

Finance: Jochum, Chair: Arnold and Krewson.

MAR 30

SENATE FILE 524

BY COMMITTEE ON WAYS AND MEANS
Approved 2/20/83 (p. 1044)

Passed Senate, Date 4-21-83 (p. 1355) Passed House, Date 5-14-83 (p. 2171)

Vote: Ayes 41 Nays 1 Vote: Ayes 91 Nays 0

Approved June 3, 1983

Motion to reconsider 4/22 adopted 5/5

*Revised Senate 5-5-83 (p. 1543)
44-2*

A BILL FOR

1 An Act relating to the computation of net income for purposes
2 of the state individual and corporate income tax by
3 providing an additional business deduction for wages
4 paid or accrued for work done in the state by certain
5 individuals.

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

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SF 524

1 Section 1. Section 422.7, Code 1983, is amended by adding
2 the following new subsection:

3 NEW SUBSECTION. 17. If the adjusted gross income includes
4 income or loss from a small business operated by the taxpayer,
5 an additional deduction shall be allowed in computing the
6 income or loss from the small business if the small business
7 hired for employment in the state during its annual accounting
8 period ending with or during the taxpayer's tax year any of
9 the following:

10 a. A handicapped individual domiciled in this state at
11 the time of the hiring.

12 b. An individual domiciled in this state at the time of
13 the hiring who meets any of the following conditions:

14 (1) Has been convicted of a felony in this or any other
15 state or the District of Columbia.

16 (2) Is on parole pursuant to chapter 906.

17 (3) Is on probation pursuant to chapter 907, for an offense
18 other than a simple misdemeanor.

19 (4) Is in a work release program pursuant to chapter 247A.

20 c. An individual, whether or not domiciled in this state
21 at the time of the hiring, who is on parole or probation and
22 to whom the interstate probation and parole compact under
23 section 247.40 applies.

24 The amount of the additional deduction is equal to fifty
25 percent of the wages paid to individuals named in paragraphs
26 a, b, and c who were hired for the first time by that business
27 during the annual accounting period for work done in the
28 state. This additional deduction is allowed for the wages
29 paid to those individuals during the twelve months following
30 the date of first employment by the business and shall be
31 deducted during the accounting periods when paid.

32 For purposes of this subsection, "small business" means
33 a trade or business which is not dominant in its field of
34 operation and is not an affiliate or subsidiary of a trade
35 or business dominant in its field of operation and "handicapped

1 individual" means an individual who has a physical or mental
2 disability which for that individual constitutes or results
3 in a functional limitation to employment.

4 The department shall provide by rule a detailed definition
5 of what constitutes a small business. The definition shall
6 vary according to the particular industry and may contain
7 criteria such as number of employees, dollar volume of
8 business, total assets, capitalization, or other related
9 factors.

10 Sec. 2. Section 422.35, Code 1983, is amended by adding
11 after subsection 6 the following new subsection and renumbering
12 the remaining subsections:

13 NEW SUBSECTION. 7. If the taxpayer is a small business
14 corporation, subtract an amount equal to fifty percent of
15 the wages paid to individuals named in paragraphs a, b, and
16 c who were hired for the first time by the taxpayer during
17 the tax year for work done in this state:

18 a. A handicapped individual domiciled in this state at
19 the time of the hiring.

20 b. An individual domiciled in this state at the time of
21 the hiring who meets any of the following conditions:

22 (1) Has been convicted of a felony in this or any other
23 state or the District of Columbia.

24 (2) Is on parole pursuant to chapter 906.

25 (3) Is on probation pursuant to chapter 907, for an offense
26 other than a simple misdemeanor.

27 (4) Is in a work release program pursuant to chapter 247A.

28 c. An individual, whether or not domiciled in this state
29 at the time of the hiring, who is on parole or probation and
30 to whom the interstate probation and parole compact under
31 section 247.40 applies.

32 This deduction is allowed for the wages paid to the
33 individuals named in paragraphs a, b, and c during the twelve
34 months following the date of first employment by the taxpayer
35 and shall be deducted in the tax years when paid.

1 For purposes of this subsection, "small business
2 corporation" means an incorporated trade or business which
3 is not dominant in its field of operation and is not an
4 affiliate or subsidiary of a trade or business dominant in
5 its field of operation and "handicapped individual" means
6 an individual who has a physical or mental disability which
7 for that individual constitutes or results in a functional
8 limitation to employment.

9 The department shall provide by rule a detailed definition
10 of what constitutes a small business. The definition shall
11 vary according to the particular industry and may contain
12 criteria such as number of employees, dollar volume of
13 business, total assets, capitalization, or other related
14 factors.

15 Sec. 3. This Act takes effect January 1 following enactment
16 for tax years beginning on or after the effective date.

17 EXPLANATION

18 The bill provides that in computing a taxpayer's net income
19 for purposes of the state individual or corporate income tax
20 an additional business deduction is allowed if the business
21 has hired for employment in the state certain individuals.
22 The individuals for which the additional deduction can be
23 made are handicapped workers, ex-felons domiciled in the
24 state, persons on parole, probation, or work release who are
25 domiciled in the state, and persons who are on parole or
26 probation from another state to whom the interstate probation
27 and parole compact applies as specified in section 247.40.
28 The amount of the additional deduction equals fifty percent
29 of the wages paid, during the twelve months following the
30 date of employment, to those individuals for work done in
31 the state. This deduction is in addition to the deduction
32 allowed for the wages paid or accrued to those individuals
33 in computing business income or loss. Thus the bill provides
34 that for hiring certain individuals and on certain wages a
35 business can deduct 150 percent of those wages for up to

1 twelve months.

2 The bill takes effect January 1 following enactment for
3 tax years beginning on or after January 1.

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STATE OF IOWA
FISCAL NOTE

LSB No. 1192S
Request No. 83-282
Staff ID CMG

In compliance with a written request received February 24, 1983, there is hereby submitted a Fiscal Note for Senate File 524 pursuant to Joint Rule 17. Background information used in developing this Fiscal Note is available from the Legislative Fiscal Bureau, to members of the Legislature upon request.

Senate File 524 provides that in computing a taxpayer's net income for purposes of state individual or state corporate income tax an additional business deduction is allowed if the business has hired certain individuals for employment in the state. The deduction is limited to small businesses as defined by the bill. Individuals for which the additional deduction can be made include:

- handicapped workers,
- ex-felons domiciled in the state,
- persons on parole, probation, or work release who are domiciled in the state, and
- persons who are on parole or probation from another state to whom the interstate probation and parole compact applies.

The amount of the additional deduction equals fifty percent of the wages paid, during the twelve months following employment, to those individuals for work done in the state. The deduction is in addition to the deduction allowed for the wages paid or accrued to those individuals in computing business income or loss. The bill does not provide a threshold level stipulating existing employment levels necessary prior to the hiring of the above stipulated individuals.

The bill takes effect January 1 following enactment for tax years beginning on or after January 1.

FISCAL IMPACT: No estimate of fiscal effect to the state can be made due to lack of predictive data. With the exception of ex-felons, for which figures are not available, roughly 25,000 individuals would qualify as employable by businesses who would then receive the additional deduction. While 70 percent of those individuals on probation are currently employed, figures estimating the employment levels of other qualifying individuals are not available.

(1192S, 83-282, CMG)

Sources: Dept. of Revenue
D.S.S.

Dennis D. Darity
Fiscal Director
Legislative Fiscal Bureau

Date: 3/15/83

- 1 Amend Senate File 524 as follows:
- 2 1. Page 1, by striking line 11 and inserting in
3 lieu thereof the following: "at the time of the
4 hiring meets any of the following conditions:
5 (1) Has a physical or mental impairment which
6 substantially limits one or more major life activities.
7 (2) Has a record of that impairment.
8 (3) Is regarded as having that impairment."
9 2. Page 1, line 29, by inserting after the word
10 "individuals" the words "successfully completing a
11 probationary period".
12 3. Page 1, line 31, by striking the words "during
13 the accounting periods when paid" and inserting in
14 lieu thereof the words "at the close of the annual
15 accounting period".
16 4. Page 1, by inserting after line 31 the follow-
17 ing:
18 "For purposes of this subsection, "physical or
19 mental impairment" means any physiological disorder
20 or condition, cosmetic disfigurement, or anatomical
21 loss affecting one or more of the body systems or
22 any mental or psychological disorder, including mental
23 retardation, organic brain syndrome, emotional or
24 mental illness and specific learning disabilities."
25 5. Page 2, by striking line 19 and inserting in
26 lieu thereof the following: "at the time of the
27 hiring meets any of the following conditions:
28 (1) Has a physical or mental impairment which
29 substantially limits one or more major life activities.
30 (2) Has a record of that impairment.
31 (3) Is regarded as having that impairment."
32 6. Page 2, line 33, by inserting after the word
33 "individuals" the words "successfully completing a
34 probationary period".
35 7. Page 2, by inserting after line 35 the
36 following:
37 "For purposes of this subsection, "physical or
38 mental impairment" means any physiological disorder
39 or condition, cosmetic disfigurement, or anatomical
40 loss affecting one or more of the body systems or
41 any mental or psychological disorder, including mental
42 retardation, organic brain syndrome, emotional or
43 mental illness and specific learning disabilities."

S-3630 FILED
APRIL 20, 1983
Adopted 4/21/83 (A. 1355)

BY WILLIAM W. DIELEMAN
THOMAS MANN, JR.

SENATE FILE 524

S-3575

1 Amend Senate File 524 as follows:

2 1. Page 1, by inserting after line 31 the
3 following:

4 "The additional deduction shall not be allowed
5 for wages paid to an individual who was hired to
6 replace an individual whose employment was terminated
7 within the twelve-month period preceding the date
8 of first employment. However, if the individual being
9 replaced left employment voluntarily without good
10 cause attributable to the employer or if the individual
11 was discharged for misconduct in connection with the
12 individual's employment as determined by the Iowa
13 department of job service, the additional deduction
14 shall be allowed."

15 2. By striking page 1, line 33 through page 2,
16 line 9 and inserting in lieu thereof the words and
17 figures "small business as defined in section 220.1,
18 subsection 28."

19 3. Page 3, by striking lines 1 through 14 and
20 inserting in lieu thereof the following:

21 "For purposes of this subsection, "small business"
22 means small business as defined in section 220.1,
23 subsection 28."

24 4. Renumber sections and correct internal
25 references as necessary in accordance with this
26 amendment.

S-3575 FILED & ADOPTED BY WILLIAM W. DIELEMAN
APRIL 18, 1983 (p. 1292)

SENATE FILE 524

S-3794

1 Amend Senate File 524 as follows:

2 1. Page 1, line 10, by inserting after the word
3 "individual" the following: "who meets the guidelines
4 specified in section 51(d)(2) of the Internal Revenue
5 Code of 1954".

6 2. Page 1, by inserting after line 31 the
7 following:

8 "A taxpayer who is a partner of a partnership or
9 a shareholder of a subchapter S corporation, may
10 deduct that portion of wages qualified under this
11 subsection paid by the partnership or subchapter S
12 corporation based on the taxpayer's pro rata share
13 of the profits or losses from the partnership or
14 subchapter S corporation."

15 3. Page 2, line 18, by inserting after the word
16 "individual" the following: "who meets the guidelines
17 specified in section 51(d)(2) of the Internal Revenue
18 Code of 1954".

S-3794 FILED
MAY 4, 1983

BY WILLIAM DIELEMAN
RAY TAYLOR

A- *But 2 out of order*
B- *Adopted 5/5/83 (p. 1540)*

SENATE FILE 524
AS PASSED BY THE SENATE
FISCAL NOTE

REQUESTED BY REPRESENTATIVE DODERER

In compliance with a written request received May 11, 1983, there is hereby submitted a Fiscal Note for Senate File 524 as passed by the Senate pursuant to Joint Rule 17. Background information used in developing this Fiscal Note is available from the Legislative Fiscal Bureau, to members of the Legislature upon request.

Senate File 524 provides that in computing a taxpayer's net income for purposes of state individual or state corporate income tax, an additional business deduction is allowed if the business has hired certain individuals for employment in the state. The deduction is limited to small businesses as defined by the bill. Individuals for which the additional deduction can be made include:

- handicapped workers,
- ex-felons domiciled in the state,
- persons on parole, probation, or work release who are domiciled in the state, and
- persons who are on parole or probation from another state to whom the interstate probation and parole compact applies.

The amount of the additional deduction equals fifty percent of the wages paid, during the twelve months following employment, to those individuals for work done in the state. The deduction is in addition to the deduction allowed for the wages paid or accrued to those individuals in computing business income or loss. The bill does not provide a threshold level stipulating existing employment levels necessary prior to the hiring of the above stipulated individuals for corporate filers.

The bill takes effect January 1 following enactment for tax years beginning on or after January 1.

FISCAL IMPACT: No estimate of fiscal effect to the state can be made due to lack of predictive data. With the exception of ex-felons, for which figures are not available, roughly 25,000 individuals would qualify as employable by businesses who would then receive the additional deduction, as follows:

	<u>Number Eligible</u>	<u>Currently Employed</u>
- Handicapped:	15,628	Not available
- Ex-felons:	Not available	Not available
- Parolees:	595	Not available
- Persons on parole:	8,078	5,655 (70%)
- Work release:	511	Not available
- Parole compact:	336	Not available

While 70 percent of those individuals on probation are currently employed, figures estimating the employment levels of other qualifying individuals are not available. Data estimating the income levels newly employed persons could expect under the provisions of the bill are also not available.

(1683S, 83-282, CMG)

Sources: Dept. of Revenue, D.S.S.

SENATE FILE 523
FISCAL NOTE -- REVISED

REQUESTED BY SENATOR PALMER

In compliance with a written request there is hereby submitted a Fiscal Note for Senate File 523 pursuant to Joint Rule 17.

Senate File 523 allows an individual who is permanently or totally disabled an additional personal exemption credit of \$20.00 on the state individual income tax return. In order to claim this credit, a person must qualify for and receive federal social security disability benefits. Current law allows an additional credit for individuals who are blind. The bill further stipulates that only one exemption is allowed for an individual who is both blind and permanently and totally disabled. The bill takes effect January 1, following enactment, for tax years beginning on or after that date.

FISCAL IMPACT: Based upon the qualification stipulations, about 25,000 persons would receive this credit with an additional cost to the state of approximately \$700,000 annually.

(1677S, 83-350, CMG)

Source: Dept. of Revenue

FILED:
MARCH 31, 1983

BY LEGISLATIVE FISCAL BUREAU
DENNIS C. PROUTY, DIRECTOR

SENATE FILE 524
FISCAL NOTE

REQUESTED BY SENATOR PALMER

In compliance with a written request there is hereby submitted a REVISED Fiscal Note for Senate File 524 pursuant to Joint Rule 17.

Senate File 524 provides that in computing a taxpayer's net income for purposes of state individual or state corporate income tax, an additional business deduction is allowed if the business has hired certain individuals for employment in the state. The deduction is limited to small businesses as defined by the bill. Individuals for which the additional deduction can be made include:

- handicapped workers,
- ex-felons domiciled in the state,
- persons on parole, probation, or work release who are domiciled in the state, and
- persons who are on parole or probation from another state to whom the interstate probation and parole compact applies.

The amount of the additional deduction equals fifty percent of the wages paid, during the twelve months following employment, to those individuals for work done in the state. The deduction is in addition to the deduction allowed for the wages paid or accrued to those individuals in computing business income or loss. The bill does not provide a threshold level stipulating existing employment levels necessary prior to the hiring of the above stipulated individuals.

The bill takes effect January 1 following enactment for tax years beginning on or after January 1.

FISCAL IMPACT: No estimate of fiscal effect to the state can be made due to lack of predictive data. With the exception of ex-felons, for which figures are not available, roughly 25,000 individuals would qualify as employable by businesses who would then receive the additional deduction, as follows:

	<u>Number Eligible</u>	<u>Currently Employed</u>
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- Parolees:	595	Not available
- Persons on parole:	8,078	5,655 (70%)
- Work release:	511	Not available
- Parole compact:	336	Not available

While 70 percent of those individuals on probation are currently employed, figures estimating the employment levels of other qualifying individuals are not available. Data estimating the income levels newly employed persons could expect under the provisions of the bill are also not available.

(1683S, 83-282, CMG)

Sources: Dept. of Revenue, D.S.S.

REVISED

Dennis C. Prouty
Fiscal Director
Legislative Fiscal Bureau

Date: 4/19/83

in Ways and Means 5/5 Do Pass 5/11/83
Finance 5/11 Do Pass 5/11/83

Reprinted 5/6/83

SENATE FILE 524

BY COMMITTEE ON WAYS AND MEANS

(AS AMENDED AND PASSED BY THE SENATE MAY 5, 1983)

Re Passed Senate, Date 5-5-83 (p. 1543) Passed House, Date 5-14-83 (p. 2171)

Vote: Ayes 44 Nays 1 Vote: Ayes 91 Nays 0

Approved June 3, 1983

A BILL FOR

1 An Act relating to the computation of net income for purposes
2 of the state individual and corporate income tax by
3 providing an additional business deduction for wages
4 paid or accrued for work done in the state by certain
5 individuals.

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

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_____ = New Language
by the Senate

1 Section 1. Section 422.7, Code 1983, is amended by adding
2 the following new subsection:

3 NEW SUBSECTION. 17. If the adjusted gross income includes
4 income or loss from a small business operated by the taxpayer,
5 an additional deduction shall be allowed in computing the
6 income or loss from the small business if the small business
7 hired for employment in the state during its annual accounting
8 period ending with or during the taxpayer's tax year any of
9 the following:

10 a. A handicapped individual domiciled in this state
11 at the time of the hiring meets any of the following
12 conditions:

13 (1) Has a physical or mental impairment which substantially
14 limits one or more major life activities.

15 (2) Has a record of that impairment.

16 (3) Is regarded as having that impairment.

17 b. An individual domiciled in this state at the time of
18 the hiring who meets any of the following conditions:

19 (1) Has been convicted of a felony in this or any other
20 state or the District of Columbia.

21 (2) Is on parole pursuant to chapter 906.

22 (3) Is on probation pursuant to chapter 907, for an offense
23 other than a simple misdemeanor.

24 (4) Is in a work release program pursuant to chapter 247A.

25 c. An individual, whether or not domiciled in this state
26 at the time of the hiring, who is on parole or probation and
27 to whom the interstate probation and parole compact under
28 section 247.40 applies.

29 The amount of the additional deduction is equal to fifty
30 percent of the wages paid to individuals named in paragraphs
31 a, b, and c who were hired for the first time by that business
32 during the annual accounting period for work done in the
33 state. This additional deduction is allowed for the wages
34 paid to those individuals successfully completing a
35 probationary period during the twelve months following the

1 date of first employment by the business and shall be deducted
2 at the close of the annual accounting period.

3 The additional deduction shall not be allowed for wages
4 paid to an individual who was hired to replace an individual
5 whose employment was terminated within the twelve-month period
6 preceding the date of first employment. However, if the
7 individual being replaced left employment voluntarily without
8 good cause attributable to the employer or if the individual
9 was discharged for misconduct in connection with the
10 individual's employment as determined by the Iowa department
11 of job service, the additional deduction shall be allowed.

12 A taxpayer who is a partner of a partnership or a
13 shareholder of a subchapter S corporation, may deduct that
14 portion of wages qualified under this subsection paid by the
15 partnership or subchapter S corporation based on the taxpayer's
16 pro rata share of the profits or losses from the partnership
17 or subchapter S corporation.

18 For purposes of this subsection, "physical or mental
19 impairment" means any physiological disorder or condition,
20 cosmetic disfigurement, or anatomical loss affecting one or
21 more of the body systems or any mental or psychological
22 disorder, including mental retardation, organic brain syndrome,
23 emotional or mental illness and specific learning disabilities.

24 For purposes of this subsection, "small business" means
25 small business as defined in section 220.1, subsection 28.

26 Sec. 2. Section 422.35, Code 1983, is amended by adding
27 after subsection 6 the following new subsection and renumbering
28 the remaining subsections:

29 NEW SUBSECTION. 7. If the taxpayer is a small business
30 corporation, subtract an amount equal to fifty percent of
31 the wages paid to individuals named in paragraphs a, b, and
32 c who were hired for the first time by the taxpayer during
33 the tax year for work done in this state:

34 a. A handicapped individual domiciled in this state
35 at the time of the hiring meets any of the following

1 conditions:

2 (1) Has a physical or mental impairment which substantially
3 limits one or more major life activities.

4 (2) Has a record of that impairment.

5 (3) Is regarded as having that impairment.

6 b. An individual domiciled in this state at the time of
7 the hiring who meets any of the following conditions:

8 (1) Has been convicted of a felony in this or any other
9 state or the District of Columbia.

10 (2) Is on parole pursuant to chapter 906.

11 (3) Is on probation pursuant to chapter 907, for an offense
12 other than a simple misdemeanor.

13 (4) Is in a work release program pursuant to chapter 247A.

14 c. An individual, whether or not domiciled in this state
15 at the time of the hiring, who is on parole or probation and
16 to whom the interstate probation and parole compact under
17 section 247.40 applies.

18 This deduction is allowed for the wages paid to the
19 individuals successfully completing a probationary period
20 named in paragraphs a, b, and c during the twelve months
21 following the date of first employment by the taxpayer and
22 shall be deducted in the tax years when paid.

23 For purposes of this subsection, "physical or mental
24 impairment" means any physiological disorder or condition,
25 cosmetic disfigurement, or anatomical loss affecting one or
26 more of the body systems or any mental or psychological
27 disorder, including mental retardation, organic brain syndrome,
28 emotional or mental illness and specific learning disabilities.

29 For purposes of this subsection, "small business" means
30 small business as defined in section 220.1, subsection 28.

31 Sec. 3. This Act takes effect January 1 following enactment
32 for tax years beginning on or after the effective date.

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H-4176

1 Amend Senate File 524 as amended, passed and
2 reprinted by the Senate as follows:

3 1. By striking everything after the enacting
4 clause and inserting in lieu thereof the following:
5 "Section 1. Section 422.7, Code 1983, is amended
6 by adding the following new subsection:

7 NEW SUBSECTION. If the adjusted gross income
8 includes income or loss from a trade or business
9 operated by the taxpayer and the number of employees
10 of that trade or business exceeded, at any time during
11 the trade or business's annual accounting period
12 ending with or during the taxpayer's tax year, the
13 threshold employee level for the annual accounting
14 period, an adjustment shall be made in computing the
15 income or loss from that trade or business by allowing
16 as a deduction in computing that income or loss an
17 additional fifty percent of the wages paid to the
18 most recent employees hired during the accounting
19 period who were domiciled in Iowa on the date of their
20 employment. However, the amount of the deduction
21 shall be computed only for the number of employees
22 in excess of the threshold employee level for the
23 annual accounting period and only for the wages paid
24 during the accounting period that the threshold
25 employee level was exceeded. Also, the amount of
26 the deduction allowed for an accounting period shall
27 not exceed an amount equal to one-half of the amount
28 by which all wages paid during the accounting period
29 exceeded the amount of wages paid by the trade or
30 business during the highest of the previous three
31 annual accounting periods or during the highest one
32 of the previous annual accounting periods if the trade
33 or business has been in operation for less than three
34 years. This deduction shall not be allocated or
35 apportioned to another state.

36 For purposes of this subsection, the "threshold
37 employee level for the annual accounting period" is
38 the highest number of employees of the trade or
39 business at any time during the previous three annual
40 accounting periods or during all the previous annual
41 accounting periods if the trade or business has been
42 in operation for less than three years, and "employee"
43 means an individual who works within or without Iowa
44 on a part-time or full-time basis but does not include
45 an individual who is an owner of the trade or business
46 or for whom this subsection applies. "Employee" also
47 does not include an individual who is hired to replace
48 another employee who has been terminated. The
49 department may by rule establish the criteria for
50 determining when an employee has been hired to replace

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1 a terminated employee. If the trade or business began
2 operation during the accounting period, the threshold
3 employee level for that accounting period is zero.

4 If the trade or business has been sold or otherwise
5 transferred to a subsequent employing unit or, if
6 one or more employing units have been reorganized
7 or merged into a single employing unit and the
8 successor employer continues to operate the trade
9 or business, the successor employer shall assume the
10 position of the predecessor employer or employers
11 with respect to the predecessors' threshold employee
12 level for the annual accounting period which is
13 attributable to the part of the business transferred,
14 to the same extent as if the ownership or control
15 had not changed.

16 If a clearly segregable and identifiable part of
17 a trade or business has been sold or otherwise
18 transferred to a subsequent employing unit, and the
19 successor employing unit continues to operate the
20 trade or business, the successor shall assume the
21 position of the predecessor employer with respect
22 to the threshold employee level for the annual
23 accounting period, which is attributable to the part
24 of the trade or business transferred to the same
25 extent as if the ownership or control of the trade
26 or business had not changed.

27 This subsection does not apply to tax years
28 beginning on or after January 1, 1987.

29 Sec. 2. Section 422.35, Code 1983, is amended
30 by adding after subsection 6 the following new
31 subsection:

32 NEW SUBSECTION. If the number of employees of
33 the taxpayer exceeded, at any time during the tax
34 year, the threshold employee level for the tax year,
35 subtract fifty percent of the wages paid to the most
36 recent employees hired during the tax year who were
37 domiciled in Iowa on the date of their employment.
38 However, the amount to be subtracted shall be computed
39 only for the number of employees in excess of the
40 threshold employee level for the tax year and only
41 for the wages paid during the tax year that the
42 threshold employee level was exceeded. Also, the
43 amount of the deduction allowed for an accounting
44 period shall not exceed an amount equal to one-half
45 of the amount by which all wages paid during the
46 accounting period exceeded the amount of wages paid
47 by the trade or business during the highest of the
48 previous three annual accounting periods or during
49 the highest one of the previous annual accounting
50 periods if the trade or business has been in operation

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1 for less than three years. This deduction shall not
2 be allocated or apportioned to another state.

3 For purposes of this subsection, the "threshold
4 employee level for the tax year" is the highest number
5 of employees of the taxpayer at any time during the
6 previous three tax years or during all previous tax
7 years if the taxpayer has been in operation for less
8 than three years, and "employee" means an individual
9 who works within or without Iowa on a part-time or
10 full-time basis. "Employee" does not include an
11 individual who is hired to replace another employee
12 who has been terminated. The department may by rule
13 establish the criteria for determining when an employee
14 has been hired to replace a terminated employee.

15 If the taxpayer began operation during the tax year,
16 the threshold employee level for that tax year is
17 zero.

18 If the corporation has been sold or otherwise
19 transferred to a subsequent employing unit or, if
20 one or more employing units have been reorganized
21 or merged into a single employing unit and the
22 successor employer continues to operate the
23 corporation, the successor employer shall assume the
24 position of the predecessor employer or employers
25 with respect to the predecessors' threshold employee
26 level for the annual accounting period to the same
27 extent as if the ownership or control had not changed.

28 If a clearly segregable and identifiable part of
29 a corporation has been sold or otherwise transferred
30 to a subsequent employing unit, and the successor
31 employing unit continues to operate the corporation,
32 the successor shall assume the position of the
33 predecessor employer with respect to the threshold
34 employee level for the annual accounting period, which
35 is attributable to the part of the corporation
36 transferred to the same extent as if the ownership
37 or control of the corporation had not changed.

38 This subsection does not apply to tax years
39 beginning on or after January 1, 1987.

40 Sec. 3. This Act takes effect July 1, 1983 for
41 tax years beginning on or after that date."

42 2. Title page, by striking lines 3 through 5 and
43 inserting in lieu thereof the words "providing an
44 additional business deduction for increasing employment
45 over previous years."

SENATE FILE 524

H-4159

1 Amend Senate File 524, as amended, passed, and
2 reprinted by the Senate, as follows:

3 1. Page 2, line 25, by inserting after the figure
4 "28" the words ", except that it shall also include
5 the operation of a farm".

6 2. Page 3, line 30, by inserting after the figure
7 "28" the words ", except that it shall also include
8 the operation of a farm".

H-4159 FILED MAY 11, 1983

BY COMMITTEE ON WAYS AND MEANS

Adopted 5/14/83 (p. 2167)

HOUSE AMENDMENT TO SENATE FILE 524

S-3947

1 Amend Senate File 524, as amended, passed, and
2 reprinted by the Senate, as follows:

3 1. Page 2, line 25, by inserting after the figure
4 "28" the words ", except that it shall also include
5 the operation of a farm".

6 2. Page 3, line 30, by inserting after the figure
7 "28" the words ", except that it shall also include
8 the operation of a farm".

S-3947 FILED

MAY 14, 1983

SENATE CONCURRED

RECEIVED FROM THE HOUSE

SENATE FILE 524

AN ACT

RELATING TO THE COMPUTATION OF NET INCOME FOR PURPOSES OF THE STATE INDIVIDUAL AND CORPORATE INCOME TAX BY PROVIDING AN ADDITIONAL BUSINESS DEDUCTION FOR WAGES PAID OR ACCRUED FOR WORK DONE IN THE STATE BY CERTAIN INDIVIDUALS.

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

Section 1. Section 422.7, Code 1983, is amended by adding the following new subsection:

NEW SUBSECTION. 17. If the adjusted gross income includes income or loss from a small business operated by the taxpayer, an additional deduction shall be allowed in computing the income or loss from the small business if the small business hired for employment in the state during its annual accounting period ending with or during the taxpayer's tax year any of the following:

- a. A handicapped individual domiciled in this state at the time of the hiring meets any of the following conditions:
 - (1) Has a physical or mental impairment which substantially limits one or more major life activities.
 - (2) Has a record of that impairment.
 - (3) Is regarded as having that impairment.
- b. An individual domiciled in this state at the time of the hiring who meets any of the following conditions:
 - (1) Has been convicted of a felony in this or any other state or the District of Columbia.
 - (2) Is on parole pursuant to chapter 906.
 - (3) Is on probation pursuant to chapter 907, for an offense other than a simple misdemeanor.
 - (4) Is in a work release program pursuant to chapter 247A.
- c. An individual, whether or not domiciled in this state

at the time of the hiring, who is on parole or probation and to whom the interstate probation and parole compact under section 247.40 applies.

The amount of the additional deduction is equal to fifty percent of the wages paid to individuals named in paragraphs a, b, and c who were hired for the first time by that business during the annual accounting period for work done in the state. This additional deduction is allowed for the wages paid to those individuals successfully completing a probationary period during the twelve months following the date of first employment by the business and shall be deducted at the close of the annual accounting period.

The additional deduction shall not be allowed for wages paid to an individual who was hired to replace an individual whose employment was terminated within the twelve-month period preceding the date of first employment. However, if the individual being replaced left employment voluntarily without good cause attributable to the employer or if the individual was discharged for misconduct in connection with the individual's employment as determined by the Iowa department of job service, the additional deduction shall be allowed.

A taxpayer who is a partner of a partnership or a shareholder of a subchapter S corporation, may deduct that portion of wages qualified under this subsection paid by the partnership or subchapter S corporation based on the taxpayer's pro rata share of the profits or losses from the partnership or subchapter S corporation.

For purposes of this subsection, "physical or mental impairment" means any physiological disorder or condition, cosmetic disfigurement, or anatomical loss affecting one or more of the body systems or any mental or psychological disorder, including mental retardation, organic brain syndrome, emotional or mental illness and specific learning disabilities.

For purposes of this subsection, "small business" means small business as defined in section 220.1, subsection 28, except that it shall also include the operation of a farm.

Sec. 2. Section 422.35, Code 1983, is amended by adding after subsection 6 the following new subsection and renumbering the remaining subsections:

NEW SUBSECTION. 7. If the taxpayer is a small business corporation, subtract an amount equal to fifty percent of the wages paid to individuals named in paragraphs a, b, and c who were hired for the first time by the taxpayer during the tax year for work done in this state:

a. A handicapped individual domiciled in this state at the time of the hiring meets any of the following conditions:

- (1) Has a physical or mental impairment which substantially limits one or more major life activities.
- (2) Has a record of that impairment.
- (3) Is regarded as having that impairment.

b. An individual domiciled in this state at the time of the hiring who meets any of the following conditions:

- (1) Has been convicted of a felony in this or any other state or the District of Columbia.
- (2) Is on parole pursuant to chapter 906.
- (3) Is on probation pursuant to chapter 907, for an offense other than a simple misdemeanor.
- (4) Is in a work release program pursuant to chapter 247A.

c. An individual, whether or not domiciled in this state at the time of the hiring, who is on parole or probation and to whom the interstate probation and parole compact under section 247.40 applies.

This deduction is allowed for the wages paid to the individuals successfully completing a probationary period named in paragraphs a, b, and c during the twelve months following the date of first employment by the taxpayer and shall be deducted in the tax years when paid.

For purposes of this subsection, "physical or mental impairment" means any physiological disorder or condition, cosmetic disfigurement, or anatomical loss affecting one or

more of the body systems or any mental or psychological disorder, including mental retardation, organic brain syndrome, emotional or mental illness and specific learning disabilities.

For purposes of this subsection. "small business" means small business as defined in section 220.1, subsection 28, except that it shall also include the operation of a farm.

Sec. 3. This Act takes effect January 1 following enactment for tax years beginning on or after the effective date.

ROBERT T. ANDERSON
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 524, Seventieth General Assembly.

Approved June 3, 1983

K. MARIE THAYER
Secretary of the Senate

TERRY E. BRANSTAD
Governor