

JAN 9 1995

HOUSE FILE 1

BY HALVORSON

Passed House, Date _____ Passed Senate, Date _____

Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____

Approved _____

A BILL FOR

1 An Act relating to the reduction in the individual income tax
2 rates, providing for surplus moneys to replace the general
3 fund revenue loss as a result, establishing a rate reduction
4 replacement fund, and appropriating moneys to the cash reserve
5 fund, and providing effective and retroactive applicability
6 date provisions.

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

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HF 1

1 h. 31,800-47,700 8.6 8.3 8.05 7.65 7.5
 2 i. 47,700+ 9.75 9.45 9.15 8.7 8.5

3 Sec. 3. This division of this Act, being deemed of
 4 immediate importance, takes effect upon enactment and applies
 5 retroactively to January 1, 1995, for tax years beginning on
 6 or after that date.

7 DIVISION II

8 Sec. 4. Section 8.56, subsection 1, Code 1995, is amended
 9 to read as follows:

10 1. A cash reserve fund is created in the state treasury.
 11 The cash reserve fund shall be separate from the general fund
 12 of the state and shall not be considered part of the general
 13 fund of the state except in determining the cash position of
 14 the state as provided in subsection 3. The moneys in the cash
 15 reserve fund are not subject to section 8.33 and shall not be
 16 transferred, used, obligated, appropriated, or otherwise
 17 encumbered except as provided in this section.
 18 Notwithstanding section 12C.7, subsection 2, interest or
 19 earnings on moneys deposited in the cash reserve fund shall be
 20 credited to the rebuild Iowa economic-emergency-fund
 21 infrastructure account created in section 8.57. Moneys in the
 22 cash reserve fund may be used for cash flow purposes provided
 23 that any moneys so allocated are returned to the cash reserve
 24 fund by the end of each fiscal year. However, the fund shall
 25 be considered a special account for the purposes of section
 26 8.53.

27 Sec. 5. Section 8.56, subsection 4, paragraph b, Code
 28 1995, is amended to read as follows:

29 b. In addition to the requirements of paragraph "a", an
 30 appropriation shall not be made from the cash reserve fund
 31 ~~which would cause the fund's balance to be less than three~~
 32 ~~percent of the adjusted revenue estimate for the year for~~
 33 ~~which the appropriation is made~~ unless the bill or joint
 34 resolution making the appropriation is approved by vote of at
 35 least three-fifths of the members of both chambers of the

1 general assembly and is signed by the governor.

2 Sec. 6. Section 8.57, subsection 1, paragraph a, Code
3 1995, is amended by striking the paragraph and inserting in
4 lieu thereof the following:

5 a. The cash reserve goal percentage for fiscal years
6 beginning on or after July 1, 1995, is five percent of the
7 adjusted revenue estimate. For each fiscal year beginning on
8 or after July 1, 1995, in which the appropriation of the
9 surplus existing in the general fund of the state at the
10 conclusion of the prior fiscal year pursuant to paragraph "b"
11 was not sufficient for the cash reserve fund to reach the cash
12 reserve goal percentage for the current fiscal year, there is
13 appropriated from the general fund of the state an amount to
14 be determined as follows:

15 (1) If the balance of the cash reserve fund in the current
16 fiscal year is not more than four percent of the adjusted
17 revenue estimate for the current fiscal year, the amount of
18 the appropriation under this lettered paragraph is one percent
19 of the adjusted revenue estimate for the current fiscal year.

20 (2) If the balance of the cash reserve fund in the current
21 fiscal year is more than four percent but less than five
22 percent of the adjusted revenue estimate for that fiscal year,
23 the amount of the appropriation under this lettered paragraph
24 is the amount necessary for the cash reserve fund to reach
25 five percent of the adjusted revenue estimate for the current
26 fiscal year.

27 (3) The moneys appropriated under this lettered paragraph
28 shall be credited in equal and proportionate amounts in each
29 quarter of the current fiscal year.

30 Sec. 7. Section 8.57, subsection 1, paragraph b, Code
31 1995, is amended to read as follows:

32 b. ~~Commencing June 30, 1993, the~~ The surplus existing in
33 the general fund of the state at the conclusion of the fiscal
34 year is appropriated for distribution in the succeeding fiscal
35 year as provided in ~~this section~~ subsections 2 and 3. Moneys

1 credited to the cash reserve fund from the appropriation made
2 in this paragraph shall not exceed the amount necessary for
3 the cash reserve fund to reach the cash reserve goal
4 percentage for the succeeding fiscal year. As used in this
5 paragraph, "surplus" means the excess of revenues and other
6 financing sources over expenditures and other financing uses
7 for the general fund of the state in a fiscal year.

8 Sec. 8. NEW SECTION. 8.57A PERSONAL INCOME TAX RATE
9 REDUCTION REPLACEMENT FUND.

10 1. The personal income tax rate reduction replacement fund
11 is created in the state treasury under the authority of the
12 department of management. The fund shall be separate from the
13 general fund of the state and shall not be considered part of
14 the general fund of the state except in determining the cash
15 position of the state for payment of state obligations. The
16 moneys in the fund are not subject to the provisions of
17 section 8.33 and shall not be transferred, used, obligated,
18 appropriated, or otherwise encumbered except as provided in
19 this section. Moneys in the fund may be used for cash flow
20 purposes provided that any moneys so allocated are returned to
21 the fund by the end of each fiscal year. However, the fund
22 shall be considered a special account for the purposes of
23 section 8.53, relating to elimination of any GAAP deficit.
24 The fund is created upon the effective date of this section,
25 and shall remain in existence until the close of the fiscal
26 year beginning July 1, 1999.

27 2. The provisions of this subsection apply for the fiscal
28 years beginning July 1 of 1994, 1995, 1996, 1997, and 1998.
29 Notwithstanding the provisions of section 8.57, subsection 3,
30 for each of the designated fiscal years, moneys remaining
31 following the appropriations made pursuant to section 8.57,
32 subsection 1, shall not be appropriated to the Iowa economic
33 emergency fund but are instead appropriated to the personal
34 income tax rate reduction replacement fund.

35 3. Effective for the fiscal year beginning July 1, 1995,

1 and the subsequent three fiscal years, on or before December
2 31 of each of the fiscal years, the state revenue estimating
3 conference created in section 8.22A shall certify an estimate
4 of the net change in revenues deposited into the general fund
5 of the state for that fiscal year due to the personal income
6 tax rate reduction implemented pursuant to section 422.5. The
7 director of the department of management shall transfer not
8 more than the certified amount from the personal income tax
9 rate reduction replacement fund to the general fund of the
10 state. Prior to the transfer, the director shall determine
11 whether the balance of the general fund of the state is
12 sufficient to absorb the revenue change, and if the certified
13 balance is sufficient the director may defer the transfer to a
14 succeeding fiscal year. Moneys transferred to the general
15 fund of the state pursuant to this section shall be added to
16 the general fund expenditure limitation, to the extent not
17 already included, for the fiscal year in which the transfer
18 takes place and ninety-nine percent of the transferred amount
19 is available for expenditure as directed by the general
20 assembly.

21 4. Notwithstanding section 12C.7, subsection 2, interest
22 or earnings on moneys deposited in the personal income tax
23 rate reduction replacement fund shall be credited to the
24 rebuild Iowa infrastructure account created in section 8.57.

25 5. This section is repealed September 1, 2000.

26 Sec. 9. TRANSFER TO INFRASTRUCTURE ACCOUNT. Moneys in the
27 Iowa economic emergency fund, created in section 8.55, at the
28 conclusion of the fiscal year beginning July 1, 1994, shall be
29 transferred to the rebuild Iowa infrastructure account.

30 Sec. 10. EFFECTIVE DATE. This division of this Act, being
31 deemed of immediate importance, takes effect upon enactment.

32 EXPLANATION

33 Division I of this bill reduces the individual income tax
34 rates by approximately 15 percent over five tax years
35 beginning with the tax year beginning January 1, 1995.

1 Because of the reduction in tax rates the division eliminates
2 the indexation of the tax brackets for tax years beginning
3 before January 1, 2000.

4 Division I takes effect upon enactment.

5 Division II revises provisions associated with the state
6 general fund expenditure limitation.

7 Section 8.56 is amended to credit the interest and earnings
8 of the cash reserve fund to the rebuild Iowa infrastructure
9 account instead of the Iowa economic emergency fund. Current
10 law requires the vote of a three-fifths majority of the
11 general assembly for an appropriation from the cash reserve
12 fund in an amount which would reduce the balance of the fund
13 to less than three percent of the adjusted revenue estimate.
14 The bill requires that three-fifths majority for any
15 appropriation from the fund.

16 Section 8.57 currently provides for an annual increase in
17 the cash reserve goal percentage until a five percent maximum
18 amount of the adjusted revenue estimate is reached in fiscal
19 year 1997-1998. The bill accelerates the implementation of
20 the maximum amount to fiscal year 1995-1996. In addition, the
21 provisions are rewritten to specify the mechanism of the
22 appropriations.

23 New section 8.57A creates a new personal income tax rate
24 reduction replacement fund. Moneys remaining after the
25 surplus in the state general fund ending balance is used to
26 fill the cash reserve and to maintain the state's activities
27 under generally accepted accounting principles (GAAP), are to
28 be deposited in the replacement fund. Moneys deposited into
29 the replacement fund may be transferred back to the general
30 fund to replace revenues not collected due to the income tax
31 rate reduction unless the director of the department of
32 management determines the balance of the general fund is
33 sufficient without the transfer. In this case, the transfer
34 may take place in a succeeding fiscal year. The new section
35 is repealed September 1, 2000.

1 Division II takes effect upon enactment.

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**HOUSE FILE 1
FISCAL NOTE**

A fiscal note for House File 1 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.

House File 1 reduces the State individual income tax, creates a Personal Income Tax Rate Reduction Replacement Fund, and changes the rules under which various funds receive deposits.

Division I of the Bill reduces the State individual income tax by approximately 15.0% over five tax years (1995 through 1999). The marginal tax rate for each income tax bracket is reduced 15.0% and rounded to the nearest five one-hundredths of a percent. This Division also provides for a freeze on the indexing of the brackets until tax year 2000.

Division II of the Bill creates a Personal Income Tax Rate Reduction Replacement Fund. Moneys that would be transferred to the Economic Emergency Fund under current law would be transferred to the Personal Income Tax Rate Reduction Replacement Fund. The Bill requires that the Cash Reserve Fund be filled to 5.0% of adjusted General Fund revenues, and that the current balance in the Economic Emergency Fund be transferred to the Iowa Infrastructure Account. Interest earnings from the Cash Reserve Fund and Personal Income Tax Rate Reduction Replacement Fund would also be deposited in the Iowa Infrastructure Account. The ending balance in the General Fund would be transferred to the Personal Income Tax Rate Reduction Replacement Fund. (A flow chart illustrating fund transfers under current law and HF 1 is available through the LFB.)

The Revenue Estimating Conference (REC) would be required in its December meeting to estimate the fiscal impact of the income tax reduction on the current fiscal year. Thus, the REC would determine the impact of the income tax reduction on FY 1996 revenues at the December 1995 meeting. The Director of the Department of Management may transfer up to that amount from the Personal Income Tax Rate Reduction Replacement Fund to the General Fund. The amount transferred would be subject to the expenditure limitation law.

ASSUMPTIONS

1. The rate reduction in HF 1 will result in adjustments to the withholding tables produced by the Department of Revenue and Finance (DRF). The DRF has indicated that adjustments to current over-withholding will be made simultaneously with adjustments due to the rate reduction. The net adjustments in withholding rates will be as follows:

July 1, 1995	6.0%
July 1, 1997	11.0%
July 1, 1998	16.5%

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2. Under current law, the General Fund would receive approximately \$1.844 billion in FY 1995 and \$1.926 billion in FY 1996 from the individual income tax. - These are the REC estimates to which the percentage reductions are applied.
3. The effect on estimated payments is assumed to occur in the tax year to the same degree as the tax reduction that is scheduled for that tax year.
4. The effect on the amount of final payments and refunds is estimated by subtracting the sum of the tax benefits previously provided for a tax year from the estimated tax effect expected to occur under HF 1.
5. The General Fund will not be affected by the creation of the Personal Income Tax Rate Reduction Replacement Fund or by the change in how the various other funds are managed. This fiscal note assumes that moneys from the Personal Income Tax Rate Reduction Replacement Fund will be transferred to the General Fund in the same manner as would have occurred under current law.

FISCAL IMPACT

The fiscal impact of HF 1 will be a decrease in General Fund revenues of approximately \$81.0 million in FY 1996 and \$98.0 million in FY 1997. The fiscal impact for FY 1998 through FY 2000 will depend on the rate of growth in individual income tax receipts that would otherwise have occurred. The following table shows the range of the impact that can be expected for those years (in millions of dollars).

<u>Fiscal Year</u>	<u>0.0% Growth</u>	<u>2.5% Growth</u>	<u>5.0% Growth</u>
1998	\$190.0	\$195.0	\$200.0
1999	266.0	280.0	294.0
2000	266.0	287.0	309.0

SOURCES

DRF
Legislative Tax Model

(LSB 1476yh, JAM)

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BY DENNIS PROUTY, FISCAL DIRECTOR