

See Ways Means 5/5/81  
Do Pass 5/7 (p. 1730)

Senate File 400

Ways and Means: Conlon, Chair; Daggett and Cochran.

Revised 11/2/82 Do Pass  
3/4 (p. 683)  
FILED MAR 12 1981

SENATE FILE 400

BY COMMITTEE ON WAYS AND MEANS

(FORMERLY SSB 75)

Approved 2/11 (p. 769)

Passed Senate, Date 4-30-81 (p. 1502) Passed House, Date 3-12-82 (p. 807)

Vote: Ayes 44 Nays 0 Vote: Ayes 94 Nays 0

Approved April 5, 1982 (p. 1045)

Revised Senate per House amendment  
3-24-82 (p. 889)  
50-0

### A BILL FOR

- 1 An Act providing for the taxation of a lump sum distribution of
- 2 an individual, estate or trust who has elected to have the
- 3 distribution separately taxed under the Internal Revenue
- 4 Code of 1954 and providing for a January 1 effective date.

SENATE FILE 400

H-4082

- 1 Amend Senate File 400 as passed by the Senate,
- 2 as follows:
- 3 1. Page 1, by striking lines 16 through 18 and
- 4 inserting in lieu thereof the following:
- 5 "Sec. 2. This Act is retroactive to January 1,
- 6 1981 for tax years beginning on or after January 1,
- 7 1981."
- 8 2. Title page, line 4, by striking the date
- 9 "January 1" and inserting in lieu thereof the word
- 10 "retroactive".

H-4082 FILED MAY 11, 1981  
Placed out of order 3/12/82 (p. 807)

BY NORLAND of Worth

SENATE FILE 400

H-5316

- 1 Amend Senate File 400 as passed by the Senate,
- 2 as follows:
- 3 1. Page 1, by striking lines 16 through 18 and
- 4 inserting in lieu thereof the following:
- 5 "Sec. 2. This Act is retroactive to January 1,
- 6 1982 for tax years beginning on or after January 1,
- 7 1982."
- 8 2. Title page, line 4, by striking the date
- 9 "January 1" and inserting in lieu thereof the word
- 10 "retroactive".

H-5316 FILED MARCH 4, 1982  
Adopted 3/12 (p. 807)

BY COMMITTEE ON WAYS AND MEANS  
SCHNEKLOTH, Chairperson

1 Section 1. Section 422.5, Code 1981, is amended by adding  
2 the following new unnumbered paragraph:

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

16 Sec. 2. This Act takes effect January 1 following its  
17 enactment for tax years beginning on or after the effective  
18 date.

19 EXPLANATION

20 Presently, an individual's state income tax liability is  
21 compiled by starting with his or her adjusted gross income  
22 as computed for federal income tax purposes. If the individual  
23 has elected for federal tax purposes to have a separate tax  
24 imposed on the ordinary income portion of a lump sum distribu-  
25 tion, then that portion is excluded from gross income in  
26 computing federal adjusted gross income. Thus that portion  
27 would seem to be not subject to Iowa income tax. This bill  
28 would remedy this situation by imposing a separate tax on  
29 the ordinary income portion of the individual's lump sum dis-  
30 tribution. The rate of tax would be equal to 25 percent of  
31 the computed federal tax. This rate is chosen because the  
32 Iowa tax liability is approximately one-fourth of the federal  
33 tax liability.

34 The bill takes effect January 1 following its enactment  
35 for tax years beginning on or after that date.

SENATE FILE 400  
FISCAL NOTE

REQUESTED BY SENATOR CRAFT

In compliance with a written request there is hereby submitted a Fiscal Note for Senate File 400 pursuant to Joint Rule 16.

S.F. 400, An Act providing for the taxation of a lump sum distribution of an individual, estate or trust who has elected to have the distribution separately taxed under the Internal Revenue Code of 1954 and providing for a January 1 effective date.

The legislation would provide that the state income tax on the ordinary income portion of lump sum distributions that are subject to the federal 10 year averaging method shall be equal to 25 percent of the federal tax on that income. Currently, such income is taxed for state purposes as ordinary income in the year in which the lump sum distribution is received without the benefit of any averaging method.

It is estimated that if the provisions of S.F. 400 are enacted, that the state will continue to receive approximately \$100,000 from the taxation of such income. While some taxpayers will pay less tax under the proposal, it is expected that the amount will be offset by an increase in compliance by those taxpayers who have felt that such income is not taxable for Iowa purposes. As such, the impact of S.F. 400 on state receipts is expected to be minimal.

SOURCE: DEPARTMENT OF REVENUE

FILED  
MARCH 19, 1981

BY GERRY D. RANKIN, DIRECTOR  
LEGISLATIVE FISCAL BUREAU

HOUSE AMENDMENT TO SENATE FILE 400

S-5266

- 1 Amend Senate File 400 as passed by the Senate,
- 2 as follows:
- 3 1. Page 1, by striking lines 16 through 18 and
- 4 inserting in lieu thereof the following:
- 5 "Sec. 2. This Act is retroactive to January 1,
- 6 1982 for tax years beginning on or after January 1,
- 7 1982."
- 8 2. Title page, line 4, by striking the date
- 9 "January 1" and inserting in lieu thereof the word
- 10 "retroactive".

S-5266 FILED  
MARCH 16, 1982

RECEIVED FROM THE HOUSE

*Senate concurred 3/24 (p. 889)*

Sec. 2. This Act is retroactive to January 1, 1982 for tax years beginning on or after January 1, 1982.

SENATE FILE 400

AN ACT

PROVIDING FOR THE TAXATION OF A LUMP SUM DISTRIBUTION OF AN INDIVIDUAL, ESTATE OR TRUST WHO HAS ELECTED TO HAVE THE DISTRIBUTION SEPARATELY TAXED UNDER THE INTERNAL REVENUE CODE OF 1954 AND PROVIDING FOR A RETROACTIVE EFFECTIVE DATE.

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

Section 1. Section 422.5, Code 1981, is amended by adding the following new unnumbered paragraph:

NEW UNNUMBERED PARAGRAPH. 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(e) 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 five thousand dollar or less exclusion.

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TERRY E. BRANSTAD  
President of the Senate

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DELWYN STROMER  
Speaker of the House

I hereby certify that this bill originated in the Senate and is known as Senate File 400, Sixty-ninth General Assembly.

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K. MARIE THAYER  
Secretary of the Senate

Approved April 5, 1982

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ROBERT D. RAY  
Governor