

Senate File 140 3/11
Ways and Means
Norland, chair
Rinas
Hines
Jochum
Wells
Branstad
West
Clark of Lee

*Amend (3730) and
Dr. Pass 4/22 (p. 1613)*
FILED FEB 23 1977

SENATE FILE 140

By COMMITTEE ON WAYS AND MEANS
Approved 2/22 (438)

Passed Senate, Date 2-28-77 (p. 467) Passed House, Date 5-12-77 (p. 2110)
Vote: Ayes 42 Nays 1 Vote: Ayes 80 Nays 13

Approved June 17, 1977

*Repassed Senate as amended by House (3594 + 2609)
5-16-77 (p. 1553)
46-3*

A BILL FOR

1 An Act to require the filing of declarations of estimated
2 tax and quarterly payments by corporations and financial
3 institutions, creating a special reserve fund into which
4 a portion of such payments are to be deposited, and pro-
5 viding penalties.

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

7 *Repassed Senate after reading
5-17-77 (p. 1656)
46-0*

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1 Section 1. Sections two (2) through eight (8) of this
2 Act shall be codified as a new division under chapter four
3 hundred twenty-two (422) of the Code.

4 Sec. 2. NEW SECTION. DECLARATION AND PAYMENT OF ESTIMATED
5 TAX. Every taxpayer subject to the tax imposed by sections
6 four hundred twenty-two point thirty-three (422.33) and four
7 hundred twenty-two point sixty (422.60) of the Code shall
8 file a declaration of estimated tax for the taxable year if
9 the amount of tax payable, less credits, can reasonably be
10 expected to be more than one thousand dollars for the tax-
11 able year. For purposes of this division, "estimated tax"
12 means the amount which the taxpayer estimates to be the tax
13 due and payable under divisions three (III) or five (V) of
14 chapter four hundred twenty-two (422) of the Code for the
15 taxable year. If during the first quarter of the taxable
16 year it is determined that the taxpayer's tax liability for
17 the taxable year will exceed one thousand dollars, the
18 declaration of estimated tax shall be filed on or before the
19 last day of the fourth month of the taxable year. If after
20 the last day of the third month and before the first day of
21 the sixth month of the taxable year it is determined that
22 the taxpayer's tax liability for the taxable year will exceed
23 one thousand dollars, the declaration of estimated tax shall
24 be filed on or before the last day of the sixth month of the
25 taxable year. If after the last day of the fifth month and
26 before the first day of the ninth month of the taxable year
27 it is determined that the taxpayer's tax liability for the
28 taxable year will exceed one thousand dollars, the declaration
29 of estimated tax shall be filed on or before the last day
30 of the ninth month of the taxable year. If after the last
31 day of the eighth month and before the first day of the twelfth
32 month of the taxable year it is determined that the taxpayer's
33 tax liability for the taxable year will exceed one thousand
34 dollars, the declaration of estimated tax shall be filed on
35 or before the last day of the taxable year.

1 Sec. 3. NEW SECTION. PAYMENT OF ESTIMATED TAX. A tax-
2 payer required to file a declaration of estimated tax under
3 section two (2) of this Act shall pay the estimated tax in
4 accordance with the following schedule:

5 1. If the declaration of estimated tax is filed on or
6 before the last day of the fourth month of the taxable year,
7 the estimated tax shall be paid in four equal installments.
8 The first installment shall be paid at the time of the filing
9 of the declaration. The second and third installments shall
10 be paid not later than the last day of the sixth and ninth
11 months of the taxable year, and the final installment shall
12 be paid on or before the last day of the taxable year.

13 2. If the declaration of estimated tax is timely filed
14 after the last day of the fourth month but not later than
15 the last day of the sixth month of the taxable year, the
16 estimated tax shall be paid in three equal installments.
17 The first installment shall be paid at the time of the fil-
18 ing of the declaration. The second installment shall be paid
19 on or before the last day of the ninth month of the taxable
20 year and the third installment shall be paid on or before
21 the last day of the taxable year.

22 3. If the declaration of estimated tax is timely filed
23 after the last day of the sixth month and not after the
24 last day of the ninth month of the taxable year, the estimated
25 tax shall be paid in two equal installments. The first
26 installment shall be paid at the time of the filing of the
27 declaration and the second installment shall be paid on or
28 before the last day of the taxable year.

29 4. If the declaration of estimated tax is timely filed
30 after the last day of the ninth month of the taxable year,
31 the estimated tax shall be paid in full at the time of the
32 filing of the declaration.

33 5. If the declaration of estimated tax is not filed as
34 required under section two (2) of this Act, all installments
35 of estimated tax which would have been payable on or before

1 such time shall be paid at the time the declaration of
2 estimated tax is filed. The remaining installments of
3 estimated tax, if any, shall be paid at the time and in the
4 amounts in which they would have been payable if the
5 declaration had been timely filed.

6 If an amendment to a declaration is filed, the remaining
7 installments shall be ratably adjusted to reflect the in-
8 crease or decrease in the estimated tax by reason of such
9 amendment.

10 Sec. 4. NEW SECTION. FAILURE TO PAY ESTIMATED TAX.

11 1. If the taxpayer submits an underpayment of the es-
12 timated tax, the taxpayer shall be subject to an underpayment
13 penalty at the rate of three-fourths of one percent per month
14 upon the amount of the underpayment for the period of the
15 underpayment.

16 2. The amount of the underpayment shall be the excess
17 of the amount of the installment which would be required
18 to be paid if the estimated tax was equal to eighty percent
19 of the tax shown on the return of the taxpayer for the taxable
20 year over any amount of installments paid on or before the
21 date prescribed for payment.

22 3. If the taxpayer did not file a return during the taxable
23 year, the amount of the underpayment shall be equal to eighty
24 percent of the taxpayer's tax liability for the taxable year
25 over any amount of installments paid on or before the date
26 prescribed for payment.

27 4. The period of the underpayment shall run from the date
28 the installment was required to be paid to the last day
29 of the fourth month following the close of the taxable year
30 or the date on which such portion is paid, whichever date
31 first occurs.

32 5. A payment of estimated tax on any installment date
33 shall be considered a payment of any previous underpayment
34 only to the extent such payment exceeds the amount of the
35 installment determined under subsection two (2) or three (3)

1 of this section for such installment date.

2 Sec. 5. NEW SECTION. EXCEPTION TO PENALTY. The penalty
3 for underpayment of any installment of estimated tax imposed
4 under section four (4) of this Act shall not be imposed if
5 the total amount of all payments of estimated tax made on
6 or before the last date prescribed for the payment of such
7 installment equals or exceeds the amount which would have
8 been required to be paid on or before such date if the
9 estimated tax amount at least to one of the following:

10 1. The tax shown on the return of the taxpayer for the
11 preceding taxable year, if a return showing a liability for
12 tax was filed by the taxpayer for the preceding taxable year
13 and such preceding year was a taxable year of twelve months.

14 2. An amount equal to the tax computed at the rates
15 applicable to the taxable year but otherwise on the basis
16 of the facts shown on the return of the taxpayer for, and
17 the law applicable to, the preceding taxable year.

18 3. An amount equal to eighty percent of the tax for the
19 taxable year computed by placing on an annualized basis the
20 taxable income:

21 a. For the first three months of the taxable year if an
22 installment is required to be paid in the fourth month;

23 b. For the first three months or for the first five months
24 of the taxable year if an installment is required to be paid
25 in the sixth month;

26 c. For the first six months or for the first eight months
27 of the taxable year if an installment is required to be paid
28 in the ninth month; and

29 d. For the first nine months or for the first eleven
30 months of the taxable year if an installment is required to
31 be paid in the twelfth month of the taxable year.

32 The taxable income shall be placed on an annualized basis
33 by multiplying the taxable income as determined under this
34 subsection by twelve and dividing the resulting amount by
35 the number of months in the taxable year (three, five, six,

1 eight, nine, or eleven months, as the case may be) referred
2 to in this subsection.

3 Sec. 6. NEW SECTION. PENALTY NOT SUBJECT TO WAIVER.
4 The penalty imposed under section four (4) of this Act for
5 underpayment of the estimated tax shall not be subject to
6 the waiver provisions relating to reasonable cause.

7 Sec. 7. NEW SECTION. CREDIT FOR ESTIMATED TAX. Any
8 amount of tax paid on a declaration of estimated tax shall
9 be a credit against the amount of tax due on a final, com-
10 pleted return, and any overpayment of five dollars or more
11 shall be refunded to the taxpayer and such return shall
12 constitute a claim for refund for this purpose. Amounts less
13 than five dollars shall be refunded to the taxpayer only upon
14 written application in accordance with section four hundred
15 twenty-two point seventy-three (422.73) of the Code, but only
16 if such application is filed within twelve months after the
17 due date for the return.

18 In lieu of claiming a refund, the taxpayer may elect to
19 have the overpayment shown on its final, completed return
20 for the taxable year credited to the tax liability for the
21 following taxable year.

22 Sec. 8. NEW SECTION. ADMINISTRATION. A taxpayer having
23 a taxable year of less than twelve months shall file a
24 declaration of estimated tax under rules adopted by the
25 director. The director shall adopt rules relating to the
26 filing of amended declarations and payments of estimated tax
27 by taxpayers having a taxable year of less than twelve months.
28 The director shall also adopt rules to permit a taxpayer to
29 amend a declaration of estimated tax.

30 Sec. 9. SPECIAL RESERVE FUND CREATED. The treasurer of
31 state shall credit the first twenty-five million dollars
32 received after the effective date of this Act from the re-
33 ceipts resulting from the payments received upon the filing
34 of declarations of estimated tax from corporations to a special
35 reserve fund, which is hereby created in the office of the

1 treasurer of state.

2 Sec. 10. DUTY OF DIRECTOR OF REVENUE. Upon receipt of
3 estimated tax payments from corporations and as soon as
4 practical after the close of each calendar quarter, the
5 director shall certify to the treasurer of state the amount
6 collected.

7 Sec. 11. USE OF FUND. Moneys credited to the special
8 reserve fund shall be used to pay claims approved by the
9 director of revenue for refunds of income tax paid by
10 corporations which claims are based upon the income allocation
11 formula provided in section four hundred twenty-two point
12 thirty-three (422.33) of the Code. Moneys credited to the
13 special reserve fund shall be exempt from the provisions of
14 section eight point thirty-nine (8.39) of the Code.

15 Sec. 12. TRANSFER OF FUNDS. When the governor deter-
16 mines that the need for the special reserve fund no longer
17 exists, he shall direct the transfer of the moneys in the
18 special reserve fund to the general fund.

19 Sec. 13. The provisions of this Act shall be effective
20 for tax years beginning on or after July 1, 1977.

21 EXPLANATION

22 The bill provides for the filing of declarations of
23 estimated tax and quarterly payments by corporations and
24 financial institutions. The bill creates a special reserve
25 fund where a portion of the estimated tax payments are
26 deposited and earmarked to be used to make refunds of corporate
27 taxes paid on the present allocation formula if the formula
28 is declared unconstitutional.

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LSB 912S
bk/rh/8A

FISCAL NOTE
SENATE FILE 140
AMENDMENT H-3430

Date Prepared May 3, 1977

Requested by Representative Norland

Prepared in regard to S.F. 140, Amendment H-3430, An Act to require the filing of declarations of estimated tax and quarterly payments by corporations and financial institutions, creating a special reserve fund into which a portion of such payments are to be deposited, and providing penalties. Following is the fiscal effect in dollars of the legislative proposal as required by Joint Rule 16:

S.F. 140 provides for the filing of declarations of estimated taxes and the remittance of quarterly tax payments for the corporate income and franchise taxes. Declarations of estimated tax liability would be required to be filed by the end of the fourth month of the tax year if during the first quarter of the tax year it was determined that the taxpayer's tax liability for the tax year will exceed \$1,000. The first of four quarterly payments would be paid at the time of the filing of the declaration with the remaining payments due at the ending of the sixth, ninth, and twelfth months of the tax year. If the estimated tax is subsequently determined to be greater than \$1,000, a declaration is to be filed and payment of the tax made in installments equal to the number of quarters remaining in the tax year.

We have estimated the effects of Senate File 140 assuming that the taxes due during the fiscal year ending June 30, 1978, would be equal to the Comptroller's estimated tax collections for that period of \$97.5 million. Based on this assumption, it is estimated that during the first year, in addition to the normal amount of taxes collected, an additional \$34 million in taxes would be received. It is further estimated that during fiscal 1979 that an additional \$11.0 million windfall would be received as the result of this proposal. This windfall would result from the fact that those corporations whose tax year ends during the last quarter of fiscal 1977 would not be required to pay estimated payments during fiscal 1978 and subsequently, would pay all taxes due for the period in conjunction with the filing of a final return during the first quarter of the fiscal year ending June 30, 1979. It should be noted that a portion of these fiscal 1979 collections, to be received from those corporations unaffected by the estimated provision, could actually be received in the latter part of fiscal 1978, thereby increasing the windfall in fiscal 1978.

House Amendment H-3730 would provide for a transitional period in which the estimate provisions of Senate File 140 would be phased in. For tax periods beginning on or after July 1, 1977, and prior to June 30, 1978, the amendment would require payment of only 60 percent of the estimated tax due. For the second affected tax year, payment would be required of only 80 percent of the estimated tax. For each of these tax periods, the remaining amount of tax due would be payable at the time of the filing of final return for the tax year.

It is estimated that as the result of this amendment that during fiscal 1978 the windfall in estimated tax collections would be \$21.0 million. During fiscal 1979 the windfall would be approximately \$13.0 million, \$9.0 million during fiscal 1980, and \$2.0 million during fiscal 1981. As mentioned, all estimates are based on a tax liability of \$97.5 million. Changes in the amount of tax due would be reflected in correspondingly higher or lower amounts of windfall.

Source: Department of Revenue

FILED
MAY 3, 1977

GERRY D. RANKIN
LEGISLATIVE FISCAL BUREAU

H-3730

1 Amend Senate File 140, as passed by the Senate,
2 as follows:

3 1. Page 3, by inserting after line 9 the follow-
4 ing new section:

5 "Sec. ____ . NEW SECTION. TRANSITIONAL PERIOD.

6 There shall be a transitional period to permit each
7 taxpayer subject to the tax imposed by sections four
8 hundred twenty-two point thirty-three (422.33) and
9 four hundred twenty-two point sixty (422.60) of the
10 Code to adjust to the requirements of making estimated
11 tax payments.

12 1. For a taxable year beginning on or after July
13 1, 1977, and on or before June 30, 1978, only sixty
14 percent of the estimated tax shall be required to
15 be paid during the taxable year in accordance with
16 the installment schedule in section three (3) of this
17 Act. The remaining forty percent of the estimated
18 tax shall be increased or decreased to reflect the
19 actual tax due for the taxable year and shall be paid
20 at the time of filing the final, completed return
21 for the taxable year.

22 2. For a taxable year beginning on or after July
23 1, 1978, and on or before June 30, 1979, only eighty
24 percent of the estimated tax shall be required to
25 be paid during the taxable year in accordance with
26 the installment schedule in section three (3) of this
27 Act. The remaining twenty percent of the estimated
28 tax shall be increased or decreased to reflect the
29 actual tax due for the taxable year and shall be paid
30 at the time of filing the final, completed return
31 for the taxable year.

32 3. In the event the time for filing a tax return
33 is extended for a taxable year listed in this section
34 the remaining percentage of estimated tax due for
35 that year shall be paid not later than the last day
36 of the fourth month following the expiration of the
37 taxable year."

38 2. Renumber sections and correct internal refer-
39 ences as may be necessary in accordance with this
40 amendment.

H-3730 FILED. *Adopted 5/12* BY COMMITTEE ON WAYS AND MEANS
APRIL 25, 1977 (*p. 2105*) NORLAND of Worth, Chair

1 Amend Senate File 140, as passed by the Senate,
2 as follows:

3 1. Page 1, by inserting before line 1 the follow-
4 ing new section:

5 "Section 1. Section four hundred twenty-two point
6 thirty-three (422.33), subsection one (1), unnumbered
7 paragraph one (1), Code 1977, is amended to read as
8 follows:

9 If the trade or business of the corporation is
10 carried on entirely within the state or if the trade
11 or business consists of the operation of a farm and
12 the property is located entirely within the state,
13 the tax shall be imposed on the entire net income,
14 but if such trade or business is carried on partly
15 within and partly without the state or if the trade
16 or business consists of the operation of a farm and
17 the property is located partly within and partly
18 without the state, the tax shall be imposed only on
19 the portion of the net income reasonably attributable
20 to the trade or business within the state, said net
21 income attributable to the state to be determined
22 as follows:".

23 2. Page 5, by striking lines 30 through 35 and
24 inserting in lieu thereof the following new section:

25 "Sec. ____ . SPECIAL RESERVE FUND CREATED. The
26 treasurer of state shall credit the first ten million
27 dollars received after the effective date of this
28 Act from the receipts resulting from the payments
29 received upon the filing of declarations of estimated
30 tax from corporations subject to the tax imposed under
31 division three (III) of this chapter to the general
32 fund of the state. After crediting the first ten
33 million dollars received to the general fund of the
34 state, the treasurer of state shall credit the next
35 twenty-five million dollars received after the
36 effective date of this Act from the receipts resulting
37 from the payments received upon the filing of
38 declarations of estimated tax from corporations subject
39 to the tax imposed under division three (III) of this
40 chapter to a special reserve fund, which is hereby
41 created in the office of the treasurer of state."

42 3. Page 6, by striking line 1.

43 4. Page 6, by inserting after line 18 the follow-
44 ing new section:

45 "Sec. ____ . The provisions of section one (1) of
46 this Act are retroactive to January 1, 1977 for tax
47 years beginning on or after January 1, 1977 and to
48 this extent the provisions of section one (1) of this
49 Act are retroactive."

50 5. Page 6, line 19, by inserting after the word

1 "Act" the words ", except the provisions of section
2 one (1) of this Act,".

3 6. Page 6, by inserting after line 20 the follow-
4 ing new section:

5 "Sec. _____. This Act, being deemed of immediate
6 importance, shall take effect and be in force from
7 and after its publication in The Marion Sentinel,
8 a newspaper published in Marion, Iowa, and in the
9 Farmer-Labor Press, a newspaper published in Council
10 Bluffs, Iowa."

11 7. Renumber sections and correct internal
12 references as are necessary in accordance with this
13 amendment.

14 8. Amend the title, by striking everything after
15 the word "Act" in line 1 and inserting in lieu thereof
16 the words "relating to the taxation of corporations
17 and financial institutions to provide for the alloca-
18 tion of certain corporate income to this state for
19 corporate income tax purposes, to require the filing
20 of declarations of estimated tax and quarterly payments
21 by corporations and financial institutions, creating
22 a special reserve fund into which a portion of such
23 payments are to be deposited, providing penalties,
24 and making certain provisions of the Act retroactive."

House Amendment to Senate File 140

S-3594

1 Amend Senate File 140 as follows:

2 1. Page 1, by inserting before line 1 the follow-
3 ing new section:

4 "Section 1. Section four hundred twenty-two point
5 thirty-three (422.33), subsection one (1), unnumbered
6 paragraph one (1), Code 1977, is amended to read as
7 follows:

8 If the trade or business of the corporation is
9 carried on entirely within the state or if the trade
10 or business consists of the operation of a farm and
11 the property is located entirely within the state,
12 the tax shall be imposed on the entire net income,
13 but if such trade or business is carried on partly
14 within and partly without the state or if the trade
15 or business consists of the operation of a farm and
16 the property is located partly within and partly
17 without the state, the tax shall be imposed only on
18 the portion of the net income reasonably attributable
19 to the trade or business within the state, said net
20 income attributable to the state to be determined
21 as follows:".

22 2. Page 3, by inserting after line 9 the follow-
23 ing new section:

24 "Sec. ____ . NEW SECTION. TRANSITIONAL PERIOD.
25 There shall be a transitional period to permit each
26 taxpayer subject to the tax imposed by sections four
27 hundred twenty-two point thirty-three (422.33) and
28 four hundred twenty-two point sixty (422.60) of the
29 Code to adjust to the requirements of making estimated
30 tax payments.

31 1. For a taxable year beginning on or after July
32 1, 1977, and on or before June 30, 1978, only sixty
33 percent of the estimated tax shall be required to
34 be paid during the taxable year in accordance with
35 the installment schedule in section three (3) of this
36 Act. The remaining forty percent of the estimated
37 tax shall be increased or decreased to reflect the
38 actual tax due for the taxable year and shall be paid
39 at the time of filing the final, completed return
40 for the taxable year.

41 2. For a taxable year beginning on or after July
42 1, 1978, and on or before June 30, 1979, only eighty
43 percent of the estimated tax shall be required to
44 be paid during the taxable year in accordance with
45 the installment schedule in section three (3) of this
46 Act. The remaining twenty percent of the estimated
47 tax shall be increased or decreased to reflect the
48 actual tax due for the taxable year and shall be paid
49 at the time of filing the final, completed return
50 for the taxable year.

1 3. In the event the time for filing a tax return
2 is extended for a taxable year listed in this section
3 the remaining percentage of estimated tax due for
4 that year shall be paid not later than the last day
5 of the fourth month following the expiration of the
6 taxable year."

7 3. Page 5, by striking lines 30 through 35 and
8 inserting in lieu thereof the following new section:
9 "Sec. ____ . SPECIAL RESERVE FUND CREATED. The
10 treasurer of state shall credit the first ten million
11 dollars received after the effective date of this
12 Act from the receipts resulting from the payments
13 received upon the filing of declarations of estimated
14 tax from corporations subject to the tax imposed under
15 division three (III) of this chapter to the general
16 fund of the state. After crediting the first ten
17 million dollars received to the general fund of the
18 state, the treasurer of state shall credit the next
19 twenty-five million dollars received after the
20 effective date of this Act from the receipts resulting
21 from the payments received upon the filing of
22 declarations of estimated tax from corporations subject
23 to the tax imposed under division three (III) of this
24 chapter to a special reserve fund, which is hereby
25 created in the office of the treasurer of state."

26 4. Page 6, by striking line 1.

27 5. Page 6, by inserting after line 13 the follow-
28 ing new section:

29 "Sec. ____ . The provisions of section one (1) of
30 this Act are retroactive to January 1, 1977 for tax
31 years beginning on or after January 1, 1977 and to
32 this extent the provisions of section one (1) of this
33 Act are retroactive."

34 6. Page 6, line 19, by inserting after the word
35 "Act" the words ", except the provisions of section
36 one (1) of this Act,".

37 7. Page 6, by inserting after line 20 the follow-
38 ing new section:

39 "Sec. ____ . This Act, being deemed of immediate
40 importance, shall take effect and be in force from
41 and after its publication in The Marion Sentinel,
42 a newspaper published in Marion, Iowa, and in the
43 Farmer-Labor Press, a newspaper published in Council
44 Bluffs, Iowa."

45 3. Renumber sections and correct internal
46 references as are necessary in accordance with this
47 amendment.

48 9. Amend the title, by striking everything after
49 the word "Act" in line 1 and inserting in lieu thereof
50 the words "relating to the taxation of corporations

S-3594
PAGE 3

1 and financial institutions to provide for the alloca-
2 tion of certain corporate income to this state for
3 corporate income tax purposes, to require the filing
4 of declarations of estimated tax and quarterly payments
5 by corporations and financial institutions, creating
6 a special reserve fund into which a portion of such
7 payments are to be deposited, providing penalties,
8 and making certain provisions of the Act retroactive."

S-3594 FILED
MAY 13, 1977

RECEIVED FROM THE HOUSE

Senate amended (3609) and concurred 5/16 (p. 1552)

SENATE FILE 140

S-3609

Amend the House amendment, S-3594, to Senate
1 File 140 as follows:
2 1. Page 1, by striking lines 2 through 21.
3 2. Page 2, by striking lines 27 through 44.
4 3. Page 2, by striking line 48 through page 3,
5 line 8.
6

S-3609 FILED & ADOPTED (p. 1552) BY BASS VAN GILST
MAY 16, 1977 PHILIP HILL

AMENDMENT TO
SENATE FILE 140

1 Amend the House amendment S-3594 to Senate
2 File 140 as follows:
3 1. Page 1, by striking lines 2 through 21.
4 2. Page 2, by striking lines 27 through 44.
5 3. Page 2, by striking line 48 through page 3,
6 line 8.

H-4214 FILED
RECEIVED FROM SENATE
MAY 16, 1977

*House refused to concur 5/17 (p. 2293)
Senate concurred 5/17 (p. 1656)*