

FILED JAN 22 1990

SENATE FILE 2115
BY COMMITTEE ON WAYS AND MEANS
approved (7/192)
(SUCCESSOR TO SSB 2004)

Passed Senate, Date 3-8-90 (p. 211) Passed House, Date 4/6/90 (p. 212)
Vote: Ayes 46 Nays 2 Vote: Ayes 91 Nays 0
Approved April 26, 1990

A BILL FOR

1 An Act relating to state income taxation by exempting certain
2 bonds and notes issued by the agricultural development
3 authority and providing a retroactive applicability date.
4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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SF 2115

1 Section 1. Section 422.7, subsection 19, Code Supplement
2 1989, is amended to read as follows:

3 19. Subtract interest earned on bonds and notes issued by
4 the agricultural development authority as provided in section
5 175.17, subsection 10~~7-to-the-extent-the-interest-is-included~~
6 ~~in-federal-adjusted-gross-income.~~

7 Sec. 2. Section 422.35, subsection 13, Code Supplement
8 1989, is amended to read as follows:

9 13. Subtract the interest earned from bonds and notes
10 issued by the agricultural development authority as provided
11 in section 175.17, subsection 10~~7-to-the-extent-the-interest~~
12 ~~is-included-in-federal-taxable-income.~~

13 Sec. 3.

14 This Act is retroactively applicable for tax years
15 beginning on or after January 1, 1989.

16 EXPLANATION

17 This bill provides that interest on obligations issued by
18 the agricultural development authority for its beginning
19 farmer loan program is exempt from state income tax notwith-
20 standing the fact that they are exempt from federal income
21 taxes. Current law makes such obligations exempt from state
22 income tax only to the extent that the interest is included in
23 federal taxable income. The bill is retroactively effective
24 for tax years beginning on or after January 1, 1989.

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SENATE FILE 2115
FISCAL NOTE

A fiscal note for Senate File 2115 is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note is available from the Legislative Fiscal Bureau to members of the Legislature upon request.

Senate File 2115 is written to exempt interest income on obligations issued by the Iowa Agricultural Development Authorities beginning farmer loan program from Iowa individual or corporate income tax.

Fiscal Effect

There is no fiscal effect since this interest was exempted from Iowa's state income taxes by the amendment of Section 175.17 of the Iowa Code, by Senate File 423 during the 1989 session.

Source: Department of Revenue and Finance

(LSB 7496sv, PDD)

FILED APRIL 5, 1990

BY DENNIS PROUTY, FISCAL DIRECTOR

SSB 2004
WAYS & MEANS

SENATE FILE 2115
BY (PROPOSED DEPARTMENT OF
AGRICULTURE AND LAND
STEWARDSHIP BILL)

Passed Senate, Date _____ Passed House, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act relating to state income taxation by exempting certain
2 bonds and notes issued by the agricultural development
3 authority and providing a retroactive applicability date.
4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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1 Section 1. Section 422.7, subsection 19, Code Supplement
2 1989, is amended to read as follows:

3 19. Subtract interest earned on bonds and notes issued by
4 the agricultural development authority as provided in section
5 175.17, subsection 107-to-the-extent-the-interest-is-included
6 in-federal-adjusted-gross-income.

7 Sec. 2. Section 422.35, subsection 13, Code Supplement
8 1989, is amended to read as follows:

9 13. Subtract the interest earned from bonds and notes
10 issued by the agricultural development authority as provided
11 in section 175.17, subsection 107-to-the-extent-the-interest
12 is-included-in-federal-taxable-income.

13 Sec. 3. This Act is retroactively applicable for tax years
14 beginning on or after January 1, 1989.

15 EXPLANATION

16 This bill provides that interest on obligations issued by
17 the agricultural development authority for its beginning
18 farmer loan program is exempt from state income tax notwith-
19 standing the fact that they are exempt from federal income
20 taxes. Current law makes such obligations exempt from state
21 income tax only to the extent that the interest is included in
22 federal taxable income. The bill is retroactively effective
23 for tax years beginning on or after January 1, 1989.

24 BACKGROUND STATEMENT

25 SUBMITTED BY THE AGENCY

26 The interest on obligations issued by the Iowa agricultural
27 development authority is currently subject to state income
28 taxes. The obligations are exempt from federal income taxes.

29 If the interest on the obligations were exempt from state
30 income taxes, they would be a more attractive investment for
31 Iowa investors, including commercial banks, contract sellers,
32 and individuals. Several states grant a state income tax
33 exemption for obligations issued to finance beginning and
34 first-time farmer loans. The states of Nebraska and Colorado
35 are two of the states granting these exemptions.

1 The 1986 Tax Reform Act reduced the attractiveness of
2 investing in bonds issued by the authority for banks due to
3 the loss of deducting the cost of funds from federal income
4 taxes. A state tax exemption would restore some of this loss
5 and make the local banks more willing to consider
6 participating in the authority's loan program. Because of the
7 size of first-time farmer loans (they average only \$80,000),
8 farmers are unable to access credit markets outside of the
9 state of Iowa and must rely primarily on their local banks to
10 make the loans.

11 The fiscal impact on the state treasury would not be that
12 significant if the bonds were state tax exempt. The authority
13 has issued bonds (in which the interest income was subject to
14 state income taxes) in the following amounts:

15 1986 -- \$ 573,097
16 1987 -- \$ 821,300
17 1988 -- \$ 5,990,361
18 1989 -- \$13,007,746 as of October 23, 1989

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Sec. 3.

This Act is retroactively applicable for tax years beginning on or after January 1, 1989.

SENATE FILE 2115

AN ACT

RELATING TO STATE INCOME TAXATION BY EXEMPTING CERTAIN BONDS AND NOTES ISSUED BY THE AGRICULTURAL DEVELOPMENT AUTHORITY AND PROVIDING A RETROACTIVE APPLICABILITY DATE.

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

Section 1. Section 422.7, subsection 19, Code Supplement 1989, is amended to read as follows:

19. Subtract interest earned on bonds and notes issued by the agricultural development authority as provided in section 175.17, subsection 107-to-the-extent-the-interest-is-included-in-federal-adjusted-gross-income.

Sec. 2. Section 422.35, subsection 13, Code Supplement 1989, is amended to read as follows:

13. Subtract the interest earned from bonds and notes issued by the agricultural development authority as provided in section 175.17, subsection 107-to-the-extent-the-interest-is-included-in-federal-taxable-income.

JO ANN ZIMMERMAN
President of the Senate

DONALD D. AVENSON
Speaker of the House

I hereby certify that this bill originated in the Senate and is known as Senate File 2115, Seventy-third General Assembly.

JOHN F. DWYER
Secretary of the Senate

Approved *April 26*, 1990

TERRY E. BRANSTAD
Governor