

APR 2 1996  
WAYS AND MEANS

HOUSE FILE 2492  
BY HALVORSON

Passed House, Date \_\_\_\_\_ Passed Senate, Date \_\_\_\_\_  
Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_  
Approved \_\_\_\_\_

A BILL FOR

1 An Act relating to the state individual income tax by imposing a  
2 single rate of tax and providing an effective and  
3 applicability date provision.

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

5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

HF 2492

1 Section 1. Section 422.4, subsection 1, Code 1995, is  
2 amended by striking the subsection.

3 Sec. 2. Section 422.4, subsection 2, paragraphs b and c,  
4 Code 1995, are amended to read as follows:

5 b. "Cumulative standard deduction factor" means the  
6 product of the annual standard deduction factor for the ~~1989~~  
7 1997 calendar year and all annual standard deduction factors  
8 for subsequent calendar years as determined pursuant to this  
9 subsection. The cumulative standard deduction factor applies  
10 to all tax years beginning on or after January 1 of the  
11 calendar year for which the latest annual standard deduction  
12 factor has been determined.

13 c. The annual standard deduction factor for the ~~1989~~ 1997  
14 calendar year is one hundred percent.

15 Sec. 3. Section 422.4, subsection 16, Code 1995, is  
16 amended to read as follows:

17 16. The words "taxable income" mean the net income as  
18 defined in section 422.7 minus the ~~deductions~~ deduction  
19 allowed by section 422.9, in the case of individuals; in the  
20 case of estates or trusts, the words "taxable income" mean the  
21 taxable income (without a deduction for personal exemption) as  
22 computed for federal income tax purposes under the Internal  
23 Revenue Code, but with the adjustments specified in section  
24 ~~422.7 plus the Iowa income tax deducted in computing the~~  
25 ~~federal taxable income and minus federal income taxes as~~  
26 ~~provided in section 422.9.~~

27 Sec. 4. Section 422.5, subsection 1, Code 1995, is amended  
28 by striking the subsection and inserting in lieu thereof the  
29 following:

30 1. a. A tax at the rate of fifteen percent is imposed  
31 upon every resident and nonresident of the state which tax  
32 shall be levied, collected, and paid annually upon and with  
33 respect to the entire taxable income as defined in this  
34 division.

35 b. The tax imposed upon the taxable income of a

1 nonresident shall be computed by multiplying the amount  
2 specified in this subsection by a fraction of which the  
3 nonresident's net income allocated to Iowa, as determined in  
4 section 422.8, subsection 2, is the numerator and the  
5 nonresident's total net income defined under section 422.7 is  
6 the denominator. This provision also applies to individuals  
7 who are residents of Iowa for less than the entire tax year.

8 Sec. 5. Section 422.5, subsection 2, Code 1995, is amended  
9 by striking the subsection.

10 Sec. 6. Section 422.5, subsection 3, Code 1995, is amended  
11 by striking the subsection.

12 Sec. 7. Section 422.5, subsection 6, Code 1995, is amended  
13 by striking the subsection.

14 Sec. 8. Section 422.5, subsection 11, Code 1995, is  
15 amended by striking the subsection.

16 Sec. 9. Section 422.6, unnumbered paragraph 1, Code 1995,  
17 is amended to read as follows:

18 The tax imposed by section 422.5 ~~less-the-credits-allowed~~  
19 ~~under-sections-422-107-422-11A7-422-11B7-and-422-11C7-and-the~~  
20 ~~personal-exemption-credit-allowed-under-section-422-12-apply~~  
21 applies to and ~~are~~ is a charge against estates and trusts with  
22 respect to their taxable income, and the ~~rates-are~~ rate is the  
23 same as ~~those~~ the rate applicable to individuals. The  
24 fiduciary shall make the return of income for the estate or  
25 trust for which the fiduciary acts, whether the income is  
26 taxable to the estate or trust or to the beneficiaries.

27 Sec. 10. Section 422.7, Code Supplement 1995, is amended  
28 by striking the section and inserting in lieu thereof the  
29 following:

30 422.7 "NET INCOME" -- HOW COMPUTED.

31 1. For individuals, "net income" means the adjusted gross  
32 income as properly computed for federal income tax purposes  
33 under the Internal Revenue Code with the adjustments made in  
34 paragraphs "a" and "b".

35 a. The adjusted gross income is adjusted by adding the sum

1 of the following:

2 (1) The amounts paid or accrued to the taxpayer as  
3 interest or dividends during the tax year to the extent  
4 excluded.

5 (2) The amount of tax imposed under this division to the  
6 extent deducted for the tax year.

7 b. The adjusted gross income is adjusted by subtracting  
8 the sum of the following:

9 (1) The amounts included pursuant to sections 402(a),  
10 402(c), 403(a), 403(b), 406(a), 407(a), 408, and 409 of the  
11 Internal Revenue Code, or included as distributions under any  
12 retirement or disability plan for employees of a governmental  
13 agency or unit, or retirement payments to retired partners  
14 which payments are excluded in computing net earnings from  
15 self employment by section 1402 of the Internal Revenue Code  
16 and regulations adopted pursuant thereto.

17 (2) The amount of tax imposed under this division which  
18 was refunded to the extent included for the tax year.

19 (3) The amount included pursuant to section 111 of the  
20 Internal Revenue Code as a recovery of items previously  
21 deducted from adjusted gross income in computing taxable  
22 income.

23 (4) The amount of social security benefits and railroad  
24 retirement benefits, included pursuant to sections 72(r) and  
25 86 of the Internal Revenue Code.

26 (5) The sum of the amounts disallowed as deductions by  
27 sections 171(a)(2) and 265(a)(2) of the Internal Revenue Code  
28 and the amounts of expenses allocable to interest and  
29 disallowed as deductions by section 265(a)(1) of the Internal  
30 Revenue Code.

31 2. For estates and trusts, "net income" means the taxable  
32 income as properly computed for federal income tax purposes  
33 under the Internal Revenue Code with the adjustments made in  
34 paragraphs "a" and "b", subject to paragraph "c".

35 a. The taxable income is adjusted by adding the sum of the

1 following:

2 (1) The amounts paid or accrued to the taxpayer as  
3 interest or dividends during the tax year to the extent  
4 excluded.

5 (2) Six hundred dollars for an estate, three hundred  
6 dollars for a trust which under its governing instrument is  
7 required to distribute all of its income currently, or one  
8 hundred dollars for all other trusts. However, the amount  
9 added is only to the extent deducted.

10 (3) The amount of tax imposed under this division to the  
11 extent deducted for the tax year.

12 b. The taxable income is adjusted by subtracting the sum  
13 of the following:

14 (1) The amounts included pursuant to sections 402(a),  
15 402(c), 403(a), 403(b), 406(a), 407(a), 408, and 409 of the  
16 Internal Revenue Code or included as distributions under any  
17 retirement or disability plan for employees of a governmental  
18 agency or unit, or retirement payments to retired partners  
19 which payments are excluded in computing net earnings from  
20 self employment by section 1402 of the Internal Revenue Code  
21 and regulations adopted pursuant thereto.

22 (2) The amount of tax imposed under this division which  
23 was refunded to the taxpayer to the extent included for the  
24 tax year.

25 (3) The amounts included in taxable income as adjusted by  
26 paragraph "a" which are exempt from taxation by this state  
27 either by reason of its constitution or by reason of the  
28 constitution, treaties, or statutes of the United States.

29 (4) The amounts disallowed as deductions by sections  
30 171(a)(2) and 265(a)(2) of the Internal Revenue Code and the  
31 amounts of expenses allocable to interest and disallowed as  
32 deductions by section 265(a)(1) of the Internal Revenue Code.

33 Sec. 11. Section 422.8, subsection 2, Code 1995, is  
34 amended to read as follows:

35 2. Nonresident's net income allocated to Iowa is the net

1 income, or portion thereof of net income, which is derived  
2 from a business, trade, profession, or occupation carried on  
3 within this state or income from any property, trust, estate,  
4 or other source within Iowa. However, income derived from a  
5 business, trade, profession, or occupation carried on within  
6 this state and income from any property, trust, estate, or  
7 other source within Iowa shall not include distributions from  
8 pensions, including defined benefit or defined contribution  
9 plans, annuities, individual retirement accounts, and deferred  
10 compensation plans or any earnings attributable thereto so  
11 long as the distribution is directly related to an  
12 individual's documented retirement and received while the  
13 individual is a nonresident of this state. If a business,  
14 trade, profession, or occupation is carried on partly within  
15 and partly without the state, only the portion of the net  
16 income which is fairly and equitably attributable to that part  
17 of the business, trade, profession, or occupation carried on  
18 within the state is allocated to Iowa for purposes of section  
19 422.5, subsection 1, paragraph-"j", and section 422.13 and  
20 income from any property, trust, estate, or other source  
21 partly within and partly without the state is allocated to  
22 Iowa in the same manner, except that annuities, interest on  
23 bank deposits and interest-bearing obligations, and dividends  
24 are allocated to Iowa only to the extent to which they are  
25 derived from a business, trade, profession, or occupation  
26 carried on within the state.

27 Sec. 12. Section 422.8, subsection 4, Code 1995, is  
28 amended by striking the subsection.

29 Sec. 13. Section 422.9, unnumbered paragraph 1 and  
30 subsections 1 and 2, Code Supplement 1995, are amended by  
31 striking the unnumbered paragraph and the subsections and  
32 inserting in lieu thereof the following:

33 In computing taxable income of individuals, there shall be  
34 deducted from net income the following amounts:

35 1. For a single person or for a married person who files

1 separately, nine thousand dollars.

2 2. For a husband and wife who file a joint return or a  
3 surviving spouse, thirteen thousand five hundred dollars.

4 2A. For an unmarried head of household, thirteen thousand  
5 five hundred dollars.

6 2B. For each dependent, four thousand five hundred  
7 dollars, but not to exceed nine thousand dollars.

8 2C. For a single individual, husband, wife, or head of  
9 household, an additional exemption of four thousand five  
10 hundred dollars for each of the individuals who has attained  
11 the age of sixty-five years before the close of the tax year  
12 or on the first day following the end of the tax year.

13 2D. For a single individual, husband, wife, or head of  
14 household, an additional exemption of four thousand five  
15 hundred dollars for each of the individuals who is blind at  
16 the close of the tax year. For the purposes of this  
17 subsection, an individual is blind only if the individual's  
18 central visual acuity does not exceed twenty-two-hundredths in  
19 the better eye with correcting lenses, or if the individual's  
20 visual acuity is greater than twenty-two-hundredths but is  
21 accompanied by a limitation in the fields of vision such that  
22 the widest diameter of the visual field subtends an angle no  
23 greater than twenty degrees.

24 As used in this section, "dependent" has the same meaning  
25 as provided by the Internal Revenue Code.

26 Sec. 14. Section 422.16, subsection 1, unnumbered  
27 paragraph 1, Code 1995, is amended to read as follows:

28 Every withholding agent and every employer as defined in  
29 this chapter and further defined in the Internal Revenue Code,  
30 with respect to income tax collected at source, making payment  
31 of wages to a nonresident employee working in Iowa, or to a  
32 resident employee, shall deduct and withhold from the wages an  
33 amount which will approximate the employee's annual tax  
34 liability on a calendar year basis, calculated on the basis of  
35 tables to be prepared by the department and schedules or

1 percentage rates, based on the wages, to be prescribed by the  
2 department. Every employee or other person shall declare to  
3 the employer or withholding agent the number of the employee's  
4 or other person's personal exemptions and dependency  
5 exemptions or credits to be used in applying the tables and  
6 schedules or percentage rates. However, no greater number of  
7 personal or dependency exemptions or credits may be declared  
8 by the employee or other person than the number to which the  
9 employee or other person is entitled except as allowed under  
10 section 3402(m)(1) of the Internal Revenue Code ~~and as allowed~~  
11 ~~for the child and dependent care credit provided in section~~  
12 ~~422-12E.~~ The claiming of exemptions or credits in excess of  
13 entitlement is a serious misdemeanor.

14 Sec. 15. Section 422.21, unnumbered paragraph 5, Code  
15 1995, is amended to read as follows:

16 ~~The director shall determine for the 1989 and each~~  
17 ~~subsequent calendar year the annual and cumulative inflation~~  
18 ~~factors for each calendar year to be applied to tax years~~  
19 ~~beginning on or after January 1 of that calendar year. The~~  
20 ~~director shall compute the new dollar amounts as specified to~~  
21 ~~be adjusted in section 422.5 by the latest cumulative~~  
22 ~~inflation factor and round off the result to the nearest one~~  
23 ~~dollar. The annual and cumulative inflation factors~~  
24 ~~determined by the director are not rules as defined in section~~  
25 ~~17A.27, subsection 10.~~ The director shall determine for the  
26 1990 1997 calendar year and each subsequent calendar year the  
27 annual and cumulative standard deduction factors to be applied  
28 to tax years beginning on or after January 1 of that calendar  
29 year. The director shall compute the new dollar amounts of  
30 the standard deductions specified in section 422.9, subsection  
31 ± subsections 1 through 2D, by the latest cumulative standard  
32 deduction factor and round off the result to the nearest ten  
33 dollars. The annual and cumulative standard deduction factors  
34 determined by the director are not rules as defined in section  
35 17A.2, subsection 10.

## 1 CONFORMING AMENDMENTS

2 Sec. 16. Section 56.2, subsection 19, Code Supplement  
3 1995, is amended to read as follows:

4 19. "State income tax liability" means the state  
5 individual income tax imposed under section 422.5 ~~reduced by~~  
6 ~~the sum of the deductions from the computed tax as provided~~  
7 ~~under section 422.12.~~

8 Sec. 17. Section 96.3, subsection 4, Code Supplement 1995,  
9 is amended to read as follows:

10 4. DETERMINATION OF BENEFITS. With respect to benefit  
11 years beginning on or after July 1, 1983, an eligible  
12 individual's weekly benefit amount for a week of total  
13 unemployment shall be an amount equal to the following  
14 fractions of the individual's total wages in insured work paid  
15 during that quarter of the individual's base period in which  
16 such total wages were highest; the commissioner shall  
17 determine annually a maximum weekly benefit amount equal to  
18 the following percentages, to vary with the number of  
19 dependents, of the statewide average weekly wage paid to  
20 employees in insured work which shall be effective the first  
21 day of the first full week in July:

22 If the	The weekly	Subject to the
23 number of	benefit amount	following maxi-
24 dependents	shall equal the	mum percentage
25 is:	following frac-	of the statewide
26	tion of high	average weekly
27	quarter wages:	wage:
28 0	1/23	53%
29 1	1/22	55%
30 2	1/21	57%
31 3	1/20	60%
32 4 or more	1/19	65%

33 The maximum weekly benefit amount, if not a multiple of one  
34 dollar shall be rounded to the lower multiple of one dollar.  
35 However, until such time as sixty-five percent of the

1 statewide average weekly wage exceeds one hundred ninety  
2 dollars, the maximum weekly benefit amounts shall be  
3 determined using the statewide average weekly wage computed on  
4 the basis of wages reported for calendar year 1981. As used  
5 in this section "dependent" means dependent as defined in  
6 section ~~422.127-subsection-17-paragraph-"e"~~ 422.9, as if the  
7 individual claimant was a taxpayer, except that an individual  
8 claimant's nonworking spouse shall be deemed to be a dependent  
9 under this section. "Nonworking spouse" means a spouse who  
10 does not earn more than one hundred twenty dollars in gross  
11 wages in one week.

12 Sec. 18. Section 216B.3, subsection 15, Code Supplement  
13 1995, is amended to read as follows:

14 15. Develop a plan to provide telephone yellow pages  
15 information without charge to persons declared to be blind  
16 under the standards in section ~~422.127-subsection-17-paragraph~~  
17 ~~"e"~~ 422.9. The department may apply for federal funds to  
18 support the service. The program shall be limited in scope by  
19 the availability of funds.

20 Sec. 19. Section 257.21, unnumbered paragraph 2, Code  
21 1995, is amended to read as follows:

22 The instructional support income surtax shall be imposed on  
23 the state individual income tax for the calendar year during  
24 which the school's budget year begins, or for a taxpayer's  
25 fiscal year ending during the second half of that calendar  
26 year and after the date the board adopts a resolution to  
27 participate in the program or the first half of the succeeding  
28 calendar year, and shall be imposed on all individuals  
29 residing in the school district on the last day of the  
30 applicable tax year. As used in this section, "state  
31 individual income tax" means the taxes computed under section  
32 ~~422.57-less-the-credits-allowed-in-sections-422.11A7-422.11B7~~  
33 ~~422.11C7-422.127-and-422.12B.~~

34 Sec. 20. Section 422D.2, Code 1995, is amended to read as  
35 follows:

1 422D.2 LOCAL INCOME SURTAX.

2 A county may impose by ordinance a local income surtax as  
3 provided in section 422D.1 at the rate set by the board of  
4 supervisors, of up to one percent, on the state individual  
5 income tax of each individual residing in the county at the  
6 end of the individual's applicable tax year. However, the  
7 cumulative total of the percents of income surtax imposed on  
8 any taxpayer in the county shall not exceed twenty percent.  
9 The reason for imposing the surtax and the amount needed shall  
10 be set out in the ordinance. The surtax rate shall be set to  
11 raise only the amount needed. For purposes of this section,  
12 "state individual income tax" means the tax computed under  
13 ~~section 422.57-less-the-credits-allowed-in-sections-422-11A,~~  
14 ~~422-11B,-422-11C,-422-127-and-422-12B.~~

15 Sec. 21. Section 476.6, subsection 1, unnumbered paragraph  
16 2, Code 1995, is amended to read as follows:

17 A subscriber of a telephone exchange or service, who is  
18 declared to be legally blind under section ~~422-127-subsection~~  
19 ~~17-paragraph-"e"~~ 422.9, is exempt from any charges for  
20 telephone directory assistance that may be approved by the  
21 board.

22 Sec. 22. REPEAL.

23 1. Sections 422.10 and 422.12, Code Supplement 1995, are  
24 repealed.

25 2. Sections 422.11A, 422.11B, 422.11C, 422.12B, 422.12C,  
26 and 502.207B, Code 1995, are repealed.

27 Sec. 23. EFFECTIVE AND APPLICABILITY DATES. This Act  
28 takes effect January 1, 1997, for tax years beginning on or  
29 after that date.

30 EXPLANATION

31 This bill rewrites the state individual income tax by  
32 setting a single, or flat, rate of 15 percent of taxable  
33 income. In arriving at the taxable income, all of the  
34 itemized deductions allowed for federal tax purposes are  
35 eliminated. A standard deduction from net income is provided

1 which is equal to the following amounts: 1) for a single  
2 filer or a married person filing a separate return, \$9,000; 2)  
3 for a husband and wife filing a joint return, \$13,500; 3) for  
4 an unmarried head of household, \$13,500; 4) for each  
5 dependent, \$4,500, but not to exceed \$9,000.

6 The bill eliminates the alternative minimum tax. The bill  
7 also repeals the current credits.

8 The bill takes effect January 1, 1997, for tax years  
9 beginning on or after that date.

10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35