

Substituted by SF 478

5-2-95

p. 2179

APR 6 1995

WAYS & MEANS CALENDAR

HOUSE FILE 557

BY COMMITTEE ON WAYS AND MEANS

WIN

(SUCCESSOR TO HSB 325)

Passed House, Date \_\_\_\_\_ Passed Senate, Date \_\_\_\_\_

Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_

Approved \_\_\_\_\_

WITHDRAWN

5/3/95

(p. 2213)

A BILL FOR

1 An Act relating to the state franchise tax imposed on financial  
2 institutions by disallowing the deduction for expenses related  
3 to a financial institution's investment in investment  
4 subsidiaries and providing effective and applicability dates.

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

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HF 557

WITHDRAWN

TLSB 2628HV 76

mg/cf/24

1 Section 1. Section 422.61, subsection 2, Code 1995, is  
2 amended by adding the following new paragraph:

3 NEW PARAGRAPH. f. A deduction shall not be allowed for  
4 that portion of the taxpayer's expenses computed under this  
5 paragraph which is allocable to an investment in an investment  
6 subsidiary. The portion of the taxpayer's expenses which is  
7 allocable to an investment in an investment subsidiary is an  
8 amount which bears the same ratio to the taxpayer's expenses  
9 as the taxpayer's average adjusted basis, as computed pursuant  
10 to section 1016 of the Internal Revenue Code, of investment in  
11 that investment subsidiary bears to the average adjusted basis  
12 for all assets of the taxpayer. The portion of the taxpayer's  
13 expenses that is computed and disallowed under this paragraph  
14 shall be added.

15 Sec. 2. Section 422.61, Code 1995, is amended by adding  
16 the following new subsection:

17 NEW SUBSECTION. 1A. "Investment subsidiary" means an  
18 entity that is owned, capitalized, and utilized by a financial  
19 institution with one of its purposes being to make, hold, and  
20 manage, for and on behalf of the financial institution,  
21 investments in securities which the financial institution  
22 would be permitted by applicable law to make for its own  
23 account.

24 Sec. 3. This Act, being deemed of immediate importance,  
25 takes effect upon enactment and applies retroactively to  
26 January 1, 1995, for tax years beginning on or after that  
27 date.

28 EXPLANATION

29 The bill amends the franchise tax to disallow the expenses  
30 related to investments in investment subsidiaries of financial  
31 institutions. To counteract the loss of franchise tax revenue  
32 caused by financial institutions setting up subsidiaries and  
33 transferring interest-producing assets to them, the bill  
34 disallows the deduction of a pro rata portion of all expenses.  
35 The expenses are disallowed in the ratio of the investment in

1 investment subsidiaries to total assets.  
 2 The bill is retroactive to January 1, 1995, for tax years  
 3 beginning on or after that date.  
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HOUSE FILE 557

H-4202

- 1 Amend House File 557 as follows:
- 2 1. Page 1, line 18, by striking the word "entity"
- 3 and inserting the following: "affiliate".
- 4 2. Page 1, line 18, by striking the word "and"
- 5 and inserting the following: "or".
- 6 3. Page 1, line 19, by striking the word "and"
- 7 and inserting the following: "or".

By HALVORSON of Clayton

H-4202 FILED MAY 2, 1995

*Adopted 5-2-95  
(P. 2179)*

HOUSE FILE 557

H-4203

- 1 Amend House File 557 as follows:
- 2 1. Page 1, by striking lines 24 and 25 and
- 3 inserting the following:
- 4 "Sec. \_\_\_\_ . This Act takes effect".
- 5 2. Page 1, line 26, by striking the figure "1995"
- 6 and inserting the following: "1996".
- 7 3. Title page, line 4, by striking the word
- 8 "dates" and inserting the following: "date
- 9 provisions".

By WEIGEL of Chickasaw  
KOENIGS of Mitchell

H-4203 FILED MAY 2, 1995

*(P. 2179)*

*Withdrawn 5-2-95*

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**HOUSE FILE 557  
FISCAL NOTE**

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A fiscal note for House File 557 is hereby submitted pursuant to Joint Rule Data used in developing this fiscal note is available from the Legislative Fiscal Bureau to members of the Legislature upon request.

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House File 557 amends the franchise tax to disallow the expenses related to investments in investment subsidiaries of financial institutions. The Bill is retroactive to January 1, 1995.

**ASSUMPTIONS**

House File 557 is expected to increase revenues to the General Fund by:

1. Reducing the incentive to establish and maintain investment subsidiaries.
2. Eliminating the deduction of investment subsidiary expenses incurred by those banks that continue to utilize investment subsidiaries.

The combined impact of these two effects is expected to be an amount between \$0.0 and \$2.0 million in FY 1995, and an amount between \$4.0 million and \$12.0 million in FY 1996. The actual impact will depend on:

1. The extent to which the Bill reduces the attractiveness of the use of investment subsidiaries.
2. The extent to which banks will utilize investment subsidiaries in event that the law is not changed.

This estimate utilizes the midpoints of the range estimates.

This estimate assumes that financial institutions will not challenge the Bill's constitutional implications. If the Bill is passed and ruled unconstitutional, the fiscal impact of the Bill compared to current law would be zero.

**FISCAL IMPACT**

House File 557 is expected to result in an increase in revenues to the General Fund of approximately \$1.0 million in FY 1995 and \$8.0 million in FY 1996.

**SOURCES**

Department of Revenue and Finance  
Iowa Independent Bankers Association

(LSB 2628hv, JAM)

FILED APRIL 10, 1995

BY DENNIS PROUTY, FISCAL DIRECTOR

*Halvorson, Chair*  
*Bernice*  
*Dinkels*  
*Greg*  
*Payson*

*HSB 325*

**Succeeded By**  
**SF/HF**

**WAYS AND MEANS**

HOUSE FILE \_\_\_\_\_

BY (PROPOSED COMMITTEE ON WAYS  
AND MEANS BILL BY CHAIR-  
PERSON HALVORSON)

Passed House, Date \_\_\_\_\_ Passed Senate, Date \_\_\_\_\_

Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_

Approved \_\_\_\_\_

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Successor  
7-11-79

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9 taxpayer's average adjusted bases, as computed pursuant to  
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