

How. Ways - Means 4/24/91 & Passed 5/1/91

1991

SENATE FILE **350**
BY COMMITTEE ON WAYS
AND MEANS

(SUCCESSOR TO SSB 227)

Passed Senate, Date 4/22/91 (p. 1395) Passed House, Date 5/6/91 (p. 2197)
Vote: Ayes 49 Nays 0 Vote: Ayes 93 Nays 0
Approved May 29, 1991

A BILL FOR

- 1 An Act relating to the franchise tax on financial institutions
- 2 and providing an effective date.
- 3 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:
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SF 350

1 Section I. Section 422.61, subsection 4, Code 1991, is
2 amended by striking the subsection and inserting in lieu
3 thereof the following:

4 1. "Net income" means the net income of the financial
5 institution computed in accordance with section 422.35, with
6 the following adjustments:

7 a. Federal income taxes paid or accrued shall not be
8 subtracted.

9 b. Notwithstanding sections 262.41 and 262.51, or any
10 other provisions of law, income from obligations of the state
11 and its political subdivisions and franchise taxes paid or
12 accrued under this division during the taxable year shall be
13 added.

14 c. Interest and dividends from federal securities shall
15 not be subtracted.

16 d. Interest and dividends derived from obligations of
17 United States possessions, agencies, and instrumentalities,
18 including bonds which were purchased after January 1, 1991,
19 and issued by the governments of Puerto Rico, Guam, and the
20 Virgin Islands shall be added, to the extent they were not
21 included in computing federal taxable income.

22 e. A deduction disallowed under section 265(b) or section
23 291(e)(1)(B) of the Internal Revenue Code shall be subtracted.

24 Sec. 2. This Act applies to interest received on or after
25 July 1, 1991.

26 EXPLANATION

27 This bill requires the inclusion of interest and dividends
28 from obligations of possessions, agencies, and
29 instrumentalities of the United States including bonds which
30 were purchased after January 1, 1991, and issued by Puerto
31 Rico, Guam, or the Virgin Islands, to the extent the interest
32 and dividends are not included in computing the federal
33 taxable income of the financial institution. The bill applies
34 to interest received on or after July 1, 1991.

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S.F. Palmer, H.F.

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SENATE FILE 350

1 Section ~~422.61~~ section 422.61, subsection 4, Code 1991, is
2 amended by striking the subsection and inserting in lieu
3 thereof the following:
AND MEANS BILL BY CHAIRPERSON

(DIELEMAN)

4 4. "Net income" means the net income of the financial
5 institution computed in accordance with section 422.35, with
6 the following adjustments:

7 Passed Senate, Date _____ Passed House, Date _____
a. Federal income taxes paid or accrued shall not be
8 subtracted. Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____

9 b. Notwithstanding ~~sections 262.41 and 262.51~~, or any
10 other provisions of law, income from obligations of the state
11 and its political subdivisions ~~and franchise taxes paid or~~
12 accrued under this division during the taxable year shall be
13 ~~added~~ relating to the franchise tax on financial institutions

A BILL FOR

14 ~~and provisions effective from~~ federal securities shall
15 ~~not be enacted by~~ THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

16 d. Interest and dividends derived from obligations of
17 United States possessions, agencies, and instrumentalities,
18 including bonds issued by the governments of Puerto Rico,
19 Guam, and the Virgin Islands shall be added, to the extent
20 they were not included in computing federal taxable income.
21 e. A deduction disallowed under section 265(b) or section
22 291(e)(1)(B) of the Internal Revenue Code shall be subtracted.

23 Sec. 2. This Act applies to interest received on or after
24 July 1, 1991.

EXPLANATION

25 This bill requires the inclusion of interest and dividends
26 from obligations of possessions, agencies, and
27 instrumentalities of the United States, to the extent the
28 interest and dividends are not included in computing the
29 federal taxable income of the financial institution. The bill
30 applies to interest received on or after July 1, 1991.

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1 Section 1. Section 422.61, subsection 4, Code 1991, is
2 amended by striking the subsection and inserting in lieu
3 thereof the following:

4 4. "Net income" means the net income of the financial
5 institution computed in accordance with section 422.35, with
6 the following adjustments:

7 a. Federal income taxes paid or accrued shall not be
8 subtracted.

9 b. Notwithstanding sections 262.41 and 262.51, or any
10 other provisions of law, income from obligations of the state
11 and its political subdivisions and franchise taxes paid or
12 accrued under this division during the taxable year shall be
13 added.

14 c. Interest and dividends from federal securities shall
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17 United States possessions, agencies, and instrumentalities,
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24 July 1, 1991.

25 EXPLANATION

26 This bill requires the inclusion of interest and dividends
27 from obligations of possessions, agencies, and
28 instrumentalities of the United States, to the extent the
29 interest and dividends are not included in computing the
30 federal taxable income of the financial institution. The bill
31 applies to interest received on or after July 1, 1991.

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**SENATE FILE 350
FISCAL NOTE**

A fiscal note for Senate File 350 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 350 requires, for purposes of computing the franchise tax, the inclusion of interest and dividends from obligations of possessions, agencies, and instrumentalities of the United States including bonds which were purchased after January 1, 1991, and issued by Puerto Rico, Guam, or the Virgin Islands, to the extent the interest and dividends are not included in computing the federal taxable income of the financial institution. The bill applies to interest received on or after July 1, 1991.

Fiscal Effect

There will be a minimal increase in revenues as a result of taxing this additional bond interest income.

The Department of Revenue and Finance has indicated the franchise tax may still be open to a successful challenge to the tax's constitutionality under this bill because it continues to provide for unequal tax treatment by exempting from the franchise tax interest and dividends earned from obligations of U.S. possessions, agencies and instrumentalities which were purchased before January 1, 1991.

For FY 1992, franchise tax revenues are estimated at \$26.5 million, of which 55% is appropriated for state purposes and 45% is returned to local governments.

Source: Department of Revenue and Finance

(LSB 2203sv, PDD)

FILED MARCH 20, 1991

BY DENNIS PROUTY, FISCAL DIRECTOR

SENATE FILE 350

AN ACT

RELATING TO THE FRANCHISE TAX ON FINANCIAL INSTITUTIONS AND
PROVIDING AN EFFECTIVE DATE.

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

Section 1. Section 422.61, subsection 4, Code 1991, is amended by striking the subsection and inserting in lieu thereof the following:

4. "Net income" means the net income of the financial institution computed in accordance with section 422.35, with the following adjustments:

a. Federal income taxes paid or accrued shall not be subtracted.

b. Notwithstanding sections 262.41 and 262.51, or any other provisions of law, income from obligations of the state and its political subdivisions and franchise taxes paid or accrued under this division during the taxable year shall be added.

c. Interest and dividends from federal securities shall not be subtracted.

d. Interest and dividends derived from obligations of United States possessions, agencies, and instrumentalities, including bonds which were purchased after January 1, 1991, and issued by the governments of Puerto Rico, Guam, and the Virgin Islands shall be added, to the extent they were not included in computing federal taxable income.

e. A deduction disallowed under section 265(b) or section 291(e)(1)(B) of the Internal Revenue Code shall be subtracted.

Sec. 2. This Act applies to interest received on or after July 1, 1991.

JOE J. WELSH

President of the Senate

ROBERT C. ARNOULD

Speaker of the House

I hereby certify that this bill originated in the Senate and is known as Senate File 350, Seventy-fourth General Assembly.

JOHN F. DWYER

Secretary of the Senate

Approved May 29, 1991

TERRY E. BRANSTAD

Governor

SF 350