including four paragraphs, is amended  
8 by striking the subsection.

9 Sec. 18. Section 422.10, unnumbered paragraph 1,  
10 Code Supplement 1987, is amended to read as follows:

11 The taxes imposed under this division shall be  
12 reduced by a state tax credit for increasing research  
13 activities in this state. For individuals, the credit  
14 ~~shall-equal~~ equals six and one-half percent of the  
15 state's apportioned share of the qualifying  
16 expenditures for increasing research activities. The  
17 state's apportioned share of the qualifying  
18 expenditures for increasing research activities is a  
19 percent equal to the ratio of qualified research  
20 expenditures in this state to total qualified research  
21 expenditures. For purposes of this section, an  
22 individual may claim a research credit for qualifying  
23 research expenditures incurred by a partnership,  
24 subchapter S corporation, and estate or trust electing  
25 to have the income taxed directly to the individual.  
26 The amount claimed by the individual shall be based  
27 upon the pro rata share of the individual's earnings  
28 of a partnership, subchapter S corporation, or estate  
29 or trust. For purposes of this section, "qualifying  
30 expenditures for increasing research activities" means  
31 the qualifying expenditures as defined for the federal  
32 credit for increasing research activities which would  
33 be allowable under section ~~30 41~~ of the Internal  
34 Revenue Code ~~of-1954-in-effect-on-january-17-1985-or~~  
35 ~~which-would-be-allowable-under-section-41-of-the~~  
36 ~~Internal-Revenue-Code-of-1986.~~

37 Sec. 19. Section 422.12, subsection 1, paragraph  
38 c, Code Supplement 1987, is amended to read as  
39 follows:

40 c. For each dependent, an additional ten dollars.  
41 As used in this section, the term "dependent" ~~shall~~  
42 ~~have~~ has the same meaning as provided by the Internal  
43 Revenue Code ~~of-1954.~~

44 Sec. 20. Section 422.12, subsection 2, unnumbered  
45 paragraph 1, Code Supplement 1987, is amended to read  
46 as follows:

47 A child and dependent care credit equal to forty-  
48 five percent of the federal child and dependent care  
49 credit provided in section 21 of the Internal Revenue  
50 Code ~~of-1954.~~

1 Sec. 21. Section 422.13, subsection 1, paragraph  
2 a, Code Supplement 1987, is amended to read as  
3 follows:

4 a. The individual is required to file a federal  
5 income tax return under the Internal Revenue Code of  
6 1954.

7 Sec. 22. Section 422.16, subsection 1, unnumbered  
8 paragraph 1, Code Supplement 1987, is amended to read  
9 as follows:

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

33 Sec. 23. Section 422.16, subsection 11, paragraphs  
34 a and d, Code Supplement 1987, are amended to read as  
35 follows:

36 a. Every person or married couple filing a return  
37 shall make estimated tax payments if the person's or  
38 couple's Iowa income tax attributable to income other  
39 than wages subject to withholding can reasonably be  
40 expected to amount to fifty dollars or more for the  
41 taxable year, except that, in the cases of farmers and  
42 ~~fishers~~ fishermen, the exceptions provided in the  
43 Internal Revenue Code of 1954 with respect to making  
44 estimated payments apply. The estimated tax shall be  
45 paid in quarterly installments. The first installment  
46 shall be paid on or before the last day of the fourth  
47 month of the taxpayer's tax year for which the  
48 estimated payments apply. The other installments  
49 shall be paid on or before June 30, September 30, and  
50 January 31. However, at the election of the person or

1 married couple, any installment of the estimated tax  
2 may be paid prior to the date prescribed for its  
3 payment. If a person or married couple filing a  
4 return has reason to believe that the person's or  
5 couple's Iowa income tax may increase or decrease,  
6 either for purposes of meeting the requirement to make  
7 estimated tax payments or for the purpose of  
8 increasing or decreasing estimated tax payments, the  
9 person or married couple shall increase or decrease  
10 any subsequent estimated tax payments accordingly.

11 d. Any amount of estimated tax paid is a credit  
12 against the amount of tax found payable on a final,  
13 completed return, as provided in subsection 9,  
14 relating to the credit for the tax withheld against  
15 the tax found payable on a return properly and  
16 correctly prepared under sections 422.5 through  
17 422.25, and any overpayment of one dollar or more  
18 shall be refunded to the taxpayer and the return  
19 constitutes a claim for refund for this purpose.  
20 Amounts less than one dollar shall not be refunded.  
21 The method provided by the Internal Revenue Code of  
22 1954 for determining what is applicable to the  
23 addition to tax for underpayment of the tax payable  
24 applies to persons required to make payments of  
25 estimated tax under this section except the amount to  
26 be added to the tax for underpayment of estimated tax  
27 is an amount determined at the rate in effect under  
28 section 421.7. This addition to tax specified for  
29 underpayment of the tax payable is not subject to  
30 waiver provisions relating to reasonable cause, except  
31 as provided in the Internal Revenue Code of 1954.  
32 Underpayment of estimated tax shall be determined in  
33 the same manner as provided under the Internal Revenue  
34 Code of 1954 and the exceptions in the Internal  
35 Revenue Code of 1954 also apply.

36 Sec. 24. Section 422.20, subsection 2, Code  
37 Supplement 1987, is amended to read as follows:

38 2. It shall be is unlawful for any an officer,  
39 employee, or agent, or former officer, employee, or  
40 agent of the state to disclose to any person, except  
41 as authorized in subsection 1 of this section, any  
42 federal tax return or return information as defined in  
43 section 6103(b) of the Internal Revenue Code of 1954.  
44 It shall ~~further~~ be is unlawful for any a person to  
45 whom any federal tax return or return information, as  
46 defined in section 6103(b) of the Internal Revenue  
47 Code of 1954, is disclosed in a manner unauthorized by  
48 subsection 1 of this section to thereafter print or  
49 publish in any manner not provided by law any such  
50 return or return information. Any A person committing

1 ~~an offense against the foregoing~~ violating this  
2 ~~provision shall be~~ is guilty of a serious misdemeanor.  
3 Sec. 25. Section 422.21, unnumbered paragraphs 4,  
4 5, and 6, Code Supplement 1987, are amended to read as  
5 follows:

6 The director shall determine for the ~~1979~~ 1989 and  
7 ~~each subsequent calendar years~~ year the annual and  
8 cumulative inflation factors for ~~these~~ each calendar  
9 ~~years~~ year to be applied to tax years beginning on or  
10 after January 1 of that calendar year. The director  
11 shall compute the new dollar amounts as specified  
12 ~~therein~~ to be adjusted in section 422.5 by the latest  
13 cumulative inflation factor and round off the result  
14 to the nearest one dollar. The annual and cumulative  
15 inflation factors determined by the director are not  
16 rules as defined in section 17A.2, subsection 7.

17 The department shall provide on income tax forms or  
18 in the instruction booklets in a manner that will be  
19 noticeable to the taxpayers a statement ~~to the extent~~  
20 that, even though the taxpayer may not have any  
21 federal or state income tax liability, the taxpayer  
22 may be eligible for the federal earned income tax  
23 credit. The statement shall also contain notice of  
24 where the taxpayer may check on the taxpayer's  
25 eligibility for this credit.

26 ~~The department shall prepare and make available a~~  
27 ~~special return for filing a tax refund claim resulting~~  
28 ~~from the net capital gain deduction authorized in~~  
29 ~~section 422.9, subsection 6. The special returns~~  
30 ~~shall be designed so that the department will be able~~  
31 ~~to compile data that identifies the source and type of~~  
32 ~~the capital gains and losses and the geographical~~  
33 ~~location of the transactions involving the capital~~  
34 ~~gains and losses. By January 15, 1989, the department~~  
35 ~~shall make available to the general assembly the data~~  
36 ~~compiled from the special returns filed during the~~  
37 ~~previous calendar year.~~

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

40 Within three years after the return is filed or  
41 within three years after the return became due,  
42 including any extensions of time for filing, whichever  
43 time is the later, the department shall examine it and  
44 determine the correct amount of tax, and the amount  
45 determined by the department is the tax. However, if  
46 the taxpayer omits from income an amount which will,  
47 under the Internal Revenue Code of ~~1954~~, extend the  
48 statute of limitations for assessment of federal tax  
49 to six years under the federal law, the period for  
50 examination and determination is six years. In

1 addition to the applicable period of limitation for  
2 examination and determination, the department may make  
3 an examination and determination at any time within  
4 six months from the date of receipt by the department  
5 of written notice from the taxpayer of the final  
6 disposition of any matter between the taxpayer and the  
7 internal revenue service with respect to the  
8 particular tax year. In order to begin the running of  
9 the ~~six-months~~ six-month period, the notice shall be  
10 in writing in any form sufficient to inform the  
11 department of the final disposition with respect to  
12 that year, and a copy of the federal document showing  
13 the final disposition or final federal adjustments  
14 shall be attached to the notice.

15 Sec. 27. Section 422.43, subsections 1, 2, 6, and  
16 10, Code Supplement, 1987, are amended to read as  
17 follows:

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

39 2. There is imposed a ~~tax-of-four-percent~~ like  
40 rate of tax upon the gross receipts derived from the  
41 operation of all forms of amusement devices and games  
42 of skill, games of chance, raffles, and bingo games as  
43 defined in chapter 99B, operated or conducted within  
44 the state of Iowa, the tax to be collected from the  
45 operator in the same manner as is provided for the  
46 collection of taxes upon the gross receipts of tickets  
47 or admission fees as provided in this section. The  
48 tax shall also be imposed upon the gross receipts  
49 derived from the sale of lottery tickets or shares  
50 pursuant to chapter 99E. The tax on the lottery

1 tickets or shares shall be included in the sales price  
2 and distributed to the general fund as provided in  
3 section 99E.10.

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

18 10. There is imposed a tax of four five percent  
19 upon the gross receipts from the rendering,  
20 furnishing, or performing of services as defined in  
21 section 422.42.

22 Sec. 28. Section 422.47, Code Supplement 1987, is  
23 amended by adding the following new subsection:

24 NEW SUBSECTION. 5. Construction contractors may  
25 make application to the department for a refund of the  
26 additional one percent tax paid under this division or  
27 the additional one percent tax paid under chapter 423  
28 by reason of the increase in the tax from four to five  
29 percent for taxes paid on goods, wares, or merchandise  
30 under the following conditions:

31 a. The goods, wares, or merchandise are  
32 incorporated into an improvement to real estate in  
33 fulfillment of a written contract fully executed prior  
34 to January 1, 1989. The refund does not apply to  
35 equipment transferred in fulfillment of a mixed  
36 construction contract.

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

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

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

1 manner as the tax imposed by this division.

2 Sec. 29. Section 422.72, subsection 2, Code  
3 Supplement 1987, is amended to read as follows:

4 2. Federal tax returns, copies of returns, and  
5 return information as defined in section 6103(b) of  
6 the Internal Revenue Code of ~~1954~~, which are required  
7 to be filed with the department for the enforcement of  
8 the income tax laws of this state, shall be ~~deemed and~~  
9 held as confidential by the department and subject to  
10 the disclosure limitations in subsection 1 ~~of this~~  
11 section.

12 Sec. 30. Section 422.73, subsection 4, Code  
13 Supplement 1987, is amended by striking the  
14 subsection.

15 Sec. 31. 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  
29 services are rendered, furnished, or performed in this  
30 state or where the product or result of the service is  
31 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. 32. 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 27 and 31.  
39 The use tax rate of five percent applies to motor  
40 vehicles subject to registration which are registered  
41 on or after January 1, 1989. The five percent use tax  
42 rate applies to the use of property when the first  
43 taxable use in this state occurs on or after January  
44 1, 1989. The five percent rate applies to the gross  
45 receipts from the sale, furnishing, or service of gas,  
46 electricity, water, heat, and communication service if  
47 the date of billing the customer is on or after  
48 January 1, 1989. In the case of a service contract  
49 entered into prior to January 1, 1989, which contract  
50 calls for periodic payments, the five percent rate

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1 applies to those payments made or due on or after  
2 January 1, 1989. This periodic payment applies, but  
3 is not 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. 33. Sections 1 through 26 and 29 of this Act  
14 are retroactive to January 1, 1988, for tax years  
15 beginning on or after that date.

16 Sec. 34. Sections 27, 28, 31, and 32 of this Act  
17 are effective January 1, 1989.

18 Sec. 35. This Act, being deemed of immediate  
19 importance, takes effect upon enactment."

20 2. Title page, by striking lines 1 through 3 and  
21 inserting the following: "An Act relating to the  
22 state's conforming its individual income taxes with  
23 the new federal tax provisions, rewriting the state  
24 minimum taxes to conform with federal provisions,  
25 changing the tax rates, updating".

26 3. Title page, line 5, by inserting after the  
27 word "applicability" the following: "and to  
28 increasing the state's sales, services, and use  
29 taxes,".

S-5015  
Filed January 25, 1988

LOST (p. 128)

BY GEORGE KINLEY  
JACK RIFE

FILED JAN 25 1988

STATE OF IOWA

FISCAL NOTE

LSB No. 7611S.2  
Staff ID. PDD

REQ. BY SENATOR BRUNER      SENATE FILE 2074 AS AMENDED BY S-5016

In compliance with a written request received January 25, 1988, a fiscal note for SP 2074 AS AMENDED BY S-5016 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.

S-5016 updates references to the Internal Revenue Code, most recently updated by Senate File 523, passed during the First Extraordinary Session of the 1987 General Assembly of 1987. It also couples with the Revenue Act of 1987.

FISCAL EFFECT

Corporate Income

	FY88	FY89
Business Meals	\$ 4.5	\$ 2.5
Depreciation	(4.5)	(3.5)
Passive Investment	---	(2.5)
Capitalization Rules	6.0	9.0
Long Term Contracts	4.0	3.5
Minimum Tax	5.0	9.0
Corporate Rates	---	7.4
Investment Tax Credit	---	(7.4)
Research Credit	---	---
 CORPORATE INCOME TOTAL	 \$ 15.0	 \$ 18.0

Update of References to the Internal Revenue Code

The Omnibus Reconciliation Act of 1987, contains several provisions which will have a direct impact on Iowa tax receipts if Iowa Code references to the Internal Revenue Code (IRC) are updated to include changes made to the IRC through 1987.

The effects of coupling are provided below.

Assumptions

1. Provisions analyzed were those which had a significant fiscal impact projected at the state level, or those for which sufficient information is available upon which to base an estimate.
2. At this time, the data is limited but sufficient to complete projections.
3. Historical relationships between federal and Iowa taxes provide valid guidelines for making current projections.
4. State tax laws will be "coupled" with the federal changes to the extent consistent with past practices.
5. To the limited degree required, the individual tax changes were estimated using the pertinent provisions of HF 689. Estimates provided here reflect mid-points of ranges.

STATE OF IOWA

FISCAL NOTE

LSB No. 7611S.2  
Staff ID. PDD

REQ. BY SENATOR BRUNER      SENATE FILE 2074 AS AMENDED BY S-5016

-2-

FISCAL EFFECT

FY89 (millions)

Provisions Primarily Affecting In Individuals      (\$ 0.25)

Provisions Affecting Business (including individual  
income and inheritance taxes)

Vacation pay reserve	\$ 1.25
Completed contract method	0.75
Installment sales	3.75
Corporate dividends received deduction	0.50
Pension funding	1.50
Estate ESOP limitation	( 1.50)

TOTAL      \$ 6.0

OVERALL FISCAL EFFECT

It is estimated this amendment will increase FY89 general fund revenues by \$9.0 million over FY88 general fund revenues (\$3.0 million due to updating of references; \$6.0 million due to coupling with the Revenue Act of 1987).

Passage of this amendment in conjunction with Senate File 2074 will increase general fund revenues by a total of \$15.5 million for FY89.

Source: Department of Revenue and Finance

(LSB 7611S.2, PDD)

*Quinn C. Kouty*

Fiscal Director  
Legislative Fiscal Bureau

Date: 1/25/88

SENATE FILE 2074

S-5016

1 Amend Senate File 2074 as follows:

2 1. Page 1, by inserting after line 12 the  
3 following:

4 "Sec. 20. Section 422.5, subsection 2, unnumbered  
5 paragraph 2, Code Supplement 1987, is amended to read  
6 as follows:

7 However, for married persons filing jointly or  
8 filing separately on a combined return, unmarried  
9 heads of household, and surviving spouses, references  
10 in this subsection and subsections 6 and 10 to five  
11 thousand dollars shall be interpreted to mean seven  
12 thousand five hundred dollars. In addition, if the  
13 married persons', filing jointly or filing separately  
14 on a combined return, unmarried head of household's,  
15 or surviving spouse's net income exceeds seven  
16 thousand five hundred dollars, the regular tax imposed  
17 under this division shall be the lesser of the maximum  
18 state individual income tax rate times the portion of  
19 the net income in excess of seven thousand five  
20 hundred dollars or the regular tax liability computed  
21 without regard to this sentence. Taxpayers electing  
22 to file separately shall compute the alternate tax  
23 described in this paragraph using the total net income  
24 of the husband and wife. However, the alternate tax  
25 described in this paragraph does not apply if one  
26 spouse elects to carry back or carry forward the loss  
27 as provided in section 422.9, subsection 3.

28 Sec. 21. Section 422.5, subsection 6, Code  
29 Supplement 1987, is amended to read as follows:

30 6. A person who is disabled, is sixty-two years of  
31 age or older or is the surviving spouse of an  
32 individual or survivor having an insurable interest in  
33 an individual who would have qualified for the  
34 exemption under this paragraph for this tax year and  
35 receives one or more annuities from the United States  
36 civil service retirement and disability trust fund,  
37 and whose net income, as defined in section 422.7, is  
38 sufficient to require that the tax be imposed upon it  
39 under this section, may determine final taxable income  
40 for purposes of imposition of the tax by excluding the  
41 amount of annuities received from the United States  
42 civil service retirement and disability trust fund,  
43 which are not already excluded in determining net  
44 income, as defined in section 422.7, up to a maximum  
45 each tax year of five thousand five-hundred six  
46 hundred twenty-seven dollars for a person who files a  
47 separate state income tax return and eight thousand  
48 one hundred eighty-four dollars total for a husband  
49 and wife who file a joint state income tax return.  
50 However, a surviving spouse who is not disabled or

1 sixty-two years of age or older can only exclude the  
2 amount of annuities received as a result of the death  
3 of the other spouse. The amount of the exemption  
4 shall be reduced by the amount of any social security  
5 benefits received. For the purpose of this section,  
6 the amount of annuities received from the United  
7 States civil service retirement and disability trust  
8 fund taxable under the Internal Revenue Code of 1954  
9 shall be included in net income for purposes of  
10 determining eligibility under the five thousand dollar  
11 or less exclusion.

12 Sec. 22. Section 422.32, subsection 1, Code  
13 Supplement 1987, is amended to read as follows:

14 1. The word "corporation" includes joint stock  
15 companies, and associations organized for pecuniary  
16 profit, ~~except-limited-partnerships-organized-under~~  
17 chapter-545 and publicly traded partnerships taxed as  
18 corporations under the Internal Revenue Code.

19 Sec. 23. Section 422.32, subsection 1i, Code  
20 Supplement 1987, is amended to read as follows:

21 1i. "Internal Revenue Code" means the Internal  
22 Revenue Code of 1954, prior to the date of its  
23 redesignation as the Internal Revenue Code of 1986 by  
24 the Tax Reform Act of 1986, or means the Internal  
25 Revenue Code of 1986 as amended to and including  
26 January 1, ~~1987~~ 1988, whichever is applicable.

27 Sec. 24. Section 450A.1, subsection 5, Code  
28 Supplement 1987, is amended to read as follows:

29 5. "Internal Revenue Code" means the same as the  
30 term is defined in section ~~422.3~~ 422.32.

31 Sec. 25. 1987 Iowa Acts, Second Extraordinary  
32 Session, chapter 1, section 13, is amended to read as  
33 follows:

34 SEC. 13. Section 422.4, subsection 17, section  
35 422.5, subsection 7, section 422.7, subsections 10,  
36 12, 14, 15, 22, and 26, and section 422.9, subsection  
37 2, paragraph "e", and section 422.21, unnumbered  
38 paragraph 4, do not apply."

39 2. Page 1, by striking lines 23 through 25 and  
40 inserting the following:

41 "Sec. \_\_\_\_\_. Sections 1, 2, 21, 22, 23, and 25 of  
42 this Act are retroactive to January 1, 1987, for tax  
43 years beginning on or after that date.

44 Sec. \_\_\_\_\_. Section 20 of this Act is retroactive to  
45 January 1, 1988, for tax years beginning on or after  
46 that date.

47 Sec. \_\_\_\_\_. Section 24 of this Act is retroactive to  
48 October 22, 1986, for generation skipping transfers  
49 which are eligible for the credit for state taxes  
50 under section 2604 of the Internal Revenue Code and

SENATE 24  
JANUARY 26, 1988

S-5016 Pg. 3

are made after October 22, 1986, subject to the  
2 special rules of section 1433(b) of Pub. L. No. 99-  
3 514.

4 Sec. \_\_\_\_ . 1987 Iowa Acts, Second Extraordinary  
5 Session, chapter 1, section 13, is repealed January 1,  
6 1989, ~~for~~ tax years beginning on or after that date."

S-5016

Filed January 25, 1988

ADOPTED

BY CHARLES BRUNER  
RICHARD F. DRAKE  
EDGAR H. HOLDEN

SENATE FILE 2074

S-5018

1 Amend the Bruner et al. amendment, S-5016, to

2 Senate File 2074, as follows:

3 1. Page 2, line 38, by inserting after the word  
4 "apply." the following: "However, for a member of the  
5 general assembly whose place of residence within the  
6 legislative district is less than fifty miles from the  
capitol building of the state, section 422.7,  
subsection 15, does apply."

S-5018

Filed January 25, 1988

ADOPTED

BY RICHARD F. DRAKE  
MICHAEL E. GRONSTAL

Ways and Means: Doderer, Chair; Carpenter, Hanson of Delaware, Osterberg, Rosenberg, Schneklath and Teaford.

FILED JAN 25 1988

SENATE FILE 2074  
BY COMMITTEE ON WAYS AND MEANS

(AS AMENDED AND PASSED BY THE SENATE JANUARY 25, 1988)

- New Language by the Senate

Passed Senate, Date Jan 25, 1988 Passed House, Date Jan 21, 1988  
Vote: Ayes 91 Nays 4 Vote: Ayes 52 Nays 8  
Approved Jan 14, 1988 (p. 245)

A BILL FOR

1 An Act relating to the extension of the applicability of House  
2 File 689, enacted during the Second Extraordinary Session of  
3 the Seventy-second General Assembly during 1987, updating  
4 references to the Internal Revenue Code, providing for  
5 retroactive applicability, and providing an effective date.  
6 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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S.F. 2074

1 Section 1. Section 422.4, subsections 19 and 20, Code  
2 Supplement 1987, are amended to read as follows:

3 19. The definition of the Internal Revenue Code of 1954 in  
4 section 422.3, subsection 5, shall be interpreted to include  
5 provisions of the Tax Reform Act of 1986, Pub. L. No. 99-514  
6 which amended the Internal Revenue Code of 1954, and the  
7 Revenue Act of 1987, Pub. L. No. 100-203, unless the context  
8 otherwise requires.

9 20. "Internal Revenue Code of 1986" means the Internal  
10 Revenue Code of 1954 as amended by the Tax Reform Act of 1986,  
11 Pub. L. No. 99-514 and the Revenue Act of 1987, Pub. L. No.  
12 100-203.

13 Sec. 2. Section 422.5, subsection 2, unnumbered paragraph  
14 2, Code Supplement 1987, is amended to read as follows:

15 However, for married persons filing jointly or filing  
16 separately on a combined return, unmarried heads of household,  
17 and surviving spouses, references in this subsection and  
18 subsections 6 and 10 to five thousand dollars shall be  
19 interpreted to mean seven thousand five hundred dollars. In  
20 addition, if the married persons', filing jointly or filing  
21 separately on a combined return, unmarried head of  
22 household's, or surviving spouse's net income exceeds seven  
23 thousand five hundred dollars, the regular tax imposed under  
24 this division shall be the lesser of the maximum state  
25 individual income tax rate times the portion of the net income  
26 in excess of seven thousand five hundred dollars or the  
27 regular tax liability computed without regard to this  
28 sentence. Taxpayers electing to file separately shall compute  
29 the alternate tax described in this paragraph using the total  
30 net income of the husband and wife. However, the alternate  
31 tax described in this paragraph does not apply if one spouse  
32 elects to carry back or carry forward the loss as provided in  
33 section 422.9, subsection 3.

34 Sec. 3. Section 422.5, subsection 6, Code Supplement 1987,  
35 is amended to read as follows:

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

28 Sec. 4. Section 422.32, subsection 1, Code Supplement  
29 1987, is amended to read as follows:

30 1. The word "corporation" includes joint stock companies,  
31 and associations organized for pecuniary profit, except  
32 limited-partnerships-organized-under-chapter-545 and publicly  
33 traded partnerships taxed as corporations under the Internal  
34 Revenue Code.

35 Sec. 5. Section 422.32, subsection 11, Code Supplement

1 1987, is amended to read as follows:

2 11. "Internal Revenue Code" means the Internal Revenue  
3 Code of 1954, prior to the date of its redesignation as the  
4 Internal Revenue Code of 1986 by the Tax Reform Act of 1986,  
5 or means the Internal Revenue Code of 1986 as amended to and  
6 including January 1, 1987 1988, whichever is applicable.

7 Sec. 6. Section 450A.1, subsection 5, Code Supplement  
8 1987, is amended to read as follows:

9 5. "Internal Revenue Code" means the same as the term is  
10 defined in section 422.3 422.32.

11 Sec. 7. 1987 Iowa Acts, Second Extraordinary Session,  
12 chapter 1, section 13, is amended to read as follows:

13 SEC. 13. Section 422.4, subsection 17, section 422.5,  
14 subsection 7, section 422.7, subsections 10, 12, 14, 15, 22,  
15 and 26, and section 422.9, subsection 2, paragraph "e", and  
16 section 422.21, unnumbered paragraph 4, do not apply.

17 However, for a member of the general assembly whose place of  
18 residence within the legislative district is less than fifty  
19 miles from the capitol building of the state, section 422.7,  
20 subsection 15, does apply.

21 Sec. 8. 1987 Iowa Acts, Second Extraordinary Session,  
22 chapter 1, section 16, is amended to read as follows:

23 SEC. 16. Sections 1 through 10, 13, and 14 of this Act are  
24 retroactive to January 1, 1987 for tax years beginning in the  
25 1987-calendar-year-only on or after that date.

26 Sec. 9. For purposes of tax years beginning in the 1988  
27 calendar year, references in section 422.9, subsection 6,  
28 unnumbered paragraph 4 and section 422.21, unnumbered  
29 paragraph 6, to the year 1987, 1988, or 1989, shall mean the  
30 year 1988, 1989, or 1990, respectively.

31 Sec. 10. Sections 1, 3, 4, 5, 7, and 8 of this Act are  
32 retroactive to January 1, 1987, for tax years beginning on or  
33 after that date.

34 Sec. 11. Section 2 of this Act is retroactive to January  
35 1, 1988, for tax years beginning on or after that date.

1     Sec. 12. Section 6 of this Act is retroactive to October  
2 22, 1986, for generation skipping transfers which are eligible  
3 for the credit for state taxes under section 2604 of the  
4 Internal Revenue Code and are made after October 22, 1986,  
5 subject to the special rules of section 1433(b) of Pub. L. No.  
6 99-514.

7     Sec. 13. 1987 Iowa Acts, Second Extraordinary Session,  
8 chapter 1, section 13, is repealed January 1, 1989, for tax  
9 years beginning on or after that date.

10    Sec. 14. This Act, being deemed of immediate importance,  
11 takes effect upon enactment.

12            SUCCESSOR TO SENATE STUDY BILL 2035 (LSB 7611SC)

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SENATE FILE 2074  
AS PASSED BY THE SENATE  
FISCAL NOTE

REQUESTED BY REPRESENTATIVE DODERER

In compliance with a written request received January 26, 1988, a fiscal note for **SENATE FILE 2074 AS PASSED BY THE SENATE** is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note are available from the Legislative Fiscal Bureau to members of the Legislature upon request.

SENATE FILE 2074 AS PASSED BY THE SENATE makes permanent and updates to later federal changes those provisions of H.F. 689 enacted during the 1987 Second Extraordinary Session that conform state individual income tax to the new federal tax provisions. The bill makes permanent changes made by H.F. 689 in rates, brackets, deductions, capital gains deduction refunds, thresholds, and clarification on the taxation of interest and dividends from regulated investment companies exempt from federal tax and the loss from the sale or exchange of shares of such companies. The bill reinstates the deduction of expenses for state legislators whose home is within 50 miles of the capitol, and clarifies taxpayer eligibility for use of the alternative tax calculation available to filers with net incomes over \$7,500 and not filing as singles. The bill also updates references to the Internal Revenue Code relating to the individual, business and inheritance taxes.

Section 1 couples state and federal individual income tax provisions and is retroactive to Jan. 1, 1987.

Section 2 clarifies that a married couple with one spouse carrying a net operating loss forward or back shall not receive the benefit of an alternate tax calculation available for filers with net incomes over \$7,500 and not filing as singles. This section is retroactive to Jan. 1, 1988.

Section 3: Under current law, taxpayers receiving annuities from the U.S. Civil Service Retirement and Disability Trust Fund were allowed to exclude from net income up to \$5,500 for separate filers and \$8,000 for joint filers. The \$5,500 and \$8,000 were indexed for inflation, thus actual excludable amounts had risen. This section brings the limits stated in the Code up to the levels they were raised by indexation, i.e., to \$5,627 for separate filers and \$8,184 for married filers. This section is retroactive to Jan. 1, 1987. Indexation will begin again in 1989.

Sections 4, 5 and 6 couple with changes in the Internal Revenue Code pertaining to the individual, business and inheritance taxes. Sections 4 and 5 are retroactive to Jan. 1, 1987; section 6 is made retroactive to Oct. 26, 1986 by section 12 for generation skipping transfers eligible for the credit for state taxes.

Section 7 reinstates the deduction of expenses for state legislators living within 50 miles of the state capitol and is retroactive to Jan. 1, 1987.

Section 8 repeals the sunset provision for H.F. 689 and is retroactive to Jan. 1, 1987.

Section 9 increments deadline dates pertaining to the separate filing for a capital gains deduction refund for tax year 1988.

-2-

Sections 10 and 11 establish retroactive dates.

Section 13 restarts indexation for 1989. It also strikes H.F. 689 language no longer needed due to permanent coupling.

Section 14 states that the bill takes effect upon enactment.

#### FISCAL EFFECT

##### Repeal of H.F. 689 Sunset

##### Assumptions

1. Iowa tax laws will continue to conform with the federal tax legislation for tax years 1988 in a manner similar to that existing for tax year 1987. However, to permit comparison to prior estimates, the effects of capital gains changes assume full coupling with the 1986 federal changes rather than the partial coupling that occurred for tax year 1987.
2. The reliability of the projections continue to rely heavily on the accuracy of the estimates of the provisions completed at the federal level. The absence of specific projections at the federal level for several provisions required the Department of Revenue and Finance to independently complete these estimates. Estimates provided here reflect mid-points of ranges provided by the Department of Revenue & Finance.

It is estimated this portion of the bill will increase FY89 general fund revenues by \$6.5 million over FY88 general fund revenues.

##### Individual Income

	FY88 (millions)	FY89 (millions)
Long Term Capital Gains	\$ 18.5	\$ 22.5
Deduction for Sales Tax	15.0	14.5
Deduction for Medical Expenses	4.0	4.0
Miscellaneous & Employee Business Expense Deduction	14.0	13.5
Unemployment Compensation	3.0	2.5
Minimum Tax	(4.0)	(4.0)
Individual Retirement Accounts	19.0	17.0
CODA	2.5	2.0
Interest Deduction	15.5	19.5
Repeal Dividend Exclusion	3.0	2.5
Business Meals	1.5	2.5
Depreciation	(1.5)	1.0
Passive Investment	5.5	10.0

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Capitalization	2.5	1.5
Long term contracts	---	---
CONFORMITY SUBTOTAL	\$ 98.5	\$109.0
FEDERAL DEDUCTIBILITY	37.5	33.5
TOTAL	\$136.0	\$142.5

IRC Update

The Omnibus Reconciliation Act of 1987, contains several provisions which will have a direct impact on Iowa tax receipts if Iowa Code references to the Internal Revenue Code (IRC) are updated to include changes made to the IRC through 1987.

Assumptions

1. Provisions analyzed were those which had a significant fiscal impact projected at the state level, or those for which sufficient information is available upon which to base an estimate.
2. At this time, the data is limited but sufficient to complete projections.
3. Historical relationships between federal and Iowa taxes provide valid guidelines for making current projections.
4. State tax laws will be "coupled" with the federal changes to the extent consistent with past practices.
5. To the limited degree required, the individual tax changes were estimated using the pertinent provisions of HF 689. Estimates provided here reflect mid-points of ranges.

The estimated net effect of coupling with these provisions is \$6.0 million.

	FY89 (millions)
<u>Provisions Primarily Affecting Individuals</u>	(\$ 0.25)
<u>Provisions Affecting Business (including individual income and inheritance taxes)</u>	
Vacation pay reserve	\$ 1.25
Completed contract method	0.75
Installment sales	3.75
Corporate dividends received deduction	0.50
Pension funding	1.50
Estate ESOP limitation	( 1.50)
TOTAL	\$ 6.0

## OVERALL FISCAL EFFECT

It is estimated this bill will increase FY89 general fund revenues by \$12.5 million over FY88 general fund revenues (\$6.5 due to extension of H.F. 689; \$6.0 million due to coupling with the Revenue Act of 1987).

SENATE FILE 2074 AS PASSED BY THE SENATE  
AMENDMENT H-5033  
FISCAL NOTE

REQUESTED BY REPRESENTATIVE DODERER

In compliance with a written request received February 2, 1988, a fiscal note for **AMENDMENT H-5033 TO SENATE FILE 2074 AS PASSED BY THE SENATE** is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note are available from the Legislative Fiscal Bureau to members of the Legislature upon request.

**AMENDMENT H-5033 TO SENATE FILE 2074 AS PASSED BY THE SENATE** has two new provisions and repeals the capital gains refund provision for tax year 1989 and beyond. The two new provisions are (a) placement of a \$12,000 limit on the amount of state pensions to be tax exempt, and (b) institution of a corporate tax on unrelated business income earned by non-profit organizations. Otherwise, the amendment has the same effect as the Senate bill. The amendment makes permanent those provisions of H.F. 689 enacted during the 1987 Second Extraordinary Session that conform state individual income tax to the new federal tax provisions, and updates to later federal changes in the Internal Revenue Code.

The amendment makes permanent changes made by H.F. 689 in rates, brackets, deductions, thresholds, and clarification on the taxation of interest and dividends from regulated investment companies exempt from federal tax and the loss from the sale or exchange of shares of such companies. The amendment reinstates the deduction of expenses for state legislators whose home is within 50 miles of the capitol, and clarifies taxpayer eligibility for use of the alternative tax calculation available to filers with net incomes over \$7,500 and not filing as singles. The amendment updates references to the Internal Revenue Code relating to the individual, business and inheritance taxes.

The amendment repeals the capital gains refund provision for tax years 1989 and beyond. The amendment limits the tax exemption for state pensions to \$12,000. The amendment taxes unrelated business income--as determined by the Internal Revenue Code--earned by non-profit organizations. The tax is computed according to the regular corporate income tax.

The amendment couples state and federal individual income tax provisions, retroactive to Jan. 1, 1987.

The amendment clarifies that a married couple with one spouse carrying a net operating loss forward or back shall not receive the benefit of an alternate tax calculation available for filers with net incomes over \$7,500 and not filing as singles. This is retroactive to Jan. 1, 1988.

Under current law, taxpayers receiving annuities from the U.S. Civil Service Retirement and Disability Trust Fund were allowed to exclude from net income up to \$5,500 for separate filers and \$8,000 for joint filers. The \$5,500 and \$8,000 were indexed for inflation, thus actual excludable amounts had risen. The amendment brings the limits stated in the Code up to the levels they were raised by indexation, i.e., to \$5,627 for separate filers and \$8,184 for married filers and is retroactive to Jan. 1, 1987. Indexation will begin again in 1989.

Retroactive to Jan. 1, 1987, the amendment couples with changes in the Internal Revenue Code pertaining to the individual, business and inheritance

Page Two

Fiscal Note, SF 2074, H-5033

taxes. Retroactive to Oct. 26, 1988, the amendment updates references to the IRC relative to generation skipping transfers eligible for the credit for state taxes.

Retroactive to Jan. 1, 1987, the amendment reinstates the deduction of expenses for state legislators living within 50 miles of the state capitol.

Retroactive to Jan. 1, 1987, the amendment repeals the sunset provision for H.F. 689.

The amendment increments deadline dates pertaining to the separate filing for a capital gains deduction refund for tax year 1988.

### FISCAL EFFECT

#### Repeal of H.F. 689 Sunset

#### Assumptions

1. Iowa tax laws will continue to conform with the federal tax legislation for tax years 1988 in a manner similar to that existing for tax year 1987. However, to permit comparison to prior estimates, the effects of capital gains changes assume full coupling with the 1986 federal changes rather than the partial coupling that occurred for tax year 1987.
2. The reliability of the projections continue to rely heavily on the accuracy of the estimates of the provisions completed at the federal level. The absence of specific projections at the federal level for several provisions required the Department of Revenue and Finance to independently complete these estimates. Estimates provided here reflect mid-points of ranges provided by the Department of Revenue & Finance.

It is estimated this portion of the amendment will increase FY89 general fund revenues by \$6.5 million over FY88 general fund revenues.

#### Individual Income

	FY88 (millions)	FY89 (millions)
Long Term Capital Gains	\$ 18.5	\$ 22.5
Deduction for Sales Tax	15.0	14.5
Deduction for Medical Expenses	4.0	4.0
Miscellaneous & Employee Business Expense Deduction	14.0	13.5
Unemployment Compensation	3.0	2.5
Minimum Tax	(4.0)	(4.0)
Individual Retirement Accounts	19.0	17.0
CODA	2.5	2.0
Interest Deduction	15.5	19.5
Repeal Dividend Exclusion	3.0	2.5
Business Meals	1.5	2.5
Depreciation	(1.5)	1.0

Page Three

Fiscal Note, SF 2074, H-5033

Passive Investment	5.5	10.0
Capitalization	2.5	1.5
Long term contracts	---	---
CONFORMITY SUBTOTAL	\$ 98.5	\$109.0
FEDERAL DEDUCTIBILITY	37.5	33.5
TOTAL	\$136.0	\$142.5

IRC Update

The Omnibus Reconciliation Act of 1987 contains several provisions which will have a direct impact on Iowa tax receipts if Iowa Code references to the Internal Revenue Code (IRC) are updated to include changes made to the IRC through 1987.

Assumptions

1. Provisions analyzed were those which had a significant fiscal impact projected at the state level, or those for which sufficient information is available upon which to base an estimate.
2. At this time, the data is limited but sufficient to complete projections.
3. Historical relationships between federal and Iowa taxes provide valid guidelines for making current projections.
4. State tax laws will be "coupled" with the federal changes to the extent consistent with past practices.
5. To the limited degree required, the individual tax changes were estimated using the pertinent provisions of HF 689. Estimates provided here reflect mid-points of ranges.

The estimated net effect of coupling with these provisions is \$6.0 million.

FY89 (millions)

Provisions Primarily Affecting Individuals (\$ 0.25)

Provisions Affecting Business (including individual income and inheritance taxes)

Vacation pay reserve	\$ 1.25
Completed contract method	0.75
Installment sales	3.75
Corporate dividends received deduction	0.50
Pension funding	1.50
Estate ESOP limitation	( 1.50)
TOTAL	\$ 6.0

Fiscal Note, SF 2074, H-5033

Tax on Unrelated Business Income Earned by Non-Profit Organizations

Though it is expected this provision will increase general fund revenues, there is not enough information to provide an estimate.

\$12,000 Limit on the Amount of State Pension Income to be Tax Exempt

Though it is expected this provision will increase general fund revenues, there is not enough information to provide an estimate.

**OVERALL FISCAL EFFECT**

It is estimated this amendment will increase FY89 general fund revenues by \$12.5 million over FY88 general fund revenues (\$6.5 due to extension of H.F. 689; \$6.0 million due to coupling with the Revenue Act of 1987). There will be an unknown increase to the general fund due to the tax on unrelated business income earned by nonprofit organizations and the \$12,000 limit on the tax exemption for state pensions.

Source: Department of Revenue and Finance

(LSB 761)S.4, PDD)

FILED FEBRUARY 4, 1988

BY DENNIS PROUTY, FISCAL DIRECTOR

SENATE FILE 2074  
AS AMENDED BY THE SENATE AMENDED HOUSE AMENDMENT  
FISCAL NOTE

In compliance with a written request received March 21, 1988, a fiscal note for the **SENATE FILE 2074 AS AMENDED BY THE SENATE AMENDED HOUSE AMENDMENT** is hereby submitted pursuant to Joint Rule 17. Data used in developin this fiscal note are available from the Legislative Fiscal Bureau to members of the Legislature upon request.

**SENATE FILE 2074 AS AMENDED BY THE SENATE AMENDED HOUSE AMENDMENT** retains the capital gains refund provision that the house amendment to the bill would have repealed for tax years beginning on or after Jan. 1, 1989. The senate amended house amendment retains the following house amendment changes:

- a. Inclusion of pension or retirement income in the thresholds of \$5,000 or \$7,500, regardless of whether the state exempts the the pension or retirement income from taxation.
- b. Institution of a corporate tax on unrelated business income earned by non-profit organizations.

As before, the bill makes permanent changes made by H.F. 689 in rates, brackets, deductions, thresholds, and clarification on the taxation of interest and dividends from regulated investment companies exempt from federal tax and the loss from the sale or exchange of shares of such companies. The bill reinstates the deduction of expenses for state legislators whose home is within 50 miles of the capitol, and clarifies taxpayer eligibility for use of the alternative tax calculation available to filers with net incomes over \$7,500 and not filing as singles. The bill updates references to the Internal Revenue Code relating to the individual, business and inheritance taxes.

The bill couples state and federal individual income tax provisions, retroactive to Jan. 1, 1987.

The bill clarifies that a married couple with one spouse carrying a net operating loss forward or back shall not receive the benefit of an alternate tax calculation available for filers with net incomes over \$7,500 and not filing as singles. This is retroactive to Jan. 1, 1988.

Under current law, taxpayers receiving annuities from the U.S. Civil Service Retirement and Disability Trust Fund were allowed to exclude from net income up to \$5,500 for separate filers and \$8,000 for joint filers. The \$5,500 and \$8,000 were indexed for inflation, thus actual excludable amounts had risen. The bill brings the limits stated in the Code up to the levels they were raised by indexation, i.e., to \$5,627 for separate filers and \$8,184 for married filers and is retroactive to Jan. 1, 1987. Indexation will begin again in 1989.

Retroactive to Jan. 1, 1987, the bill couples with changes in the Internal Revenue Code pertaining to the individual, business and inheritance taxes. Retroactive to Oct. 26, 1986, the bill updates references to the IRC relative to generation skipping transfers eligible for the credit for state taxes.

Retroactive to Jan. 1, 1987, the bill reinstates the deduction of expenses for state legislators living within 50 miles of the state capitol.

Retroactive to Jan. 1, 1987, the bill repeals the sunset of H.F. 629.

Two, Fiscal Note, SF 2074 as amended

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The bill increments deadline dates pertaining to the separate filing for a capital gains deduction refund for tax year 1988.

#### FISCAL EFFECT

##### Repeal of H.F. 689 Sunset

##### Assumptions

1. Iowa tax laws will continue to conform with the federal tax legislation for tax years 1988 in a manner similar to that existing for tax year 1987. However, to permit comparison to prior estimates, the effects of capital gains changes assume full coupling with the 1986 federal changes rather than the partial coupling that occurred for tax year 1987.
2. The reliability of the projections continue to rely heavily on the accuracy of the estimates of the provisions completed at the federal level. The absence of specific projections at the federal level for several provisions required the Department of Revenue and Finance to independently complete these estimates. Estimates provided here reflect mid-points of ranges provided by the Department of Revenue & Finance.

It is estimated this portion of the bill will increase FY89 general fund revenues by \$6.5 million over FY88 general fund revenues.

##### Individual Income

	FY88 (millions)	FY89 (millions)
Long Term Capital Gains	\$ 18.5	\$ 22.5
Deduction for Sales Tax	15.0	14.5
Deduction for Medical Expenses	4.0	4.0
Miscellaneous & Employee Business Expense Deduction	14.0	13.5
Unemployment Compensation	3.0	2.5
Minimum Tax	(4.0)	(4.0)
Individual Retirement Accounts	19.0	17.0
CODA	2.5	2.0
Interest Deduction	15.5	19.5
Repeal Dividend Exclusion	3.0	2.5
Business Meals	1.5	2.5
Depreciation	(1.5)	1.0
Passive Investment	5.5	10.0
Capitalization	2.5	1.5
Long term contracts	---	---
CONFORMITY SUBTOTAL	\$ 98.5	\$109.0
FEDERAL DEDUCTIBILITY	37.5	33.5
TOTAL	\$136.0	\$142.5

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Page Three, Fiscal Note, SF 2074 as amended

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IRC Update

The Omnibus Reconciliation Act of 1987 contains several provisions which will have a direct impact on Iowa tax receipts if Iowa Code references to the Internal Revenue Code (IRC) are updated to include changes made to the IRC through 1987.

Assumptions

1. Provisions analyzed were those which had a significant fiscal impact projected at the state level, or those for which sufficient information is available upon which to base an estimate.
2. At this time, the data is limited but sufficient to complete projections.
3. Historical relationships between federal and Iowa taxes provide valid guidelines for making current projections.
4. State tax laws will be "coupled" with the federal changes to the extent consistent with past practices.
5. To the limited degree required, the individual tax changes were estimated using the pertinent provisions of HF 689. Estimates provided here reflect mid-points of ranges.

The estimated net effect of coupling with these provisions is \$6.0 million.

FY89 (millions)

Provisions Primarily Affecting Individuals (\$ 0.25)

Provisions Affecting Business (including individual income and inheritance taxes)

Vacation pay reserve	\$ 1.25
Completed contract method	0.75
Installment sales	3.75
Corporate dividends received deduction	0.50
Pension funding	1.50
Estate ESOP limitation	( 1.50)
TOTAL	\$ 6.0

Tax on Unrelated Business Income Earned by Non-Profit Organizations

Though it is expected this provision will increase general fund revenues, there is not enough information to provide an estimate.

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e Four, Fiscal Note, SF 2074 as amended

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Inclusion of State Exempt Pension Income in the Thresholds

Though it is expected this provision will increase general fund revenues, there is not enough information to provide an estimate.

**OVERALL FISCAL EFFECT**

It is estimated this amendment will increase FY89 general fund revenues by \$12.5 million over FY88 general fund revenues (\$6.5 due to extension of H.F. 689; \$6.0 million due to coupling with the Revenue Act of 1987). There will be an unknown increase to the general fund due to the tax on unrelated business income earned by nonprofit organizations and the inclusion in the threshold amounts of state exempt pension income.

Source: Department of Revenue and Finance

(LSB 761LS.15, PDD)

ED MARCH 23, 1988

BY DENNIS PROUTY, FISCAL DIRECTOR

SENATE FILE 2074

H-5033

1 Amend Senate File 2074 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 422.3, subsection 5, Code  
6 1987, is amended by striking the subsection and  
7 inserting in lieu thereof the following:

8 5. "Internal Revenue Code" means the Internal  
9 Revenue Code of 1954, prior to the date of its  
10 redesignation as the Internal Revenue Code of 1986 by  
11 the Tax Reform Act of 1986, or means the Internal  
12 Revenue Code of 1986 as amended to and including  
13 January 1, 1988, whichever is applicable.

14 Sec. 2. Section 422.4, subsections 1, 4, 10, 11,  
15 14, 17, and 18, Code Supplement 1987, are amended to  
16 read as follows:

17 1. The words "taxable income" mean the net income  
18 as defined in section 422.7 minus the deductions  
19 allowed by section 422.9, in the case of individuals;  
20 in the case of estates or trusts, the words "taxable  
21 income" mean the taxable income (without a deduction  
22 for personal exemption) as computed for federal income  
23 tax purposes under the Internal Revenue Code of ~~1954~~,  
24 but with the adjustments specified in section 422.7  
25 plus the Iowa income tax deducted in computing ~~said~~  
26 the federal taxable income and minus federal income  
27 taxes as provided in section 422.9.

28 4. The words "tax year" mean the calendar year, or  
29 the fiscal year ending during such calendar year, upon  
30 the basis of which the net income is computed under  
31 this division.

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

36 b. If the effective date or the applicability of a  
37 provision of this division is expressed in terms of a  
38 tax year beginning, including, or ending with  
39 reference to a specified date which is the first or  
40 last day of a month, a tax year described in paragraph  
41 "a" of this subsection shall be treated as beginning  
42 with the first day of the calendar month beginning  
43 nearest to the first day of the tax year or as ending  
44 with the last day of the calendar month ending nearest  
45 to the last day of the tax year.

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

48 10. The word "individual" means a natural person;  
49 and where if an individual is permitted to file as a  
50 corporation, under the provisions of the Internal

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1 Revenue Code of 1954, such that fictional status shall  
2 is not be recognized for purposes of this chapter, and  
3 such the individual's taxable income shall be computed  
4 as required under the provisions of the Internal  
5 Revenue Code of 1954 relating to individuals not  
6 filing as a corporation, with the adjustments allowed  
7 by this chapter.

8 11. The term words "head of household" shall have  
9 has the same meaning as provided by the Internal  
10 Revenue Code of 1954.

11 14. The term word "wages" shall have has the same  
12 meaning as provided by the Internal Revenue Code of  
13 1954.

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

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

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

3 c. The annual inflation factor for the ~~1978~~ 1988  
4 calendar year is one hundred percent. Notwithstanding  
5 ~~the computation of the annual inflation factor under~~  
6 ~~paragraph "a", the annual inflation factor for the~~  
7 ~~1987 calendar year is one hundred percent.~~

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

23 ~~18. For purposes of section 422.3, subsection 5,~~  
24 ~~the Internal Revenue Code of 1954 shall be interpreted~~  
25 ~~to include the provisions of Pub. L. No. 98-4.~~

26 Sec. 3. Section 422.4, subsections 19 and 20, Code  
27 Supplement 1987, are amended to read as follows:

28 19. The definition of the Internal Revenue Code of  
29 1954 in section 422.3, subsection 5, shall be  
30 interpreted to include provisions of the Tax Reform  
31 Act of 1986, Pub. L. No. 99-514 which amended the  
32 Internal Revenue Code of 1954, and the Revenue Act of  
33 1987, Pub. L. No. 100-203, unless the context  
34 otherwise requires.

35 20. "Internal Revenue Code of 1986" means the  
36 Internal Revenue Code of 1954 as amended by the Tax  
37 Reform Act of 1986, Pub. L. No. 99-514 and the Revenue  
38 Act of 1987, Pub. L. No. 100-203.

39 Sec. 4. Section 422.4, subsections 19 and 20, Code  
40 Supplement 1987, are amended by striking the  
41 subsections.

42 Sec. 5. Section 422.5, subsection 1, Code  
43 Supplement 1987, is amended by striking the  
44 subsection.

45 Sec. 6. Section 422.5, subsection 1A, unnumbered  
46 paragraph 1, Code Supplement 1987, is amended to read  
47 as follows:

48 ~~In lieu of subsection 1, a~~ A tax is imposed upon  
49 every resident and nonresident of the state which tax  
50 shall be levied, collected, and paid annually upon and

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1 with respect to the entire taxable income as defined  
2 in this division at rates as follows:

3 Sec. 7. Section 422.5, subsection 1A, paragraph k,  
4 subparagraph (1), Code Supplement 1987, is amended to  
5 read as follows:

6 (1) Add items of tax preference included in  
7 federal alternative minimum taxable income under  
8 section 57, except subsections (a)(1), (a)(2), and  
9 (a)(5), of the Internal Revenue Code of 1986, make the  
10 adjustments included in federal alternative minimum  
11 taxable income under section 56, except subsections  
12 (a)(4), (b)(1)(C)(iii), and (d), of the Internal  
13 Revenue Code of 1986, and add losses as required by  
14 section 58 of the Internal Revenue Code of 1986. In  
15 the case of an estate or trust, the items of tax  
16 preference, adjustments, and losses shall be  
17 apportioned between the estate or trust and the  
18 beneficiaries in accordance with rules prescribed by  
19 the director.

20 Sec. 8. Section 422.5, subsection 2, unnumbered  
21 paragraph 2, Code Supplement 1987, is amended to read  
22 as follows:

23 However, for married persons filing jointly or  
24 filing separately on a combined return, unmarried  
25 heads of household, and surviving spouses, references  
26 in this subsection and subsections 6 and 10 to five  
27 thousand dollars shall be interpreted to mean seven  
28 thousand five hundred dollars. In addition, if the  
29 married persons', filing jointly or filing separately  
30 on a combined return, unmarried head of household's,  
31 or surviving spouse's net income exceeds seven  
32 thousand five hundred dollars, the regular tax imposed  
33 under this division shall be the lesser of the maximum  
34 state individual income tax rate times the portion of  
35 the net income in excess of seven thousand five  
36 hundred dollars or the regular tax liability computed  
37 without regard to this sentence. Taxpayers electing  
38 to file separately shall compute the alternate tax  
39 described in this paragraph using the total net income  
40 of the husband and wife. However, the alternate tax  
41 described in this paragraph does not apply if one  
42 spouse elects to carry back or carry forward the loss  
43 as provided in section 422.9, subsection 3.

44 Sec. 9. Section 422.5, subsection 2, Code  
45 Supplement 1987, is amended by striking the subsection  
46 and inserting in lieu thereof the following:

47 2. However, the tax shall not be imposed on a  
48 resident or nonresident whose net income, as defined  
49 in section 422.7, is seven thousand five hundred  
50 dollars or less in the case of married persons filing

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

35 In addition, if the married persons', filing  
36 jointly or filing separately on a combined return,  
37 unmarried head of household's, or surviving spouse's  
38 net income exceeds seven thousand five hundred  
39 dollars, the regular tax imposed under this division  
40 shall be the lesser of the maximum state individual  
41 income tax rate times the portion of the net income in  
42 excess of seven thousand five hundred dollars or the  
43 regular tax liability computed without regard to this  
44 sentence. Taxpayers electing to file separately shall  
45 compute the alternate tax described in this paragraph  
46 using the total net income of the husband and wife.  
47 The alternate tax described in this paragraph does not  
48 apply if one spouse elects to carry back or carry  
49 forward the loss as provided in section 422.9,  
50 subsection 3.

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1     Sec. 10. Section 422.5, subsection 6, Code  
2 Supplement 1987, is amended to read as follows:  
3     6. A person who is disabled, is sixty-two years of  
4 age or older or is the surviving spouse of an  
5 individual or survivor having an insurable interest in  
6 an individual who would have qualified for the  
7 exemption under this paragraph for this tax year and  
8 receives one or more annuities from the United States  
9 civil service retirement and disability trust fund,  
10 and whose net income, as defined in section 422.7, is  
11 sufficient to require that the tax be imposed upon it  
12 under this section, may determine final taxable income  
13 for purposes of imposition of the tax by excluding the  
14 amount of annuities received from the United States  
15 civil service retirement and disability trust fund,  
16 which are not already excluded in determining net  
17 income, as defined in section 422.7, up to a maximum  
18 each tax year of five thousand five-hundred six  
19 hundred twenty-seven dollars for a person who files a  
20 separate state income tax return and eight thousand  
21 one hundred eighty-four dollars total for a husband  
22 and wife who file a joint state income tax return.  
23 However, a surviving spouse who is not disabled or  
24 sixty-two years of age or older can only exclude the  
25 amount of annuities received as a result of the death  
26 of the other spouse. The amount of the exemption  
27 shall be reduced by the amount of any social security  
28 benefits received. For the purpose of this section,  
29 the amount of annuities received from the United  
30 States civil service retirement and disability trust  
31 fund taxable under the Internal Revenue Code of 1954  
32 shall be included in net income for purposes of  
33 determining eligibility under the five thousand dollar  
34 or less exclusion.

35     Sec. 11. Section 422.5, subsections 6, 7, 8, and  
36 10, Code Supplement 1987, are amended to read as  
37 follows:

38     6. A person who is disabled, is sixty-two years of  
39 age or older or is the surviving spouse of an  
40 individual or survivor having an insurable interest in  
41 an individual who would have qualified for the  
42 exemption under this paragraph for this tax year and  
43 receives one or more annuities from the United States  
44 civil service retirement and disability trust fund,  
45 and whose net income, as defined in section 422.7, is  
46 sufficient to require that the tax be imposed upon it  
47 under this section, may determine final taxable income  
48 for purposes of imposition of the tax by excluding the  
49 amount of annuities received from the United States  
50 civil service retirement and disability trust fund,

1 which are not already excluded in determining net  
2 income, as defined in section 422.7, up to a maximum  
3 each tax year of five thousand five-hundred six  
4 hundred twenty-seven dollars for a person who files a  
5 separate state income tax return and eight thousand  
6 one hundred eighty-four dollars total for a husband  
7 and wife who file a joint state income tax return.  
8 However, a surviving spouse who is not disabled or  
9 sixty-two years of age or older can only exclude the  
10 amount of annuities received as a result of the death  
11 of the other spouse. The amount of the exemption  
12 shall be reduced by the amount of any social security  
13 benefits received. For the purpose of this section,  
14 the amount of annuities received from the United  
15 States civil service retirement and disability trust  
16 fund taxable under the Internal Revenue Code of ~~1954~~  
17 shall be included in net income for purposes of  
18 determining eligibility under the seven thousand five  
19 hundred dollar or less or five thousand dollar or less  
20 exclusion, as applicable.

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

32 ~~8. Income of an individual which is excluded from~~  
33 ~~gross income under the Internal Revenue Code of 1954~~  
34 ~~as a result of the provisions of the Hostage Relief~~  
35 ~~Act of 1980, 94 Stat. 19677 shall not be included as~~  
36 ~~income in computing the tax imposed by this section.~~

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

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1 or five thousand dollar or less exclusion, as  
2 applicable.

3 Sec. 12. Section 422.6, unnumbered paragraph 2,  
4 Code 1987, is amended to read as follows:

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

16 Sec. 13. Section 422.7, unnumbered paragraph 1 and  
17 subsections 2, 6, 7, 8, 9, 11, 16A, 19, 21, 23, 24,  
18 and 27, Code Supplement 1987, are amended to read as  
19 follows:

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

24 2. Add interest and dividends from foreign  
25 securities and from securities of state and other  
26 political subdivisions exempt from federal income tax  
27 under the Internal Revenue Code of ~~1954~~.

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

42 7. Add to the taxable income of trusts, that  
43 portion of trust income excluded from federal taxable  
44 income under section 641(c) of the Internal Revenue  
45 Code of ~~1954~~.

46 8. Married taxpayers who file a joint federal  
47 income tax return and who elect to file separate  
48 returns or separate filing on a combined return for  
49 Iowa income tax purposes, may avail themselves of the  
50 expensing of business assets and capital loss

1 provisions of sections 179(a) and 1211(b) respectively  
2 of the Internal Revenue Code ~~of-1954~~ and shall compute  
3 the amount of expensing of business assets and capital  
4 loss subject to the limitations for joint federal  
5 income tax return filers provided by sections 179(b)  
6 and 1211(b) respectively of the Internal Revenue Code  
7 ~~of-1954~~.

8 9. Subtract the amount of the jobs tax credit  
9 allowable for the tax year under section 51 of the  
10 Internal Revenue Code ~~of-1954~~ to the extent that the  
11 credit increased federal adjusted gross income.

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

16 16A. ~~Notwithstanding any other provision,~~ add Add  
17 the amounts deducted and subtract the amounts included  
18 as income as a result of the treatment provided sale-  
19 leaseback agreements under section 168(f)(8) of the  
20 Internal Revenue Code ~~of-1954~~ for property placed in  
21 service by the transferee prior to January 1, 1986, to  
22 the extent that the amounts deducted and the amounts  
23 included in income are not otherwise deductible or  
24 included in income under the Internal Revenue Code ~~of~~  
25 ~~1954~~ as amended to and including December 31, 1985.  
26 Entitlement to depreciation on any property included  
27 in a sale-leaseback agreement which is placed in  
28 service by the transferee prior to January 1, 1986,  
29 shall be determined under the Internal Revenue Code ~~of~~  
30 ~~1954~~ as amended to and including December 31, 1985,  
31 excluding section 168(f)(8) in making the  
32 determination.

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

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

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1 Revenue Code of-1954.

2 23. Add the amount of intangible drilling and  
3 exploration costs which are not in the cost pool  
4 or incurred as described in section 57(a)(2) of the  
5 Internal Revenue Code of-1954. This amount may be  
6 recovered through cost depletion or depreciation, as  
7 appropriate under rules prescribed by the director.

8 24. Add the percentage depletion amount determined  
9 with respect to an oil, gas, or geothermal well as  
10 described in section 57(a)(1) of the Internal Revenue  
11 Code of-1954.

12 27. Add interest and dividends from regulated  
13 investment companies exempt from federal income tax  
14 under the Internal Revenue Code of 1986 and subtract  
15 the loss on the sale or exchange of a share of a  
16 regulated investment company held for six months or  
17 less to the extent the loss was disallowed under  
18 section 852(b)(4)(B) of the Internal Revenue Code of  
19 1986.

20 Sec. 14. Section 422.7, subsection 15, Code  
21 Supplement 1987, is amended by striking the subsection  
22 and inserting in lieu thereof the following:

23 15. Notwithstanding the method for computing the  
24 amount of travel expenses that may be deducted under  
25 section 162(h) of the Internal Revenue Code, for tax  
26 years beginning on or after January 1, 1987, a member  
27 of the general assembly whose place of residence  
28 within the legislative district is greater than fifty  
29 miles from the capitol building of the state may  
30 deduct the total amount per day determined under  
31 section 162(h)(1)(B) of the Internal Revenue Code and  
32 a member of the general assembly whose place of  
33 residence within the legislative district is fifty or  
34 fewer miles from the capitol building of the state may  
35 deduct fifty dollars per day. This subsection does  
36 not apply to a member of the general assembly who  
37 elects to itemize for state tax purposes the member's  
38 travel expenses.

39 Sec. 15. Section 422.7, subsections 5, 10, 12, 13,  
40 14, 16, 17, 20, 22, and 26, Code Supplement 1987, are  
41 amended by striking the subsections.

42 Sec. 16. Section 422.7, Code Supplement 1987, is  
43 amended by adding the following new subsection:

44 NEW SUBSECTION. Add the amount in excess of twelve  
45 thousand dollars of pensions or other retirement  
46 income received from any source which is not taxable  
47 under this division as a result of any other state  
48 law. Amounts received as social security benefits  
49 shall not be included in computing the amounts to be  
50 added under this subsection.

1     Sec. 17. Section 422.8, subsection 2, Code 1987,  
2 is amended to read as follows:

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

35     Sec. 18. Section 422.9, subsection 1, Code  
36 Supplement 1987, is amended by striking the subsection  
37 and inserting in lieu thereof the following:

38     1. An optional standard deduction, after deduction  
39 of federal income tax, equal to one thousand two  
40 hundred thirty dollars for a married person who files  
41 separately or a single person or equal to three  
42 thousand thirty dollars for a husband and wife who  
43 file a joint return, a surviving spouse, or an  
44 unmarried head of household. The optional standard  
45 deduction shall not exceed the amount remaining after  
46 deduction of the federal income tax.

47     Sec. 19. Section 422.9, subsection 2, unnumbered  
48 paragraph 1, Code Supplement 1987, is amended to read  
49 as follows:

50     The total of contributions, interest, taxes,

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1 medical expense, nonbusiness losses, and miscellaneous  
2 expenses; and moving expenses; deductible for federal  
3 income tax purposes under the Internal Revenue Code of  
4 1954, with the following adjustments:

5 Sec. 20. Section 422.9, subsection 2, paragraph e,  
6 Code Supplement 1987, is amended by striking the  
7 paragraph.

8 Sec. 21. Section 422.9, subsection 3, unnumbered  
9 paragraph 1 and paragraph c, Code Supplement 1987, are  
10 amended to read as follows:

11 If, after applying all of the adjustments provided  
12 for in section 422.7, the allocation provisions of  
13 section 422.8, and the deductions allowable in this  
14 section subject to the modifications provided in  
15 section 172(d) of the Internal Revenue Code of 1954,  
16 the taxable income results in a net operating loss,  
17 the net operating loss shall be deducted as follows:

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

22 Sec. 22. Section 422.9, subsection 6, Code  
23 Supplement 1987, including four paragraphs, is amended  
24 by striking the subsection.

25 Sec. 23. Section 422.10, unnumbered paragraph 1,  
26 Code Supplement 1987, is amended to read as follows:

27 The taxes imposed under this division shall be  
28 reduced by a state tax credit for increasing research  
29 activities in this state. For individuals, the credit  
30 shall equal ~~equal~~ equals six and one-half percent of the  
31 state's apportioned share of the qualifying  
32 expenditures for increasing research activities. The  
33 state's apportioned share of the qualifying  
34 expenditures for increasing research activities is a  
35 percent equal to the ratio of qualified research  
36 expenditures in this state to total qualified research  
37 expenditures. For purposes of this section, an  
38 individual may claim a research credit for qualifying  
39 research expenditures incurred by a partnership,  
40 subchapter S corporation, and estate or trust electing  
41 to have the income taxed directly to the individual.  
42 The amount claimed by the individual shall be based  
43 upon the pro rata share of the individual's earnings  
44 of a partnership, subchapter S corporation, or estate  
45 or trust. For purposes of this section, "qualifying  
46 expenditures for increasing research activities" means  
47 the qualifying expenditures as defined for the federal  
48 credit for increasing research activities which would  
49 be allowable under section ~~30~~ 41 of the Internal  
50 Revenue Code of ~~1954, in effect on January 1, 1985, or~~

1 ~~which would be allowable under section 41 of the~~  
2 ~~Internal Revenue Code of 1986.~~

3 Sec. 24. Section 422.12, subsection 1, paragraph  
4 c, Code Supplement 1987, is amended to read as  
5 follows:

6 c. For each dependent, an additional ten dollars.  
7 As used in this section, the term "dependent" ~~shall~~  
8 ~~have~~ has the same meaning as provided by the Internal  
9 Revenue Code ~~of 1954.~~

10 Sec. 25. Section 422.12, subsection 2, unnumbered  
11 paragraph 1, Code Supplement 1987, is amended to read  
12 as follows:

13 A child and dependent care credit equal to forty-  
14 five percent of the federal child and dependent care  
15 credit provided in section 21 of the Internal Revenue  
16 Code ~~of 1954.~~

17 Sec. 26. Section 422.13, subsection 1, paragraph  
18 a, Code Supplement 1987, is amended to read as  
19 follows:

20 a. The individual is required to file a federal  
21 income tax return under the Internal Revenue Code of  
22 ~~1954.~~

23 Sec. 27. Section 422.16, subsection 1, unnumbered  
24 paragraph 1, Code Supplement 1987, is amended to read  
25 as follows:

26 Every withholding agent and every employer as  
27 defined in this chapter and further defined in the  
28 Internal Revenue Code ~~of 1954~~, with respect to income  
29 tax collected at source, making payment of wages to a  
30 nonresident employee working in Iowa, or to a resident  
31 employee, shall deduct and withhold from the wages an  
32 amount which will approximate the employee's annual  
33 tax liability on a calendar year basis, calculated on  
34 the basis of tables to be prepared by the department  
35 and schedules or percentage rates, based on the wages,  
36 to be prescribed by the department. Every employee or  
37 other person shall declare to the employer or  
38 withholding agent the number of the employee's or  
39 other person's personal exemptions and dependency  
40 exemptions or credits to be used in applying the  
41 tables and schedules or percentage rates. However, no  
42 greater number of personal or dependency exemptions or  
43 credits may be declared by the employee or other  
44 person than the number to which the employee or other  
45 person is entitled except as allowed under section  
46 3402(m)(1) of the Internal Revenue Code ~~of 1954.~~ The  
47 claiming of exemptions or credits in excess of  
48 entitlement is a serious misdemeanor.

49 Sec. 28. Section 422.16, subsection 11, paragraphs  
50 a and d, Code Supplement 1987, are amended to read as

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1 follows:

2 a. Every person or married couple filing a return  
3 shall make estimated tax payments if the person's or  
4 couple's Iowa income tax attributable to income other  
5 than wages subject to withholding can reasonably be  
6 expected to amount to fifty dollars or more for the  
7 taxable year, except that, in the cases of farmers and  
8 ~~fishers~~ fishermen, the exceptions provided in the  
9 Internal Revenue Code of-1954 with respect to making  
10 estimated payments apply. The estimated tax shall be  
11 paid in quarterly installments. The first installment  
12 shall be paid on or before the last day of the fourth  
13 month of the taxpayer's tax year for which the  
14 estimated payments apply. The other installments  
15 shall be paid on or before June 30, September 30, and  
16 January 31. However, at the election of the person or  
17 married couple, any installment of the estimated tax  
18 may be paid prior to the date prescribed for its  
19 payment. If a person or married couple filing a  
20 return has reason to believe that the person's or  
21 couple's Iowa income tax may increase or decrease,  
22 either for purposes of meeting the requirement to make  
23 estimated tax payments or for the purpose of  
24 increasing or decreasing estimated tax payments, the  
25 person or married couple shall increase or decrease  
26 any subsequent estimated tax payments accordingly.

27 d. Any amount of estimated tax paid is a credit  
28 against the amount of tax found payable on a final,  
29 completed return, as provided in subsection 9,  
30 relating to the credit for the tax withheld against  
31 the tax found payable on a return properly and  
32 correctly prepared under sections 422.5 through  
33 422.25, and any overpayment of one dollar or more  
34 shall be refunded to the taxpayer and the return  
35 constitutes a claim for refund for this purpose.  
36 Amounts less than one dollar shall not be refunded.  
37 The method provided by the Internal Revenue Code of  
38 ~~1954~~ for determining what is applicable to the  
39 addition to tax for underpayment of the tax payable  
40 applies to persons required to make payments of  
41 estimated tax under this section except the amount to  
42 be added to the tax for underpayment of estimated tax  
43 is an amount determined at the rate in effect under  
44 section 421.7. This addition to tax specified for  
45 underpayment of the tax payable is not subject to  
46 waiver provisions relating to reasonable cause, except  
47 as provided in the Internal Revenue Code of-1954.  
48 Underpayment of estimated tax shall be determined in  
49 the same manner as provided under the Internal Revenue  
50 Code of-1954 and the exceptions in the Internal

1 Revenue Code of ~~1954~~ also apply.

2 Sec. 29. Section 422.20, subsection 2, Code  
3 Supplement 1987, is amended to read as follows:

4 2. It ~~shall be~~ is unlawful for any an officer,  
5 employee, or agent, or former officer, employee, or  
6 agent of the state to disclose to any person, except  
7 as authorized in subsection 1 of this section, any  
8 federal tax return or return information as defined in  
9 section 6103(b) of the Internal Revenue Code of ~~1954~~.

10 It ~~shall further be~~ is unlawful for any a person to  
11 whom any federal tax return or return information, as  
12 defined in section 6103(b) of the Internal Revenue  
13 Code of ~~1954~~, is disclosed in a manner unauthorized by  
14 subsection 1 of this section to thereafter print or  
15 publish in any manner not provided by law any such  
16 return or return information. Any A person committing  
17 ~~an offense against the foregoing~~ violating this  
18 ~~provision shall be~~ is guilty of a serious misdemeanor.

19 Sec. 30. Section 422.21, unnumbered paragraphs 4,  
20 5, and 6, Code Supplement 1987, are amended to read as  
21 follows:

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

33 The department shall provide on income tax forms or  
34 in the instruction booklets in a manner that will be  
35 noticeable to the taxpayers a statement ~~to the extent~~  
36 that, even though the taxpayer may not have any  
37 federal or state income tax liability, the taxpayer  
38 may be eligible for the federal earned income tax  
39 credit. The statement shall also contain notice of  
40 where the taxpayer may check on the taxpayer's  
41 eligibility for this credit.

42 ~~The department shall prepare and make available a~~  
43 ~~special return for filing a tax refund claim resulting~~  
44 ~~from the net capital gain deduction authorized in~~  
45 ~~section 422.97, subsection 6. The special returns~~  
46 ~~shall be designed so that the department will be able~~  
47 ~~to compile data that identifies the source and type of~~  
48 ~~the capital gains and losses and the geographical~~  
49 ~~location of the transactions involving the capital~~  
50 ~~gains and losses. By January 15, 1989, the department~~

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~~1 shall make available to the general assembly the data  
2 compiled from the special returns filed during the  
3 previous calendar year.~~

4 Sec. 31. Section 422.25, subsection 1, unnumbered  
5 paragraph 1, Code 1987, is amended to read as follows:

6 Within three years after the return is filed or  
7 within three years after the return became due,  
8 including any extensions of time for filing, whichever  
9 time is the later, the department shall examine it and  
10 determine the correct amount of tax, and the amount  
11 determined by the department is the tax. However, if  
12 the taxpayer omits from income an amount which will,  
13 under the Internal Revenue Code of ~~1954~~, extend the  
14 statute of limitations for assessment of federal tax  
15 to six years under the federal law, the period for  
16 examination and determination is six years. In  
17 addition to the applicable period of limitation for  
18 examination and determination, the department may make  
19 an examination and determination at any time within  
20 six months from the date of receipt by the department  
21 of written notice from the taxpayer of the final  
22 disposition of any matter between the taxpayer and the  
23 internal revenue service with respect to the  
24 particular tax year. In order to begin the running of  
25 the ~~six-months~~ six-month period, the notice shall be  
26 in writing in any form sufficient to inform the  
27 department of the final disposition with respect to  
28 that year, and a copy of the federal document showing  
29 the final disposition or final federal adjustments  
30 shall be attached to the notice.

31 Sec. 32. Section 422.32, subsection 1, Code  
32 Supplement 1987, is amended to read as follows:

33 1. The word "corporation" includes joint stock  
34 companies, and associations organized for pecuniary  
35 profit, ~~except limited partnerships organized under~~  
36 chapter 545 and publicly traded partnerships taxed as  
37 corporations under the Internal Revenue Code.

38 Sec. 33. Section 422.32, subsection 11, Code  
39 Supplement 1987, is amended to read as follows:

40 11. "Internal Revenue Code" means the Internal  
41 Revenue Code of 1954, prior to the date of its  
42 redesignation as the Internal Revenue Code of 1986 by  
43 the Tax Reform Act of 1986, or means the Internal  
44 Revenue Code of 1986 as amended to and including  
45 January 1, ~~1987~~ 1988, whichever is applicable.

46 Sec. 34. Section 422.32, subsection 11, Code  
47 Supplement 1987, is amended by striking the  
48 subsection.

49 Sec. 35. Section 422.33, Code Supplement 1987, is  
50 amended by adding the following new subsection:

1 NEW SUBSECTION. 1A. There is imposed upon each  
2 corporation exempt from the general business tax on  
3 corporations by section 422.34, subsections 2 through  
4 6, a tax at the rates in subsection 1 upon the state's  
5 apportioned share computed in accordance with  
6 subsections 2 and 3 of the unrelated business income  
7 computed in accordance with the Internal Revenue Code  
8 and with the adjustments set forth in section 422.35.

9 Sec. 36. Section 422.72, subsection 2, Code  
10 Supplement 1987, is amended to read as follows:

11 2. Federal tax returns, copies of returns, and  
12 return information as defined in section 6103(b) of  
13 the Internal Revenue Code of ~~1954~~, which are required  
14 to be filed with the department for the enforcement of  
15 the income tax laws of this state, shall be deemed ~~and~~  
16 held as confidential by the department and subject to  
17 the disclosure limitations in subsection 1 ~~of this~~  
18 ~~section.~~

19 Sec. 37. Section 450.1, unnumbered paragraph 2,  
20 Code 1987, is amended to read as follows:

21 For purposes of this chapter, unless the context  
22 otherwise requires, "personal representative" means an  
23 executor, administrator, or trustee as each is defined  
24 in section 633.3 and "Internal Revenue Code" means the  
25 same as defined in section 422.3.

26 Sec. 38. Section 450.3, subsections 2 and 7, Code  
27 1987, are amended to read as follows:

28 2. By deed, grant, sale, gift or transfer made  
29 within three years of the death of the grantor or  
30 donor, which is not a bona fide sale for an adequate  
31 and full consideration in money or money's worth and  
32 which is in excess of the annual gift tax exclusion  
33 allowable for each donee under section 2503,

34 subsections b and e of the Internal Revenue Code ~~of~~  
35 ~~1954-as-defined-in-section-422-3.~~ If both spouses  
36 consent, a gift made by one spouse to a person who is  
37 not the other spouse is considered, for the purposes  
38 of this subsection, as made one half by each spouse  
39 under the same terms and conditions provided for in  
40 section 2513 of the Internal Revenue Code ~~of-1954-as~~  
41 ~~defined-in-section-422-3.~~

42 7. Which qualifies as a qualified terminable  
43 interest property as defined in section 2056(b)(7)(B)  
44 of the Internal Revenue Code ~~of-1954-as-defined-in~~  
45 ~~section-422-3,~~ shall, if an election is made, be  
46 treated and considered as passing in fee, or its  
47 equivalent, to the surviving spouse in the estate of  
48 the donor-grantor. Property on which the election is  
49 made shall be included in the gross estate of the  
50 surviving spouse and shall be deemed to have passed in

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1 fee from the surviving spouse to the persons  
2 succeeding to the remainder interest, unless the  
3 property was sold, distributed, or otherwise disposed  
4 of prior to the death of the surviving spouse. A  
5 sale, disposition, or disposal of the property prior  
6 to the death of the surviving spouse shall void the  
7 election, and shall subject the property disposed of,  
8 less amounts received or retained by the surviving  
9 spouse, to tax in the donor-grantor's estate in the  
10 same manner as if the tax had been deferred under  
11 sections 450.44 through 450.49.

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

14 b. The alternate value of the property, if the  
15 personal representative so elects, that has been  
16 established for federal estate tax purposes under  
17 section 2032 of the Internal Revenue Code of ~~1954~~ as  
18 ~~defined in section 422-3~~. The election shall be  
19 exercised on the return by the personal representative  
20 or other person signing the return, within the time  
21 prescribed by law for filing the return or before the  
22 expiration of any extension of time granted for filing  
23 the return.

24 Sec. 40. Section 450A.1, subsection 5, Code  
25 Supplement 1987, is amended to read as follows:

26 5. "Internal Revenue Code" means the same as the  
27 term is defined in section ~~422-3~~ 422.32.

28 Sec. 41. Section 450B.1, Code 1987, is amended to  
29 read as follows:

30 450B.1 DEFINITIONS.

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

33 1. "Internal Revenue Code of ~~1954~~" means the same  
34 as defined in section 422.3.

35 2. "Taxpayer" means a qualified heir liable for  
36 the inheritance tax imposed under chapter 450 on  
37 qualified real property.

38 3. "Qualified real property", "qualified use",  
39 "cessation of qualified use", and "qualified heir"  
40 mean the same as defined in section 2032A of the  
41 Internal Revenue Code of ~~1954~~.

42 4. For purposes of subsection 1, the Internal  
43 Revenue Code of ~~1954~~ shall be interpreted to include  
44 the provisions of Pub. L. No. 99-4.

45 Sec. 42. Section 450B.2, Code 1987, is amended to  
46 read as follows:

47 450B.2 ALTERNATE ELECTION OF VALUE FOR QUALIFIED  
48 USE.

49 Notwithstanding section 450.37, the value of  
50 qualified real property for the purpose of the tax

1 imposed under chapter 450 may, at the election of the  
2 taxpayer, be its value for the use under which it  
3 qualifies as prescribed by section 2032A of the  
4 Internal Revenue Code of-1954. A taxpayer may make an  
5 election under this section only if all of the  
6 following conditions are met:

7 1. An election for federal estate tax purposes was  
8 made with regard to the qualified real property under  
9 section 2032A of the Internal Revenue Code of-1954.

10 2. All persons who signed the agreement referred  
11 to in section 2032A(d)(2) of the Internal Revenue Code  
12 of-1954 make the election under this section and sign  
13 an agreement with the department of revenue and  
14 finance consenting to the application of section  
15 450B.3 with respect to the qualified real property.

16 3. The total decrease in the value of the  
17 qualified real property as a result of the election  
18 under this section does not exceed the dollar  
19 limitation specified in section 2032A(a)(2) of the  
20 Internal Revenue Code of-1954.

21 The election under this section shall be made by  
22 the taxpayer in the manner as the director of revenue  
23 and finance may prescribe by rule. The value for the  
24 qualified use under this section shall be the value as  
25 determined and accepted for federal estate tax  
26 purposes.

27 The definitions and special rules specified in  
28 section 2032A(e) of the Internal Revenue Code of-1954  
29 shall apply with respect to qualified real property  
30 for which an election was made under this section  
31 except that rules shall be prescribed by the director  
32 of revenue and finance in lieu of the regulations  
33 promulgated by the secretary of treasury.

34 The director shall prescribe regulations setting  
35 forth the application of this chapter in the case of  
36 an interest in a partnership, corporation, or trust  
37 which, with respect to the decedent, is an interest in  
38 a closely held business within the meaning of section  
39 6166(b)(1) of the Internal Revenue Code of-1954. Such  
40 regulations shall conform as nearly as possible with  
41 the regulations promulgated by the United States  
42 secretary of treasury in respect to such interests.

43 Sec. 43. Section 450B.3, Code 1987, is amended to  
44 read as follows:

45 450B.3 ADDITIONAL INHERITANCE TAX APPLICABLE.

46 There is imposed upon the qualified heir an  
47 additional inheritance tax if, within ten years after  
48 the decedent's death and before the death of the  
49 qualified heir, the qualified heir disposes of, other  
50 than to a member of the family, any interest in

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1 qualified real property for which an election under  
2 section 450B.2 was made or ceases to use for the  
3 qualified use the qualified real property for which an  
4 election under section 450B.2 was made as prescribed  
5 in section 2032A(c) of the Internal Revenue Code of  
6 1954. The additional inheritance tax shall be the  
7 amount computed under section 450B.5 and shall be due  
8 six months after the date of the disposition or  
9 cessation of qualified use referred to in this  
10 section. The amount of the additional inheritance tax  
11 shall accrue interest at the rate of ten percent per  
12 year from nine months after the decedent's death to  
13 the due date of the tax. The tax shall be paid to the  
14 department of revenue and finance and shall be  
15 deposited into the general fund of the state. Taxes  
16 not paid within the time prescribed in this section  
17 shall draw interest at the rate of ten percent per  
18 annum until paid. There shall not be an additional  
19 inheritance tax if the disposition or cessation occurs  
20 ten years or more after the decedent's death.

21 Sec. 44. Section 451.1, subsection 8, Code 1987,  
22 is amended to read as follows:

23 8. "Internal Revenue Code of 1954" means the same  
24 as defined in section 422.3.

25 Sec. 45. Section 451.2, unnumbered paragraph 1,  
26 Code 1987, is amended to read as follows:

27 An amount equal to the federal estate tax credit  
28 for state death taxes as allowed in the Internal  
29 Revenue Code of 1954 is hereby imposed upon every  
30 transfer of the net estate of every decedent, being a  
31 resident of, or owning property in this state as  
32 herein provided.

33 Sec. 46. Section 451.3, Code 1987, is amended to  
34 read as follows:

35 451.3 GROSS AND NET ESTATE.

36 The gross estate shall be the same as finally  
37 determined for federal estate tax and the net estate  
38 shall be the gross estate less deductions as permitted  
39 by federal law, in arriving at the net taxable federal  
40 estate, all determined as provided in the Internal  
41 Revenue Code of 1954.

42 Sec. 47. 1987 Iowa Acts, Second Extraordinary  
43 Session, chapter 1, section 13, is amended to read as  
44 follows:

45 SEC. 13. Section 422.4, subsection 17, section  
46 422.5, subsection 7, section 422.7, subsections 10,  
47 12, 14, 15, 22, and 26, section 422.9, subsection 2,  
48 paragraph "e", and section 422.21, unnumbered  
49 paragraph 4, do not apply.

50 Sec. 48. 1987 Iowa Acts, Second Extraordinary

1 Session, chapter 1, section 16, is amended to read as  
2 follows:

3 SEC. 16. Sections 1 through 10, 13, and 14 of this  
4 Act are retroactive to January 1, 1987 for tax years  
5 beginning ~~in the 1987 calendar year only~~ on or after  
6 that date.

7 Sec. 49. 1987 Iowa Acts, Second Extraordinary  
8 Session, chapter 1, sections 13 and 14, are repealed.

9 Sec. 50. For purposes of tax years beginning in  
10 the 1988 calendar year, references in section 422.9,  
11 subsection 6, unnumbered paragraph 4 and section  
12 422.21, unnumbered paragraph 6, to the year 1987,  
13 1988, or 1989, shall mean the year 1988, 1989, or  
14 1990, respectively.

15 Sec. 51. The Code editor shall renumber sections  
16 422.5, subsection 1A, as section 422.5, subsection 1.  
17 References in the Iowa Code to section 422.5,  
18 subsection 1, shall mean section 422.5, subsection 1A,  
19 as renumbered. The Code editor may renumber other  
20 subsections as a result of this Act.

21 Sec. 52. Sections 3, 8, 10, 14, 32, 33, 47, and 48  
22 of this Act are retroactive to January 1, 1987, for  
23 tax years beginning on or after that date.

24 Sec. 53. Sections 1, 2, 4, 5, 6, 7, 9, 11, 12, 13,  
25 15 through 21, 23 through 29, 31, 34, 35, 36, 49, and  
26 51 of this Act are retroactive to January 1, 1988, for  
27 tax years beginning on or after that date.

28 Sec. 54. Sections 22 and 30 of this Act are  
29 effective January 1, 1989, for tax years beginning on  
30 or after that date.

31 Sec. 55. Sections 37, 38, 39, and 41 through 46 of  
32 this Act are effective January 1, 1988, for estates of  
33 persons dying on or after that date.

34 Sec. 56. Section 40 of this Act is retroactive to  
35 October 22, 1986, for generation skipping transfers  
36 which are eligible for the credit for state taxes  
37 under section 2604 of the Internal Revenue Code and  
38 are made after October 22, 1986, subject to the  
39 special rules of section 1433(b) of Pub. L. No. 99-  
40 514.

41 Sec. 57. Sections 3, 8, 33, 40, and 47 of this Act  
42 are repealed January 1, 1988, for tax years beginning  
43 on or after that date or for estates of persons dying  
44 on or after that date.

45 Sec. 58. This Act, being deemed of immediate  
46 importance, takes effect upon enactment."

47 2. Title page, line 5, by inserting after the  
48 word "applicability," the following: "taxing  
49 unrelated business income of certain nonprofit  
50 organizations, repealing capital gains refund

1 provisions, limiting the amount of state tax exempt  
2 pensions, striking obsolete provisions,".

SENATE FILE 2074

H-5042

1 Amend the Committee amendment H-5033 to Senate File  
2 2074, as amended, passed, and reprinted by the Senate,  
3 as follows:

4 1. Page 10, by inserting after line 50 the  
5 following:

6 "Sec. 100. Section 422.7, Code Supplement 1987, is  
7 amended by adding the following new subsection:

8 NEW SUBSECTION. Subtract sixty percent of the net  
9 capital gain as computed in section 1202 of the  
10 Internal Revenue Code in effect for tax years  
11 beginning in the 1986 calendar year."

12 2. Page 21, line 25, by striking the word and  
13 figures: "21, 23 through 29" and inserting the  
14 following: "29,100".

15 3. Page 21, by striking line 28 and inserting the  
16 following:

17 "Sec. \_\_\_\_ . Section 30 of this Act is".

18 4. Page 22, line 1, by inserting before the word  
19 "limiting" the following: "allowing a capital gains  
20 deduction,".

H-5042 FILED FEBRUARY 2, 1988

BY HALVORSON of Clayton  
HARBOR of Mills

AS PASSED BY THE SENATE  
AMENDMENT H-5058 to H-5033

REQUESTED BY REPRESENTATIVE STROMER

In compliance with a written request received February 4, 1988, a fiscal note for AMENDMENT H-5058 TO COMMITTEE AMENDMENT H-5033 TO SENATE FILE 2074 is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note are available from the Legislative Fiscal Bureau to members of the Legislature upon request.

AMENDMENT H-5058 TO COMMITTEE AMENDMENT H-5033 TO SENATE FILE 2074 AS PASSED BY THE SENATE changes the indexation method.

Currently, the implicit price deflator is used to adjust thresholds and brackets for inflation, though percentage increases are reduced by half. However, there is no upward adjustment under the following circumstance: if, on June 30, the unobligated general fund balance of the preceding calendar year for which the annual inflation factor applies is less than \$60.0 million.

This amendment would use 100% of the change in the consumer price index instead of half of the change in the implicit price deflator. It would also strike the trigger language stopping indexation if the unobligated general fund balance is less than \$60.0 million.

FISCAL EFFECT

The impact would be to increase the level of indexation in future years. The actual impact would be a reduction in future revenue.

Source: Department of Revenue and Finance

(LSB 7611S.10, PDD)

FILED FEBRUARY 5, 1988

BY DENNIS PROUTY, FISCAL DIRECTOR

SENATE FILE 2074 AS PASSED BY THE SENATE  
AMENDMENT H-5062 TO H-5033  
FISCAL NOTE

REQUESTED BY REPRESENTATIVE STROMER

In compliance with a written request received February 4, 1988, a fiscal note for AMENDMENT H-5062 TO COMMITTEE AMENDMENT H-5033 TO SENATE FILE 2074 AS PASSED BY THE SENATE is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note are available from the Legislative Fiscal Bureau to members of the Legislature upon request.

AMENDMENT H-5062 TO COMMITTEE AMENDMENT H-5033 TO SENATE FILE 2074 AS PASSED BY THE SENATE allows self-employed individuals to deduct certain medical care insurance.

FISCAL EFFECT

The amendment would have a negative effect on the general fund, however, the amount of the impact cannot be determined.

Source: Department of Revenue and Finance

(LSB 7614S.13, PDD)

FILED FEBRUARY 5, 1988

BY DENNIS PROUTY, FISCAL DIRECTOR

SENATE FILE 2074 AS PASSED BY THE SENATE  
AMENDMENT H-5052 TO H-5033  
FISCAL NOTE

REQUESTED BY REPRESENTATIVE MAULSBY

In compliance with a written request received February 4, 1988, a fiscal note for AMENDMENT H-5052 TO COMMITTEE is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note are available from the Legislative Fiscal Bureau to members of the Legislature upon request.

AMENDMENT H-5052 TO COMMITTEE AMENDMENT H-5033 TO SENATE FILE 2074 AS PASSED BY THE SENATE repeals the individual alternative minimum tax for tax years beginning on or after Jan. 1, 1988.

ASSUMPTION

1. Elimination of the capital gain exclusion through coupling.

FISCAL EFFECT

It is estimated this amendment will reduce FY89 general fund receipts by \$2.0 million.

Source: Department of Revenue and Finance

(LSB 7611S.8, PDD)

FILED FEBRUARY 5, 1988

BY DENNIS PROUTY, FISCAL DIRECTOR

SENATE FILE 2074 AS PASSED BY THE SENATE  
AMENDMENT H-5059 TO H-5033

## FISCAL NOTE

REQUESTED BY REPRESENTATIVE CARPENTER

In compliance with a written request received February 4, 1988, a fiscal note for **AMENDMENT H-5059 TO COMMITTEE AMENDMENT H-5033 TO SENATE FILE 2074 AS PASSED BY THE SENATE** is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note are available from the Legislative Fiscal Bureau to members of the Legislature upon request.

AMENDMENT H-5059 TO COMMITTEE AMENDMENT H-5033 TO SENATE FILE 2074 AS PASSED BY THE SENATE institutes a limited capital gains exclusion effective for tax years beginning on or after Jan. 1, 1988. It also strikes the refund provision for capital gains effective Jan. 1, 1988. The maximum net capital gain a taxpayer or married couple may claim is \$17,500. Sixty percent of this amount could then be excluded from taxable income. Eligible taxpayers would not have to file a separate refund for the tax benefit, nor would their tax benefit be subject to a possible pro rata reduction by the state.

FISCAL EFFECT

The impact of this proposal can not be determined.

Source: Department of Revenue and Finance

(LSB 7611S.12, P05)

FILED FEBRUARY 5, 1988

BY DENNIS PROUTY, FISCAL DIRECTOR

SENATE FILE 2074 AS PASSED BY THE SENATE  
AMENDMENT H-5042 TO H-5033

## FISCAL NOTE

REQUESTED BY REPRESENTATIVE HALVORSON of Clayton

In compliance with a written request received February 4, 1988, a fiscal note for **AMENDMENT H-5042 TO COMMITTEE** is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note are available from the Legislative Fiscal Bureau to members of the Legislature upon request.

AMENDMENT H-5042 TO COMMITTEE AMENDMENT H-5033 TO SENATE FILE 2074 AS PASSED BY THE SENATE restates the capital gains deduction for tax years beginning on or after Jan. 1, 1988.

FISCAL EFFECT

It is estimated that general fund receipts would decline between \$17.5 million to \$27.5 million in FY89. The mid-point of this range is \$22.5 million.

Source: Department of Revenue and Finance

(LSB 7611S.9, P00)

FILED FEBRUARY 5, 1988

BY DENNIS PROUTY, FISCAL DIRECTOR

SENATE FILE 2074

H-5053

1 Amend the Committee amendment H-5033 to Senate File  
2 2074, as amended, passed, and reprinted by the Senate,  
3 as follows:

4 1. Page 10, by inserting after line 50 the  
5 following:

6 "Sec. 120. Section 422.7, Code Supplement 1987, is  
7 amended by adding the following new subsection:

8 NEW SUBSECTION. Subtract sixty percent of the net  
9 capital gain of property held by the taxpayer for five  
10 years or more as computed in section 1202 of the  
11 Internal Revenue Code in effect for tax years  
12 beginning in the 1986 calendar year. For purposes of  
13 this subsection, property previously held by the  
14 taxpayer's spouse is considered held by the taxpayer."

15 2. Page 21, line 25, by striking the word and  
16 figures: "21, 23 through 29" and inserting the  
17 following: "29, 120".

18 3. Page 21, by striking line 28 and inserting the  
19 following:

20 "Sec. \_\_\_\_ . Section 30 of this Act is".

21 4. Page 22, line 1, by inserting before the word  
22 "limiting" the following: "allowing a capital gains  
23 deduction for property held for at least five years,".

BY SCHNEKLOTH of Scott  
CARPENTER of Polk

H-5053 FILED FEBRUARY 4, 1988

SENATE FILE 2074

H-5055

1 Amend the Committee amendment H-5033 to Senate File  
2 2074, as amended, passed, and reprinted by the Senate,  
3 as follows:

4 1. Page 11, lines 39 and 40, by striking the  
5 words "two hundred thirty" and inserting the  
6 following: "five hundred".

7 2. Page 11, line 42, by striking the word  
8 "thirty" and inserting the following: "three  
9 hundred".

10 3. Page 21, line 25, by striking the word and  
11 figures "15 through 21" and inserting the following:  
12 "15, 16, 17, 19, 20, 21".

13 4. ~~Page 21, line 28, by inserting after the word~~  
14 "Sections" the following: "18,".

15 5. Page 22, line 2, by inserting after the word  
16 "pensions," the following: "increasing the standard  
17 deduction,".

BY ROSENBERG of Story  
WISE of Lee

GRONINGA of Cerro Gordo

HANSON of Delaware

CARPENTER of Polk

DVORSKY of Johnson

CLARK of Cerro Gordo

H-5055 FILED FEBRUARY 4, 1988

SHOULTZ of Black Hawk

NORRGARD of Des Moines

OSTERBERG of Linn

CONNOLLY of Dubuque

JOHNSON of Winneshiek

ADAMS of Hamilton

PETERSON of Carroll

DODERER of Johnson

1 Amend the Committee amendment, H-5033, to Senate  
2 File 2074, as amended, passed, and reprinted by the  
3 Senate, as follows:

4 1. Page 11, line 1, by striking the word and  
5 figure "subsection 2" and inserting the following:  
6 "subsections 2 and 4".

7 2. Page 11, line 2, by striking the word "is" and  
8 inserting the following: "are".

9 3. Page 11, by inserting after line 34 the  
10 following:

11 "4. The amount of minimum tax paid to another  
12 state or foreign country by a resident taxpayer of  
13 this state from preference items derived from sources  
14 outside of Iowa shall be allowed as a credit against  
15 the tax computed under this division except that the  
16 credit shall not exceed what the amount of state  
17 alternative minimum tax would have been on the same  
18 preference items which were taxed by the other state  
19 or foreign country. The limitation on this credit  
20 shall be computed according to the following formula:  
21 The total of preference items earned outside of Iowa  
22 and taxed by another state or foreign country shall be  
23 divided by the total of preference items of the  
24 resident taxpayer of Iowa. In computing this  
25 quotient, those items excludable under section 422.5,  
26 subsection 1, paragraph "o" "k", subparagraph (1)  
27 shall not be used in computing the preference items.  
28 This quotient multiplied times the net state  
29 alternative minimum tax as determined in section  
30 422.5, subsection 1, paragraph "o" "k" on the total of  
31 preference items as if entirely earned in Iowa shall  
32 be the maximum tax credit against the Iowa alternative  
33 minimum tax. However, the maximum tax credit will not  
34 be allowed to the extent that the minimum tax imposed  
35 by the other state or foreign country is less than the  
36 maximum tax credit computed above."

H-5046 FILED FEBRUARY 3, 1988 BY DODERER of Johnson

## SENATE FILE 2074

H-5052

1 Amend the Committee amendment, H-5033 to Senate  
2 File 2074, as amended, passed, and reprinted by the  
3 Senate, as follows:

4 1. Page 4, by striking lines 4 through 19 and  
5 inserting the following: "Code Supplement 1987, is  
6 amended by striking the paragraph."

7 2. Page 11, by inserting after line 34 the  
8 following:

9 "Sec. 17A. Section 422.8, subsection 4, Code 1987,  
10 is amended by striking the subsection."

11 3. Page 21, line 24, by inserting after the  
12 figure "13," the following: "17A,".

13 4. Page 21, line 50, by inserting after the word  
14 "organizations," the following: "repealing the  
15 individual alternative minimum tax,".

H-5052 FILED FEBRUARY 4, 1988 BY MAULSBY of Calhoun

## SENATE FILE 2074

H-5059

1 Amend the Committee amendment H-5033 to Senate File  
2 2074, as amended, passed, and reprinted by the Senate,  
3 as follows:

4 1. Page 10, by inserting after line 50 the  
5 following:

6 "Sec. 160. Section 422.7, Code Supplement 1987, is  
7 amended by adding the following new subsection:

8 NEW SUBSECTION. Subtract sixty percent of the net  
9 capital gain as computed in section 1202 of the  
10 Internal Revenue Code in effect for tax years  
11 beginning in the 1986 calendar year. For purposes of  
12 determining the amount to be subtracted, the net  
13 capital gain shall not exceed seventeen thousand five  
14 hundred dollars. Married taxpayers who elect separate  
15 filing on a combined return for state tax purposes are  
16 treated as one taxpayer and the amount of net capital  
17 gain to be used to determine the total amount to be  
18 subtracted by them shall not exceed seventeen thousand  
19 five hundred dollars in the aggregate. Married  
20 taxpayers who file jointly or separately on a combined  
21 return shall prorate the seventeen thousand five  
22 hundred dollar limitation between them based on the  
23 ratio of each spouse's net capital gain to the total  
24 net capital gain of both spouses. In the case of  
25 married taxpayers filing separate returns, the amount  
26 of net capital gain to be used to determine the amount  
27 to be subtracted by each spouse shall not exceed eight  
28 thousand seven hundred and fifty dollars. Any income  
29 or loss resulting from the forfeiture, transfer, or  
30 sale or exchange described in section 422.7,  
31 subsection 25, shall not be used in computing net  
32 capital gain for purposes of this subsection."

33 2. Page 21, line 25, by striking the word and  
34 figures: "21, 23 through 29" and inserting the  
35 following: "29,160".

36 3. Page 21, by striking line 28 and inserting the  
37 following:

38 "Sec. \_\_\_\_ . Section 30 of this Act is".

39 4. Page 22, line 1, by inserting before the word  
40 "limiting" the following: "allowing a capital gains  
41 deduction,".

BY CARPENTER of Polk  
SCHNEKLOTH of Scott

H-5059 FILED FEBRUARY 5, 1988  
LOST (p. 277)

## SENATE FILE 2074

H-5038

1 Amend the Committee amendment, H-5033, to Senate  
2 File 2074, as amended, passed, and reprinted by the  
3 Senate, as follows:

4 1. Page 2, by striking lines 29 through 36 and  
5 inserting the following: "not less than zero percent,  
6 in the implicit-price-deflator-for-the-gross-national  
7 product consumer price index computed for the whole  
8 calendar year or-for-the-second-quarter-of-the  
9 calendar-year,-in-the-case-of-the-annual-inflation  
10 factor-for-the-1981-and-subsequent-calendar-years,-by  
11 the-bureau-of-economic-analysis-of-the-United-States  
12 department-of-commerce by the bureau of labor  
13 statistics of the United States department of labor,  
14 all urban consumers, or its successor, and shall add  
15 two-fourths-for-the-1980-and-subsequent-calendar-years  
16 of".

17 2. Page 3, by striking lines 8 through 22 and in-  
18 serting the following:

19 "d.--Notwithstanding-the-computation-of-the-annual  
20 inflation-factor-under-paragraph-"a"-of-this  
21 subsection,-the-annual-inflation-factor-is-one-hundred  
22 percent-for-any-calendar-year-in-which-the-unobligated  
23 state-general-fund-balance-on-June-30-as-certified-by  
24 the-director-of-revenue-and-finance-by-September-16-of  
25 the-fiscal-year-beginning-in-that-calendar-year-is  
26 less-than-sixty-million-dollars.--However,-for-the  
27 1981-and-subsequent-calendar-years,-the-annual  
28 inflation-factor-is-one-hundred-percent-for-any  
29 calendar-year-if-the-unobligated-state-general-fund  
30 balance-on-June-30-of-the-calendar-year-preceding-the  
31 calendar-year-for-which-the-factor-is-determined,-as  
32 certified-by-the-director-of-revenue-and-finance-by  
33 October-10,-is-less-than-sixty-million-dollars."

BY HUMMEL of Benton  
VAN MAANEN of Mahaska  
TYRRELL of Iowa

H-5038 FILED FEBRUARY 5, 1988

LOST

## SENATE FILE 2074

H-5056

1 Amend the Committee amendment, H-5033, to Senate  
2 File 2074, as amended, passed, and reprinted by the  
3 Senate, as follows:

4 1. Page 5, line 15, by inserting after the word  
5 "account." the following: "For purposes of this  
6 subsection, net income includes all amounts of pen-  
7 sions or other retirement income received from any  
8 source which is not taxable under this division as a  
9 result of any other state law."

BY OSTERBERG of Linn  
CARPENTER of Polk

H-5056 FILED FEBRUARY 5, 1988

ADOPTED

H-5061

1 Amend the Committee amendment, H-5033, to Senate  
2 File 2074, as amended, passed and reprinted by the  
3 Senate, as follows:

4 1. Page 2, by striking lines 37 through 39 and  
5 inserting the following: "that percent change to one  
6 hundred percent. The annual inflation factor for the  
7 1979 calendar year is one hundred two point three  
8 percent. The annual".

9 2. Page 2, line 46, by striking the figures:  
10 "~~1978~~ 1988" and inserting the following: "1978".

11 3. Page 3, by striking lines 3 through 7 and  
12 inserting the following:

13 "c. The annual inflation factor for the 1978  
14 calendar year is one hundred percent. Notwithstanding  
15 the computation of the annual inflation factor under  
16 paragraph "a", the annual inflation ~~factor~~ factors for  
17 the 1987 and 1988 calendar year-~~is~~ years are one  
18 hundred percent."

19 4. Page 3, line 42, by striking the word and  
20 figure "subsection 1" and inserting the following:  
21 "subsection 1A".

22 5. By striking page 3, line 45, through page 4,  
23 line 19.

24 6. Page 6, line 35, by striking the figure "7,".

25 7. Page 7, by striking lines 21 through 31.

26 8. Page 10, by inserting after line 50 the  
27 following:

28 "Sec. 100. Section 422.7, Code Supplement 1987, is  
29 amended by adding the following new subsection:

30 NEW SUBSECTION. Subtract sixty percent of the net  
31 capital gain as computed in section 1202 of the  
32 Internal Revenue Code in effect for tax years  
33 beginning in the 1986 calendar year."

34 9. Page 11, by striking lines 1 through 34.

35 10. Page 15, line 22, by striking the figures  
36 "~~1979~~ 1989" and inserting the following: "1979".

37 11. Page 21, by striking lines 15 through 20.

38 12. Page 21, line 24, by striking the figure  
39 "5,".

40 13. Page 21, line 25, by striking the figure  
41 "49,".

42 14. Page 21, line 28, by inserting after the word  
43 "Sections" the following: "5, 49, 100,".

44 15. Page 21, line 41, by striking the word and  
45 figures "40, and 47" and inserting the following:  
46 "and 40".

47 16. Page 21, by inserting after line 44 the  
48 following:

49 "Sec. \_\_\_\_ Section 47 of this Act is repealed  
50 January 1, 1989, for tax years beginning on or after

Page Two

1 that date."

2 17. Page 22, line 1, by inserting after the word  
3 "provisions" the following: "and rate structure,  
4 allowing a capital gains deduction".

BY DODERER of Johnson

ARNOULD of Scott

H-5061 FILED FEBRUARY 5, 1988

DIVISIONS A, B, AND C WITHDRAWN (27082743250)

## SENATE FILE 2074

H-5060

1 Amend the Committee amendment H-5033 to Senate File  
2 2074, as amended, passed and reprinted by the Senate,  
3 as follows:

4 1. Page 4, line 50, by inserting after the words  
5 "case of" the following: "single persons fifty-five  
6 years of age or older,".

7 2. Page 5, line 35, by inserting after the words  
8 "if the" the following: "single fifty-five year or  
9 older person's,".

H-5060 FILED FEBRUARY 5, 1988 BY VAN CAMP of Scott  
LOST (p. 272)

## SENATE FILE 2074

H-5063

1 Amend the Committee amendment, H-5033, to Senate  
2 File 2074, as amended, passed, and reprinted by the  
3 Senate, as follows:

4 1. Page 10, by striking lines 42 through 50.

5 2. Page 22, lines 1 and 2, by striking the words  
6 "limiting the amount of state tax exempt pensions,".

BY SHERZAN of Polk

RENAUD of Polk

BEAMAN of Clarke

SKOW of Guthrie

PONCY of Wapello

VAN CAMP of Scott

RUNNING of Linn

FULLER of Hardin

H-5063 FILED FEBRUARY 5, 1988

BEATTY of Warren

ADOPTED (p. 274)

## SENATE FILE 2074

H-5068

1 Amend the Committee amendment, H-5033, to Senate  
2 File 2074, as amended, passed, and reprinted by the  
3 Senate, as follows:

4 1. Page 12, by striking lines 22 through 24.

5 2. Page 21, line 50, by striking the words

6 "repealing capital gains refund".

7 3. Page 22, line 1, by striking the word

8 "provisions,".

BY SKOW of Guthrie

H-5068 FILED FEBRUARY 5, 1988

FOGARTY of Palo Alto

WITHDRAWN (p. 284)

## SENATE FILE 2074

H-5065

1 Amend the Committee amendment, H-5033, to Senate  
 2 File 2074, as amended, passed, and reprinted by the  
 3 Senate, as follows:  
 4 1. Page 16, by inserting after line 48 the  
 5 following:  
 6 "Sec. 200. Section 422.33, subsection 4, paragraph  
 7 a, Code Supplement 1987, is amended to read as  
 8 follows:  
 9 a. Add items of tax preference included in federal  
 10 alternative minimum taxable income under section 57,  
 11 except subsections (a)(1) and (a)(5), of the Internal  
 12 Revenue Code, make the adjustments included in federal  
 13 alternative minimum taxable income under section 56,  
 14 except subsections (a)(4) and (d), of the Internal  
 15 Revenue Code, and add losses as required by section 58  
 16 of the Internal Revenue Code. In making the  
 17 adjustment under section 56(c)(1) of the Internal  
 18 Revenue Code, interest and dividends from federal  
 19 securities and interest and dividends from state and  
 20 other political subdivisions, and from regulated  
 21 investment companies exempt from federal income tax  
 22 under the Internal Revenue Code net of amortization of  
 23 any discount or premium shall be subtracted."  
 24 2. Page 21, line 24, by inserting after the  
 25 figure "13," the following: "200,".

H-5065 FILED FEBRUARY 5, 1988 BY DODERER of Johnson  
 WITHDRAWN (2/28/88)

## SENATE FILE 2074

H-5066

1 Amend the Committee amendment H-5033 to Senate File  
 2 2074, as amended, passed and reprinted by the Senate,  
 3 as follows:  
 4 1. Page 10, by inserting after line 50 the  
 5 following:  
 6 "Sec. 180. Section 422.7, Code Supplement 1987, is  
 7 amended by adding the following new subsection:  
 8 NEW SUBSECTION. Subtract, to the extent included,  
 9 the amount of public and private pensions or other  
 10 retirement income received unless the combined net  
 11 income plus all pensions and other retirement income  
 12 of the taxpayer and the taxpayer's spouse exceeds  
 13 sixteen thousand four hundred fifty dollars. The  
 14 sixteen thousand four hundred fifty dollar amount  
 15 shall be indexed for inflation by multiplying the  
 16 amount by the latest cumulative inflation factor as  
 17 determined under section 422.4, subsection 17."  
 18 2. Page 21, line 24, by inserting after the  
 19 figure "13," the following: "180,".

H-5066 FILED FEBRUARY 5, 1988 BY DODERER of Johnson  
 WITHDRAWN (2/28/88)

## SENATE FILE 2074

H-5062

1 Amend the Committee amendment, H-5033, to Senate  
2 File 2074, as amended, passed, and reprinted by the  
3 Senate, as follows:

4 1. Page 10, by inserting after line 50 the  
5 following:

6 "Sec. 140. Section 422.7, Code Supplement 1987, is  
7 amended by adding the following new subsection:

8 NEW SUBSECTION. In the case of self-employed  
9 individuals, subtract the amount paid for insurance  
10 which constitutes medical care for the taxpayer, the  
11 taxpayer's spouse, and dependents which is not  
12 deductible under section 162(m) of the Internal  
13 Revenue Code. The amount deducted under this  
14 subsection is not allowable to the taxpayer as an  
15 itemized deduction under section 422.9, subsection 2."

16 2. Page 21, line 24, by inserting after the  
17 figure "13," the following: "140,".

18 3. Page 21, line 50, by inserting after the word  
19 "organizations," the following: "allowing self-  
20 employs to deduct certain medical care insurance,".

BY STROMER of Hancock

BEAMAN of Clarke

MULLINS of Kossuth

MAULSBY of Calhoun

BRANSTAD of Winnebago

McKEAN of Jones

CARPENTER of Polk

BENNETT of Ida

SCHNERLOTH of Scott

PETERSEN of Muscatine

H-5062 FILED FEBRUARY 5, 1988

LOST

## SENATE FILE 2074

H-5067

1 Amend the Committee amendment H-5033 to Senate File  
2 2074, as amended, passed and reprinted by the Senate,  
3 as follows:

4 1. Page 10, by inserting after line 50 the  
5 following:

6 "Sec. 200. Section 422.7, Code Supplement 1987, is  
7 amended by adding the following new subsection:

8 NEW SUBSECTION. Subtract twelve thousand dollars,  
9 if the taxpayer is sixty-five years of age or older.  
10 The amount to be subtracted under this subsection  
11 shall be reduced by the amount of state of Iowa  
12 pensions or other state of Iowa retirement income  
13 received which is not taxable under this division as a  
14 result of any other state tax law."

15 2. Page 21, line 24, by inserting after the  
16 figure "13," the following: "200,".

BY HUMMEL of Benton

H-5067 FILED FEBRUARY 5, 1988

DODERER of Johnson

ADOPTED, RECONSIDERED, - LOST

SENATE FILE 2074

H-5069

- 1 Amend the Committee amendment, H-5033, to Senate
- 2 File 2074, as amended, passed, and reprinted by the
- 3 Senate, as follows:
- 4 1. Page 12, by striking lines 22 through 24.
- 5 2. Page 21, line 50, by striking the words
- 6 "repealing capital gains refund".
- 7 3. Page 22, line 1, by striking the word
- 8 "provisions,".

BY HALVORSON of Clayton  
 HARBOR of Mills  
 DAGGETT of Adams  
 TYRRELL of Iowa  
 BEAMAN of Clarke  
 MILLER of Cherokee  
 SHONING of Woodbury  
 BRANSTAD of Winnebago  
 HESTER of Pottawattamie  
 MAULSBY of Calhoun  
 VAN MAANEN of Mahaska  
 H-5069 FILED FEBRUARY 5, 1988  
 LOST ( )

STUELAND of Clinton  
 GARMAN of Story  
 METCALF of Polk  
 MCKEAN of Jones  
 LUNDBY of Linn  
 SCHNEKLOTH of Scott  
 KREMER of Buchanan  
 COREETT of Linn  
 HERMANN of Scott  
 RENKEN of Grundy  
 PLASIER of Sioux  
 PAULIN of Plymouth

FILED FEB 16 1988

STATE OF IOWA

FISCAL NOTE

LSB No. 76115.14

Staff ID. PDD

REQ. BY SENATOR BRUNER

SENATE FILE 2074

In compliance with a written request received February 12, 1988, a fiscal note for SENATE FILE 2074 AS AMENDED BY THE HOUSE is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note are available from the Legislative Fiscal Bureau to members of the Legislature upon request.

SENATE FILE 2074 AS AMENDED BY THE HOUSE adds the following:

- a. Repeal of the capital gains refund provision for tax years beginning on or after Jan. 1, 1989.
- b. Inclusion of pension or retirement income in the thresholds of \$5,000 or \$7,500, regardless of whether the state exempts the pension or retirement income from taxation.
- c. Institution of a corporate tax on unrelated business income earned by non-profit organizations.

As before, the bill makes permanent changes made by H.F. 689 in rates, brackets, deductions, thresholds, and clarification on the taxation of interest and dividends from regulated investment companies exempt from federal tax and the loss from the sale or exchange of shares of such companies. The bill reinstates the deduction of expenses for state legislators whose home is within 50 miles of the capitol, and clarifies taxpayer eligibility for use of the alternative tax calculation available to filers with net incomes over \$7,500 and not filing as singles. The bill updates references to the Internal Revenue Code relating to the individual, business and inheritance taxes.

The bill couples state and federal individual income tax provisions, retroactive to Jan. 1, 1987.

The bill clarifies that a married couple with one spouse carrying a net operating loss forward or back shall not receive the benefit of an alternate tax calculation available for filers with net incomes over \$7,500 and not filing as singles. This is retroactive to Jan. 1, 1988.

Under current law, taxpayers receiving annuities from the U.S. Civil Service Retirement and Disability Trust Fund were allowed to exclude from net income up to \$5,500 for separate filers and \$8,000 for joint filers. The \$5,500 and \$8,000 were indexed for inflation, thus actual excludable amounts had risen. The bill brings the limits stated in the Code up to the levels they were raised by indexation, i.e., to \$5,627 for separate filers and \$8,184 for married filers and is retroactive to Jan. 1, 1987. Indexation will begin again in 1989.

Retroactive to Jan. 1, 1987, the bill couples with changes in the Internal Revenue Code pertaining to the individual, business and inheritance taxes. Retroactive to Oct. 26, 1986, the bill updates references to the IRC relative to generation skipping transfers eligible for the credit for state taxes.

Retroactive to Jan. 1, 1987, the bill reinstates the deduction of expenses for state legislators living within 50 miles of the state capitol.

Retroactive to Jan. 1, 1987, the bill repeals the sunset of H.F. 689.

## STATE OF IOWA

FISCAL NOTELSB No. 7611S 14  
Staff ID. PDD

REQ. BY SENATOR BRUNER

SENATE FILE 2074

-2-

The bill increments deadline dates pertaining to the separate filing for a capital gains deduction refund for tax year 1988.

FISCAL EFFECTRepeal of H.P. 689 SunsetAssumptions

1. Iowa tax laws will continue to conform with the federal tax legislation for tax years 1988 in a manner similar to that existing for tax year 1987. However, to permit comparison to prior estimates, the effects of capital gains changes assume full coupling with the 1986 federal changes rather than the partial coupling that occurred for tax year 1987.
2. The reliability of the projections continue to rely heavily on the accuracy of the estimates of the provisions completed at the federal level. The absence of specific projections at the federal level for several provisions required the Department of Revenue and Finance to independently complete these estimates. Estimates provided here reflect mid-points of ranges provided by the Department of Revenue & Finance.

It is estimated this portion of the bill will increase FY89 general fund revenues by \$6.5 million over FY88 general fund revenues.

Individual Income

	FY88 (millions)	FY89 (millions)
Long Term Capital Gains	\$ 18.5	\$ 22.5
Deduction for Sales Tax	15.0	14.5
Deduction for Medical Expenses	4.0	4.0
Miscellaneous & Employee Business Expense Deduction	14.0	13.5
Unemployment Compensation	3.0	2.5
Minimum Tax	(4.0)	(4.0)
Individual Retirement Accounts	19.0	17.0
CODA	2.5	2.0
Interest Deduction	15.5	19.5
Repeal Dividend Exclusion	3.0	2.5
Business Meals	1.5	2.5
Depreciation	(1.5)	1.0
Passive Investment	5.5	10.0
Capitalization	2.5	1.5
Long term contracts	---	---
CONFORMITY SUBTOTAL	\$ 98.5	\$109.0
FEDERAL DEDUCTIBILITY	37.5	33.5
TOTAL	\$136.0	\$142.5

STATE OF IOWA  
FISCAL NOTE

LSB No. 7611S 14  
Staff ID. PDD

REQ. BY SENATOR BRUNER      SENATE FILE 2074

IRC Update

The Omnibus Reconciliation Act of 1987 contains several provisions which will have a direct impact on Iowa tax receipts if Iowa Code references to the Internal Revenue Code (IRC) are updated to include changes made to the IRC through 1987.

Assumptions

1. Provisions analyzed were those which had a significant fiscal impact projected at the state level, or those for which sufficient information is available upon which to base an estimate.
2. At this time, the data is limited but sufficient to complete projections.
3. Historical relationships between federal and Iowa taxes provide valid guidelines for making current projections.
4. State tax laws will be "coupled" with the federal changes to the extent consistent with past practices.
5. To the limited degree required, the individual tax changes were estimated using the pertinent provisions of HF 689. Estimates provided here reflect mid-points of ranges.

The estimated net effect of coupling with these provisions is \$6.0 million.

FY89 (millions)

Provisions Primarily Affecting Individuals      (\$ 0.25)

Provisions Affecting Business (including individual income and inheritance taxes)

Vacation pay reserve	\$ 1.25
Completed contract method	0.75
Installment sales	3.75
Corporate dividends received deduction	0.50
Pension funding	1.50
Estate ESOP limitation	( 1.50)
TOTAL	<u>\$ 6.0</u>

Tax on Unrelated Business Income Earned by Non-Profit Organizations

Though it is expected this provision will increase general fund revenues, there is not enough information to provide an estimate.

STATE OF IOWA

FISCAL NOTE

LSB No. 7611S.14

Staff ID. PDD

REQ. BY SENATOR BRUNER

SENATE FILE 2074

-4-

Inclusion of State Exempt Pension Income in the Thresholds

Though it is expected this provision will increase general fund revenues, there is not enough information to provide an estimate.

Repeal of the Capital Gains Refund Provision

Assuming the Federal Government does not reinstate a capital gains deduction effective for tax year 1988, repealing this provision effective Jan. 1, 1989, will have a positive impact on the FY91 general fund in that \$8.0 million will not have to be refunded.

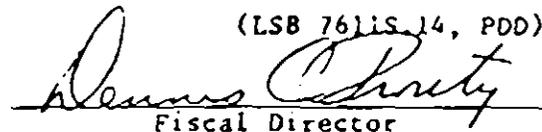
**OVERALL FISCAL EFFECT**

It is estimated this amendment will increase FY89 general fund revenues by \$12.5 million over FY88 general fund revenues (\$6.5 due to extension of H.F. 689; \$6.0 million due to coupling with the Revenue Act of 1987). There will be an unknown increase to the general fund due to the tax on unrelated business income earned by nonprofit organizations and the inclusion in the threshold amounts of state exempt pension income.

Striking the capital gains refund provision will save the FY91 general fund \$8.0 million in refunds.

Source: Department of Revenue and Finance

(LSB 7611S.14, PDD)

  
Fiscal Director

Legislative Fiscal Bureau

Date: 2/15/88

HOUSE AMENDMENT TO  
SENATE FILE 2074

70

1 Amend Senate File 2074 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 422.3, subsection 5, Code  
6 1987, is amended by striking the subsection and  
7 inserting in lieu thereof the following:

8 5. "Internal Revenue Code" means the Internal  
9 Revenue Code of 1954, prior to the date of its  
10 redesignation as the Internal Revenue Code of 1986 by  
11 the Tax Reform Act of 1986, or means the Internal  
12 Revenue Code of 1986 as amended to and including  
13 January 1, 1988, whichever is applicable.

14 Sec. 2. Section 422.4, subsections 1, 4, 10, 11,  
15 14, 17, and 18, Code Supplement 1987, are amended to  
16 read as follows:

17 1. The words "taxable income" mean the net income  
18 as defined in section 422.7 minus the deductions  
19 allowed by section 422.9, in the case of individuals;  
20 in the case of estates or trusts, the words "taxable  
21 income" mean the taxable income (without a deduction  
22 for personal exemption) as computed for federal income  
23 tax purposes under the Internal Revenue Code of 1954,  
24 but with the adjustments specified in section 422.7  
25 plus the Iowa income tax deducted in computing said  
26 the federal taxable income and minus federal income  
27 taxes as provided in section 422.9.

28 4. The words "tax year" mean the calendar year, or  
29 the fiscal year ending during such calendar year, upon  
30 the basis of which the net income is computed under  
31 this division.

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

36 b. If the effective date or the applicability of a  
37 provision of this division is expressed in terms of a  
38 tax year beginning, including, or ending with  
39 reference to a specified date which is the first or  
40 last day of a month, a tax year described in paragraph  
41 "a" of this subsection shall be treated as beginning  
42 with the first day of the calendar month beginning  
43 nearest to the first day of the tax year or as ending  
44 with the last day of the calendar month ending nearest  
45 to the last day of the tax year.

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

48 10. The word "individual" means a natural person;  
49 and where if an individual is permitted to file as a  
50 corporation, under the provisions of the Internal

S-5070 Page 2

1 Revenue Code of ~~1954~~, such that fictional status shall  
2 is not be recognized for purposes of this chapter, and  
3 such the individual's taxable income shall be computed  
4 as required under the ~~provisions of~~ the Internal  
5 Revenue Code of ~~1954~~ relating to individuals not  
6 filing as a corporation, with the adjustments allowed  
7 by this chapter.

8 11. The term words "head of household" shall ~~have~~  
9 has the same meaning as provided by the Internal  
10 Revenue Code of ~~1954~~.

11 14. The term word "wages" shall ~~have~~ has the same  
12 meaning as provided by the Internal Revenue Code of  
13 ~~1954~~.

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

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

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

3 c. The annual inflation factor for the ~~1979~~ 1988  
4 calendar year is one hundred percent. Notwithstanding  
5 ~~the computation of the annual inflation factor under~~  
6 ~~paragraph "a", the annual inflation factor for the~~  
7 ~~1987 calendar year is one hundred percent.~~

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

23 ~~18. -- For purposes of section 422.3, subsection 5,~~  
24 ~~the Internal Revenue Code of 1954 shall be interpreted~~  
25 ~~to include the provisions of Pub. L. No. 98-4.~~

26 Sec. 3. Section 422.4, subsections 19 and 20, Code  
27 Supplement 1987, are amended to read as follows:

28 19. The definition of the Internal Revenue Code of  
29 1954 in section 422.3, subsection 5, shall be  
30 interpreted to include provisions of the Tax Reform  
31 Act of 1986, Pub. L. No. 99-514 which amended the  
32 Internal Revenue Code of 1954, and the Revenue Act of  
33 1987, Pub. L. No. 100-203, unless the context  
34 otherwise requires.

35 20. "Internal Revenue Code of 1986" means the  
36 Internal Revenue Code of 1954 as amended by the Tax  
37 Reform Act of 1986, Pub. L. No. 99-514 and the Revenue  
38 Act of 1987, Pub. L. No. 100-203.

39 Sec. 4. Section 422.4, subsections 19 and 20, Code  
40 Supplement 1987, are amended by striking the  
41 subsections.

42 Sec. 5. Section 422.5, subsection 1, Code  
43 Supplement 1987, is amended by striking the  
44 subsection.

45 Sec. 6. Section 422.5, subsection 1A, unnumbered  
46 paragraph 1, Code Supplement 1987, is amended to read  
47 as follows:

48 ~~In lieu of subsection 1, a~~ A tax is imposed upon  
49 every resident and nonresident of the state which tax  
50 shall be levied, collected, and paid annually upon and

1 with respect to the entire taxable income as defined  
2 in this division at rates as follows:

3 Sec. 7. Section 422.5, subsection 1A, paragraph k,  
4 subparagraph (1), Code Supplement 1987, is amended to  
5 read as follows:

6 (1) Add items of tax preference included in  
7 federal alternative minimum taxable income under  
8 section 57, except subsections (a)(1), (a)(2), and  
9 (a)(5), of the Internal Revenue Code of 1986, make the  
10 adjustments included in federal alternative minimum  
11 taxable income under section 56, except subsections  
12 (a)(4), (b)(1)(C)(iii), and (d), of the Internal  
13 Revenue Code of 1986, and add losses as required by  
14 section 58 of the Internal Revenue Code of 1986. In  
15 the case of an estate or trust, the items of tax  
16 preference, adjustments, and losses shall be  
17 apportioned between the estate or trust and the  
18 beneficiaries in accordance with rules prescribed by  
19 the director.

20 Sec. 8. Section 422.5, subsection 2, unnumbered  
21 paragraph 2, Code Supplement 1987, is amended to read  
22 as follows:

23 However, for married persons filing jointly or  
24 filing separately on a combined return, unmarried  
25 heads of household, and surviving spouses, references  
26 in this subsection and subsections 6 and 10 to five  
27 thousand dollars shall be interpreted to mean seven  
28 thousand five hundred dollars. In addition, if the  
29 married persons', filing jointly or filing separately  
30 on a combined return, unmarried head of household's,  
31 or surviving spouse's net income exceeds seven  
32 thousand five hundred dollars, the regular tax imposed  
33 under this division shall be the lesser of the maximum  
34 state individual income tax rate times the portion of  
35 the net income in excess of seven thousand five  
36 hundred dollars or the regular tax liability computed  
37 without regard to this sentence. Taxpayers electing  
38 to file separately shall compute the alternate tax  
39 described in this paragraph using the total net income  
40 of the husband and wife. However, the alternate tax  
41 described in this paragraph does not apply if one  
42 spouse elects to carry back or carry forward the loss  
43 as provided in section 422.9, subsection 3.

44 Sec. 9. Section 422.5, subsection 2, Code  
45 Supplement 1987, is amended by striking the subsection  
46 and inserting in lieu thereof the following:

47 2. However, the tax shall not be imposed on a  
48 resident or nonresident whose net income, as defined  
49 in section 422.7, is seven thousand five hundred  
50 dollars or less in the case of married persons filing

1 jointly or filing separately on a combined return,  
2 unmarried heads of household, and surviving spouses or  
3 five thousand dollars or less in the case of all other  
4 persons; but in the event that the payment of tax  
5 under this division would reduce the net income to  
6 less than seven thousand five hundred dollars or five  
7 thousand dollars as applicable, then the tax shall be  
8 reduced to that amount which would result in allowing  
9 the taxpayer to retain a net income of seven thousand  
10 five hundred dollars or five thousand dollars as  
11 applicable. The preceding sentence does not apply to  
12 estates or trusts. For the purpose of this  
13 subsection, the entire net income, including any part  
14 of the net income not allocated to Iowa, shall be  
15 taken into account. For purposes of this subsection,  
16 net income includes all amounts of pensions or other  
17 retirement income received from any source which is  
18 not taxable under this division as a result of any  
19 other state law. If the combined net income of a  
20 husband and wife exceeds seven thousand five hundred  
21 dollars, neither of them shall receive the benefit of  
22 this subsection, and it is immaterial whether they  
23 file a joint return or separate returns. However, if  
24 a husband and wife file separate returns and have a  
25 combined net income of seven thousand five hundred  
26 dollars or less, neither spouse shall receive the  
27 benefit of this paragraph, if one spouse has a net  
28 operating loss and elects to carry back or carry  
29 forward the loss as provided in section 422.9,  
30 subsection 3. A person who is claimed as a dependent  
31 by another person as defined in section 422.12 shall  
32 not receive the benefit of this subsection if the  
33 person claiming the dependent has net income exceeding  
34 seven thousand five hundred dollars or five thousand  
35 dollars as applicable or the person claiming the  
36 dependent and the person's spouse have combined net  
37 income exceeding seven thousand five hundred dollars  
38 or five thousand dollars as applicable.

39 In addition, if the married persons', filing  
40 jointly or filing separately on a combined return,  
41 unmarried head of household's, or surviving spouse's  
42 net income exceeds seven thousand five hundred  
43 dollars, the regular tax imposed under this division  
44 shall be the lesser of the maximum state individual  
45 income tax rate times the portion of the net income in  
46 excess of seven thousand five hundred dollars or the  
47 regular tax liability computed without regard to this  
48 sentence. Taxpayers electing to file separately shall  
49 compute the alternate tax described in this paragraph  
50 using the total net income of the husband and wife.

1 The alternate tax described in this paragraph does not  
2 apply if one spouse elects to carry back or carry  
3 forward the loss as provided in section 422.9,  
4 subsection 3.

5 Sec. 10. Section 422.5, subsection 6, Code  
6 Supplement 1987, is amended to read as follows:

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

39 Sec. 11. Section 422.5, subsections 6, 7, 8, and  
40 10, Code Supplement 1987, are amended to read as  
41 follows:

42 6. A person who is disabled, is sixty-two years of  
43 age or older or is the surviving spouse of an  
44 individual or survivor having an insurable interest in  
45 an individual who would have qualified for the  
46 exemption under this paragraph for this tax year and  
47 receives one or more annuities from the United States  
48 civil service retirement and disability trust fund,  
49 and whose net income, as defined in section 422.7, is  
50 sufficient to require that the tax be imposed upon it

1 under this section, may determine final taxable income  
2 for purposes of imposition of the tax by excluding the  
3 amount of annuities received from the United States  
4 civil service retirement and disability trust fund,  
5 which are not already excluded in determining net  
6 income, as defined in section 422.7, up to a maximum  
7 each tax year of five thousand five-hundred six  
8 hundred twenty-seven dollars for a person who files a  
9 separate state income tax return and eight thousand  
10 one hundred eighty-four dollars total for a husband  
11 and wife who file a joint state income tax return.  
12 However, a surviving spouse who is not disabled or  
13 sixty-two years of age or older can only exclude the  
14 amount of annuities received as a result of the death  
15 of the other spouse. The amount of the exemption  
16 shall be reduced by the amount of any social security  
17 benefits received. For the purpose of this section,  
18 the amount of annuities received from the United  
19 States civil service retirement and disability trust  
20 fund taxable under the Internal Revenue Code of 1954  
21 shall be included in net income for purposes of  
22 determining eligibility under the seven thousand five  
23 hundred dollar or less or five thousand dollar or less  
24 exclusion, as applicable.

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

36 ~~8. -- Income of an individual which is excluded from~~  
37 ~~gross income under the Internal Revenue Code of 1954~~  
38 ~~as a result of the provisions of the Hostage Relief~~  
39 ~~Act of 1980, 94 Stat. 1967, shall not be included as~~  
40 ~~income in computing the tax imposed by this section.~~

41 10. In addition to the other taxes imposed by this  
42 section, a tax is imposed on the amount of a lump sum  
43 distribution for which the taxpayer has elected under  
44 section 402(e) of the Internal Revenue Code of 1954 to  
45 be separately taxed for federal income tax purposes  
46 for the tax year. The rate of tax is equal to twenty-  
47 five percent of the separate federal tax imposed on  
48 the amount of the lump sum distribution. A  
49 nonresident is liable for this tax only on that  
50 portion of the lump sum distribution allocable to

1 Iowa. The total amount of the lump sum distribution  
2 subject to separate federal tax shall be included in  
3 net income for purposes of determining eligibility  
4 under the seven thousand five hundred dollar or less  
5 or five thousand dollar or less exclusion, as  
6 applicable.

7 Sec. 12. Section 422.6, unnumbered paragraph 2,  
8 Code 1987, is amended to read as follows:

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

20 Sec. 13. Section 422.7, unnumbered paragraph 1 and  
21 subsections 2, 6, 7, 8, 9, 11, 16A, 19, 21, 23, 24,  
22 and 27, Code Supplement 1987, are amended to read as  
23 follows:

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

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

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

46 7. Add to the taxable income of trusts, that  
47 portion of trust income excluded from federal taxable  
48 income under section 641(c) of the Internal Revenue  
49 Code of-1954.

50 8. Married taxpayers who file a joint federal

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

12 9. Subtract the amount of the jobs tax credit  
13 allowable for the tax year under section 51 of the  
14 Internal Revenue Code of-1954 to the extent that the  
15 credit increased federal adjusted gross income.

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

20 16A. ~~Notwithstanding any other provision and~~ Add  
21 the amounts deducted and subtract the amounts included  
22 as income as a result of the treatment provided sale-  
23 leaseback agreements under section 168(f)(8) of the  
24 Internal Revenue Code of-1954 for property placed in  
25 service by the transferee prior to January 1, 1986, to  
26 the extent that the amounts deducted and the amounts  
27 included in income are not otherwise deductible or  
28 included in income under the Internal Revenue Code of  
29 1954 as amended to and including December 31, 1985.  
30 Entitlement to depreciation on any property included  
31 in a sale-leaseback agreement which is placed in  
32 service by the transferee prior to January 1, 1986,  
33 shall be determined under the Internal Revenue Code of  
34 1954 as amended to and including December 31, 1985,  
35 excluding section 168(f)(8) in making the  
36 determination.

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

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

6 23. Add the amount of intangible drilling and  
7 development costs optionally deducted in the year paid  
8 or incurred as described in section 57(a)(2) of the  
9 Internal Revenue Code of 1954. This amount may be  
10 recovered through cost depletion or depreciation, as  
11 appropriate under rules prescribed by the director.

12 24. Add the percentage depletion amount determined  
13 with respect to an oil, gas, or geothermal well as  
14 described in section 57(a)(1) of the Internal Revenue  
15 Code of 1954.

16 27. Add interest and dividends from regulated  
17 investment companies exempt from federal income tax  
18 under the Internal Revenue Code of 1986 and subtract  
19 the loss on the sale or exchange of a share of a  
20 regulated investment company held for six months or  
21 less to the extent the loss was disallowed under  
22 section 852(b)(4)(B) of the Internal Revenue Code of  
23 1986.

24 Sec. 14. Section 422.7, subsection 15, Code  
25 Supplement 1987, is amended by striking the subsection  
26 and inserting in lieu thereof the following:

27 15. Notwithstanding the method for computing the  
28 amount of travel expenses that may be deducted under  
29 section 162(h) of the Internal Revenue Code, for tax  
30 years beginning on or after January 1, 1987, a member  
31 of the general assembly whose place of residence  
32 within the legislative district is greater than fifty  
33 miles from the capitol building of the state may  
34 deduct the total amount per day determined under  
35 section 162(h)(1)(B) of the Internal Revenue Code and  
36 a member of the general assembly whose place of  
37 residence within the legislative district is fifty or  
38 fewer miles from the capitol building of the state may  
39 deduct fifty dollars per day. This subsection does  
40 not apply to a member of the general assembly who  
41 elects to itemize for state tax purposes the member's  
42 travel expenses.

43 Sec. 15. Section 422.7, subsections 5, 10, 12, 13,  
44 14, 16, 17, 20, 22, and 26, Code Supplement 1987, are  
45 amended by striking the subsections.

46 Sec. 16. Section 422.8, subsections 2 and 4, Code  
47 Supplement 1987, are 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

1 carried on within this state or income from any  
2 property, trust, estate, or other source within Iowa.  
3 If any a 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" "j" 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 4. The amount of minimum tax paid to another state  
31 or foreign country by a resident taxpayer of this  
32 state from preference items derived from sources  
33 outside of Iowa shall be allowed as a credit against  
34 the tax computed under this division except that the  
35 credit shall not exceed what the amount of state  
36 alternative minimum tax would have been on the same  
37 preference items which were taxed by the other state  
38 or foreign country. The limitation on this credit  
39 shall be computed according to the following formula:  
40 The total of preference items earned outside of Iowa  
41 and taxed by another state or foreign country shall be  
42 divided by the total of preference items of the  
43 resident taxpayer of Iowa. In computing this  
44 quotient, those items excludable under section 422.5,  
45 subsection 1, paragraph "a" "k", subparagraph (1)  
46 shall not be used in computing the preference items.  
47 This quotient multiplied times the state  
48 alternative minimum tax as determined in section  
49 422.5, subsection 1, paragraph "a" "k" on the total of  
50 preference items as if entirely earned in Iowa shall

1 be the maximum tax credit against the Iowa alternative  
2 minimum tax. However, the maximum tax credit will not  
3 be allowed to the extent that the minimum tax imposed  
4 by the other state or foreign country is less than the  
5 maximum tax credit computed above.

6 Sec. 17. Section 422.9, subsection 1, Code  
7 Supplement 1987, is amended by striking the subsection  
8 and inserting in lieu thereof the following:

9 1. An optional standard deduction, after deduction  
10 of federal income tax, equal to one thousand two  
11 hundred thirty dollars for a married person who files  
12 separately or a single person or equal to three  
13 thousand thirty dollars for a husband and wife who  
14 file a joint return, a surviving spouse, or an  
15 unmarried head of household. The optional standard  
16 deduction shall not exceed the amount remaining after  
17 deduction of the federal income tax.

18 Sec. 18. Section 422.9, subsection 2, unnumbered  
19 paragraph 1, Code Supplement 1987, is amended to read  
20 as follows:

21 The total of contributions, interest, taxes,  
22 medical expense, nonbusiness losses, and miscellaneous  
23 expenses; and moving expenses; deductible for federal  
24 income tax purposes under the Internal Revenue Code of  
25 1954, with the following adjustments:

26 Sec. 19. Section 422.9, subsection 2, paragraph c,  
27 Code Supplement 1987, is amended by striking the  
28 paragraph.

29 Sec. 20. Section 422.9, subsection 3, unnumbered  
30 paragraph 1 and paragraph c, Code Supplement 1987, are  
31 amended to read as follows:

32 If, after applying all of the adjustments provided  
33 for in section 422.7, the allocation provisions of  
34 section 422.8, and the deductions allowable in this  
35 section subject to the modifications provided in  
36 section 172(d) of the Internal Revenue Code of 1954,  
37 the taxable income results in a net operating loss,  
38 the net operating loss shall be deducted as follows:

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

43 Sec. 21. Section 422.9, subsection 6, Code  
44 Supplement 1987, including four paragraphs, is amended  
45 by striking the subsection.

46 Sec. 22. Section 422.10, unnumbered paragraph 1,  
47 Code Supplement 1987, is amended to read as follows:

48 The taxes imposed under this division shall be  
49 reduced by a state tax credit for increasing research  
50 activities in this state. For individuals, the credit

1 ~~shall equal~~ equals six and one-half percent of the  
2 state's apportioned share of the qualifying  
3 expenditures for increasing research activities. The  
4 state's apportioned share of the qualifying  
5 expenditures for increasing research activities is a  
6 percent equal to the ratio of qualified research  
7 expenditures in this state to total qualified research  
8 expenditures. For purposes of this section, an  
9 individual may claim a research credit for qualifying  
10 research expenditures incurred by a partnership,  
11 subchapter S corporation, and estate or trust electing  
12 to have the income taxed directly to the individual.  
13 The amount claimed by the individual shall be based  
14 upon the pro rata share of the individual's earnings  
15 of a partnership, subchapter S corporation, or estate  
16 or trust. For purposes of this section, "qualifying  
17 expenditures for increasing research activities" means  
18 the qualifying expenditures as defined for the federal  
19 credit for increasing research activities which would  
20 be allowable under section 30 41 of the Internal  
21 Revenue Code ~~of 1954 in effect on January 17, 1985, or~~  
22 ~~which would be allowable under section 41 of the~~  
23 ~~Internal Revenue Code of 1986.~~

24 Sec. 23. Section 422.12, subsection 1, paragraph  
25 c, Code Supplement 1987, is amended to read as  
26 follows:

27 c. For each dependent, an additional ten dollars.  
28 As used in this section, the term "dependent" ~~shall~~  
29 ~~have~~ has the same meaning as provided by the Internal  
30 Revenue Code ~~of 1954.~~

31 Sec. 24. Section 422.12, subsection 2, unnumbered  
32 paragraph 1, Code Supplement 1987, is amended to read  
33 as follows:

34 A child and dependent care credit equal to forty-  
35 five percent of the federal child and dependent care  
36 credit provided in section 21 of the Internal Revenue  
37 Code ~~of 1954.~~

38 Sec. 25. Section 422.13, subsection 1, paragraph  
39 a, Code Supplement 1987, is amended to read as  
40 follows:

41 a. The individual is required to file a federal  
42 income tax return under the Internal Revenue Code ~~of~~  
43 ~~1954.~~

44 Sec. 26. Section 422.16, subsection 1, unnumbered  
45 paragraph 1, Code Supplement 1987, is amended to read  
46 as follows:

47 Every withholding agent and every employer as  
48 defined in this chapter and further defined in the  
49 Internal Revenue Code ~~of 1954,~~ with respect to income  
50 tax collected at source, making payment of wages to a

nonresident employee working in Iowa, or to a resident employee, shall deduct and withhold from the wages an amount which will approximate the employee's annual tax liability on a calendar year basis, calculated on the basis of tables to be prepared by the department and schedules or percentage rates, based on the wages, to be prescribed by the department. Every employee or other person shall declare to the employer or withholding agent the number of the employee's or other person's personal exemptions and dependency exemptions or credits to be used in applying the tables and schedules or percentage rates. However, no greater number of personal or dependency exemptions or credits may be declared by the employee or other person than the number to which the employee or other person is entitled except as allowed under section 3402(m)(1) of the Internal Revenue Code of 1954. The claiming of exemptions or credits in excess of entitlement is a serious misdemeanor.

Sec. 27. Section 422.16, subsection 11, paragraphs a and d, Code Supplement 1987, are amended to read as follows:

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

d. Any amount of estimated tax paid is a credit against the amount of tax found payable on a final, completed return, as provided in subsection 9.

1 relating to the credit for the tax withheld against  
2 the tax found payable on a return properly and  
3 correctly prepared under sections 422.5 through  
4 422.25, and any overpayment of one dollar or more  
5 shall be refunded to the taxpayer and the return  
6 constitutes a claim for refund for this purpose.  
7 Amounts less than one dollar shall not be refunded.  
8 The method provided by the Internal Revenue Code of  
9 1954 for determining what is applicable to the  
10 addition to tax for underpayment of the tax payable  
11 applies to persons required to make payments of  
12 estimated tax under this section except the amount to  
13 be added to the tax for underpayment of estimated tax  
14 is an amount determined at the rate in effect under  
15 section 421.7. This addition to tax specified for  
16 underpayment of the tax payable is not subject to  
17 waiver provisions relating to reasonable cause, except  
18 as provided in the Internal Revenue Code of-1954.  
19 Underpayment of estimated tax shall be determined in  
20 the same manner as provided under the Internal Revenue  
21 Code of-1954 and the exceptions in the Internal  
22 Revenue Code of-1954 also apply.

23 Sec. 28. Section 422.20, subsection 2, Code  
24 Supplement 1987, is amended to read as follows:

25 2. It ~~shall-be~~ is unlawful for any an officer,  
26 employee, or agent, or former officer, employee, or  
27 agent of the state to disclose to any person, except  
28 as authorized in subsection 1 of this section, any  
29 federal tax return or return information as defined in  
30 section 6103(b) of the Internal Revenue Code of-1954.  
31 It ~~shall-further-be~~ is unlawful for any a person to  
32 whom any federal tax return or return information, as  
33 defined in section 6103(b) of the Internal Revenue  
34 Code of-1954, is disclosed in a manner unauthorized by  
35 subsection 1 of this section to thereafter print or  
36 publish in any manner not provided by law any such  
37 return or return information. Any A person committing  
38 ~~an-offense-against-the-foregoing~~ violating this  
39 provision shall-be is guilty of a serious misdemeanor.

40 Sec. 29. Section 422.21, unnumbered paragraphs 4,  
41 5, and 6, Code Supplement 1987, are amended to read as  
42 follows:

43 The director shall determine for the ~~1979~~ 1989 and  
44 each subsequent calendar ~~years~~ year the annual and  
45 cumulative inflation factors for ~~those~~ each calendar  
46 ~~years~~ year to be applied to tax years beginning on or  
47 after January 1 of that calendar year. The director  
48 shall compute the new dollar amounts as specified  
49 ~~therein~~ to be adjusted in section 422.5 by the latest  
50 cumulative inflation factor and round off the result

1 to the nearest one dollar. The annual and cumulative  
2 inflation factors determined by the director are not  
3 rules as defined in section 17A.2, subsection 7.

4 The department shall provide on income tax forms or  
5 in the instruction booklets in a manner that will be  
6 noticeable to the taxpayers a statement to the extent  
7 that, even though the taxpayer may not have any  
8 federal or state income tax liability, the taxpayer  
9 may be eligible for the federal earned income tax  
10 credit. The statement shall also contain notice of  
11 where the taxpayer may check on the taxpayer's  
12 eligibility for this credit.

13 ~~The department shall prepare and make available a~~  
14 ~~special return for filing a tax refund claim resulting~~  
15 ~~from the net capital gain deduction authorized in~~  
16 ~~section 422.9, subsection 6. The special returns~~  
17 ~~shall be designed so that the department will be able~~  
18 ~~to compile data that identifies the source and type of~~  
19 ~~the capital gains and losses and the geographical~~  
20 ~~location of the transactions involving the capital~~  
21 ~~gains and losses. By January 15, 1989, the department~~  
22 ~~shall make available to the general assembly the data~~  
23 ~~compiled from the special returns filed during the~~  
24 ~~previous calendar year.~~

25 Sec. 30. Section 422.25, subsection 1, unnumbered  
26 paragraph 1, Code 1987, is amended to read as follows:

27 Within three years after the return is filed or  
28 within three years after the return became due,  
29 including any extensions of time for filing, whichever  
30 time is the later, the department shall examine it and  
31 determine the correct amount of tax, and the amount  
32 determined by the department is the tax. However, if  
33 the taxpayer omits from income an amount which will,  
34 under the Internal Revenue Code of 1954, extend the  
35 statute of limitations for assessment of federal tax  
36 to six years under the federal law, the period for  
37 examination and determination is six years. In  
38 addition to the applicable period of limitation for  
39 examination and determination, the department may make  
40 an examination and determination at any time within  
41 six months from the date of receipt by the department  
42 of written notice from the taxpayer of the final  
43 disposition of any matter between the taxpayer and the  
44 internal revenue service with respect to the  
45 particular tax year. In order to begin the running of  
46 the ~~six-months~~<sup>1</sup> six-month period, the notice shall be  
47 in writing in any form sufficient to inform the  
48 department of the final disposition with respect to  
49 that year, and a copy of the federal document showing  
50 the final disposition or final federal adjustments

1 shall be attached to the notice.

2 Sec. 31. Section 422.32, subsection 1, Code  
3 Supplement 1987, is amended to read as follows:

4 1. The word "corporation" includes joint stock  
5 companies, and associations organized for pecuniary  
6 profit, ~~except limited partnerships organized under~~  
7 chapter-545 and publicly traded partnerships taxed as  
8 corporations under the Internal Revenue Code.

9 Sec. 32. Section 422.32, subsection 11, Code  
10 Supplement 1987, is amended to read as follows:

11 11. "Internal Revenue Code" means the Internal  
12 Revenue Code of 1954, prior to the date of its  
13 redesignation as the Internal Revenue Code of 1986 by  
14 the Tax Reform Act of 1986, or means the Internal  
15 Revenue Code of 1986 as amended to and including  
16 January 1, ~~1987~~ 1988, whichever is applicable.

17 Sec. 33. Section 422.32, subsection 11, Code  
18 Supplement 1987, is amended by striking the  
19 subsection.

20 Sec. 34. Section 422.33, Code Supplement 1987, is  
21 amended by adding the following new subsection:

22 NEW SUBSECTION. 1A. There is imposed upon each  
23 corporation exempt from the general business tax on  
24 corporations by section 422.34, subsections 2 through  
25 6, a tax at the rates in subsection 1 upon the state's  
26 apportioned share computed in accordance with  
27 subsections 2 and 3 of the unrelated business income  
28 computed in accordance with the Internal Revenue Code  
29 and with the adjustments set forth in section 422.35.

30 Sec. 35. Section 422.72, subsection 2, Code  
31 Supplement 1987, is amended to read as follows:

32 2. Federal tax returns, copies of returns, and  
33 return information as defined in section 6103(b) of  
34 the Internal Revenue Code of 1954, which are required  
35 to be filed with the department for the enforcement of  
36 the income tax laws of this state, shall be deemed and  
37 held as confidential by the department and subject to  
38 the disclosure limitations in subsection 1 of this  
39 section.

40 Sec. 36. Section 450.1, unnumbered paragraph 2,  
41 Code 1987, is amended to read as follows:

42 For purposes of this chapter, unless the context  
43 otherwise requires, "personal representative" means an  
44 executor, administrator, or trustee as each is defined  
45 in section 633.3 and "Internal Revenue Code" means the  
46 same as defined in section 422.3.

47 Sec. 37. Section 450.3, subsections 2 and 7, Code  
48 1987, are amended to read as follows:

49 2. By deed, grant, sale, gift or transfer made  
50 within three years of the death of the grantor or

1 donor, which is not a bona fide sale for an adequate  
2 and full consideration in money or money's worth and  
3 which is in excess of the annual gift tax exclusion  
4 allowable for each donee under section 2503,  
5 subsections b and e of the Internal Revenue Code of  
6 1954-as-defined-in-section-422-3. If both spouses  
7 consent, a gift made by one spouse to a person who is  
8 not the other spouse is considered, for the purposes  
9 of this subsection, as made one half by each spouse  
10 under the same terms and conditions provided for in  
11 section 2513 of the Internal Revenue Code of 1954-as  
12 defined-in-section-422-3.

13 7. Which qualifies as a qualified terminable  
14 interest property as defined in section 2056(b)(7)(B)  
15 of the Internal Revenue Code of 1954-as-defined-in  
16 section-422-3, shall, if an election is made, be  
17 treated and considered as passing in fee, or its  
18 equivalent, to the surviving spouse in the estate of  
19 the donor-grantor. Property on which the election is  
20 made shall be included in the gross estate of the  
21 surviving spouse and shall be deemed to have passed in  
22 fee from the surviving spouse to the persons  
23 succeeding to the remainder interest, unless the  
24 property was sold, distributed, or otherwise disposed  
25 of prior to the death of the surviving spouse. A  
26 sale, disposition, or disposal of the property prior  
27 to the death of the surviving spouse shall void the  
28 election, and shall subject the property disposed of,  
29 less amounts received or retained by the surviving  
30 spouse, to tax in the donor-grantor's estate in the  
31 same manner as if the tax had been deferred under  
32 sections 450.44 through 450.49.

33 Sec. 38. Section 450.37, subsection 1, paragraph  
34 b, Code 1987, is amended to read as follows:

35 b. The alternate value of the property, if the  
36 personal representative so elects, that has been  
37 established for federal estate tax purposes under  
38 section 2032 of the Internal Revenue Code of 1954-as  
39 defined-in-section-422-3. The election shall be  
40 exercised on the return by the personal representative  
41 or other person signing the return, within the time  
42 prescribed by law for filing the return or before the  
43 expiration of any extension of time granted for filing  
44 the return.

45 Sec. 39. Section 450A.1, subsection 5, Code  
46 Supplement 1987, is amended to read as follows:

47 5. "Internal Revenue Code" means the same as the  
48 term is defined in section 422-3 422.32.

49 Sec. 40. Section 450B.1, Code 1987, is amended to  
50 read as follows:

1 450B.1 DEFINITIONS.

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

4 1. "Internal Revenue Code of-1954" means the same  
5 as defined in section 422.3.

6 2. "Taxpayer" means a qualified heir liable for  
7 the inheritance tax imposed under chapter 450 on  
8 qualified real property.

9 3. "Qualified real property", "qualified use",  
10 "cessation of qualified use", and "qualified heir"  
11 mean the same as defined in section 2032A of the  
12 Internal Revenue Code of-1954.

13 4. For purposes of subsection 1, the Internal  
14 Revenue Code of-1954 shall be interpreted to include  
15 the provisions of Pub. L. No. 98-4.

16 Sec. 41. Section 450B.2, Code 1987, is amended to  
17 read as follows:

18 450B.2 ALTERNATE ELECTION OF VALUE FOR QUALIFIED  
19 USE.

20 Notwithstanding section 450.37, the value of  
21 qualified real property for the purpose of the tax  
22 imposed under chapter 450 may, at the election of the  
23 taxpayer, be its value for the use under which it  
24 qualifies as prescribed by section 2032A of the  
25 Internal Revenue Code of-1954. A taxpayer may make an  
26 election under this section only if all of the  
27 following conditions are met:

28 1. An election for federal estate tax purposes was  
29 made with regard to the qualified real property under  
30 section 2032A of the Internal Revenue Code of-1954.

31 2. All persons who signed the agreement referred  
32 to in section 2032A(d)(2) of the Internal Revenue Code  
33 of-1954 make the election under this section and sign  
34 an agreement with the department of revenue and  
35 finance consenting to the application of section  
36 450B.3 with respect to the qualified real property.

37 3. The total decrease in the value of the  
38 qualified real property as a result of the election  
39 under this section does not exceed the dollar  
40 limitation specified in section 2032A(a)(2) of the  
41 Internal Revenue Code of-1954.

42 The election under this section shall be made by  
43 the taxpayer in the manner as the director of revenue  
44 and finance may prescribe by rule. The value for the  
45 qualified use under this section shall be the value as  
46 determined and accepted for federal estate tax  
47 purposes.

48 The definitions and special rules specified in  
49 section 2032A(e) of the Internal Revenue Code of-1954  
50 shall apply with respect to qualified real property

1 for which an election was made under this section  
2 except that rules shall be prescribed by the director  
3 of revenue and finance in lieu of the regulations  
4 promulgated by the secretary of treasury.

5 The director shall prescribe regulations setting  
6 forth the application of this chapter in the case of  
7 an interest in a partnership, corporation, or trust  
8 which, with respect to the decedent, is an interest in  
9 a closely held business within the meaning of section  
10 6166(b)(1) of the Internal Revenue Code of-1954. Such  
11 regulations shall conform as nearly as possible with  
12 the regulations promulgated by the United States  
13 secretary of treasury in respect to such interests.

14 Sec. 42. Section 450B.3, Code 1987, is amended to  
15 read as follows:

16 450B.3 ADDITIONAL INHERITANCE TAX APPLICABLE.

17 There is imposed upon the qualified heir an  
18 additional inheritance tax if, within ten years after  
19 the decedent's death and before the death of the  
20 qualified heir, the qualified heir disposes of, other  
21 than to a member of the family, any interest in  
22 qualified real property for which an election under  
23 section 450B.2 was made or ceases to use for the  
24 qualified use the qualified real property for which an  
25 election under section 450B.2 was made as prescribed  
26 in section 2032A(c) of the Internal Revenue Code of  
27 1954. The additional inheritance tax shall be the  
28 amount computed under section 450B.5 and shall be due  
29 six months after the date of the disposition or  
30 cessation of qualified use referred to in this  
31 section. The amount of the additional inheritance tax  
32 shall accrue interest at the rate of ten percent per  
33 year from nine months after the decedent's death to  
34 the due date of the tax. The tax shall be paid to the  
35 department of revenue and finance and shall be  
36 deposited into the general fund of the state. Taxes  
37 not paid within the time prescribed in this section  
38 shall draw interest at the rate of ten percent per  
39 annum until paid. There shall not be an additional  
40 inheritance tax if the disposition or cessation occurs  
41 ten years or more after the decedent's death.

42 Sec. 43. Section 451.1, subsection 8, Code 1987,  
43 is amended to read as follows:

44 8. "Internal Revenue Code of-1954" means the same  
45 as defined in section 422.3.

46 Sec. 44. Section 451.2, unnumbered paragraph 1,  
47 Code 1987, is amended to read as follows:

48 An amount equal to the federal estate tax credit  
49 for state death taxes as allowed in the Internal  
50 Revenue Code of-1954 is hereby imposed upon every

1 transfer of the net estate of every decedent, being a  
2 resident of, or owning property in this state, ~~as~~  
3 ~~herein-provided.~~

4 Sec. 45. Section 451.3, Code 1987, is amended to  
5 read as follows:

6 451.3 GROSS AND NET ESTATE.

7 The gross estate shall be the same as finally  
8 determined for federal estate tax and the net estate  
9 shall be the gross estate less deductions as permitted  
10 by federal law, in arriving at the net taxable federal  
11 estate, all determined as provided in the Internal  
12 Revenue Code ~~of 1954.~~

13 Sec. 46. 1987 Iowa Acts, Second Extraordinary  
14 Session, chapter 1, section 13, is amended to read as  
15 follows:

16 SEC. 13. Section 422.4, subsection 17, section  
17 422.5, subsection 7, section 422.7, subsections 10,  
18 12, 14, ~~15,~~ 22, and 26, section 422.9, subsection 2,  
19 paragraph "e", and section 422.21, unnumbered  
20 paragraph 4, do not apply.

21 Sec. 47. 1987 Iowa Acts, Second Extraordinary  
22 Session, chapter 1, section 16, is amended to read as  
23 follows:

24 SEC. 16. Sections 1 through 10, 13, and 14 of this  
25 Act are retroactive to January 1, 1987 for tax years  
26 beginning in the 1987 calendar year only on or after  
27 that date.

28 Sec. 48. 1987 Iowa Acts, Second Extraordinary  
29 Session, chapter 1, sections 13 and 14, are repealed.

30 Sec. 49. For purposes of tax years beginning in  
31 the 1988 calendar year, references in section 422.9,  
32 subsection 6, unnumbered paragraph 4 and section  
33 422.21, unnumbered paragraph 6, to the year 1987,  
34 1988, or 1989, shall mean the year 1988, 1989, or  
35 1990, respectively.

36 Sec. 50. The Code editor shall renumber sections  
37 422.5, subsection 1A, as section 422.5, subsection 1.  
38 References in the Iowa Code to section 422.5,  
39 subsection 1, shall mean section 422.5, subsection 1A,  
40 as renumbered. The Code editor may renumber other  
41 subsections as a result of this Act.

42 Sec. 51. Sections 3, 8, 10, 14, 31, 32, 46, and 47  
43 of this Act are retroactive to January 1, 1987, for  
44 tax years beginning on or after that date.

45 Sec. 52. Sections 1, 2, 4, 5, 6, 7, 9, 11, 12, 13,  
46 15 through 20, 22 through 28, 30, 33, 34, 35, 48, and  
47 50 of this Act are retroactive to January 1, 1988, for  
48 tax years beginning on or after that date.

5/22 49 Sec. 53. Sections 21 and 29 of this Act are  
50 effective January 1, 1989, for tax years beginning on

S-5070 Page 22

1 after that date.

2 Sec. 54. Sections 36, 37, 38, and 40 through 45 of  
3 this Act are effective January 1, 1988, for estates of  
4 persons dying on or after that date.

5 Sec. 55. Section 39 of this Act is retroactive to  
6 October 22, 1986, for generation skipping transfers  
7 which are eligible for the credit for state taxes  
8 under section 2604 of the Internal Revenue Code and  
9 are made after October 22, 1986, subject to the  
10 special rules of section 1433(b) of Pub. L. No. 99-  
11 514.

12 Sec. 56. Sections 3, 8, 32, 39, and 46 of this Act  
13 are repealed January 1, 1988, for tax years beginning  
14 on or after that date or for estates of persons dying  
15 on or after that date.

16 Sec. 57. This Act, being deemed of immediate  
17 importance, takes effect upon enactment."

18 2. Title page, line 5, by inserting after the  
19 word "applicability," the following: "taxing  
20 unrelated business income of certain nonprofit  
21 organizations, repealing capital gains refund  
22 provisions, striking obsolete provisions,".

S-5070

Filed February 15, 1988

RECEIVED FROM THE HOUSE

SENATE FILE 2074

S-5122

1 Amend the House amendment, S-5070, to Senate File  
2 2074, as amended, passed, and reprinted by the Senate,  
3 as follows:

- 4 1. Page 10, by striking lines 43 through 45.
- 5 2. Page 21, line 49, by striking the words and  
6 figure "Sections 21 and" and inserting the following:  
7 "Section".
- 8 3. Page 21, line 49, by striking the word "are"  
9 and inserting the following: "is".
- 10 4. Page 22, lines 21 and 22, by striking the  
11 words "repealing capital gains refund provisions,".

S-5122

Filed February 22, 1988

BY EMIL J. HUSAK  
RICHARD F. DRAKE  
BERL E. PRIEBE  
CALVIN O. HULTMAN  
JACK NYSTROM  
LEONARD L. BOSWELL  
EUGENE S. FRAISE  
JOHN E. SOORHOLTZ

SENATE AMENDMENT TO HOUSE AMENDMENT TO SENATE FILE 2074  
H-5147

- 1 Amend the House amendment, S-5070, to Senate File
- 2 2074, as amended, passed, and reprinted by the Senate,
- 3 as follows:
- 4 1. Page 12, by striking lines 43 through 45.
- 5 2. Page 21, line 49, by striking the words and
- 6 figure "Sections 21 and" and inserting the following:
- 7 "Section".
- 8 3. Page 21, line 49, by striking the word "are"
- 9 and inserting the following: "is".
- 10 4. Page 22, lines 21 and 22, by striking the
- 11 words "repealing capital gains refund provisions,".

H-5147 FILED FEBRUARY 23 1988 RECEIVED FROM THE SENATE

*House concurred 3/24 (7 1057)*

WAYS AND MEANS: Bruner, Chair; Drake and Murphy

SENATE FILE 2074  
BY (PROPOSED COMMITTEE ON  
WAYS AND MEANS BILL)

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

A BILL FOR

1 An Act relating to the extension of the applicability of House  
2 File 689, enacted during the Second Extraordinary Session of  
3 the Seventy-second General Assembly during 1987, updating  
4 references to the Internal Revenue Code, providing for  
5 retroactive applicability, and providing an effective date.  
6 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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1 Section 1. Section 422.4, subsections 19 and 20, Code  
2 Supplement 1987, are amended to read as follows:

3 19. The definition of the Internal Revenue Code of 1954 in  
4 section 422.3, subsection 5, shall be interpreted to include  
5 provisions of the Tax Reform Act of 1986, Pub. L. No. 99-514  
6 which amended the Internal Revenue Code of 1954, and the  
7 Revenue Act of 1987, Pub. L. No. 100-203, unless the context  
8 otherwise requires.

9 20. "Internal Revenue Code of 1986" means the Internal  
10 Revenue Code of 1954 as amended by the Tax Reform Act of 1986,  
11 Pub. L. No. 99-514 and the Revenue Act of 1987, Pub. L. No.  
12 100-203.

13 Sec. 2. 1987 Iowa Acts, Second Extraordinary Session,  
14 chapter 1, section 16, is amended to read as follows:

15 SEC. 16. Sections 1 through 10, 13, and 14 of this Act are  
16 retroactive to January 1, 1987 for tax years beginning ~~in the~~  
17 1987-calendar-year-only on or after that date.

18 Sec. 3. For purposes of tax years beginning in the 1988  
19 calendar year, references in section 422.9, subsection 6,  
20 unnumbered paragraph 4 and section 422.21, unnumbered  
21 paragraph 6, to the year 1987, 1988, or 1989, shall mean the  
22 year 1988, 1989, or 1990, respectively.

23 Sec. 4. Sections 1 and 2 of this Act are retroactive to  
24 January 1, 1988, for tax years beginning on or after that  
25 date.

26 Sec. 5. This Act, being deemed of immediate importance,  
27 takes effect upon enactment.

28 EXPLANATION

29 The bill makes permanent and updates to later federal  
30 changes those provisions of H.F. 689 enacted during the Second  
31 Extraordinary Session that conform state individual income tax  
32 to the new federal tax provisions; reduce the tax schedule  
33 from thirteen brackets to nine brackets, the lowest rate from  
34 .5 percent to .4 percent, and the highest rate from 13 percent  
35 to 9.98 percent; increase the standard deduction for all

1 filers by \$30 and eliminate the 15 percent, of net income  
2 after federal tax deduction, limit on the standard deduction;  
3 increase from \$5,000 to \$7,500 the amount of net income below  
4 which no tax is owing for all filers except single persons and  
5 provide a phase-in of the regular tax for those who have net  
6 income over \$7,500; clarify the taxation of interest and  
7 dividends from regulated investment companies exempt from  
8 federal tax and the loss from the sale or exchange of shares  
9 of such companies; provide for taxpayers to receive the  
10 benefit of the repealed 60 percent capital gains deduction by  
11 allowing for the filing of refund claims by taxpayers based  
12 upon the difference in the amount of tax paid determined  
13 without the capital gains deduction and the amount that would  
14 have been paid if the deduction, not to exceed \$10,500, was  
15 allowed; and limit the total amount of refund claims paid for  
16 the capital gains deduction to \$8,000,000 with each claim  
17 receiving a pro rata amount if the total claims exceed that  
18 amount. The bill is effective upon enactment and applies to  
19 the tax years beginning on or after January 1, 1988.

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SENATE FILE 2074

AN ACT

RELATING TO THE EXTENSION OF THE APPLICABILITY OF HOUSE FILE 689, ENACTED DURING THE SECOND EXTRAORDINARY SESSION OF THE SEVENTY-SECOND GENERAL ASSEMBLY DURING 1987, UPDATING REFERENCES TO THE INTERNAL REVENUE CODE, PROVIDING FOR RETROACTIVE APPLICABILITY, TAXING UNRELATED BUSINESS INCOME OF CERTAIN NONPROFIT ORGANIZATIONS, STRIKING OBSOLETE PROVISIONS, AND PROVIDING AN EFFECTIVE DATE.

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

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

5. "Internal Revenue Code" means the Internal Revenue Code of 1954, prior to the date of its redesignation as the Internal Revenue Code of 1986 by the Tax Reform Act of 1986, or means the Internal Revenue Code of 1986 as amended to and including January 1, 1988, whichever is applicable.

Sec. 2. Section 422.4, subsections 1, 4, 10, 11, 14, 17, and 18, Code Supplement 1987, are amended to read as follows:

1. The words "taxable income" mean the net income as defined in section 422.7 minus the deductions allowed by

section 422.9, in the case of individuals; in the case of estates or trusts, the words "taxable income" mean the taxable income (without a deduction for personal exemption) as computed for federal income tax purposes under the Internal Revenue Code of-1954, but with the adjustments specified in section 422.7 plus the Iowa income tax deducted in computing said the federal taxable income and minus federal income taxes as provided in section 422.9.

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

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

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

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

10. The word "individual" means a natural person; and where if an individual is permitted to file as a corporation, under the provisions of the Internal Revenue Code of-1954, such that fictional status shall is not be recognized for purposes of this chapter, and such the individual's taxable income shall be computed as required under the provisions of the Internal Revenue Code of-1954 relating to individuals not filing as a corporation, with the adjustments allowed by this chapter.

13. The term words "head of household" shall have has the same meaning as provided by the Internal Revenue Code of 1954.

14. The term word "wages" shall have has the same meaning as provided by the Internal Revenue Code of 1954.

17. a. "Annual inflation factor" means ~~an index, expressed as a percentage, determined by the department each year to reflect the purchasing power of the dollar as a result of inflation during the preceding calendar year; for the 1981 and subsequent calendar years, "annual inflation factor" means~~ an index, expressed as a percentage, determined by the department by October 15 of the calendar year preceding the calendar year for which the factor is determined, to reflect which reflects the purchasing power of the dollar as a result of inflation during the fiscal year ending in the calendar year preceding the calendar year for which the factor is determined. In determining the annual inflation factor, the department shall use the annual percent change, but not less than zero percent, in the implicit price deflator for the gross national product computed for the whole calendar year or for the second quarter of the calendar year in the case of the annual inflation factor for the 1981 and subsequent calendar years, by the bureau of economic analysis of the United States department of commerce and shall add two-fourths for the 1980 and subsequent calendar years one-half of that percent change to one hundred percent. ~~The annual inflation factor for the 1979 calendar year is one hundred two point three percent.~~ The annual inflation factor and the cumulative inflation factor shall each be expressed as a percentage rounded to the nearest one-tenth of one percent. The annual inflation factor shall not be less than one hundred percent.

b. "Cumulative inflation factor" means the product of the annual inflation factor for the 1978 1980 calendar year and all annual inflation factors for subsequent calendar years as determined pursuant to this subsection. The cumulative inflation factor applies to all tax years beginning on or

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

c. The annual inflation factor for the 1978 1988 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.~~

d. Notwithstanding the computation of the annual inflation factor under paragraph "a" of this subsection, the annual inflation factor is one hundred percent for any calendar year in which the unobligated state general fund balance on June 30 ~~as certified by the director of revenue and finance by September 10 of the fiscal year beginning in that calendar year is less than sixty million dollars; however, for the 1981 and subsequent calendar years, the annual inflation factor is one hundred percent for any calendar year if the unobligated state general fund balance on June 30 of the calendar year preceding the calendar year for which the factor is determined, as certified by the director of revenue and finance by October 10, is less than sixty million dollars.~~

~~18. For purposes of section 422.3, subsection 5, the Internal Revenue Code of 1954 shall be interpreted to include the provisions of Pub. L. No. 98-4.~~

Sec. 3. Section 422.4, subsections 19 and 20, Code Supplement 1987, are amended to read as follows:

19. The definition of the Internal Revenue Code of 1954 in section 422.3, subsection 5, shall be interpreted to include provisions of the Tax Reform Act of 1986, Pub. L. No. 99-514 which amended the Internal Revenue Code of 1954, and the Revenue Act of 1987, Pub. L. No. 100-203, unless the context otherwise requires.

20. "Internal Revenue Code of 1986" means the Internal Revenue Code of 1954 as amended by the Tax Reform Act of 1986, Pub. L. No. 99-514 and the Revenue Act of 1987, Pub. L. No. 100-203.

Sec. 4. Section 422.4, subsections 19 and 20, Code Supplement 1987, are amended by striking the subsections.

Sec. 5. Section 422.5, subsection 1, Code Supplement 1987, is amended by striking the subsection.

Sec. 6. Section 422.5, subsection 1A, unnumbered paragraph 1, Code Supplement 1987, is amended to read as follows:

~~In lieu of subsection 1, a~~ A tax is imposed upon every resident and nonresident of the state which tax shall be levied, collected, and paid annually upon and with respect to the entire taxable income as defined in this division at rates as follows:

Sec. 7. Section 422.5, subsection 1A, paragraph k, subparagraph (1), Code Supplement 1987, is amended to read as follows:

(1) Add items of tax preference included in federal alternative minimum taxable income under section 57, except subsections (a)(1), (a)(2), and (a)(5), of the Internal Revenue Code of-1986, make the adjustments included in federal alternative minimum taxable income under section 56, except subsections (a)(4), (b)(1)(C)(iii), and (d), of the Internal Revenue Code of-1986, and add losses as required by section 58 of the Internal Revenue Code of-1986. In the case of an estate or trust, the items of tax preference, adjustments, and losses shall be apportioned between the estate or trust and the beneficiaries in accordance with rules prescribed by the director.

Sec. 8. Section 422.5, subsection 2, unnumbered paragraph 2, Code Supplement 1987, is amended to read as follows:

However, for married persons filing jointly or filing separately on a combined return, unmarried heads of household, and surviving spouses, references in this subsection and subsections 6 and 10 to five thousand dollars shall be interpreted to mean seven thousand five hundred dollars. In addition, if the married persons', filing jointly or filing separately on a combined return, unmarried head of

household's, or surviving spouse's net income exceeds seven thousand five hundred dollars, the regular tax imposed under this division shall be the lesser of the maximum state individual income tax rate times the portion of the net income in excess of seven thousand five hundred dollars or the regular tax liability computed without regard to this sentence. Taxpayers electing to file separately shall compute the alternate tax described in this paragraph using the total net income of the husband and wife. However, the alternate tax described in this paragraph does not apply if one spouse elects to carry back or carry forward the loss as provided in section 422.9, subsection 1.

Sec. 9. Section 422.5, subsection 2, Code Supplement 1987, is amended by striking the subsection and inserting in lieu thereof the following:

2. However, the tax shall not be imposed on a resident or nonresident whose net income, as defined in section 422.7, is seven thousand five hundred dollars or less in the case of married persons filing jointly or filing separately on a combined return, unmarried heads of household, and surviving spouses or five thousand dollars or less in the case of all other persons; but in the event that the payment of tax under this division would reduce the net income to less than seven thousand five hundred dollars or five thousand dollars as applicable, then the tax shall be reduced to that amount which would result in allowing the taxpayer to retain a net income of seven thousand five hundred dollars or five thousand dollars as applicable. The preceding sentence does not apply to estates or trusts. For the purpose of this subsection, the entire net income, including any part of the net income not allocated to Iowa, shall be taken into account. For purposes of this subsection, net income includes all amounts of pensions or other retirement income received from any source which is not taxable under this division as a result of any other state law. If the combined net income of a husband and

wife exceeds seven thousand five hundred dollars, neither of them shall receive the benefit of this subsection, and it is immaterial whether they file a joint return or separate returns. However, if a husband and wife file separate returns and have a combined net income of seven thousand five hundred dollars or less, neither spouse shall receive the benefit of this paragraph, if one spouse has a net operating loss and elects to carry back or carry forward the loss as provided in section 422.9, subsection 3. A person who is claimed as a dependent by another person as defined in section 422.12 shall not receive the benefit of this subsection if the person claiming the dependent has net income exceeding seven thousand five hundred dollars or five thousand dollars as applicable or the person claiming the dependent and the person's spouse have combined net income exceeding seven thousand five hundred dollars or five thousand dollars as applicable.

In addition, if the married persons', filing jointly or filing separately on a combined return, unmarried head of household's, or surviving spouse's net income exceeds seven thousand five hundred dollars, the regular tax imposed under this division shall be the lesser of the maximum state individual income tax rate times the portion of the net income in excess of seven thousand five hundred dollars or the regular tax liability computed without regard to this sentence. Taxpayers electing to file separately shall compute the alternate tax described in this paragraph using the total net income of the husband and wife. The alternate tax described in this paragraph does not apply if one spouse elects to carry back or carry forward the loss as provided in section 422.9, subsection 3.

Sec. 10. Section 422.5, subsection 6, Code Supplement 1987, is amended to read as follows:

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

qualified for the exemption under this paragraph for this tax year and receives one or more annuities from the United States civil service retirement and disability trust fund, and whose net income, as defined in section 422.7, is sufficient to require that the tax be imposed upon it under this section, may determine final taxable income for purposes of imposition of the tax by excluding the amount of annuities received from the United States civil service retirement and disability trust fund, which are not already excluded in determining net income, as defined in section 422.7, up to a maximum each tax year of five thousand five hundred six hundred twenty-seven dollars for a person who files a separate state income tax return and eight thousand one hundred eighty-four dollars total for a husband and wife who file a joint state income tax return. However, a surviving spouse who is not disabled or sixty-two years of age or older can only exclude the amount of annuities received as a result of the death of the other spouse. The amount of the exemption shall be reduced by the amount of any social security benefits received. For the purpose of this section, the amount of annuities received from the United States civil service retirement and disability trust fund taxable under the Internal Revenue Code of 1954 shall be included in net income for purposes of determining eligibility under the five thousand dollar or less exclusion.

Sec. 11. Section 422.5, subsections 6, 7, 8, and 10, Code Supplement 1987, are amended to read as follows:

6. A person who is disabled, is sixty-two years of age or older or is the surviving spouse of an individual or survivor having an insurable interest in an individual who would have qualified for the exemption under this paragraph for this tax year and receives one or more annuities from the United States civil service retirement and disability trust fund, and whose net income, as defined in section 422.7, is sufficient to require that the tax be imposed upon it under this section, may determine final taxable income for purposes of imposition

of the tax by excluding the amount of annuities received from the United States civil service retirement and disability trust fund, which are not already excluded in determining net income, as defined in section 422.7, up to a maximum each tax year of five thousand five-hundred six hundred twenty-seven dollars for a person who files a separate state income tax return and eight thousand one hundred eighty-four dollars total for a husband and wife who file a joint state income tax return. However, a surviving spouse who is not disabled or sixty-two years of age or older can only exclude the amount of annuities received as a result of the death of the other spouse. The amount of the exemption shall be reduced by the amount of any social security benefits received. For the purpose of this section, the amount of annuities received from the United States civil service retirement and disability trust fund taxable under the Internal Revenue Code of-1954 shall be included in net income for purposes of determining eligibility under the seven thousand five hundred dollar or less or five thousand dollar or less exclusion, as applicable.

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

8. ~~Income of an individual which is excluded from gross income under the Internal Revenue Code of-1954 as a result of the provisions of the Hostage Relief Act of-1980, 94-Stat-1967, shall not be included as income in computing the tax imposed by this section.~~

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

Sec. 12. Section 422.6, unnumbered paragraph 2, Code 1987, is amended to read as follows:

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

Sec. 13. Section 422.7, unnumbered paragraph 1 and subsections 2, 6, 7, 8, 9, 11, 16A, 19, 21, 23, 24, and 27, Code Supplement 1987, are amended to read as follows:

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

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.

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

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

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

9. 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 adjusted gross income.

11. 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 adjusted gross income.

16A. Notwithstanding-any-other-provision-add Add the amounts deducted and subtract the amounts included as income

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

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

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

23. Add the amount of intangible drilling and development costs optionally deducted in the year paid or incurred as described in section 57(a)(2) of the Internal Revenue Code of 1954. This amount may be recovered through cost depletion or depreciation, as appropriate under rules prescribed by the director.

24. Add the percentage depletion amount determined with respect to an oil, gas, or geothermal well as described in section 57(a)(1) of the Internal Revenue Code of 1954.

27. Add interest and dividends from regulated investment companies exempt from federal income tax under the Internal Revenue Code of 1986 and 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 of 1986.

Sec. 14. Section 422.7, subsection 15, Code Supplement 1987, is amended by striking the subsection and inserting in lieu thereof the following:

15. Notwithstanding the method for computing the amount of travel expenses that may be deducted under section 162(h) of the Internal Revenue Code, for tax years beginning on or after January 1, 1987, a member of the general assembly whose place of residence within the legislative district is greater than fifty miles from the capitol building of the state may deduct the total amount per day determined under section 162(h)(1)(B) of the Internal Revenue Code and a member of the general assembly whose place of residence within the legislative district is fifty or fewer miles from the capitol building of the state may deduct fifty dollars per day. This subsection does not apply to a member of the general assembly who elects to itemize for state tax purposes the member's travel expenses.

Sec. 15. Section 422.7, subsections 5, 10, 12, 13, 14, 16, 17, 20, 22, and 26, Code Supplement 1987, are amended by striking the subsections.

Sec. 16. Section 422.8, subsections 2 and 4, Code 1987, are amended to read as follows:

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

within Iowa. If any a business, trade, profession, or occupation is carried on partly within and partly without the state, only the portion of the net income which is fairly and equitably attributable to that part of the business, trade, profession, or occupation carried on within the state is allocated to Iowa for purposes of section 422.5, subsection 1, paragraph "a" [ ] and section 422.13 and income from any property, trust, estate, or other source partly within and partly without the state is allocated to Iowa in the same manner, except that annuities, interest on bank deposits and interest-bearing obligations, and dividends are allocated to Iowa only to the extent to which they are derived from a business, trade, profession, or occupation carried on within the state. However, income received by an individual who is a resident of another state is not allocated to Iowa if the income is subject to an income tax imposed by the state where the individual resides, and if the state of residence allows a similar exclusion for income received in that state by residents of Iowa. In order to implement the exclusions, the director shall designate by rule the states which allow a similar exclusion for income received by residents of Iowa, and may enter into agreements with other states to provide that similar exclusions will be allowed, and to provide suitable withholding requirements in each state.

4. The amount of minimum tax paid to another state or foreign country by a resident taxpayer of this state from preference items derived from sources outside of Iowa shall be allowed as a credit against the tax computed under this division except that the credit shall not exceed what the amount of state alternative minimum tax would have been on the same preference items which were taxed by the other state or foreign country. The limitation on this credit shall be computed according to the following formula: The total of preference items earned outside of Iowa and taxed by another state or foreign country shall be divided by the total of

preference items of the resident taxpayer of Iowa. In computing this quotient, those items excludable under section 422.5, subsection 1, paragraph "o" "k", subparagraph (1) shall not be used in computing the preference items. This quotient multiplied times the net state alternative minimum tax as determined in section 422.5, subsection 1, paragraph "o" "k" on the total of preference items as if entirely earned in Iowa shall be the maximum tax credit against the Iowa alternative minimum tax. However, the maximum tax credit will not be allowed to the extent that the minimum tax imposed by the other state or foreign country is less than the maximum tax credit computed above.

Sec. 17. Section 422.9, subsection 1, Code Supplement 1987, is amended by striking the subsection and inserting in lieu thereof the following:

1. An optional standard deduction, after deduction of federal income tax, equal to one thousand two hundred thirty dollars for a married person who files separately or a single person or equal to three thousand thirty dollars for a husband and wife who file a joint return, a surviving spouse, or an unmarried head of household. The optional standard deduction shall not exceed the amount remaining after deduction of the federal income tax.

Sec. 18. Section 422.9, subsection 2, unnumbered paragraph 1, Code Supplement 1987, is amended to read as follows:

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

Sec. 19. Section 422.9, subsection 2, paragraph e, Code Supplement 1987, is amended by striking the paragraph.

Sec. 20. Section 422.9, subsection 3, unnumbered paragraph 1 and paragraph c, Code Supplement 1987, are amended to read as follows:

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

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.

Sec. 21. Section 422.10, unnumbered paragraph 1, Code Supplement 1987, is amended to read as follows:

The taxes imposed under this division shall be reduced by a state tax credit for increasing research activities in this state. For individuals, the credit shall equal ~~equal~~ 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 total qualified research expenditures. For purposes of this section, an individual may claim a research credit for qualifying research expenditures incurred by a partnership, subchapter S corporation, and estate or trust electing to have the income taxed directly to the individual. The amount claimed by the individual shall be based upon the pro rata share of the individual's earnings of a partnership, subchapter S corporation, or estate or trust. For purposes of this section, "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; or which would be allowable under section 41 of the Internal Revenue Code of 1986.

Sec. 22. Section 422.12, subsection 1, paragraph c, Code Supplement 1987, is amended to read as follows:

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

Sec. 23. Section 422.12, subsection 2, unnumbered paragraph 1, Code Supplement 1987, is amended to read as follows:

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

Sec. 24. Section 422.13, subsection 1, paragraph a, Code Supplement 1987, is amended to read as follows:

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

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

Every withholding agent and every employer as defined in this chapter and further defined in the Internal Revenue Code of-1954, with respect to income tax collected at source, making payment of wages to a nonresident employee working in Iowa, or to a resident employee, shall deduct and withhold from the wages an amount which will approximate the employee's annual tax liability on a calendar year basis, calculated on the basis of tables to be prepared by the department and schedules or percentage rates, based on the wages, to be prescribed by the department. Every employee or other person shall declare to the employer or withholding agent the number of the employee's or other person's personal exemptions and dependency exemptions or credits to be used in applying the tables and schedules or percentage rates. However, no greater number of personal or dependency exemptions or credits may be declared by the employee or other person than the number to which the employee or other person is entitled except as

allowed under section 3402(m)(1) of the Internal Revenue Code of-1954. The claiming of exemptions or credits in excess of entitlement is a serious misdemeanor.

Sec. 26. Section 422.16, subsection 11, paragraphs a and d, Code Supplement 1987, are amended to read as follows:

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

d. Any amount of estimated tax paid is a credit against the amount of tax found payable on a final, completed return, as provided in subsection 9, relating to the credit for the tax withheld against the tax found payable on a return properly and correctly prepared under sections 422.5 through 422.25, and any overpayment of one dollar or more shall be refunded to the taxpayer and the return constitutes a claim for refund for this purpose. Amounts less than one dollar

shall not be refunded. The method provided by the Internal Revenue Code of-1954 for determining what is applicable to the addition to tax for underpayment of the tax payable applies to persons required to make payments of estimated tax under this section except the amount to be added to the tax for underpayment of estimated tax is an amount determined at the rate in effect under section 421.7. This addition to tax specified for underpayment of the tax payable is not subject to waiver provisions relating to reasonable cause, except as provided in the Internal Revenue Code of-1954. Underpayment of estimated tax shall be determined in the same manner as provided under the Internal Revenue Code of-1954 and the exceptions in the Internal Revenue Code of-1954 also apply.

Sec. 27. Section 422.20, subsection 2, Code Supplement 1987, is amended to read as follows:

2. It shall be is unlawful for any an officer, employee, or agent, or former officer, employee, or agent of the state to disclose to any person, except as authorized in subsection 1 of this section, any federal tax return or return information as defined in section 6103(b) of the Internal Revenue Code of-1954. It shall further be is unlawful for any a person to whom any federal tax return or return information, as defined in section 6103(b) of the Internal Revenue Code of 1954, is disclosed in a manner unauthorized by subsection 1 of this section to thereafter print or publish in any manner not provided by law any such return or return information. Any A person committing an offense against the foregoing violating this provision shall be is guilty of a serious misdemeanor.

Sec. 28. Section 422.21, unnumbered paragraphs 4, 5, and 6, Code Supplement 1987, are amended to read as follows:

The director shall determine for the 1979 1989 and each subsequent calendar years year the annual and cumulative inflation factors for those each calendar years year to be applied to tax years beginning on or after January 1 of that calendar year. The director shall compute the new dollar

amounts as specified therein to be adjusted in section 422.5 by the latest cumulative inflation factor and round off the result to the nearest one dollar. The annual and cumulative inflation factors determined by the director are not rules as defined in section 17A.2, subsection 7.

The department shall provide on income tax forms or in the instruction booklets in a manner that will be noticeable to the taxpayers a statement to-the-extent that, even though the taxpayer may not have any federal or state income tax liability, the taxpayer may be eligible for the federal earned income tax credit. The statement shall also contain notice of where the taxpayer may check on the taxpayer's eligibility for this credit.

~~The department shall prepare and make available a special return for filing a tax refund claim resulting from the net capital gain deduction authorized in section 422.97, subsection 6:--The special returns shall be designed so that the department will be able to compile data that identifies the source and type of the capital gains and losses and the geographical location of the transactions involving the capital gains and losses:--By January 15, 1989, the department shall make available to the general assembly the data compiled from the special returns filed during the previous calendar year.~~

Sec. 29. Section 422.25, subsection 1, unnumbered paragraph 1, Code 1987, is amended to read as follows:

Within three years after the return is filed or within three years after the return became due, including any extensions of time for filing, whichever time is the later, the department shall examine it and determine the correct amount of tax, and the amount determined by the department is the tax. However, if the taxpayer omits from income an amount which will, under the Internal Revenue Code of-1954, extend the statute of limitations for assessment of federal tax to six years under the federal law, the period for examination

and determination is six years. In addition to the applicable period of limitation for examination and determination, the department may make an examination and determination at any time within six months from the date of receipt by the department of written notice from the taxpayer of the final disposition of any matter between the taxpayer and the internal revenue service with respect to the particular tax year. In order to begin the running of the ~~six-months~~ six-month period, the notice shall be in writing in any form sufficient to inform the department of the final disposition with respect to that year, and a copy of the federal document showing the final disposition or final federal adjustments shall be attached to the notice.

Sec. 10. Section 422.32, subsection 1, Code Supplement 1987, is amended to read as follows:

1. The word "corporation" includes joint stock companies, and associations organized for pecuniary profit, except ~~limited-partnerships-organized-under-chapter-545 and publicly traded partnerships taxed as corporations under the Internal Revenue Code.~~

Sec. 11. Section 422.32, subsection 11, Code Supplement 1987, is amended to read as follows:

11. "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 ~~1988~~, whichever is applicable.

Sec. 12. Section 422.32, subsection 11, Code Supplement 1987, is amended by striking the subsection.

Sec. 13. Section 422.33, Code Supplement 1987, is amended by adding the following new subsection:

NEW SUBSECTION. 1A. There is imposed upon each corporation exempt from the general business tax on corporations by section 422.34, subsections 2 through 6, a tax at the rates in subsection 1 upon the state's apportioned

share computed in accordance with subsections 2 and 3 of the unrelated business income computed in accordance with the Internal Revenue Code and with the adjustments set forth in section 422.35.

Sec. 34. Section 422.72, subsection 2, Code Supplement 1987, is amended to read as follows:

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

Sec. 35. Section 450.1, unnumbered paragraph 2, Code 1987, is amended to read as follows:

For purposes of this chapter, unless the context otherwise requires, "personal representative" means an executor, administrator, or trustee as each is defined in section 633.1 and "Internal Revenue Code" means the same as defined in section 422.3.

Sec. 36. Section 450.3, subsections 2 and 7, Code 1987, are amended to read as follows:

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

7. Which qualifies as a qualified terminable interest property as defined in section 2056(b)(7)(B) of the Internal Revenue Code of-1954-as-defined-in-section-422:3, shall, if an election is made, be treated and considered as passing in fee, or its equivalent, to the surviving spouse in the estate of the donor-grantor. Property on which the election is made shall be included in the gross estate of the surviving spouse and shall be deemed to have passed in fee from the surviving spouse to the persons succeeding to the remainder interest, unless the property was sold, distributed, or otherwise disposed of prior to the death of the surviving spouse. A sale, disposition, or disposal of the property prior to the death of the surviving spouse shall void the election, and shall subject the property disposed of, less amounts received or retained by the surviving spouse, to tax in the donor-grantor's estate in the same manner as if the tax had been deferred under sections 450.44 through 450.49.

Sec. 37. Section 450.37, subsection 1, paragraph b, Code 1987, is amended to read as follows:

b. The alternate value of the property, if the personal representative so elects, that has been established for federal estate tax purposes under section 2032 of the Internal Revenue Code of-1954-as-defined-in-section-422:3. The election shall be exercised on the return by the personal representative or other person signing the return, within the time prescribed by law for filing the return or before the expiration of any extension of time granted for filing the return.

Sec. 38. Section 450A.1, subsection 5, Code Supplement 1987, is amended to read as follows:

5. "Internal Revenue Code" means the same as the term is defined in section 422:3 422.32.

Sec. 39. Section 450B.1, Code 1987, is amended to read as follows:

450B.1 DEFINITIONS.

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

1. "Internal Revenue Code of-1954" means the same as defined in section 422.3.

2. "Taxpayer" means a qualified heir liable for the inheritance tax imposed under chapter 450 on qualified real property.

3. "Qualified real property", "qualified use", "cessation of qualified use", and "qualified heir" mean the same as defined in section 2032A of the Internal Revenue Code of-1954.

4. For purposes of subsection 1, the Internal Revenue Code of-1954 shall be interpreted to include the provisions of Pub. L. No. 98-4.

Sec. 40. Section 450B.2, Code 1987, is amended to read as follows:

450B.2 ALTERNATE ELECTION OF VALUE FOR QUALIFIED USE.

Notwithstanding section 450.37, the value of qualified real property for the purpose of the tax imposed under chapter 450 may, at the election of the taxpayer, be its value for the use under which it qualifies as prescribed by section 2032A of the Internal Revenue Code of-1954. A taxpayer may make an election under this section only if all of the following conditions are met:

1. An election for federal estate tax purposes was made with regard to the qualified real property under section 2032A of the Internal Revenue Code of-1954.

2. All persons who signed the agreement referred to in section 2032A(d)(2) of the Internal Revenue Code of-1954 make the election under this section and sign an agreement with the department of revenue and finance consenting to the application of section 450B.3 with respect to the qualified real property.

3. The total decrease in the value of the qualified real property as a result of the election under this section does not exceed the dollar limitation specified in section 2032A(a)(2) of the Internal Revenue Code of-1954.

The election under this section shall be made by the taxpayer in the manner as the director of revenue and finance may prescribe by rule. The value for the qualified use under this section shall be the value as determined and accepted for federal estate tax purposes.

The definitions and special rules specified in section 2032A(e) of the Internal Revenue Code of-1954 shall apply with respect to qualified real property for which an election was made under this section except that rules shall be prescribed by the director of revenue and finance in lieu of the regulations promulgated by the secretary of treasury.

The director shall prescribe regulations setting forth the application of this chapter in the case of an interest in a partnership, corporation, or trust which, with respect to the decedent, is an interest in a closely held business within the meaning of section 6166(b)(1) of the Internal Revenue Code of 1954. Such regulations shall conform as nearly as possible with the regulations promulgated by the United States secretary of treasury in respect to such interests.

Sec. 41. Section 450B.3, Code 1987, is amended to read as follows:

**450B.3 ADDITIONAL INHERITANCE TAX APPLICABLE.**

There is imposed upon the qualified heir an additional inheritance tax if, within ten years after the decedent's death and before the death of the qualified heir, the qualified heir disposes of, other than to a member of the family, any interest in qualified real property for which an election under section 450B.2 was made or ceases to use for the qualified use the qualified real property for which an election under section 450B.2 was made as prescribed in section 2032A(c) of the Internal Revenue Code of-1954. The additional inheritance tax shall be the amount computed under section 450B.5 and shall be due six months after the date of the disposition or cessation of qualified use referred to in this section. The amount of the additional inheritance tax

shall accrue interest at the rate of ten percent per year from nine months after the decedent's death to the due date of the tax. The tax shall be paid to the department of revenue and finance and shall be deposited into the general fund of the state. Taxes not paid within the time prescribed in this section shall draw interest at the rate of ten percent per annum until paid. There shall not be an additional inheritance tax if the disposition or cessation occurs ten years or more after the decedent's death.

Sec. 42. Section 451.1, subsection 8, Code 1987, is amended to read as follows:

8. "Internal Revenue Code of-1954" means the same as defined in section 422.3.

Sec. 43. Section 451.2, unnumbered paragraph 1, Code 1987, is amended to read as follows:

An amount equal to the federal estate tax credit for state death taxes as allowed in the Internal Revenue Code of-1954 is hereby imposed upon every transfer of the net estate of every decedent, being a resident of, or owning property in this state; as herein provided.

Sec. 44. Section 451.3, Code 1987, is amended to read as follows:

**451.3 GROSS AND NET ESTATE.**

The gross estate shall be the same as finally determined for federal estate tax and the net estate shall be the gross estate less deductions as permitted by federal law, in arriving at the net taxable federal estate, all determined as provided in the Internal Revenue Code of-1954.

Sec. 45. 1987 Iowa Acts, Second Extraordinary Session, chapter 1, section 13, is amended to read as follows:

SEC. 13. Section 422.4, subsection 17, section 422.5, subsection 7, section 422.7, subsections 10, 12, 14, 15, 22, and 26, section 422.9, subsection 2, paragraph "c", and section 422.21, unnumbered paragraph 4, do not apply.

Sec. 46. 1987 Iowa Acts, Second Extraordinary Session, chapter 1, section 16, is amended to read as follows:

SEC. 16. Sections 1 through 10, 13, and 14 of this Act are retroactive to January 1, 1987 for tax years beginning in the 1987-calendar-year-only on or after that date.

Sec. 47. 1987 Iowa Acts, Second Extraordinary Session, chapter 1, sections 13 and 14, are repealed.

Sec. 48. For purposes of tax years beginning in the 1988 calendar year, references in section 422.9, subsection 6, unnumbered paragraph 4 and section 422.21, unnumbered paragraph 6, to the year 1987, 1988, or 1989, shall mean the year 1988, 1989, or 1990, respectively.

Sec. 49. The Code editor shall renumber section 422.5, subsection 1A, as section 422.5, subsection 1. References in the Iowa Code to section 422.5, subsection 1, shall mean section 422.5, subsection 1A, as renumbered. The Code editor may renumber other subsections as a result of this Act.

Sec. 50. Sections 3, 8, 10, 14, 30, 31, 45, and 46 of this Act are retroactive to January 1, 1987, for tax years beginning on or after that date.

Sec. 51. Sections 1, 2, 4, 5, 6, 7, 9, 11, 12, 13, 15 through 20, 21 through 27, 29, 32, 33, 34, 47, and 49 of this Act are retroactive to January 1, 1988, for tax years beginning on or after that date.

Sec. 52. Section 28 of this Act is effective January 1, 1989, for tax years beginning on or after that date.

Sec. 53. Sections 35, 36, 37, and 39 through 44 of this Act are effective January 1, 1988, for estates of persons dying on or after that date.

Sec. 54. Section 38 of this Act is 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 Pub. L. No. 99-514.

Sec. 55. Sections 3, 8, 31, 38, and 45 of this Act are repealed January 1, 1988, for tax years beginning on or after that date or for estates of persons dying on or after that date.

Sec. 56. This Act, being deemed of immediate importance, takes effect upon enactment.

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JO ANN ZIMMERMAN  
President of the Senate

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DONALD D. AVENON  
Speaker of the House

I hereby certify that this bill originated in the Senate and is known as Senate File 2074, Seventy-second General Assembly.

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JOHN F. DWYER  
Secretary of the Senate

Approved April 4, 1988

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TERRY E. BRANSTAD  
Governor