

Sec. 10. NEW SECTION. 220.140 RESIDENTIAL REVERSE ANNUITY MORTGAGE MODEL PROGRAM.

The authority shall develop a model reverse annuity mortgage conforming to the requirements of this chapter, and shall offer reverse annuity mortgages to qualified participants.

Sec. 11. The Iowa finance authority is authorized to issue bonds for the residential reverse annuity mortgage model program established in section 220.140, to be repaid from the proceeds of the program.

Approved May 31, 1989

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## CHAPTER 268

### STATE INDIVIDUAL INCOME TAX

*S.F. 537*

**AN ACT** relating to the indexing of the standard deduction for income tax purposes, providing an earned income tax credit, relating to state individual income tax by giving capital gain deduction treatment to limited amounts of capital gain, and providing certain applicability dates.

*Be It Enacted by the General Assembly of the State of Iowa:*

Section 1. Section 422.4, Code 1989, is amended by adding the following new subsection: NEW SUBSECTION. 18. a. "Annual standard deduction 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, 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 standard deduction 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 second quarter of the calendar year by the bureau of economic analysis of the United States department of commerce and shall add one-half of that percent change to one hundred percent. The annual standard deduction factor and the cumulative standard deduction factor shall each be expressed as a percentage rounded to the nearest one-tenth of one percent. The annual standard deduction factor shall not be less than one hundred percent.

b. "Cumulative standard deduction factor" means the product of the annual standard deduction factor for the 1989 calendar year and all annual standard deduction factors for subsequent calendar years as determined pursuant to this subsection. The cumulative standard deduction factor applies to all tax years beginning on or after January 1 of the calendar year for which the latest annual standard deduction factor has been determined.

c. The annual standard deduction factor for the 1989 calendar year is one hundred percent.

Sec. 2. Section 422.5, subsection 1, paragraph k, unnumbered paragraph 2, Code 1989, is amended to read as follows:

The state alternative minimum taxable income of a taxpayer is equal to the taxpayer's state taxable income, as computed with the deductions in section 422.9, ~~except for the net capital gain deduction,~~ with the following adjustments:

Sec. 3. Section 422.5, Code 1989, is amended by adding the following new subsection: NEW SUBSECTION. 10. In the case of income derived from the sale or exchange of livestock which qualifies under section 451(e) of the Internal Revenue Code because of drought, the

taxpayer may elect to include the income in the taxpayer's net income in the tax year following the year of the sale or exchange in accordance with rules prescribed by the director.

Sec. 4. Section 422.7, Code 1989, is amended by adding the following new subsection:

NEW SUBSECTION. 19. Subtract forty-five percent of the net capital gain from the following:

a. Net capital gain from the sale of real property used in a business, in which the taxpayer materially participated for ten years, as defined in section 469(h) of the Internal Revenue Code, and which has been held for a minimum of ten years, or from the sale of a business, as defined in section 422.42, in which the taxpayer was employed or in which the taxpayer materially participated for ten years, as defined in section 469(h) of the Internal Revenue Code, and which has been held for a minimum of ten years. The sale of a business means the sale of all or substantially all of the tangible personal property or service of the business.

b. Net capital gain from the sale of cattle or horses held by the taxpayer for breeding, draft, dairy, or sporting purposes for a period of twenty-four months or more from the date of acquisition; but only if the taxpayer received more than one-half of the taxpayer's gross income from farming or ranching operations during the tax year.

c. Net capital gain from the sale of breeding livestock, other than cattle or horses, if the livestock is held by the taxpayer for a period of twelve months or more from the date of acquisition; but only if the taxpayer received more than one-half of the taxpayer's gross income from farming or ranching operations during the tax year.

d. Net capital gain from the sale of timber as defined in section 631(a) of the Internal Revenue Code.

The net capital gain of paragraphs "a", "b", "c", and "d" together shall not exceed seventeen thousand five hundred dollars for the tax year. Married taxpayers who elect separate filing on a combined return for state tax purposes are treated as one taxpayer and the amount of net capital gain to be used to determine the total amount to be subtracted by them shall not exceed seventeen thousand five hundred dollars in the aggregate. Married taxpayers who file jointly or separately on a combined return shall prorate the seventeen thousand five hundred dollar limitation between them based on the ratio of each spouse's net capital gain to the total net capital gain of both spouses. In the case of married taxpayers filing separate returns, the amount of net capital gain to be used to determine the amount to be subtracted by each spouse shall not exceed eight thousand seven hundred fifty dollars.

Sec. 5. Section 422.9, subsection 6, Code 1989, is amended by striking the subsection.

Sec. 6. NEW SECTION. 422.12B EARNED INCOME TAX CREDIT.

1. The taxes imposed under this division, less credits allowed under sections 422.10 through 422.12, shall be reduced by an earned income credit equal to five percent of the federal earned income credit received by the taxpayer under section 32(b) of the Internal Revenue Code. Any credit in excess of the tax liability is nonrefundable.

2. Married taxpayers electing to file separate returns or filing separately on a combined return may avail themselves of the earned income credit by allocating the earned income credit to each spouse in the proportion that each spouse's respective earned income bears to the total combined earned income. Taxpayers affected by the allocation provisions of section 422.8 shall be permitted a deduction for the credit only in the amount fairly and equitably allocable to Iowa under rules prescribed by the director.

Sec. 7. Section 422.21, unnumbered paragraph 4, Code 1989, is amended to read as follows:

The director shall determine for the 1989 and each subsequent calendar year the annual and cumulative inflation factors for each calendar 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 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 director shall determine for the 1990 calendar year and each subsequent calendar year the annual and cumulative standard deduction factors to be applied to tax years beginning on or after January 1 of that calendar year. The director shall compute the new dollar amounts of the standard deductions specified in section 422.9, subsection 1, by the latest cumulative standard deduction factor and round off the result to the nearest ten dollars. The annual and cumulative standard deduction factors determined by the director are not rules as defined in section 17A.2, subsection 7.

Sec. 8. Section 422.21, unnumbered paragraph 6, Code 1989, is amended by striking the unnumbered paragraph.

Sec. 9. Sections 1, 6, and 7 of this Act apply to tax years beginning on or after January 1, 1990.

Sec. 10. Sections 2, 3, 4, 5, and 8 of this Act apply to tax years beginning on or after January 1, 1990.

Approved May 31, 1989

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## CHAPTER 269

### RESIDENTIAL CARE FACILITY CLASSIFICATION

*H.F. 692*

**AN ACT** requiring the department of inspections and appeals to develop a special classification of residential care facilities.

*Be It Enacted by the General Assembly of the State of Iowa:*

Section 1. Section 135C.2, Code 1989, is amended by adding the following new subsection:

**NEW SUBSECTION.** 5. The department shall establish a special classification within the residential care facility category in order to foster the development of residential care facilities which serve persons with mental retardation, chronic mental illness, or a developmental disability, as defined under section 225C.26, and which contain five or fewer residents. A facility within the special classification established pursuant to this subsection is exempt from the requirements of section 135.63. The department shall adopt rules which are consistent with rules previously developed for the waiver demonstration project pursuant to 1986 Iowa Acts, chapter 1246, section 206, and which include all of the following provisions.

a. A facility provider under the special classification must comply with rules adopted by the department for the special classification. However, a facility provider which has been accredited by the accreditation council for services to persons with mental retardation and other development disabilities shall be deemed to be in compliance with the rules adopted by the department.

b. A facility must be located in an area zoned for single or multiple-family housing and must be constructed in compliance with applicable local housing codes and the rules adopted for the special classification by the state fire marshal in accordance with the concept of the least restrictive environment for the facility residents and the applicable sections of chapter twenty-one of the national fire protection association life safety code of 1988.

c. Facility provider plans for the facility's accessibility to residents must be in place.

d. A written plan must be in place which documents that a facility meets the needs of the facility's residents pursuant to individual program plans developed according to age appropriate and least restrictive program requirements.